

The Electric Cooperative's Role in Economic Development



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This paper focuses on the electric cooperative's role in economic development. Electric cooperatives have unique characteristics that make them deeply rooted in the rural communities in which they serve. The purpose of this project is to define why economic development is important to electric cooperatives and then to present the research findings of how electric cooperatives around the nation are engaged in this endeavor. Finally, a comprehensive economic development plan will be developed for Duck River EMC that includes the best practices from these sources.

Background

Duck River Electric Membership Corporation (DREMC) was founded in 1936 by citizens in the community to provide electricity to un-served rural areas. DREMC is member-owned and is Tennessee's fourth largest electric cooperative. Headquartered in Bedford County, the cooperative provides power to 72,000 members in Southern Middle Tennessee, serving parts of sixteen counties. DREMC's mission statement, "The cooperative exists to deliver reliable electricity at the lowest possible cost, to promote economic development and to enhance the quality of life for its members," exemplifies the cooperative's intent to focus on economic development in the communities in which it serves (Duck River Electric Membership Corporation). DREMC has a "Commitment to Community" section in its strategy map (see appendix). Included in this section is a "Civic Leadership" value-added strategy, which consists of four individual strategies: become involved in local education, pursue meaningful economic development efforts, build community partnerships, and practice environmental stewardship. (DREMC Employee Intranet, 2014). This project focuses on the first three of the four strategies.

The cooperative has a vested interest in ensuring that the local communities are thriving and growing to meet its quality of life expectation for its members. Girdwood et al. found that, “Quality of life is represented by many factors including safety, education quality and opportunity, poverty reduction, environmental quality, and cultural and recreational amenities. It is what makes living, working, and conducting business in a community worthwhile.” The emphasis placed on quality of life lays the framework for the importance of the cooperative to take a proactive stance in economic development at the local and regional level. This situation poses three opportunities or needs that should be addressed in the communities served by DREMC.

DREMC involvement in local education: Education and youth retention as a rural development strategy.

The sixteen counties in Southern Middle Tennessee that DREMC serves are relatively low-income and very rural. Due to the rural nature and lack of high-paying jobs, young adults who graduate from college tend to migrate to larger cities with an abundance of high-tech, high-income jobs. This contributes significantly to “brain drain” in these rural communities and poses an issue with their ability to attract the much-needed jobs. Employers looking to locate in the area may be discouraged because of the lack of education and/or skill of the workers in the communities.

In the DREMC service area, which consists of mostly rural communities, youth retention is a challenge. There is a lack of high-skilled, high-paying jobs for recent college or technical school graduates. This forces them to look outside their communities for a job that meets their needs. According to Gibbs (2006), the ratio of rural adults with a four-year college degree

climbed to about one in six in 2000. According to the United States Department of Agriculture (2014), that percentage increased to about eighteen percent in 2012.

Education attainment for rural citizens drives job and wage growth in their area (Gibbs, 2006). Gibbs (2006) states that, “attracting employers who provide higher skill jobs and encouraging educational gains are seen as complementary components of a high-skill, high-wage development strategy.” A study over two decades revealed that the rural counties whose residents had higher levels of education attainment experienced greater income and earnings growth than their counterparts (Gibbs, 2006). Gibbs (2006) expresses that, “rural ‘brain drain’ not only deprives rural employers of an educated workforce, but also depletes local resources because communities that have invested in these workers’ education reap little return on that investment.

An example of this is a rural area in Kansas that was experiencing a loss of young people who left the small communities to find employment in other areas (Goddard, 2015). This proved to have a significant impact on the economy in that area so they designed programs to reverse the “brain drain” (Goddard, 2015). One such program is dubbed “New-Generation” and assists young people in gaining the much-needed hands-on skills through a paid internship program with local businesses (Goddard, 2015). Other resources are available through this program for young entrepreneurs such as workshops, competitions, and career fairs (Goddard, 2015).

Embracing education and youth retention as a rural development strategy is only one foundational aspect of a successful economic development plan. Gibbs (2006) supports this by stating, “The benefit to rural communities, particularly in distressed areas, could be greatest where human capital improvements are but one of several parallel strategies (such as small business development) aimed at building a local economy with greater job opportunities and

higher earnings.” Based on this research, it is recommended that DREMC partner with local organizations, schools, and businesses to create a youth retention program to further develop the young people’s skills and to encourage them to stay in the community.

DREMC pursuing meaningful economic development efforts: Economic gardening for business retention and expansion.

Recruiting new industry to the area can be very expensive and may be outside the realm of possibility for small rural communities with limited financial resources. Since most of the communities in the DREMC area are small rural towns, they may experience this barrier to recruiting new industry. According to Pittman and Harris (2007), “the majority of jobs (often 60 to 80 percent) are created by the expansion of existing businesses and new business start-ups” (19). Pittman and Harris (2007) point out that economic development consists of three parts: new business start-ups, new business recruiting, and business retention and expansion. With this information, the idea of creating a business retention and expansion program could prove to be much more cost-effective than recruiting new industry and provide a way to strengthen the economic environment of the DREMC service area. Pittman and Harris (2007) define business retention and expansion (BRE) as, “working with existing businesses in an area to increase the likelihood that they will remain and expand in the area and not relocate or expand elsewhere.” Girdwood et al. (2011) mentioned that an economic development program that focuses on the expansion of existing small businesses is economic gardening. It is recommended that, in order to support BRE in the local communities, DREMC should consider an economic gardening pilot program. The Ewing Marion Kauffman Foundation defined economic gardening as, “an economic development model that embraces the fundamental idea that entrepreneurs drive economies. The model seeks to create jobs by supporting existing companies in a community.”

Certain businesses in the DREMC service area have more growth potential due to the industry and nature of the business. An evaluation would need to be performed for any candidate for the economic gardening program to determine the feasibility and value of the program to that business. Those businesses that produce unique items may only sell them locally. The economic gardening program could assist these businesses in establishing a marketing plan to export their products to other cities, states, or countries. Bringing in revenue from outside the area will help to strengthen the local economy. Another potential benefit of the program would be to assist businesses in innovating and creating new products that could be used in other industries or for different purposes than their current products. Diversification can help to strengthen and grow the business. As part of the economic gardening program, DREMC and the partnering organizations could assist the participating businesses in locating funding sources for their expansion and innovation projects as well as potential suppliers and service providers.

DREMC building community partnerships: Partner with community organizations to form tech/business incubator.

In addition to working with existing businesses in the communities, DREMC also needs to assist micro and small businesses in getting started. The environment is difficult for new micro businesses to get started and to flourish because of the lack of resources available to them. This can be accomplished by partnering with local, regional, state and federal organizations to help them in locating resources for funding, mentoring, training, and much more. A good example of this type of partnership was apparent when Flint Energies started a program called FireStarter Entrepreneurship Council to assist local entrepreneurs and innovators in meeting others who can help their business. It offers peer support, collaboration, and exposure to other

small businesses that can offer services to meet their needs with other areas of their business such as suppliers, logistics, shipping, and much more. Young (2015) discussed how a telecommunications cooperative in Kansas assisted with setting up a tech incubator which established a culture where small businesses and start-ups were encouraged to innovate and grow.

There are organizations within DREMC's service area that have space available and the proper technology in place to support a business incubator or an area for entrepreneurs and innovators to come together. One such place which is centrally located is Gateway Church in Shelbyville. The church recently purchased the old Wal-Mart building and renovated one portion of it for church use. A large part of the building remains unused at this point. The church has expressed interest in partnering with community organizations to improve the city and the region. Athena Broadband, also located in Shelbyville, provides internet to the facility. Athena is very much involved in supporting the local and surrounding communities by providing high-speed internet to the rural areas. As part of DREMC's commitment to community efforts, employees are encouraged to volunteer and support the communities. If a business incubator was formed, DREMC employees would have the opportunity to leverage their many years of knowledge and skills by mentoring at the incubator. A partnership with these organizations could provide the necessary space, communications, funding and mentoring opportunities that would be needed to support entrepreneurs.

For a business incubator to be successful, it must have the support and buy-in of local stakeholders. The community must be willing to work towards establishing an entrepreneurial culture to promote economic development. The stakeholders could be local government, chambers of commerce, banks, major employers, schools, and citizens. These groups must be

convinced that there will be a satisfactory return on investment for their involvement in economic development efforts. For example, the local government would realize increased revenues from a larger tax base.

There is already a group of local businesses that meet weekly with the Middle Tennessee Business Network of Bedford County at the chamber of commerce. DREMC is a member of this group and could use this avenue to get those participating business leaders on board for creating an entrepreneurial culture in Bedford County. A similar mechanism could be used for communicating with the other communities. Once the seed has been planted, DREMC could partner with the local organizations to bring them into a regional entrepreneurial development effort. This would allow DREMC to gauge the interest and willingness to participate from those organizations and whether or not pursuing this type of economic development would be welcomed in that community. DREMC has a strategic position in that it serves parts of 16 counties and could serve as a regional economic development partner and help oversee and promote those efforts.

One of the best ways to communicate the need for such efforts and how best to implement them, is to invite speakers from communities that have gone through the process and let them tell their story. We must find a way to create excitement and to keep fueling it to ignite a swarm of entrepreneurial activity. These stakeholders must ultimately be willing to invest in the entrepreneurial efforts with their money, time, and expertise in order for the plan to be successful. In order to reap the benefits, we must first be willing to sow into the community.

Applicable TCED Coursework

Throughout the TCEC coursework, I learned several things that were applicable to this report. Economic development includes so much more than just bringing in new businesses and

creating new jobs, it also means improving the quality of life or quality of place for a community. The primary focus of economic development for DREMC purposes is to improve the quality of life for its members. This can be accomplished through several economic development efforts that I learned in the TCED coursework.

This report considers a form of economic gardening as an avenue for small business retention and expansion. One recommended focus area in the coursework for this part of economic development is building partnerships with the public, business, and community leadership to assist with assessing the existing businesses and their needs. This assessment will provide insight into the areas where small businesses need assistance and allow the partnering organizations to develop programs and services to meet those needs.

The TCED coursework stressed the importance of developing a quality workforce to attract and retain high paying employers in a community. There are currently mechanisms in place to develop a workforce in the local communities, however, there is very little being done to keep the talent in the communities or to bring the talent back after graduation from college. These newly trained workers and college graduates need a place to put their new skills to work. The coursework emphasizes the need to develop an environment to encourage entrepreneurial activities and networking capabilities for start-up and emerging businesses. Once such tool recommended by the coursework to accomplish this is to create a business incubator and to offer a support network to help the new businesses get off the ground. Having a more active and growing small business community stimulates the local economies.

State or National Standards or Trends

The National Rural Electric Cooperative Association (NRECA) published an economic development guidebook for cooperatives in 2003 called *The Cooperative Promise*. The

guidebook emphasized the importance of economic development for cooperatives by stating simply, “it’s good business.” NRECA (2003) further supported this notion by pointing out that, “Many cooperatives find that being a force for change requires their taking an active role in the planning, financing and management of activities involving development.” The Tennessee Valley Authority (TVA) and the United States Department of Agriculture (USDA) take active roles in economic development by partnering with electric cooperatives to provide financial resources to encourage growth in rural communities.

Project Description

Project Name

The electric cooperative’s role in economic development

Parties Involved

For the purposes of this project, three people were involved. The CEO of DREMC and the Director of Member Services were consulted, however, the primary research was completed by Teresa Sampson, DREMC’s Key Accounts Coordinator.

Goals and Objectives

The goal for this project is to position DREMC as a trusted and valued partner in proactive community and economic development efforts in the 16-county region that it serves.

- By June 30, 2016, complete community meetings throughout the service territory (chambers of commerce, business networks, manufacturers’ roundtable, etc.) to discuss the importance of economic development and building a culture of entrepreneurship in the community. Gauge each community’s willingness to pursue and participate in those efforts.

- By July 31, 2016, submit a recommended economic development plan for DREMC to the CEO and Director of Member Services for consideration and implementation during fiscal year 2017.
- By August 31, 2016, complete a regional market feasibility study for a business incubator to be located in Bedford County.
- If the market feasibility study recommends pursuing a business incubator, then by September 30, 2016, submit a proposal to all interested local organizations in Bedford County and surrounding communities for a partnership to develop a business incubator at Gateway Church in Shelbyville, TN. This includes the chamber of commerce, Gateway Church, TN College of Applied Technology, Middle TN Business Education Center, Athena Broadband, local banks, etc.
- By December 31, 2016, perform a needs assessment for the 16 local communities and their individual ability to partner with DREMC in a proactive regional economic development effort for economic gardening and to create a plan specific to each community's needs.

Timeframe

The recommendations for DREMC's economic development plan will be submitted to the CEO and Director of Member Services for consideration and implementation during the fiscal year 2017, which begins in July 2016. Budget recommendations were submitted to the Director of Member Services in December 2015 for the 2017 fiscal year. The entire process should be underway by December 31, 2016.

Results

The completed research and recommendations will be submitted to DREMC's CEO and Director of Member Services for review and for implementation approval.

Results and Lessons Learned

Several electric cooperatives submitted information about their level of involvement in economic development. Some cooperatives have very little involvement while others take a very proactive role in their communities in economic development. Flint Energies is one cooperative that takes an extremely active role and has demonstrated success in their efforts. Flint Energies started a local initiative called the FireStarter Entrepreneurship Council with a \$53,000 grant. The program looks for self-starters and innovators to join the group. They report that the meeting turnout has been high so far. The group encourages innovation so people of all ages can bring to life an idea or invention that they don't have the tools or resources to do on their own. The facility consists of tools and equipment that members can use that would otherwise cost them much more to rent on their own. They even allow members to train other entrepreneurs on using the tools to waive the equipment rental fees. One member said he saved hundreds of dollars by using the equipment in the facility. The program was started to differentiate middle Georgia's economy beyond the traditional scope of economic development (Rocha, 2015). This program brings in resources from State, Regional, and Local governments, offers information on funding sources, peer networking and collaboration with other entrepreneurs and existing small businesses (Flint Energies).

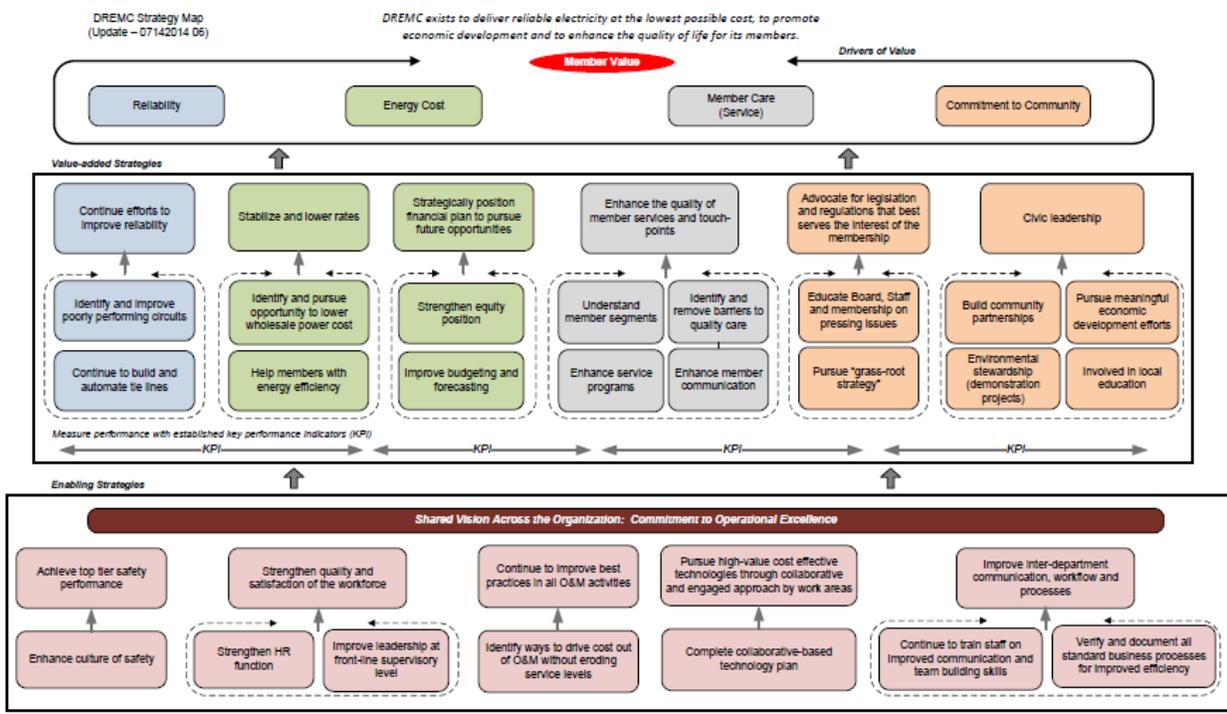
Conclusion

There are many benefits to the cooperative and the community in forming a partnership to take a proactive stance in economic development. Pittman and Harris (2007) suggested that, "The basic value proposition to power suppliers is simple: BRE and economic development lead

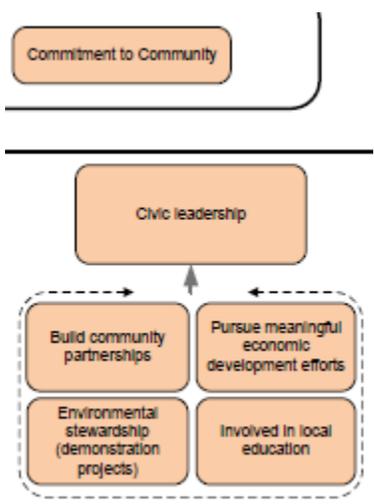
to more businesses and jobs, local population growth, and higher income levels. A strong, growing economy, in turn, leads to higher energy demand and revenues from both C&I customers and residential customers” (24). As DREMC strives to uphold its commitment to community, it must find creative avenues to leverage its resources and form partnerships with local organizations to promote economic development in the communities in which it serves. This paper emphasizes the importance of economic development to electric cooperatives in rural communities. It provides best practices from sources throughout the nation, including other electric cooperatives, which can be formulated into a proactive strategy for economic development. This project will assist in establishing an economic development plan for Duck River EMC for future implementation, which aligns with DREMC’s mission and strategy map.

Appendix

DREMC Strategy Map



DREMC Strategy Map: Commitment to Community



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