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URBAN COWBOYS

Inside the Rural Economic Development Center

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URBAN COWBOYS

The Rural Economic Development Center is a private advocacy group poised to distribute \$100 million in state bond proceeds. Good idea?

By **DON CARRINGTON** and **ANDREW CLINE**

During the 1998 short legislative session, the House and Senate approved a plan to address the water, sewer and natural gas needs of smaller communities in North Carolina.

Senate Bill 1354, known as the "Bonds/Critical Infrastructure Needs Act," allows voters this fall to decide whether the state will issue general obligation bonds for local water, sewer and natural gas projects.

Though the bill raised the eyebrows of State Treasurer Harlan Boyles, who questioned the wisdom of the state's taking on more debt, it has generated little controversy — except for one, seemingly small provision.

The bill gives an organization called the Rural Economic Development Center authority to distribute up to \$100 million of the roughly \$1 billion that would be brought in by the state bonds if voters approve them.

Most legislators we talked with while SB 1354 was on the legislative calendar this summer had never heard of the Rural Center, as the organization is commonly called.

It is not a state agency. Rep. Jim Carpenter, R-Macon and chief House proponent of the bill, calls the Rural Center a "quasi-government agency." It is a private, nonprofit that raises some private funds but survives largely on tax money. There are specific reasons why some legislators want this group to handle state funds, why some don't want it to do so, and why it definitely should not.

The Center has three core functions: It is a distributor of funds to the needy, an advocacy group for the rural poor, and a think tank.

Each mission is worthy in itself, but when combined under one government-funded roof, the mission borders blur. This makes telling the difference between the organization's research, advocacy and money-handling functions more difficult. The three blend together; the research tends to justify increases in state funding, which

support the advocacy, which is based on the research.

"The mission of the North Carolina Rural Economic Development Center," according to the group's first annual report, published in 1988, "is to improve economic conditions, support increased entrepreneurial development and make more and better jobs available in rural areas with a special focus on low-income residents."

Kelly King, CEO of Winston-Salem-based BB&T Corp. and chairman of the Rural Center since July 1997, told *CJ* that the Rural Center's mission is first to be a policy think tank; second, to be involved as a stimulant for economic development in rural North Carolina; and third, to run economic development programs.

If that is the case, then why is the Rural Center so heavily funded by government, with such large portions of its time and money spent in distribution of federal and state government grants? And why is the center located in a federally funded building in a Raleigh government complex instead of in the heart of rural North Carolina?

Democratic Holding Pen

The Rural Center really isn't a private think tank, as it likes to present itself. It is and always has been a product of state government. It was incorporated in January 1987, the spawn of the 1986 Commission on Jobs and the Economy, a legislative commission chaired by then Democratic Lt. Gov. Bob Jordan.

At the time, many observers concluded that the Rural Center was created because Republican Gov. Jim Martin had just taken over control of the Executive Branch, and Democrats needed a way to provide jobs for some of their friends and funnel money to some of their pet projects.

According to Jack Hawke, a former Martin Administration official and former head of the state Republican Party, "the Commission and later the Rural Center gave

Jordan a set of economic issues to help him in his gubernatorial challenge to Gov. Martin in 1988."

Billy Ray Hall, an official in Democratic Gov. Jim Hunt's first two administrations, was the first president of the Rural Center, and he still serves in that capacity.

Hall receives an annual salary set by the Rural Center board. That salary is \$120,000, significantly higher than the governor's proposed FY 1998-99 salary of \$110,346. This discrepancy doesn't sit well with some legislators.

"I am appalled that a person who supervises the equivalent of a small state government section is paid an annual salary \$10,000 more than Gov. Hunt," Sen. Betsy Cochrane, R-Davie, told *CJ*. Hall's salary is also \$25,000 higher than the salary paid to Commerce Secretary Rick Carlisle (a former Rural Center employee).

So, the man in charge of a small, quasi-government agency that distributes a few million dollars to rural folks and conducts some research on rural issues makes \$25,000 more than the man in charge of economic development for the entire state of North Carolina.

Conflicts of Interest

A decade after the Rural Center's creation, Gov. Hunt is back in the governor's mansion, and the Rural Center continues to suck down government funds.

In the Rural Center's first full fiscal year of operation (the fiscal year ending June 30, 1988), only 4.6 percent of its "grants and gifts" were obtained from the private sector: \$35,000 from the Z. Smith Reynolds Foundation and \$10,162 from Carolina Power & Light. The remaining \$967,858 came from the N.C. Department of Commerce.

In the fiscal year ending June 30, 1997, 11.7 percent of its \$6 million in grant money came from private sources. The rest came from the state or federal government.

In the 1996-97 fiscal year, the Rural Center collected

nearly as much money from the federal government (\$966,709) as it collected from all sources in 1988. It took in \$615,800 in nongovernmental funds in '96-'97.

The \$615,000 that the Rural Center raised in nongovernmental funds that year was enough to run an entirely privately funded think tank. (The total Locke Foundation budget for 1996-97 was \$440,000.)

Why, then, is the rural center's research arm intermingled with its advocacy and distribution functions? Probably because of the opportunities created by things like the water and sewer bonds bill.

The Spring/Summer 1998 issue of the Rural Center's publication, *Rural Routes*, contained a story on the water and sewer bills. In that story was a sentence reading, "The Rural Center has played a significant role in crafting and moving the legislation."

The story went on to note that the Center's research "led to the original proposal for \$1 billion for water and sewer bonds last year."

This means that the Rural Center conducted the justifying research, assisted in the creation, and lobbied for the passage of a bill that gave them \$100 million in state funds to distribute.

Even the Rural Center's own board chairman acknowledged that the organization's dependence on government funding was a serious problem. "I want us to get ongoing private funds in order to be more independent," King said.

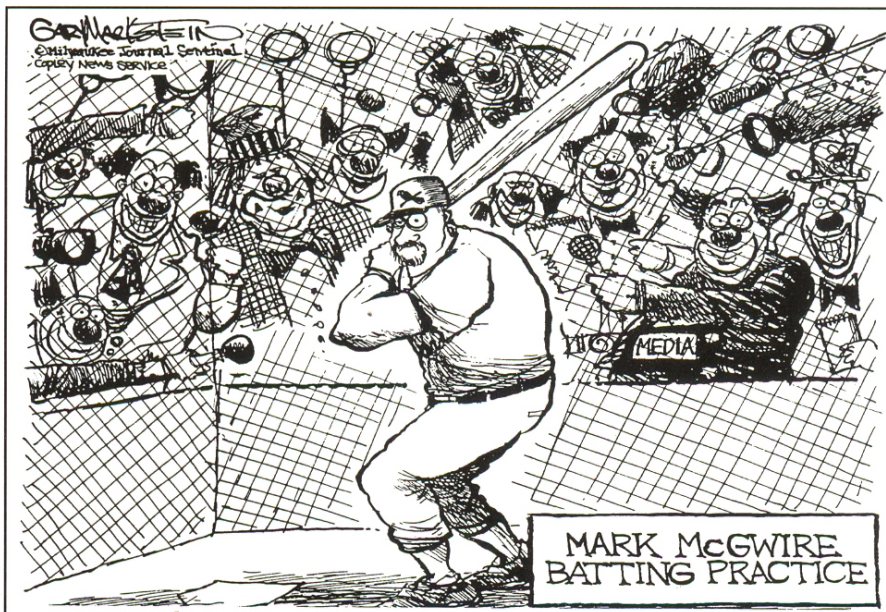
As long as the Rural Center receives government grants, its policy research is suspect. And as long as it is not subject to the same accountability requirements as other government agencies, it shouldn't have the authority to distribute government money.

Money distributed by state agencies must follow stringent guidelines to ensure that it is given to the communities most in need. Money distributed by the

Rural Center doesn't always fall under such guidelines, so the taxpayers have no way to ensure that the money is being properly used.

As an entity established and staffed by a closeknit group of Democratic Party officials and their friends, the Rural Center has always borne the suspicion that it exists in part to provide jobs and money for Democrats who find themselves out of government. With so little oversight of its operation, the Rural Center has plenty of opportunities to engage in political favoritism. Even if it conducts a squeaky clean operation, there is no way for taxpayers to know that it does.

The two paragraphs above are reason enough not to allow the



Rural Center to handle state money, including the water, sewer and natural gas bond money. Without independent oversight, there is no way to know whether this money will be spent properly.

Many proponents of the water and sewer bonds bill told *CJ* they wanted the Rural Center to handle some of the money because it would do a more efficient job than the state would. But that's no argument for giving the money to an unaccountable organization; it's an argument for improving the state system.

Accountability/Duplication

The Rural Center is required to report to the Joint Legislative Commission on Governmental Operations information on the grants and loans it makes. But the reporting requirements allow the information to be more than a year old.

Board Chairman King told *CJ* that the board approves all projects. The board, unlike the head of a state agency, has no way to evaluate the merits of each request compared to other requests handled through regular state agencies.

The Rural Center operates a variety of programs that duplicate activities of either the NC Department of Commerce, the Department of Environment and Natural Resources or the private sector. Some of these programs are listed below.

- **Supplemental/Capacity Building Grant Programs:** A grant program for local governments and other nonprofits to match federal economic development and other grants. The Center received \$4.1 million in FY 1997-'98.

- **Research and Demonstration Programs:** \$920,000 comes from the General Assembly to "support projects designed to improve economic conditions, support increased entrepreneurial development, and increase the number of jobs available in rural areas."

- **Community Development Corporation (CDC) Grants Program:** This program awards grants to local non-profits. The awards are as much as \$100,000 and approximately \$6 million that has been funneled through this program comes entirely from the General Assembly.

- **Microenterprise Loan Program:** This program "provides loans for the start-up or expansion of small business by individuals who have sound ideas and do not qualify for conventional loans."

Started in 1989, the program has received as much as \$650,000 per year from the state, though its funding has been reduced to \$250,000 per year for the past three years.

The Rural Center At A Glance

Name:	N.C. Rural Economic Development Center
Organization:	Private Nonprofit 501(c)(3)
Started:	1987
Headquarters:	Owns a 12,500 square foot building in Raleigh
President:	Billy Ray Hall, annual salary: \$120,000
Board Chairman:	Kelly King, CEO of BB&T, Winston-Salem
Board Members:	49, including several state legislators
Full-time Staff:	22
Annual Budget:	\$5,622,526 (expenditures for year ending June 30, 1997) \$8,122,397 (expenditures for year ending June 30, 1996)
Reserves:	\$11,290,707 (cash and investments as of June 30, 1997)
Funding:	About 90 percent from federal and state grants
Purpose:	To develop economically the state's rural areas

Seventeen percent of the borrowers have gone out of business before repaying the loans.

- **Child Care Loan Program:** This is a loan guarantee program for people with poor credit who want to get into the daycare business. Only 12 loans have been made through January 1997.

- **Water and Sewer Needs Assessment Database Creation:** The Rural Center helped map the water and sewer systems in rural sections of North Carolina and also lobbied the legislature for the bond package to fill "unmet needs."

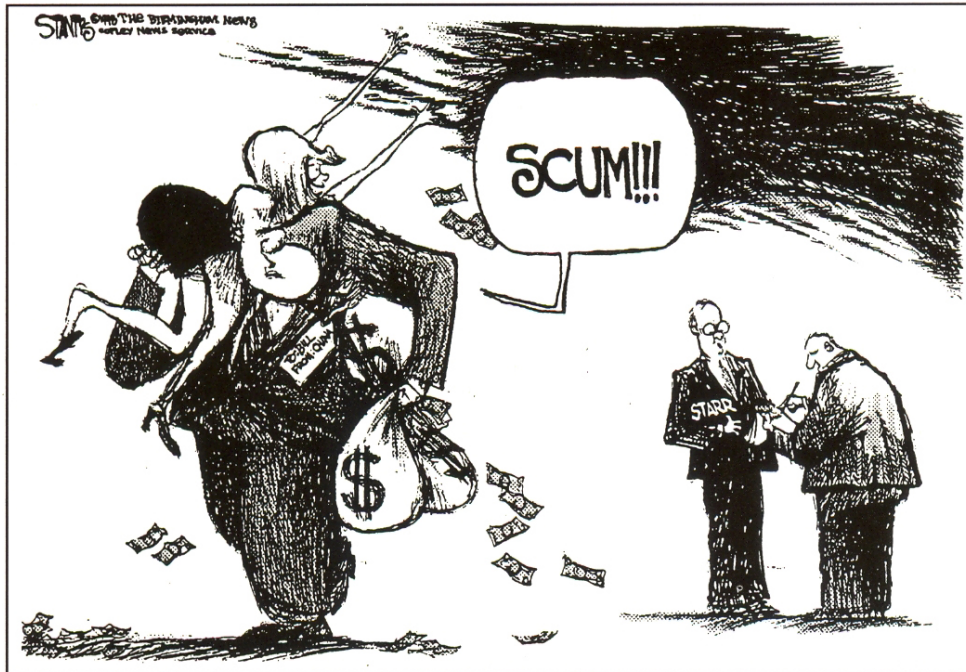
- **Capital Access Program:** This program enables North Carolina financial institutions to make more high-risk loans by guaranteeing repayment from the taxpayers. The capital access reserve of \$1.65 million was provided by the General Assembly and the U.S. Small Business Administration. From September 1994 through December 1997, the program made 133 loans totalling \$7,692,148.

Funding/Accounting Questions

In addition to the funding and accountability problems mentioned already, the Rural Center presents additional financial concerns.

Unlike state agencies, the Rural Center is allowed to keep the interest earned on certain grant money that is not distributed. Financial statements indicate that total interest income for FY 96-97 was almost \$1.4 million. This allows the Rural Center to transfer government funds from their original purposes to others. It also makes the center appear more independent than it is because its financial statements list this money simply as "investment income" and not as state or federal grant money.

Fueling suspicion that the Rural Center is more concerned with obtaining government funds than fully understanding rural life, the center recently completed construction of a new headquarters — located in urban



Raleigh and built with federal grant money.

The 12,500 square foot office building sits in the Wake County Office Park in southeast Raleigh.

In April of 1995, the Rural Center was awarded a \$1 million grant from the federal government's Economic Development Administration (EDA). The money was to be used for construction of a new building. The estimate for the project was \$1,545,667 — the difference coming from other sources.

The Rural Center's Biennial report for 1994-96 stated "Two key partnerships formed the foundation for the capital campaign. Wake County provided the site for the building under a long-term lease, and the U.S. Economic Development Administration (EDA) awarded the center a \$1 million construction grant. More than 40 other partners also provided funding."

Application documents indicated that no state money would be used for the project, but state taxpayers were a silent partner. Apparently when the private fund-raising campaign stalled, the Rural Center used interest from a sizable bank account to help pay for the building.

The account consists primarily of state grant money transferred to the Center but not disbursed. A review of the Center's financial statements indicates that the board approved payments of at least \$225,000 from interest earned on state money to pay for the building.

Also, the federal grant was supposed to be used to "assist communities with the funding of public works and development facilities that contribute to the creation or retention of primarily private sector jobs and alleviation of unemployment and underemployment. Such assistance is designed to help communities achieve lasting improvement by stabilizing and diversifying local economies ... Alleviation of unemployment and underem-

ployment among residents of the project area is a primary focus of the program," according to the guidelines.

To get the grant, the Rural Center hired a consultant to handle the grant application and create a high-unemployment district in much the same way that the General Assembly created the racially gerrymandered 12th Congressional District. The consultant bundled 12 contiguous Census tracts in which unemployment was higher than the county average. The area where the building sits easily could be connected to tracts of low unemployment, but that wouldn't qualify for the

grant.

Of course, there is no evidence that the Rural Center helped Southeast Raleigh "achieve lasting improvement by stabilizing and diversifying" the local economy. The only benefit it provided to the local economy was through temporary construction jobs, and that should not have qualified it for the grant.

Keeping Rural People Rural

Located in a plush, new taxpayer-funded building in a government office complex in suburban Raleigh, the Rural Center is working hard to, well, keep rural folk from enjoying the urban life that the Rural Center staff does.

Rather than allow Adam Smith's invisible hand to guide rural North Carolinians in their economic decision-making, the Rural Center has taken upon itself the task of making those decisions for "rural people." And it has decided that "rural people" should stay rural.

"Rural people in search of work may move to urban areas, thereby becoming urban people, demanding urban services, and potentially creating urban problems," laments a Rural Center publication.

The solution, therefore, is to keep these people rural by making rural life more comfortable for them. The Rural Center attempts this goal by pumping millions of dollars (who knows how many taxed away from poor, rural people) into the "rural economy."

But what is "rural" and what is urban? In 1991, the Rural Center defined urban counties as those that were "federally-designated Metropolitan Statistical Areas (MSAs). Essentially," according to a Rural Center report, "an MSA is composed of 1) a nucleus county with a city of at least 50,000 inhabitants; and 2) surrounding counties

where most of the labor force is employed in non-agricultural jobs, and at least 30 percent of the workers are employed in the nucleus county."

By this definition, 25 of North Carolina's 100 counties were considered urban in 1991, leaving the Rural Center to dabble in the remaining 75.

But when the 1990 census data came back, it was found that more people had moved to urban areas. And in 1993 the MSA definition was refined a bit. Using this new information, the Rural Center found that the number of rural N.C. counties had dropped to 65.

The Rural Center board of directors didn't like this, Hall told *CJ*. As a direct result of losing 10 constituent counties, the board had Rural Center staff redefine "rural." The Center now defines as "rural" a county with a population density of fewer than 200 people per square mile. No other official agency uses this definition.

As a result of this definitional change, the Rural Center now boasts that it serves the state's "85 rural counties," when there really are 65 rural counties.

In addition, the Rural Center is straying from its original mission and starting to fund projects in urban areas. In 1997, the Center gave Holly Springs, a community in the decidedly non-rural Wake County, \$425,000 in state funds to help improve its water and sewer lines. The town already had borrowed \$2.8 million for the purpose, and had asked Wake County for the remaining funds. When Wake rejected the request, the Rural Center stepped in with state money.

And in the Center's 1995 application for the federal loan it used to build its headquarters, Rural Center Presi-

dent Hall wrote that the Center would "serve 85 rural counties and 'distressed areas' within the State."

If They Didn't Do It, Who Would?

In an interview with *CJ*, Treasurer Boyles said the water and sewer bonds would encourage waste. "While the needs are there, oftentimes the entity that receives grants builds a Cadillac system when all they need is a Chevrolet."

Boyles also said that the Rural Center should not administer the bond money. "We already have in place agencies to administer grants like that," Boyles said. "They [the Rural Center] would have to duplicate the efforts of existing state agencies."

A Rural Center board member also questioned the Center's necessity as a fund-distributing agency. "I think that we should not funnel funds through there. They are a private nonprofit. We already administer state government grant and loan programs in the Department of Environment, and Natural Resources, so we do not need a middleman skimming money off the top," said Rep. Don Davis, R-Harnett, and a Rural Center board member.

Indeed, there is no justification for the Rural Center to receive any public funding. Every service it provides already exists either in another level of government or in the private sector. Still, unless something changes, it will soon get another \$100 million of your money to spend. *CJ*

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