

Re *community* **investment**

COMMUNITY AFFAIRS DEPARTMENT

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Economic Opportunities in Rural America— and Elsewhere:

- ***High Technology
and E-Business***
- ***Value-added Business***
- ***Entrepreneurship***

*How have three small
communities turned
opportunity into reality?*



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Andrew Thompson and Ariel Cisneros are on the Community Affairs staff at the Denver Branch.

Economic Opportunities in Rural America—and Elsewhere

Guess what? As we looked at how communities can prosper in rural America, the same answers kept coming up. E-commerce and high technology, value-added business, and entrepreneurship were identified as the top economic opportunities by rural stakeholders in roundtable discussions we held last summer. When we went looking for real-life examples of these opportunities in action in three separate communities, we were quickly reminded that e-commerce and value-added activity require entrepreneurship. Value-added business often uses high technology. Entrepreneurship is a community attitude, needed to create an environment in which business can succeed.

Each community possessed unique characteristics that were being leveraged to create a competitive advantage. However, the secrets of their success were similar. In fact, they weren't really secrets at all—they're the truths that ancient

“Each community possessed unique characteristics that were being leveraged to create a competitive advantage.”

philosophers, modern business gurus and wise people through the ages have already told us: Be clear about where you're headed. Make the best of what you have. Form alliances with those who can help you. Eliminate obstacles. Be persistent.

Is it really as simple as that? Of course not. What we do is often shaped more by tradition—our own and that of others—than by current realities. Scarce resources require difficult choices. New decisions need to be made when what we try doesn't work. The allies who are essential for success may be former adversaries. Pieces may be missing, and competition can be daunting.

So how do some communities confront those challenges and find economic success in spite of the odds? We keep hearing the same answers: People. Attitudes. Leadership. Citizenship.

Are the stories we tell in this issue of Community Reinvestment from Aurora, Nebraska and Shelbina, Missouri and Paxico, Kansas typical? Only in that they are three examples of thousands of ways in which rural people are using e-commerce and technology, adding value to products, and supporting entrepreneurship.

“Scarce resources require difficult choices.”

We had heard from rural roundtable participants from across the country about the strengths and challenges of place, community and the business environment. We heard concerns about policies and regulations that don't fit the reality of rural communities. We were struck by the fact that the characteristics that were strengths were often the same ones that were challenges. We wanted to learn more up close about the strengths and challenges and concerns we'd heard about, and we did.

The three communities we visited are making the best of what they have by leveraging their strengths. Whatever the unique characteristics of your community, whatever its size, and whether it's rural, suburban or urban, we think you'll find the information here useful. We also think you'll enjoy learning more about the leaders in these communities who, with vision and energy and elbow grease, are working to make their communities prosper. ■

Economic Opportunities:

Hallmarks of success...

- Have clear goals.
- Build on strengths.
- Eliminate or work around obstacles.
- Build alliances
- Focus on the future
- Be persistent.

High Technology and E-business

Software 4 Retail Solutions, developers of specialized software for independent grocery chains, could be located any place in the country. Their customers are in Maine, California, Minnesota, Barbados, Panama, Canada, and places in between. In 1997 they moved to Grand Island, Nebraska (population 43,000) after being in a Denver suburb for 15 years. After a year in Grand Island they moved 20 miles east to Aurora, Nebraska (population 4,225).

“Our cost of doing business in Aurora is lower, our employee stability is higher, and there’s a quality of life here that can’t be found in a larger community.”

“We plan to stay here,” said manager Jim Anderson, who with a partner originally developed the company that is now the software development division of Data Systems, Inc. of Minneapolis. “Our cost of doing business in Aurora is lower, our employee stability is higher, and there’s a quality of life here that can’t be found in a larger community.”

A key factor for Software 4 and other high-tech businesses in Aurora is the presence of Hamilton Telecommunications. It’s a company that was founded 100 years ago to provide telephone services for a county that larger phone companies didn’t believe it would be profitable to serve. In the last quarter-century, Hamilton Telecommunications has consistently positioned itself on the leading edge of the telecommunications industry.

Aurora has been at the center of a prosperous farming community since it was founded in 1871, but Hamilton Telecommunication, with its entrepreneurial spirit and commitment to the community, has provided a technology infrastructure that gives Aurora its competitive advantage.

“We have better transmission power here than we did in the Denver area,” said Anderson, “and if we have a problem, we personally know the people

With its entrepreneurial spirit and commitment to the community, Hamilton Telecommunications has provided a technology infrastructure that gives Aurora its competitive edge.

we need to talk with about solving it.”

Leaders in Aurora know how lucky they are to have a progressive, locally-owned telecommunications company, but they also know that technological infrastructure is a necessary but not sufficient requirement for attracting high-tech business to the community. When we asked people what made Aurora attractive for business, quality of life was at the top of the list.

“We’re part of the community here,” said Anderson. “It’s not like a typical suburb, where people just come and go. We’re actively involved in supporting excellence in Aurora’s schools—we have a stake in their quality because our children



Downtown Aurora, Nebraska.

attend the schools and also because our future employees attend them.

“The hardest part of attracting a technology company to a small town is personnel,” said Anderson. “Finding qualified employees can be a challenge, but not an insurmountable one. We have 15 software developers and about 15 installation and maintenance people. Two of our employees live in Denver and telecommute. Here in Aurora, we tend to attract employees who love living in a small town—if it pays as well as in

cities. We pay maybe \$1,000 less than we would in Omaha or Denver, which is offset by the lower cost of living.

Two of Software 4’s employees are “young farmers who have a real aptitude for this kind of work,” said Anderson. “We trained them ourselves. It took about a year for them to really learn what they needed to know, but they learned well, and one of them is manager of our software development department now.”

Aurora leaders said...

- Success breeds success. Ken Wortman, Wortman Enterprises
- You make a decision to either fall behind or move ahead. Things will change, and you decide what kind of change you want to accept. Phil Nelson, Hamilton Telecommunications
- Aurora residents don’t wait for success, they come together to create success. Mayor Ken Harter
- One key to success here is the newspaper. It includes the negative news, but it really features the positive news. It helps us all focus on what’s going right, not on what may be wrong. Ken Wortman
- A strong community has to have a vision for the future. It’s inspiring to be around people like Ken Wortman, Bud Pence, Phil Nelson and Gary Warren. It’s hard to sit around and do nothing when you’re around guys like that. Jim Anderson
- If you don’t meet together, you won’t make the connections and talk about the issues. For the Information Technology Task Force to accomplish things, it’s important to get together monthly. Diane Keller, Memorial Hospital
- The role of the city council is to be aware of the changing business environment and support innovation. We can’t get stuck in old ways of looking at things. Change forces us to rethink how or what our community will be. Harlan Schafer, city council
- We need to play on our strengths and admit our weaknesses. It’s possible Aurora’s retail strength will never be there again, but our town doesn’t have to die because of that. Harlan Schafer

- So many people contribute here. It’s not just one person with vision and everybody else digging in their heels. People seem to feed on and build the vision. Harlan Schafer
- When you’re in a community that does so many things, you feel like you want to be a part of it. You want to put your oar in the water and paddle a little. Paul Kemling, county commissioner
- This is the best place to live in the world. But if you live in a place where you feel pestered by your neighbors, it will be the same if you move somewhere else. And if you live in a place where you love your neighbors, it will be the same if you move to a new community. Jackie Kemling, resident

“People seem to feed on and build the vision.”

- My parents and my grandparents taught me a time-honored belief that leaders have to step up. My fear is that society today is not honoring leaders in a way that makes them want to step up. My grandfather was president of the school board in his community, and he was respected and honored. There is less of that these days, and people may say, “Why run for the school board?” George Hohwieler, Syngenta Seeds, Inc.
- The reason why people farm is they’re independent, rugged individualists who don’t want to be told what to do. George Hohwieler
- What happens in Aurora in ten years depends on what we do in the next two years with schools and economic development. George Hohwieler

Anderson hopes there will be more high-tech companies in Aurora in the future. “We have three or four companies in the area now,” he said. “With more companies, we can create economies of scale, build a contract pool of people to draw on, and have enough employees in the area to help sustain technology businesses.

“Retail may never again be a strength in downtown Aurora,” said Anderson, “but we can build on other ways for success. I saw a wonderful wood-working business in Ohio that displays and sells a few products from its storefront, sells more through the Internet, and uses what was once retail space to make the products and custom-built wood cabinets on which its livelihood depends. I think that kind of combination approach could work here.”

A new business incubator that targets providing support and services to new and growing technology businesses may help bring more technology and e-business to Aurora. A building for the incubator was donated to the Hamilton County Information Technology Task Force (ITTF), a group that has been working to support the development of information technology businesses in Aurora for

close to ten years.

The task force, which has been key to making Aurora attractive to high-tech business, was initiated by Hamilton Telecommunications. “My father bought this company in the 1960s,” said company president Phil Nelson. “He had a philosophy of enlightened self-interest, which I agree with: It’s in the interest of a company for its customers to prosper. We want people to be able to use and pay for the products and services we offer.”

A key person with the task force and in the community has been Gary Warren, executive vice president of Hamilton Telecommunications. Nelson persuaded the local lawyer to come work for Hamilton 15 years ago, with a stipulation that he would spend 25 to 30 percent of his time working on economic development. “He does that and then spends countless hours of his own time volunteering in the community,” said Nelson.

The tradition of inviting everyone to contribute ideas and participate in the discussion is strong in Aurora.

At Warren’s initiative, in 1994 the ITTF developed and published a strategic plan. “Everyone was asked what they thought,” said task force member Mark Kremer. “A survey was taken of every organization, of every large business, teachers—and people who came to the county fair.” The goals in the 1994 ITTF plan were accomplished, and a new strategic plan was developed and published in 1999.

Kremer is a native of Aurora who moved to Minneapolis and returned to Aurora with his family seven years ago. “I came back because I saw opportunity,” he said. “I subscribed to the hometown paper—as most former residents of small towns do—and saw that there was a progressive mindset, people looking for new opportunities, and a community that was structured around growth. There was a high level of involvement, and they welcomed people to participate.”

The tradition of inviting everyone to contribute ideas and participate in the discussion is strong in



Aurora. “Sometimes it’s frustrating because when you get a good idea, you can’t just go out and do it,” said city council representative Harlan Schafer, who is also vice president of production and operations for the Aurora Cooperative. “We take time to assess, and count on input and diverse viewpoints to make sure we’re doing what needs to be done. You throw an idea on the table, and it gets refined a hundred times. What you end up with isn’t your idea any more, but it’s a good one and it has the support of the community. People want the best for the community, but they bring different perspectives.”

“You throw an idea on the table, and it gets refined a hundred times. What you end up with isn’t your idea any more, but it’s a good one and it has the support of the community.”

A community culture in which people are expected to listen to one another is not accidental. “Leaders in this town encourage participation,” said Jim Anderson. “They provide examples through their own actions. They’re not shy about letting others know what the standards of leadership are, and they support new leaders in living up to those standards.”

“This leadership tradition started back in the 1960s,” said Phil Nelson. “A group of people realized then that for this community to survive, we had to have a vision and involvement in leadership. When I first came to town, Ken Wortman called and invited me to a meeting. He and others continue to do that, to find ways to introduce people to the process and get them involved. Consistently, year after year, we bring new people into the fold to keep new blood in the system. It’s easy for gray-haired people to settle into thinking their ideas are the only ones, but that will get us into trouble.”

“Leadership in Aurora doesn’t just come from one church or one ethnic group,” said Mark Kremer. “The diversity here is one of the

What people said makes it work in Aurora

- Visionary leadership.
- Progressive attitude.
- Desire to be on the leading edge.
- Volunteer commitment.
- Technology infrastructure – broad band communications, fiber-optic rings, T1 and DSL.
- Inclusive process and decision-making.
- Entrepreneurial spirit.
- information and Technology Task Force.
- Aurora Economic Development Corporation – “makes it easy to get excited.”
- Strong schools – Cisco Training program starting next year.
- Community infrastructure – education, health care.
- Community amenities – theater, park, outdoor recreation.
- Local foundation money.
- Enterprising farmers, “savvy and technologically advanced.”
- Focus on value-added activity.
- University of Nebraska – research and people.
- Location – “being rural but not remote.”
- Newspaper – focus on the positive.
- Safety – low crime rate.
- Legal tools – tax increment finance districts.
- Agriculture – good climate, rich soil, access to water for crop irrigation.
- Transportation – highways, railroad, airports within an hour’s drive.
- Businesses and cooperatives.

strengths. In communities with one primary ethnic group and one church, others may not feel welcome. Our diversity and openness to newcomers create opportunity.”

“Our diversity and openness to newcomers creates opportunity.” People in Aurora want to be on the leading edge.”

People in Aurora talked about their vision for the community. They want to be on the leading edge, to be progressive, to maintain a small-town quality of life, and to keep and attract businesses that will provide good jobs. They consistently talked about the future, about what they can do today that will make the community a good place for their children and grandchildren to live.

This focus on the future is not new. Wealthy individuals in the past established private foundations that provide an ongoing flow of money into the community. “Our hospital, library, theater, community center, science center, the plains museum and our park were all built with private money,” Aurora citizens pointed out. There was pride in not being dependent on government funds, and in not having to contend with the sometimes-complicated and time-consuming process of partnerships with government.



Software 4 Retail Solutions is located in an Aurora building that was once a nursing home.

On the other hand, several people said that foundation money can be a mixed blessing. “Sometimes I think we’ve become lazy,” said one person. “We depend on the foundations to pay for what citizens would usually have to pay for with tax dollars.” Another talked about issues of building maintenance and operating funds for institutions that were created through foundation funding: “It’s easy to find enthusiasm and support for building something new, but it can be a struggle to pay for the everyday necessities.”

“Aurora is a wonderful place to live,” said George Hohwieler, president of the Chamber of Commerce and plant manager for Syngenta Seeds, Inc. “This is one of the four best corn-growing environments in the world, and farmers and the community have prospered because of that. The challenge is in continuing to adapt to today’s needs. I think Aurora is going to have to employ staff to work on economic development—most volunteers today just can’t spend the kind of time that’s been spent in the past to bring business to Aurora. The schools are going to have to have additional resources to maintain their excellence. The future of Aurora really depends on our ability to continue to adapt to the needs of a changing world.”

“Our hospital, library, theater, community center, science center, the plains museum and park were all built with private money.”

“People here tend to be stoic and heroic,” Hohwieler said. “They’re concerned that partnering with government will be less efficient. Government is less nimble—it can be like swimming up the river. In the balance, though, it comes down to giving up some freedom and autonomy versus giving up financial means and infrastructure for the community. Corporate boardrooms will look to see what kinds of partnerships with government can be formed. We need to take down some of the walls between us and government resources.”

Jim Anderson is optimistic about the community’s ability to adapt for the future. “Aurora has a



The Explorit Center is a hands-on science center named after Aurora native Harold E. Edgerton, who founded electronic flash photography and developed the strobe light and the side sonar scanner.

Aurora's concerns and challenges

- Access to capital.
- Tax structure – mixed ideas about need for city sales tax, concerns regarding state financial support for schools, high property taxes.
- Dependence on foundations.
- Struggling retail business.
- People now spending their money rather than investing or leaving it for future generations.
- Key leaders getting older. Less volunteerism than in the past.
- Less understanding of how the development corporation helps grow a business, less support for the development corporation.
- Environmental Protection Agency regulations regarding water treatment.
- Exporting youth – need jobs for students when they graduate from schools.
- Global agricultural competition.

history of being aggressive about attracting and retaining business,” he said. “And it has a history of people working together. The Aurora Development Corporation includes three bankers who compete with one another, but when it comes to the community, they set competition aside. You never win when you have little political intrigues. That’s an intangible asset this community offers.”

Through Hamilton Telecommunications’ efforts to achieve economic diversity, Aurora has developed infrastructure that is a tool for creating economic diversity in the community. The success of the community, however, relies on vision and strategy for using the technology. “We have to remember,” said Hamilton president Phil Nelson, “that technology is a tool, not a product. It’s a way of doing something, not an end in itself.” ■

Value-added Business

We went to Shelbina, Missouri (pop. 2,170) looking for a story about value-added business. We found that story—but it spills beyond the city limits of Shelbina and the northeast region of the state. It moves backward and forward in time. It's a story about people in the past who were determined that their community would survive and prosper, and it's about people now who are determined to maintain the quality of life in Shelbina and to make it a place their children will want to live in the future.

Business entrepreneurship and strong professional staff are two keys to success in Shelbina.

Business entrepreneurship and strong professional staff are two keys to success in Shelbina—but the story also keeps coming back around to civic leadership. “Twenty years ago, we had a city council that fought all the time,” said Mayor Bob Greening, who has retired from running a gas station and garage in Shelbina. “They would have meetings at which they argued until 3:00 a.m., but nothing got accomplished. We had wooden water lines, and we needed to do a lot of catch-up on infrastructure. At some point, people need to look at the facts and move on. We elected a new city council, and we put in new water mains, sewers and streets. You can't let your infrastructure deteriorate—that's how you protect progress.”

Ownership of utilities has given the community control over some of their infrastructure—and has given Shelbina a competitive advantage. “The electrical utilities are a value-added product for the city of Shelbina,” said John Bode, the city's economic development director. “In the 1940s and 1950s most communities sold their utilities, who then turned around and sold the product back to them. In Shelbina, people decided that the citizens would be the cooperative owners of the utilities. That way, the profits remain with our customers in the community.”



Owning their own utilities gives Shelbina flexibility for meeting the needs of citizen and businesses.

Under the leadership of City Administrator Dennis Klusmeyer, the city offers some of the cheapest electricity rates in the country and can profit from selling generating capacity to other communities. Klusmeyer, a native of Shelbina, developed his skill through on-the-job experience.

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He has a background in construction, and he was supervisor of utilities for Shelbina before recently becoming the administrator. “The city's ownership of the electrical generating plant and water system gives us the ability to provide cost-efficient, guaranteed service to our citizens and it also gives us the flexibility to develop capacity for business,” said Klusmeyer.

The economic development director is another key staff person. “We started talking in 1995-96 about hiring a full-time economic development staff person,” said Mayor Greening. “We created a vision for Shelbina based on public input over a three-month period. What came out of that was agreement that we wanted to develop, but that we also wanted to maintain our quality of life.”

Two years ago the Shelbina City Council received a grant through the Rural Economic Assistance Program of the state of Missouri to fund an economic development director. They hired John Bode, who had grown up in Shelbina. He had lived and worked in Phoenix and Minneapolis and wanted to move his family back to this area. “John has the connections and really knows what he’s doing with economic development,” said Greening. “He and Dennis Klusmeyer are tremendous. We can’t keep up on our own, but with their work, now is looking good and the future looks even better. When the council and the community are agreed on what we want to do, the staff gives us the ability to carry it out.”

The council and staff are careful to maintain open communication with the citizens of Shelbina. “We put information in the newspaper every week about what we’re doing, so people aren’t acting on false information,” said Greening. Our council meetings are always open, and every week or two our city administrator joins the group of people who regularly meet at the coffee shop, to learn more about concerns and provide information about what the city is doing.

“We put information in the newspaper every week about what we’re doing, so people aren’t acting on false information.”

“Our job as a city council is to create the environment for citizens in the community,” Greening said. “We provide the necessities of daily life, and an infrastructure that keeps us ahead of the game. Attracting business will help us grow, so we’ll be able to offer jobs to young people and can keep more of them here.”

Shelbina leaders said...

- People of all ages have a vision for the future. People in their 60s are doing it for their kids. People in their 30s and 40s are doing it to survive, and young people in their 20s are doing it to get started or to get back into farming. Dennis Klusmeyer
- Our leadership has common goals, but we have diverse personalities, which is good. We’re all working for the betterment of Shelbina. We want to make it the best environment we can, with a good quality of life, and we’re looking to the future. Bob Greening, mayor

“If we’re sitting still, we’re really moving backward.”

- If we’re sitting still, we’re really moving backward. Jim McConnell, attorney
- Oftentimes, the vision for a community is born of pain. Sometimes it takes a crisis to make things happen, to harden the steel. Jim McConnell, attorney
- There were some hard feelings when the high school districts were consolidated in 1965 and when the middle schools consolidated between 1970-75. But it’s not contentious anymore. We can’t do this alone, we’ve got to all go together. Tim Dunaway, superintendent of schools
- We missed some economic opportunities a few years ago, when people just wanted to stay the same. When we didn’t want to change, we went backward. Tim Dunaway, superintendent of schools
- People here are friendly, not cliquish. When you’re driving down the street, they raise a hand and wave. They get involved in volunteer activities. Steve Hines, city council
- One of the advantages for companies in Shelbina is the communication link between them and the city. If there’s a concern, people can just pick up the phone and call. We stay in contact with one another and work together to resolve any problems. Bob Greening, mayor



Corn growers formed a value-added cooperative to build this ethanol plant in Northeast Missouri.

Other people who have influenced economic development in Shelbina come from outside the community. Entrepreneur John Eggleston lives near Memphis, Missouri, 65 miles north. He and other farmers in the region decided a few years ago, as they contended with low corn prices and unpredictable markets, that they wanted more control over their livelihood. Eggleston had talked with corn growers at a national conference about the ethanol plants built by cooperatives in Minnesota. He thought, “Why not do that here in Missouri?”

“In a new-generation cooperative, the majority of the investors have to also be producers.”

With colleagues in the Missouri Corn Growers Association, Eggleston embarked on a process that was to take seven years before a plant was actually built. “If I had known what we were getting into, I never would have done it,” Eggleston said—only half jokingly.

The ethanol plant, which produces alcohol from converted grain for use in gasoline to reduce

polluting emissions, was completed in May 2000. It’s a venture of a new-generation cooperative formed by the corn growers, funded by an initial public offering (IPO), and structured much like a venture capital investment in any small business. “In a new-generation cooperative, the majority of the investors have to also be producers,” Eggleston explained. “That way the growers maintain control.”

To become members of the Northeast Missouri Grain Processors Cooperative, growers had to make a commitment to regularly provide a minimum of 5,000 bushels of corn to the ethanol plant on a scheduled basis. The goal was to have at least 80 percent of the ownership held by the producers.

Many of the farmers borrowed from their local banks to invest in the cooperative, with the loan made more attractive to lenders by a Missouri tax credit offered for such investments. Other state incentives were a 20-cent-per-gallon incentive for producers of ethanol, and a 50 percent tax credit to members of new-generation farmer cooperatives that are established to add value to Missouri agricultural products.

When 81 percent of the shares had been bought by corn growers, shares were offered to other investors, who formed a limited partnership, Northeast Missouri Grain Ventures LLC, which owns and operates the ethanol plant. The plant more

than met profit expectations in its first year of operation, and shareholders decided this summer to expand the plant's capacity.

“Jobs anywhere in the region affect all our communities”

The Northeast Missouri Grain Ventures ethanol plant is located outside Macon, Missouri, a community of 5,500 people that is 30 miles west of Shelbina. “Jobs anywhere in the region affect all our communities,” John Bode said when he took us to the plant. “People live in one place and drive to another to work. When a company closes, as several have in the towns around here, it affects all of us.”

People in Shelbina have closely watched the success of the ethanol plant and are hoping to see another new-generation cooperative venture in their own community. They can tailor utility infrastructure to the needs of the community, and they understand the extra competitive advantage they can create by adding value to the products already being raised in the area. A site has been identified for a pork processing plant that will create 100 to 120 new jobs, with construction to start in the spring of 2002. The plant will be owned by another new-generation cooperative, the Family Farms Pork Co-op, Inc. (FFPC).

Seven pork producers make up the interim board of directors for the FFPC, which was formed to research the feasibility of building a producer-owned packing plant and was incorporated in the fall of 1999. “We’re hoping to start construction this year,” said board president Kristie Scheulen, who raises hogs on her family farm near Loose Creek, Missouri, about 100 miles south of Shelbina. With help from the extension service at the University of Missouri, they received a grant to study the potential of networking and value-added processing and to assess the feasibility of building a producer-owned processing plant.

The study indicated strong interest and feasibility, and in October 1999, 30 pork producers met and established an interim board. That board worked with the state to issue a request for proposals for a site for the plant.

“We unanimously selected Shelbina for our site,” said Scheulen. “The community met all of our criteria: utilities, labor, friendliness toward a pork processing plant, proximity to hogs, and access to major highways—with no one of those things being any less important than another. Tax incentives were also part of the package.”

“they understand the extra competitive advantage they can create by adding value to the products already being raised in the area”

Shelbina formed a 353 Corporation under a state law that authorizes cities to control property and provide incentives. The city has agreed to provide 100 percent tax abatement for the pork processing plant for the first three years and a 50 percent abatement of taxes for the next 12 years. “Our cash flow in the first three years will be critical, and the tax incentives will make a real difference,” said Scheulen.

“This has been a team effort with the city,” Scheulen said. “These folks have been really easy to work with. And we’re adamant about being good neighbors. We expect to pay good wages, and we’ll respect our employees. We don’t want the kind of turnover they have in pork processing plants elsewhere.

“We can compete with the huge packing plants that process 6,000 to 8,000 head a day by being different from them,” Scheulen said. “We’re aiming for a niche market that’s not being served. We’ll market to small-town grocers and provide a fresh, quality product. We’ll be able to offer specialty products overseas, such as kidneys, heart, stomach, ears and feet. We can market hides to Asian companies.

“We’ll have the capability to be more flexible than the big packing plants with their high rate of speed for moving hogs through their plants,” said Scheulen. “For maximum efficiency, our plant will need to process 2,000 hogs a day. With lower employee turnover and high health, safety and sanitation standards, we’ll be able to compete in

What people said makes it work in Shelbina

- Visionary leadership.
- Decision-making process that includes all the stakeholders.
- Productive farmland—products with potential for added value.
- Access to capital.
- Willingness to experiment with new ventures.
- Entrepreneurial spirit.
- Professional economic development leadership.
- Transportation access.
- Quality of life.
- Park, lake, playgrounds, recreational opportunities.
- Ownership of utilities.
- Strong schools with leading-edge technology resources.
- Churches.
- New power plant, generating capacity.
- Low utility rates.
- Sufficient tax base.
- Volunteer fire department.
- Low crime, good police department.
- Strong agricultural link.
- Active civic groups.
- Library, arts council building, American Legion building, fairground facilities, horse arena.
- Good work ethic.
- Ability to work with the city to resolve problems.
- Wonderful banks.
- Financial incentives for business.

niche markets. What we produce will be one-half of 1 percent of the daily kill of the big guys. We don't want to have them worrying about how to shut us down."

"By working with new-generation cooperatives, we can look at how to use the resources in the area," said Jim McConnell, an attorney who is president of Shelbina's Economic Development Council—and volunteers with the fair board, the arts council, the Cancer Society, the Missouri Community Betterment Committee, the theater committee,

"We're aiming for a niche market that's not being served."

and more. "We're surrounded by agriculture. If we have a leaky bucket that lets the profits go elsewhere, we need to look at how to plug the holes. We've developed a community vision, and we're moving toward it."

One aspect of that vision is the arts. McConnell was a leader in the building of the new community theater that opened in Shelbina in the spring of 2001. The old high school building where community productions had been staged had problems with asbestos and handicapped access, and was sold and torn down. "The Shelbina Arts Council sponsored annual musicals," said McConnell. "We hired a director, and we had



Shelbina's addition to its 1918 Carnegie Library has been used by other towns as a model for how to expand these classic buildings.

old people, young people, and people from neighboring communities in the shows. It's been a wonderful enrichment of the community, and we needed a theater.

"We had no money, but we had stars in our eyes," McConnell said. "We got approval from the state to make tax credits available for donations through the Neighborhood Assistance Program. For a town of 2,000 to raise \$550,000 for a theater was amazing. Now we have a place for musicals, plays, school groups' music, the Lion's Club country music opy and dance recitals. We're also going to show first-run movies.

"We'll be able to bring in the Missouri Symphony Orchestra and a whole variety of arts," said McConnell. "Every community needs some of that. We get caught up in the mundane, and the arts help us rise above that. The arts are an important part of the quality of life we have to offer."

"By working with new-generation cooperatives, we can look at how to use the resources in the area."

To support other amenities and necessities, another goal is to establish a community foundation. "We're going to be starting a capital campaign to fund a foundation, which will allow us to maintain the quality of life without taxing people to death," said John Bode. "If we can create a foundation of \$20 or \$25 million over the next ten years we can build a swimming pool, a small hospital, an airport, add to our golf course and put in new sewer lines. An income from the foundation of \$2 million a year would have a real impact. A community foundation is a way to create and hold on to wealth.

"Some of the big foundations have said we can't create a successful community foundation with a population of less than 150,000," said Bode. "But we think we can. We need to look at our own opportunities and resources, and figure out how we can have the greatest impact. State and federal dollars are decreasing, and will continue to do so—politics being what they are, the money will



The new theater adds value to the quality of life in Shelbina.

go to the places that have the most votes. And government programs are generally not created for communities of 2,000 people—the rules don't fit our situations here."

Every community has utilities, but not every community has figured out how to use them to add value to the community. Many rural communities have producers of grain and livestock, but only a few have organized those producers into businesses that will add value to their products. Every community has leaders, and—when they're lucky—those leaders will find ways to involve everyone in adding value to the community. ■

Concerns and challenges in Shelbina

- "Convincing farmers to sell pork chops, not hogs."
- Improving highways – consistent four-lane roads, potential interstate.
- Building wealth—creating a community foundation.
- Providing jobs.
- Telecommunications infrastructure.
- Growing—but not getting too big.
- Downtown retail business.
- Annexation of land.
- Need for new sewage plant.

Entrepreneurship

Paxico's strength—and its challenge—is in its history. Survival isn't the issue for this community of 200, which is located in east central Kansas. It's close enough to cities to make it an easy commute, but far enough away to have the character of a small town rather than a suburb. At the same time, it has some of the characteristics of a bedroom community, in that most of Paxico's residents work elsewhere, and many of Paxico's business owners live elsewhere.

Paxico's strength—and its challenge—is in its history.

The owners of the antique and craft shops that are the visible economic backbone of the town need the bustle of customers, while many residents are more comfortable with quiet, historic ambiance. Business owners want more of the revenue generated by a half-cent sales tax to be spent on infrastructure that can help create a positive environment for business.

Entrepreneurs in Paxico face the challenge of entrepreneurs everywhere as people scratch their

heads and wonder what they're up to. "Local people just don't understand the antique business," said one business owner. "For one thing, they don't see why people buy things that they would throw in the creek."

Commercial buildings constructed in Paxico in the late 1800s provide the physical infrastructure for business.

Commercial buildings constructed in Paxico in the late 1800s, looking much as they did when they were built, provide the physical infrastructure for business. Tourists flock to the antique stores on weekends and a bank, a florist, a grocery store, a gas station, a restaurant and an insurance agency offer goods and services for both visitors and "locals." At the interstate exit, another gas station combined with a winery draws travelers off the highway. For Paxico residents, whatever they need that isn't available locally can be found within a 25-minute drive.

One person is credited with the revival of



Downtown Paxico, Kansas.

Paxico as an antique center. Like many others in the community, Bud Hund is the descendant of settlers who moved to Kansas from Germany in the 1800s. He collected antiques, especially old wood-burning stoves that he restored in his spare time. When he was laid off from his job with the Southern Pacific Railroad in 1980, he and his wife decided to launch a full-time antique business.

One person is credited with the revival of Paxico as an antique center.

Over the years his business has prospered, and Hund eventually persuaded other antique dealers to open shops in the historic cluster of buildings. Now, on summer weekends the town is often packed with shoppers hunting for treasures and browsers seeking a taste of yesteryear.

But it's not an easy success story. Much of the business has been from travelers on nearby Interstate 70, who stop after seeing billboards about Paxico on the highway. For two years, however, road construction has forced a circuitous detour at the Paxico exit. The construction has also required the removal of billboards and state law prohibits their replacement.

"The construction has caused a drop in business," said banker Dick Poovey, "but we figure if we can hold on for another year, business will start on an upswing again." More than 17,500 cars travel by Paxico on I-70 per day, and that number is projected to increase over the next ten years. Business owners see the market as being potentially there, but right now the constrained access has some owners edgy.

Perhaps the most frustrated person we talked with, however, was the owner of a small grocery store who relies more on local customers than on tourists. "It was my dream to live in a place like this and have my own business," said Wayne Ervin, who moved with his wife and son to the Paxico area two years ago. He was concerned about the increasing crime in his neighborhood in the nearby city of Topeka, and wanted a place where he wouldn't have to worry about his son's safety.



"I thought \$100,000 would be enough money to invest in the store," he said, "but after buying the building, remodeling, buying equipment and stock, and paying taxes, there was \$6,215 left for operating capital. That isn't enough. And because we're small, wholesale distributors put us in the category of a convenience store and we have

"...people will drive 30 or 40 miles to one of the big grocery stores rather than pay more for a loaf of bread here."

to pay more for our stock. To make a profit, we have to charge more—but people will drive 30 or 40 miles to one of the big grocery stores rather than pay more for a loaf of bread here."

The city limits of Paxico encompass only 89 acres—a fraction of a square mile—and only 211 people live within its geographic boundaries. The German heritage is strong, and the large church in the town of Newbury, a mile or two up the road, is

Paxico leaders said...

- If we can make it through adversity, we'll just be that much stronger. Todd Fair, Fields of Fair Winery
- After I had surgery, people at the hospital asked me if I had a support group. I told them I had a whole town! Jan Droegemeier, florist
- We've formed a merchants' association so we can pool our resources and work together. We can't do it by ourselves. Jan Droegemeier
- Some old-timers think the community is fine the way it is. They want to keep the status quo, and they don't want growth. Linda Flannary, mayor
- The city's role is to maintain the physical infrastructure, the water tower, sewers and utilities. Linda Flannary, mayor
- Having a bank is an icon for this community. It helps give us a sense of being a real town. Bud Hund, Mill Creek Antiques
- The horse is out of the barn with agriculture. It's changing at warp speed. John Hund, farmer
- In a farming community, if you have 100 producers and ranchers, you'll have 100 different answers to a question. John Hund
- Farming needs to be self-sustaining. John Hund
- I like the freedom from regulations in Paxico. We don't have building codes, and you can get a building permit tomorrow. Bud Hund
- Small towns are marketable. People are looking for the sense of community that TV and the Internet have taken away. Bud Hund
- I'd love to see young people be able to fulfill their dreams here. That's the future. It would be great if the city could help new business. Young entrepreneurs have wonderful ideas and energy, but no money and no way to fund them. Judy Meinhart, Mill Creek Campground.

also a strong center for the community. Newbury and Paxico were once rivals, but Newbury now has only the church, a car repair shop, and a few houses.

As in many small, close-knit towns, newcomers to Paxico can sometimes feel like outsiders. Tradition is honored, and new ideas and new ways are sometimes resisted. Jan Droegemeier, however, is a new resident who could be considered an "outsider"—but isn't. She believes the secret for her florist business success is in offering unique products. "We have freeze-dried flowers and flowers preserved by a secret patented process from France," she said.

As in many small, close-knit towns, newcomers to Paxico can sometimes feel like outsiders.

Droegemeier herself is also unique in that she is one of only two business owners who live and work in Paxico. She moved to Paxico a year ago, but she has built her relationships in the community over a long period of time. "I lived in a town 15 miles from here for 25 years," she said, "and since I wasn't born there, I was considered an outsider. Here, people are friendly and I feel like part of the community."

Droegemeier serves as president of the business association, and she both appreciates and battles the independent spirit of Paxico entrepreneurs. "One of our problems is that not all the businesses support the association," she said. "Everyone benefits from the billboards, but only some of us pay for them."

The real center of Paxico may be the small restaurant that's tucked between antique shops on Paxico's main street. When we were there, Die Kueche (German for "the kitchen") was owned by an almost-retired Latin teacher who lives in Topeka. The excellent German food attracted tourists and residents of the region, and the long wooden table in the middle of the small restaurant served as a primary gathering place for both residents and business owners in the community.

We met at Die Kueche for breakfast with Bud Hund, and learned more about his struggle to turn a row of empty old buildings into a viable business center. Later, we talked about ranching and farming with his brother John Hund, Kansas State University extension agent Matt Pfeifer, and others who had gathered. The conversation about entrepreneurship and business was interspersed with stories—from Dave and Pat Hund at the end of the table telling about how when they married 30 years ago they received congratulatory letters from relatives in Germany they didn't know they had. She had been a widow with 11 children, he was a widower with 12 children, and their new family of 25 people generated news around the world.

Travelers from the highway also joined the conversation. A couple on their way home to Minnesota after working as volunteers to build housing on the Navajo reservation in Arizona talked about the benefits for small towns of bicycle tourism in the region they were from. There was discussion about the county's role in economic development, which people felt was minimal because the county commissioners were primarily ranchers who have a hands-off attitude toward development. The conversation evolved into a discussion of the appropriate role for government and regulation.

A lack of building codes and zoning regulations in Paxico means that renovation of the old buildings can be done quickly and inexpensively, but it

also means there is no guarantee that any new construction will be compatible with existing buildings. In the county, zoning requires that houses must be built on lots of at least 40 acres unless special subdivision approval is received. At least one person thought the requirement should be 160 acres—he didn't want to be crowded by his neighbors. Others talked about whether there was a way to prevent people from building houses on hilltops and changing the view of the skyline for everyone.

We were reminded, sitting around the table in Paxico, of the importance of the water coolers and the coffeepots and the street corners and the restaurants in any community—the informal places where people rub shoulders and tell stories and debate issues and wrestle with the problems of the day.

Paxico is at the edge of the Flint Hills, a distinctive rolling sea of prairie grass that includes an area designated a few years ago by Congress as national park land—after much rancorous debate. The debate continues about how best to preserve this unique landscape, with local ranchers arguing that they too want to preserve the natural beauty of the Flint Hills, that they have the knowledge and expertise to do it, and that the government has no business trying to impose restrictions on individual property owners. A voluntary agreement between ranchers and the Nature Conservancy, a nonprofit organization that works to preserve natural environments, was seen as a promising way to maintain individual property owners' rights and assure the conservation of the land.

The conversation evolved into stories about an entrepreneur from another time who also resisted laws and government regulations. People at the table from different regions of Kansas compared

What people said makes it work in Paxico

- Visionary leadership.
- Quality of life.
- Access to markets – Interstate highway.
- Willingness to take risks.
- Openness to change.
- Steadfast determination.
- Minimal local regulations.
- Historic buildings.



tales about “Uncle Otto,” who prospered in the 1920s by selling bootleg whiskey he had hidden in the fenders of his car.

We were reminded, sitting around the table in Paxico, of the importance of the water coolers and the coffeepots and the street corners and the restaurants in any community—the informal places where people rub shoulders and tell stories and debate issues and wrestle with the problems of the day. Entrepreneurs may have an independent spirit and be determined to do things their own way, but they also thrive on bouncing ideas off others and—sometimes—working cooperatively.

The restaurant in Paxico recently became “Shakespeare Bob’s” and it’s now owned by an English teacher from Topeka. The discussions around the table continue, and the conversations undoubtedly continue to reflect the realities and the dreams of Paxico. We think they also reflect some of the realities and dreams of all our communities. ■

Concerns and challenges in Paxico

- Small land area within the city limits.
- Different goals of residents and business owners.
- Highway construction.
- State laws regarding billboards.
- Need for another restaurant.
- Infrastructure improvements.

Perspectives

AfterWord

E-commerce and high technology, value-added business and entrepreneurship are the focus in this issue of Community Reinvestment—but it seems the true emphasis was quality of life, infrastructure, leadership, community and a sense of place. We think that’s fitting.

Historic buildings are the competitive advantage for much of the entrepreneurship in Paxico, Kansas—and we found entrepreneurs in every community, in private business, in nonprofit organizations and in government.

High-speed Internet is the competitive advantage that makes e-business and technology possible in Aurora, Nebraska—and it’s vision and leadership that make the technology useful.

Corn and hogs are the competitive advantage from which value-added business is being developed in and near Shelbina, Missouri—and it’s people who are committed to a place and a way of life and the communities in which they live who are determined to make value-added enterprises work.

Quality of life and sense of community and place are what more businesses are recognizing as critical to the success of their location.

These three communities were similar in that they were all settled in the second half of the 1800s as centers of commerce, when the need for towns as a marketplace was a given and local commerce was the driving force in the creation of most communities. Now, a sense of community and a commitment to place have replaced local commerce as the predominate reason for existence for these and other rural towns.

Quality of life and sense of community and place are what Jim Anderson of Software 4 in Aurora, Nebraska called intangibles. They’re

factors that more and more businesses are recognizing as critical to the success of their location.

The choices we make affect our communities—and sometimes our words and our actions contradict one another. We bemoan the loss of the community general store, and we shop in Paxico to find mementos of other times and places—but we shop the Internet, order from catalogs, and drive to Wal-Mart and other mass merchandising stores to find the selections and prices made possible by high-volume sales.

“The global economy isn’t good or bad, it just is. It’s a reality.”

Sometimes, we stop to think and then make new choices consistent with our goals and values. Sometimes, we learn to live with our contradictions, by habit or by choice or by necessity. As John Bode in Shelbina said, “The global economy isn’t good or bad, it just is. It’s a reality that we’re not going to change.”

We saw some of this pragmatic attitude in all the communities we visited. There might be irritation and chafing at regulatory requirements that imposed a burden of time and expense on what people wanted to do, but there was a shrug of the



shoulders, a rueful comment about “I understand what they’re trying to do, but...” and a determination to deal with what had to be dealt with.

There was also determination to make the best of opportunities and an appreciation for public programs and regulations that were seen as being supportive of development in rural America. Especially in Shelbina, it was evident that state and local incentives have been an important factor in the development of value-added business.

...we can enthusiastically testify to the resiliency of some communities that, in spite of myriad challenges, will survive.

New census figures confirm what has been apparent in many rural parts of the country: young people are leaving, older people keep getting older, more areas are defined as “frontier counties” with fewer than six residents per square mile. We have to reluctantly agree with the forecasters who say that all the small towns in rural America are not likely to survive. And we can enthusiastically testify to the resiliency of some communities that, in spite of myriad challenges, will survive.

We have new technology, new potential for adding value, new ideas from entrepreneurs, a new economy—and the same old questions. How do we build on the strengths, contend with the challenges, create policy that supports what we want to see happen in rural America? How do we learn to listen to one another, understand our differences, and build partnerships to work toward our common goals? How do we let go of what doesn’t work, find new ways to put the pieces together, then keep the best of the old and the new?

What’s our stake in rural America? One aspect is practical, with production of the food and fiber and natural resources that sustain us. But in a global economy, we also buy those products from other places. Can we expand our boundaries of concern to the next farm, the next county, the next state—the next country? What is it worth to us to have choices in the products and services we buy

and choices in our lifestyles? How can we develop policies that support what we want?

We have new technology, new potential for adding value, new ideas from entrepreneurs, a new economy—and the same old questions.

The dialogue about the big questions will continue. Meanwhile, Aurora, Nebraska will continue to use its technology infrastructure to attract businesses looking for the best of both high-tech and small-town living. Paxico, Kansas will continue to set an example for how a town of 200 can thrive, because of and in spite of the challenges of independent entrepreneurship. And Shelbina, Missouri will continue to demonstrate how a value-added approach can help business and communities in a region prosper. ■

Resources

Selected Rural Resources

Best Practices in Rural Development –

Research by the U.S. Department of Agriculture on "Understanding Rural America," descriptions of best practices in rural economic and housing development from across the country, and a directory of professionals in rural development. Compiled by the Office of Thrift Supervision,

<http://www.ots.treas.gov/docs/48788.html>.

Beyond Agriculture: New Policies for Rural America –

Proceedings from a conference in April 2000 exploring policy issues in rural America, sponsored by the Federal Reserve Bank of Kansas City. 816-881-2687 or <http://www.kc.frb.org/PUBLICAT/beyond/beyondmain.htm>.

Equity for Rural America: Community Development Venture Capital –

How small businesses in isolated locations can obtain access to venture capital, what's needed to form a venture capital organization, and the role of community leaders and bankers and government officials in the success of community development venture capital funds and the businesses in which they invest.

Community Reinvestment, Fall 1999. 816-881-2687 or http://www.kc.frb.org/PUBLICAT/commrein/CR_FALL99.pdf.

Equity for Rural America: From Wall Street to Main Street –

Proceedings of a 1999 conference at which equity capital market experts, financial market participants, and rural leaders assessed ways to improve rural equity capital markets. 816-881-2687 or <http://www.kc.frb.org/BS&S/PUBLICAT/PDF/equity/equitymain.htm>.

Financing Rural America – Economic experts, rural business and financial leaders, and public officials assessed trends in rural financial markets and considered options for improvements at a conference sponsored by the Federal Reserve Bank of Kansas City, with proceedings available. 816-881-2687 or <http://www.kc.frb.org/publicat/fra/fra97sum.pdf>.

1st Source – Using characteristics you select to screen federal programs and identify resources that may fit your needs, this interactive Internet program takes you to one-page summaries of programs. For those that look like a potential fit, it can then link you directly to the agency's program description. <http://www.1stsource.kc.frb.org/programs/index.asp>.

Rural CDCs: Building the Capacity for Success –

Components for success for rural community development corporations and examples of successful organizations are written about in this article, which also features resources for rural development. In Community Dividend, Issue 1, 2000, from the Federal Reserve Bank of Minneapolis. 612-204-5148 or http://minneapolisfed.org/pubs/cd/pdf/00_cdi_v1.pdf.

Neighborhood Reinvestment Corporation –

A rural initiatives program was created in 2000 to focus on needs of rural NeighborWorks organizations in rural communities. Contact David Dangler, manager of Rural Initiatives at ddangler@nw.org.

Under the Influence – This report on research on ethanol by the Federal Reserve Bank of Minneapolis looks at financial incentives and subsidies in fuel industries, at environmental concerns and the market for ethanol.

<http://minneapolisfed.org/pubs/fedgaz/01-01/ethanol.html>.

Rural Development – Government programs that support public facilities, housing and economic development financially and through providing technical assistance and information.

<http://www.rurdev.usda.gov/rd/index.html>.

Kellogg Foundation – Information about training and resources for rural communities and rural leaders. <http://www.wkkf.org/ProgrammingAreas/ProgArea.asp?ID=2>.

Sunshine Regulation

No, there's not a new regulation governing sunshine, but that's what one of the requirements in the Gramm-Leach-Bliley Act of 1999 has been dubbed. Although a number of criteria must be met, the regulation essentially states that depository institutions that agree to contribute more than \$10,000, or make loans totaling more than \$50,000 to nongovernmental entities or persons (NGEP), e.g., a nonprofit community organization, must report these agreements under Regulation G. This reporting requirement also holds true for the NGEP, as long as the depository institution's contributions and loans are made in fulfillment of its obligations under the Community Reinvestment Act. The idea is that such agreements should be open and public, i.e., "in the sunshine."

For more information, contact John Wood, assistant vice president and Community Affairs Officer at the Federal Reserve Bank of Kansas City, 816-881-2203, or Andrew Thompson, assistant vice president, 303-572-2535. The full text of the regulation can be found at <http://www.federalreserve.gov/BoardDocs/Press/BoardActs/2000/200012214/Attachment.pdf>. ■

Community Affairs Staff in Denver

The Federal Reserve Bank of Kansas City now has Community Affairs staff at its Denver Branch. Andrew Thompson, assistant vice president, divides his time between Community Affairs and Consumer Affairs responsibilities. He has been joined by Ariel Cisneros, senior community affairs coordinator.

Thompson has worked for the Federal Reserve Bank of Kansas City since 1977, has been a bank holding company examiner, and has held supervisory positions in several departments within the Supervision and Risk Management Division. Cisneros, formerly in the Community Affairs office of the Federal Reserve Bank of Dallas, was before that a campaign director with the United Way of Metropolitan Dallas and a community extension officer with the Peace Corps in Botswana, Africa.

Thompson can be contacted at 303-572-2535 or sandrew.thompson@kc.frb.org. Cisneros is at 303-572-2601 or ariel.cisneros@kc.frb.org. ■

Someone said...

"One must always maintain one's connection to the past and yet ceaselessly pull away from it. To remain in touch with the past requires a love of memory. To remain in touch with the past requires a constant imaginative effort."

—Gaston Bachelard, *Fragments of Poetics of Fire*

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