

# **Economic Development for Eastern Kentucky**

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## ***I. Introduction***

Kentucky is a diverse state. It provides many opportunities but faces just as many challenges for the people who reside there. The Commonwealth of Kentucky, the Bluegrass State, is home for over four million people. The area provides for beautiful scenery. It is bordered on the east by the Appalachian Mountains and on the west by the Land between the Lakes. The interior of the state is home to Mammoth Cave, the largest state resort park system, and a wide array of cultural and art events. Of course, the state is home to horse country, including the Kentucky Derby as well as playing host to the 2010 Equestrian Olympics that will be held in Lexington.

While the state itself offers a wide array of amenities and opportunities, these opportunities are not distributed equally over the population. The rural areas of Kentucky, particularly the Appalachian region, are some of the poorest in the country. Unemployment rates are high and education attainment rates are low. Large businesses typically do not consider the area as a viable location because the workforce lacks the required level of human capital. There is a migration of the most educated and entrepreneurial individuals out of the area because of a lack of work. Individuals in Eastern Kentucky do not have access to quality health care due to both transportation and cost-related reasons. These areas tend to possess the highest levels of cancer, heart, stroke, and suicidal related deaths in the state. These health related issues result in an even less productive labor force and thus the cycle continues and worsens.

This proposal will introduce a program that provides both technical assistance to local government officials that will produce measurable short and long run positive outcomes to several low-income communities in Eastern and South Central Kentucky. The program targets the improvement of quality of life for the residents living in these areas. Quality of life can be defined as the level of enjoyment and fulfillment derived by humans from the life they live within their local economic, cultural, social, and environmental conditions. The training that this project will provide aims to improve quality of life by first providing potential for higher earnings and better jobs. We will follow two roads to reach our objective. First, we will implement an entrepreneurial coaching program for local officials so that they themselves can coach individuals in low-income areas that are interested in becoming entrepreneurs. Second, we will provide training to provide the foundation for making a community more attractive to businesses by endowing the area with the attributes that firms look for when making locational decisions.

This proposal will be organized in the following manner. First, we will introduce the participants in this program. Second, we will discuss in detail the perceived needs of these low-income communities and programs that will be designed to in the end improve quality of life in these areas. Third, we will discuss the overall goals to be accomplished and finally we will provide benchmarks that will be used to measure the success of the program.

## ***II. The Participants***

This program allows the intermediary to provide technical training to the recipients in several communities in Kentucky. As a result of this program, the beneficiaries will be the individuals who gain from this program. As defined, the *intermediary* will consist of selected Extension Professors in the Agricultural Economics and Community and

Leadership Development Departments in the College of Agriculture at the University of Kentucky, the flagship campus located in Lexington, Kentucky.<sup>1</sup> They will work closely with the Cooperative Extension Service in administering the financial and technical assistance. County officials will be the recipients of the financial and technical assistance from the intermediaries. The beneficiaries of this program include individuals from the following low-income rural counties: Clinton, Cumberland, Elliot, Lee, Menifee, Owsley, and Wolfe. Individuals in Kentucky, particularly rural areas, commonly identify themselves with the county they reside in, thus the reason this program is organized on a county-level.

***III. The Perceived Needs of the Low-Income Communities***

During a recent relocation survey administered by Montana State University, selected firms ranked the importance of regional attributes they sought when making locational decisions. Table 1 provides the top five attributes firms selected. Other important attributes included low crime rates and availability of fire protection as well as access to customers and the affordability of housing.

**Table 1 Regional Attribute Rankings by Surveyed Businesses**

| Ranking | Attribute                                              |
|---------|--------------------------------------------------------|
| 1       | High speed internet accessibility                      |
| 2       | Availability of quality health care                    |
| 3       | Favorable local tax rate and workers compensation rate |
| 4       | Quality education system                               |
| 5       | Ease of attracting skilled workers                     |

The seven counties selected for this program do offer some of these mentioned attributes. Kentucky itself has the lowest cost for electrical industrial power. It is the seventh lowest overall business cost state. Housing is inexpensive. The median house price in the nation is roughly \$111,800, for the state of Kentucky it is well below at \$79,600 and for the seven counties all median housing prices fall below \$50,800.<sup>2</sup> The state of Kentucky is centrally located and thus has the ability to access customers all over the eastern seaboard as well as the Midwest cities such as Chicago, Madison, etc. Unfortunately, with the exception of housing which is inexpensive but also lower quality, the larger metropolitan areas in Kentucky will have an absolute advantage over these lower-income communities in attracting firms.

As mentioned in the introduction, quality health care is crucial to the viability of a region. Table 2 summarizes some of the health statistics for our selected recipients. For instance, Wolfe County is in the top 20% of the entire state in terms of deaths related to strokes, cancer, heart, lower-respiratory, and suicide. For the most part, these counties have staggering incidences of illnesses and death. With the exception of Clinton and Cumberland counties, the other regions do not have a hospital. There are limited physicians as well as other health service providers. As it stands the communities are not able to provide a healthy work-force and this is proves to be a large deterrent to business recruitment.

<sup>1</sup> For a full list of the intermediaries as well as their credentials please see Section 2 of the narrative that addresses the evaluation criteria.

<sup>2</sup> US Census 2000

**Table 2 Levels of Death Rates by Cause of Death (quintiles)**

| County     | Stroke | Cancer | Heart-related | Lower-respiratory | Suicide |
|------------|--------|--------|---------------|-------------------|---------|
| Clinton    | 2      | 5      | 2             | 4                 | 5       |
| Cumberland | 4      | 2      | 5             | 1                 | 5       |
| Elliot     | 3      | 5      | 1             | 5                 | 4       |
| Lee        | 1      | 5      | 4             | 5                 | 5       |
| Meniffee   | 4      | 1      | 5             | 5                 | 3       |
| Owsley     | 4      | 5      | 5             | 4                 | 4       |
| Wolfe      | 5      | 5      | 5             | 5                 | 5       |

#### ***IV. The Proposed Technical and Financial Training Program***

The participating members of the intermediary group propose the following technical and financial training program to address the needs of the low-income communities discussed in the previous section. The program will address quality of life by providing assistance that will target two objectives: the foundation for individuals to become successful entrepreneurs and creating the atmosphere that will attract the right type of business to the area.

##### **A. Entrepreneurship**

The entrepreneurship technical training program was originally created by Ron Hustedde from the University of Kentucky. The program was a successful pilot project for a group of tobacco-dependent counties in Northeast Kentucky. We will provide “Supercoaching” for civic leaders. It is a week-long workshop that coaches leaders to be coaches for potential start-up entrepreneurs in their county. The workshop teaches some of the following tools: strategic planning, product planning, marketing and sales, competition, financial planning. The workshop trains coaches to ask questions, not to provide answers, but rather provide other avenues of thinking and additional resources.

As an additional coaching resource, the intermediaries will provide technical training with use of Market Marker. Market Maker is an interactive mapping system that locates businesses and markets of food related products in Kentucky, providing a relationship between producers and consumers. This database could prove to be quite important for entrepreneurs, particularly the large number of start-up entrepreneurs who are also part-time farmers. Kentucky is a new partner in Market Maker. The intermediaries have started to introduce this powerful tool to state and local officials in Kentucky. The intermediary would train government officials how to use this program and how to deliver strategies to entrepreneurs about their food-related business.

##### **B. Business Retention and Recruitment**

The information from Table 1 suggests there are certain amenities an area can offer that make it more attractive to potential firms. Our program will provide the technical training to assist these areas in retaining the firms that currently reside in their region and also recruiting firms by targeting or improving attribute levels. This particular phase of the program will concentrate on two factors: increasing employment levels and improving health care.

### *i. Employment*

It is tremendously important for local officials to take an asset based approach to firm retention and recruitment. They must recognize the strengths and weaknesses of the available labor force. In the past these local communities have spun their wheels trying to recruit large firms that require a large, skilled and educated workforce that in the short-run the community can not provide. As a result, the firm quickly exits the area, leaving the area more economically devastated than when they first arrived. Thus the community leaders should first focus on retaining the businesses that currently reside in the area by focusing on their needs, first and foremost. Their second goal should then be to teach community leaders to be realistic about the types of firms that they can attract and to recruit smaller firms that will provide sustainable economic development for the local area. The ability to retain firms sends signals to new firms that they can potentially run a successful long-term business in the region as well.

### *ii. Health Care*

The intermediary will design a program that will provide county officials with three avenues to pursue accessible and higher quality health care. First, through the Rural Health Works Program at the University of Kentucky, the intermediary will provide training to determine both the physical and behavioral medical needs of the community. With the recipients, the intermediaries will help design a short-term solution and a long-term plan for building the necessary infrastructure and recruiting long-term physicians to the area. Second, the intermediary will provide technical assistance in building a health care directory for each community. Low-income communities often argue that they were unaware of the few health services that were available to them. Thus, this straightforward directory will provide a detailed listing of all medical services including contact information, visit costs, and insurance plans accepted for each community. Finally, the intermediaries will assist county officials with developing a long-run health improvement plan. This plan will target improved diet and fitness regimes for everyone in the community, including school-aged children. The county officials will also work with industries in the area to seek incentives for their workers who have improved their eating and fitness habits.

### *iii. Bringing Government Officials Together to Make Good Decisions*

Often times in small rural areas, community leaders are at odds with each other over policy issues and thus changes is slow to take place. This can be the largest barrier to improving the quality of life in these communities. This program will provide training for an objective decision-making mechanism, called the Analytic Network Process (ANP). This process is the most comprehensive framework for the analysis of societal, governmental and corporate decisions that is available today to the decision-maker. It is a process that allows one to include all the factors and criteria, tangible and intangible that have bearing on making a best decision. The ANP has been applied to a variety of decisions involving benefits, costs, opportunities, and risks and is particularly useful in predicting outcomes. The intermediary will provide the technical training to both county leaders and town officials as well as provide the necessary software to utilize this very helpful decision-making tool.

## **V. Overall Goals and Benchmarks for Success**

The overall goal of this program is to improve the quality of life for the selected low-income communities. The short-term response is to improve the economic and health conditions often associated with quality of life and the long-term conditions, such as improvements in education and affordable and quality housing, will naturally improve as well. This will be accomplished by providing a thorough entrepreneurial coaching regime for county leaders. It is expected that these coaches will then provide the best guidance and access to successful networks to start-up entrepreneurs. The benchmark for success will be the number of successful start-ups that remain in these communities.

The other aspect of this program is to coach community leaders to focus on retaining the firms that currently reside in the area and then recruiting appropriate smaller businesses that intend on staying in the area. The only way to accomplish this task is by improving the attributes that firms value. Thus the program targets an improvement in employment conditions and health care. The benchmark for success for this aspect of the program is a measure of a healthier, more productive workforce in the short-run, with increased educational attainment in the long-run. The number of firms that remained in the area and the number of successfully recruited permanent firms are additional benchmarks for success, where the latter is a long-term measure of success and the former is a shorter-term measure. The improvement in quality of life will be a response to these successful new businesses. Communities will have steady employment opportunities, increasing income, and a healthier lifestyle.