

## Township Economic Development: Growing Our Communities from Within



**A** number of factors challenge our small communities. Manufacturing operations that would have sought a low-cost location in a rural area 25 years ago are now locating their plants offshore. There are fewer job prospects, and small communities are losing key segments of their population, particularly younger adults.

Yet rural areas still have an attraction, and some communities are responding with a new approach to economic development. They are focusing on creating jobs—rather than just hoping to attract them—and finding ways to make their communities unique, interesting and inviting as places to live and work.

In looking at the economic development challenges of local communities, townships represent the most ubiquitous units of government, overlaying virtually all of Michigan. Townships are also the most diverse in character. At one extreme are the suburban townships abutting cities and having population densities of 1,500 or more per square-mile. There are moderately populated townships in more rural areas with their own unincorporated

villages. And there are townships of remote rural landscapes having no commercial centers, with total populations of less than 100.

Certainly, some economic development challenges and strategies will be different depending on the size, location and character of a township. However, many challenges—and the strategies to address them—are universal, regardless of whether a township is located in a more urban southern Michigan setting, an agricultural community in mid-Michigan or a rural area in the Upper Peninsula.

### ECONOMIC DEVELOPMENT CHALLENGES

Although not represented as all-inclusive, there are five generally accepted economic development challenges that many Michigan communities face.

#### 1) **A more aged population.**

Michigan communities have difficulty retaining and attracting

young adults. Many counties have seen a significant decline in the key young adult age group of 25 to 34-year-olds.

In their 2003 report, *An Economic Development Benchmarking System for Rural Michigan*, the W.E. Upjohn Institute for Employment Research addressed the degree of the aging of Michigan's rural population. The report concluded, "The bottom line is that due to a combination of a lack of employment opportunities and the attractiveness of large cities to young professionals, the population in rural regions is simply getting older." *To view the report, visit [www.upjohninst.org](http://www.upjohninst.org) and click on "rural benchmarking database."*

If we compare the Census numbers of 5 to 14-year-olds in 1980 to the 25 to 34-year-olds in 2000, we get a sense of how our communities fared in retaining their future young adults. In Michigan, as a whole, we lost 172,500—11 percent—of these 5 to 14-year-old elementary and middle school-aged students in 1980 as they grew to be 25 to 34-year-old young adults in 2000. But in rural areas, the losses were more significant. Among our rural counties, the average loss was 22 percent, and many counties lost more than 30 percent. The losses of these "potential" young adults were greatest in counties at the tip of the "thumb," in Northeast Michigan and the Upper Peninsula.

Many young people are not staying where they grew up, and those going off to college are not returning to either their hometown or to any other small Michigan community. This is not surprising. Smaller communities are offering fewer opportunities for livelihoods and traditional careers as the numbers of employers dwindle and less robust economies are not able to support young professionals.

Certainly the lure of the bigger cities is tempting and, in fact, is a good experience for our youth. It gives them the opportunity to experience diversity and absorb new ideas and concepts. But imagine the value of these experiences and ideas if they were brought back to one's hometown. New entrepreneurial concepts—both business and civic—first conceived in larger communities could take root and grow in smaller towns.

### 2) Higher rates of unemployment.

Since 1990, the unemployment rate in Michigan's rural counties has consistently been more than 2 percent higher than the rate for the state as a whole. In one of the worst five-year periods for Michigan, 1990-1994, the state's unemployment rate averaged 7.8 percent. For rural Michigan, the average unemployment rate was 10.6 percent.

Conversely, during one of the best five-year stretches, from 1996-2000, the state's overall unemployment rate averaged 4.25 percent, but rural Michigan's unemployment rate was 6.9 percent, still more than 2.5 percent higher.

Since 2002, the difference between the unemployment rates of Michigan and its rural counties has lessened to about 1 percent. Unfortunately, this has been more a factor of the unemployment rates rising for Michigan cities, not from any improvement in the conditions in rural counties.

However, like the lack of young adults, higher unemployment rates are a symptom of conditions that need to be addressed. There are simply fewer job opportunities in Michigan and its rural areas. This is not unique in Michigan, but the disparity is perhaps the greatest here when comparing Michigan to neighboring Great Lakes states.

### 3) Reliance on businesses in their mature and declining phases.

Many Michigan firms are competing primarily on price and are vulnerable to global competition. Further, decisions on the fate of many of these firms lie with corporate management located elsewhere.

The life cycle of businesses is seen as birth, growth, maturity and decline. In Michigan, too many firms are in the mature and declining phases, where there is little differentiation and innovation in products or services. These firms are highly vulnerable to lower-cost competitors elsewhere.

The Worker Adjustment and Retraining Notification Act requires employers to provide notifications of significant layoffs and business closings. In looking at reports for incidents of Michigan plant closings and layoffs since 1989, two characteristics are noteworthy, particularly in smaller communities:

- Employment reductions are taking place in the classic industrial operations associated with a heavy metal-based manufacturing economy. The decline in employment in businesses that provide



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Farmers able to differentiate their product and sell more directly to the market have the potential to earn greater profits.

primary metals, metal stampings and fabrications, particularly to the automotive industry, is noticeable. Layoffs and business closings are also apparent in related sectors such as tool and die, and industrial machinery.

- Many businesses affected are divisions or branches of larger corporations. For these, it must be assumed that many of the decisions for cutbacks or plant closings are being made by corporate management *not* resident in the community, but rather located elsewhere at “headquarters.”

The businesses most susceptible to employment reductions or closures will continue to be those with product lines requiring less technology and less skilled labor requirements. They are producing industrial commodities with little, if any, technical differentiation, and will continue to be more vulnerable to price competition.

Like other businesses, manufacturing firms must be innovative in new products and markets to begin new growth phases as older product lines enter the mature and declining phases. Certainly, the nature of Michigan’s manufacturing economy makes it important to promote this innovation. However, for many of these firms, management—located elsewhere—will be making the decisions as to whether a product line, or even a plant, will have the opportunity to be more technologically competitive, or to remain in a commodity business and continue to be susceptible to downsizing or closure.

#### 4) Commodity-oriented agriculture.

Too much of our agricultural production is based on being the low-cost producer in markets where we have some competitive disadvantages. Much of the value-added processing of our agriculture product occurs elsewhere.

Michigan’s agri-food system is an important part of the state’s economy. According to Michigan State University’s Product Center

for Agriculture and Natural Resources, our agri-food system, when including retailing and food service, accounts for approximately \$60 billion in economic activity and one million jobs—24 percent of the state’s work force. However, much of Michigan’s agri-food system, especially at the farm level, is commodity-oriented. The focus on producing undifferentiated commodities forces many farmers to compete strictly on price, thus limiting profit potential.

Fluctuating prices, federal farm policies, changing consumer choices and intense price competition all make commodity-based agriculture a more risky proposition, particularly for farmers who are not of the size to effectively compete in these markets. Comments from a study by the Sparks Companies for the Michigan Economic Development Corporation illustrate the types of challenges faced by those engaged in commodity-based agriculture.

- “... the average size of a farm in Michigan is less than half the national average ... larger farmers are able to spread fixed costs over more acres and negotiate better prices on inputs.”
- “The downward trend in corn acreage is evidence that it is not a growth sector for Michigan. ... It would appear that Michigan is not as cost-competitive as traditional Cornbelt states.”
- “... a concerted effort by China to promote its apple juice exports is hurting states that are more dependent on processing, such as Michigan.”
- “Cucumbers are a significant crop in Michigan. ... However, per capita, consumption of pickles has been in long-term decline.”
- “Michigan’s tomato acreage is quite small and it is at a competitive disadvantage to California due to climate.”

Michigan has too many farmers earning a small return on their investment, as they sell commodities processed by middlemen—often in out-of-state facilities. Even those who are better equipped to participate in commodity agriculture face too many risks for which they have no control.

A better option, particularly for smaller Michigan farms, is product-oriented agriculture. Farmers able to differentiate their product and



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sell more directly to the market have the potential to earn greater profits. Organic products, farm fresh and locally processed specialty foods are examples of entrepreneurially oriented agriculture intended to help farmers provide specific products to specific markets.

**5) Downtowns are struggling.**

Retailers in the downtowns or commercial centers of many of our small communities have been struggling for decades as they compete with large discount retailers, and now with Internet commerce. Seeing the loss of mom-and-pop shops is not as much about the changes we are witnessing in retailing, but more about the loss of locally owned businesses that are so essential to the make-up of the “town center.”

As these shops—which provided our communities with a sense of identity and place—close, they not only remove businesses from a community, they leave vacant buildings that become increasingly more difficult to fill. Downtowns with vacant or underutilized buildings detract from the area. There is less customer traffic, and the diversity of activity and street life declines as we lose the variety of businesses that make our downtowns and commerce centers interesting.

**ENTREPRENEURIAL DEVELOPMENT—  
A COMMON ELEMENT OF SUCCESSFUL STRATEGIES**

One of the best ways to learn is from observing others. Townships can benefit from learning strategies and concepts being used nationally to address economic development challenges. An element of every successful approach being used across the country is improving the local environment for entrepreneurs.

Generally, 50 percent of new jobs for a community will be from the expansion of existing firms and 10 percent from the attraction of new businesses. The remaining 40 percent will come from the creation of new firms (the entrepreneurs).

Increasingly, *creating* jobs is joining the three other classic economic development approaches—retaining, expanding and attracting jobs in successful local economic development efforts. Research

and experience suggests that the ability to encourage and nurture entrepreneurs is the strategy most likely to yield success in creating new jobs in a community, particularly the smaller communities in Michigan.

Looking back at the five significant challenges facing Michigan communities, a more entrepreneurial environment becomes a solution in every case.

- **An aged population.** A place that welcomes and supports entrepreneurs will retain its young adults and attract others who bring new ideas into a community.
- **Higher unemployment.** Entrepreneurs create jobs, potentially 40-plus percent of the new jobs in a community.
- **Dependence on firms in mature and declining phases of life cycles.** Entrepreneurs create the first phase start-ups that become the new second phase growth firms. Locally controlled firms under entrepreneurial management are able to make the decisions on innovation, new products and new markets that keep them competitive.
- **Commodity-oriented agriculture.** Entrepreneurial agricultural addresses new concepts that add-value and find alternatives for agricultural production and the role of the farm.
- **Struggling downtowns.** Entrepreneurs are breathing new life into downtowns with new concepts oriented to niche markets that insulate their businesses from big box competition and actually utilize e-commerce rather than compete with it.

**A REALISTIC ECONOMIC DEVELOPMENT STRATEGY**

A successful economic development strategy for townships—either acting individually or in cooperation with other townships, counties or metropolitan areas—should include some means to significantly stimulate entrepreneurial development, but in a manner practical and achievable by local government.

Simplicity is also key. A good strategy must work in smaller communities. Consider that 25 Michigan counties have populations of 30,000 or less, and the vast majority of townships have populations of 5,000 or less.

More than an entrepreneurial development strategy is needed. Many of our smaller communities need a new emphasis on *leadership*. Although business attraction cannot be depended on to provide the jobs needed in a community, it cannot be ignored. Financial support is crucial. While communities truly committed to making change will not fall back on the excuse that there is no money to fund the effort, there is the reality that some level of funding and available capital is desirable, if not necessary, to achieve results in community and economic development.

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## HOMETOWN COMPETITIVENESS— AN APPROACH FOR TOWNSHIPS

While there are several strategies working in smaller communities across the country, the HomeTown Competitiveness (HTC) approach jointly developed by the Heartland Center for Leadership Development, the Center for Rural Entrepreneurship, the Nebraska Community Foundation and the Center for Rural Affairs is well suited for smaller communities. *For more information, visit [www.htcnebraska.org](http://www.htcnebraska.org).*

The HTC approach addresses communities that have experienced:

- 1) a decline in population, particularly among young adults,
- 2) high unemployment,
- 3) a struggling agricultural sector,
- 4) loss of local businesses, and
- 5) the need for capital to support economic and community development efforts.

It was developed by organizations familiar with small communities and rural issues, and it is working in Nebraska communities.

HTC encourages communities who are experiencing out-migration and economic decline to adopt a program that takes action in four strategic areas:

**1) Mobilizing local leaders.** For small communities to compete in the 21st century, they must tap into everyone's potential knowledge, talent and aspirations. Difficult times and the decline in the number of young adults who would typically assume leadership positions require these communities to be intentional about recruiting and nurturing an increasing number of women, minorities and young people into decision-making roles.

Optional approaches to leadership development can be taken depending on the size and resources of a community. These range from formalized leadership development "academies" to more informal, but organized, concepts such as mentoring or volunteer service. Regardless of the approach, the key is the diversity of having all segments of a community represented.

**2) Energizing entrepreneurship.** As expected, HTC includes an entrepreneurial element, but its approach is focused and scaled to the requirements of smaller communities. Communities are encouraged to focus their efforts in three key areas: saving "Main Street" shops and other key businesses through planned ownership succession; creating new local wealth and good jobs by identifying and helping entrepreneurial growth companies that have the potential to break through to broader product lines and/or larger markets; and using local charitable assets to support entrepreneurial development. These practical entrepreneurial strategies provide some specific direction for communities to pursue.

**3) Capturing wealth transfer.** A significant amount of wealth is continuously being transferred from one generation to the next,



## Changing Times on Main Street

"If we could take a time machine back to America's small towns in the 1960s and the 1970s, we would find a relatively prosperous environment. While small towns faced challenges, many communities enjoyed robust and healthy local economies. Many farmers were prospering, local factories were winning new orders, and small town main streets were full of shops and restaurants.

"Agricultural support payments backed farmers, and communities were able to successfully attract (via tax incentives and the like) manufacturing facilities that sought low-cost labor and a small-town work ethic. Locally owned and operated institutions, such as small-town banks and Main Street businesses, provided another economic anchor.

"Fast-forwarding to today, we find that many of these old economic anchors no longer exist or have been greatly weakened. Modernization of agriculture has led to consolidation on the farm. Globalization and new technologies have made it difficult for many manufacturers to maintain operations in the U.S. Bank consolidations have led to closure of many local banks, and the rise of Wal-Mart and other big-box retailers have made life more challenging for Main Street businesses."

—Excerpt from *Grassroots Entrepreneurship*, published by the National Center for Small Communities

and there is a surprising amount of this wealth in smaller communities. However, once an inheritance goes to heirs outside a small community, it will not likely return. HTC suggests a modest goal of capturing 5 percent of this intergenerational wealth transfer for endowing local foundations to reinvest in the community.

The appeal to potential benefactors to give back to the community works. When given a compelling reason to contribute to their community's future, people respond. HomeTown Competitiveness suggests a range of strategies to develop endowments and funds for future community and economic development efforts.



**4) Attracting young people.** The future of many smaller communities will depend on their ability to retain and attract young adults. HTC advocates bringing local youth back to the community and attracting new young families. Youth leave their communities for the lure of the cities, but also because of the perceived lack of opportunity in their hometowns. HTC helps create new career

opportunities for young adults to remain or return to their community through business transfer—as part of ownership succession planning—and with entrepreneurial concepts developed by surveying a community's needs. Young adults are attracted to these opportunities to have a vested interest in their community and to be part of a new cadre of future leaders.

**A SMALL COMMUNITY WITH EXTRAORDINARY RESULTS**

An example of how HomeTown Competitiveness has worked on a scale similar to what we could expect in many Michigan townships is the experience in Valley County, Nebraska. Valley County has a population of 4,650, including Ord, its major community, with 2,270 people.

Coming into 2000, Valley County was struggling and had no real game plan for the future. The county's population peaked in 1930 and had been declining since then, including a decline of 10 percent during the 1990s. A strategic plan was in place, but with 26 diverse priorities and an economic development focus on industrial attraction, it proved difficult to implement.

In 2002, Valley County partnered with the new HomeTown Competitiveness group to become the pilot project for applying these simple, but powerful, concepts to small, distressed communities.

The strategic plan's 26 priorities were pared to a more manageable number with business succession and growing local entrepreneurial talent becoming the two key strategies for economic transformation. As a result, Main Street businesses are being transferred to new owners, and a number of entrepreneurial opportunities have been identified, some with significant growth potential.

In addition to working on these broader strategies, a number of other accomplishments are moving this small community forward, including:

- Some 87 graduates from their leadership academy, "Leadership Quest" (accounting for about 5 percent of the population between 15 and 70 years of age).
- A new Web site, [www.ComeHomeToOrd.com](http://www.ComeHomeToOrd.com), showcasing Valley County to the world and reconnecting with its citizens.
- A Community Foundation exceeding its 5 percent goal (\$3 million) with \$6.7 million in endowments.
- Mailings to high school alumni, reacquainting them with Valley County and its new business opportunities.
- Recruitment of an ethanol plant providing 35 direct jobs and 75 secondary jobs based on the community's efforts to "self-qualify" itself as an ethanol-ready plant.
- Many small, but important efforts culminating in new ground-breakings, ribbon cuttings, businesses expansions, new startups, job creation and new investment.

	
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If it strikes one that local officials in Valley County and Ord, Nebraska have been busy, they have. In fact, they were recognized as Nebraska's 2005 Showcase Community, with more than 20 active projects to better their community. Valley County did not reject business recruitment, but approached it realistically, making the case for the type of business—the ethanol plant—that would be successful in their community. They also put real emphasis on entrepreneurial development, with a number of initiatives to ensure business succession, and give current and former residents insights on business needs and potential opportunities in the community.

By the numbers, Valley County has experienced increases in retail sales, and in personal and per capita income, that are significantly greater than the state averages over the past few years. There has also been an estimated 3 percent increase in population since 2000.

**LEADERSHIP, NOT LOCATION**

The HomeTown Competitiveness concept and Valley County example suggest that a small community with committed leadership and a simple and realistic plan can get results. Other concepts can work as well, but they must include a leadership component to help a community chart its future direction.

In Michigan, and its townships, similar results can be attained with committed leadership, realistic goals and a focus on entrepreneurial development. The key to a new economic development approach is the realization that success is most likely to come from the assets *within* the community and from the entrepreneurial ambitions of its people.

One of the tenets of new economic development approaches is that leadership and a community's assets and capabilities are now more important than its location, particularly in this information age. While a community cannot change its location, it *can* move its attitude in new directions.



**Allan Hooper**, Economic Development Operations Director, Consumers Energy, Jackson

Hooper is a board member of Rural Partners of Michigan, and chairman of the annual Michigan Small Town and Rural Development Conference.

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