

November 2007

*Government or  
Capitalism as a  
Solution to Rural  
Population Loss?*

***POLICY***  

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***STUDY***

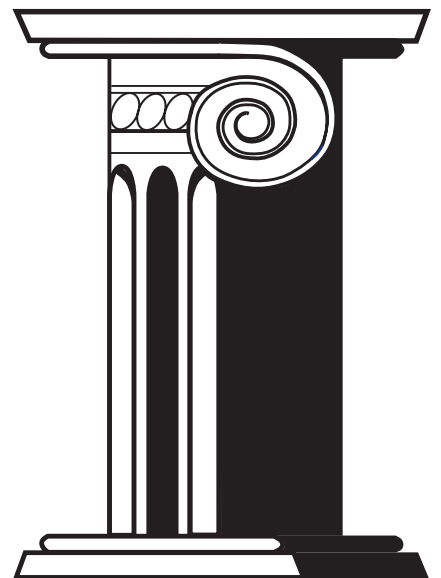
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No. 07-2

by

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**PUBLIC INTEREST**



**I N S T I T U T E**

**POLICY STUDY**

November 2007

No. 07-2

**Public Interest Institute**

**Dr. Don Racheter,  
President**

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# *Government or Capitalism as a Solution to Rural Population Loss?*

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Population loss and the resulting problems of declining property values, fewer and lower paying jobs, and lower functioning schools are occurring in many rural states, including Iowa. Tourism is one of the economic development tools being used to address the job and income loss accompanying population loss.

Another approach being used today to try to remedy rural population loss is to attract the “Creative Class” of resident through the development and promotion of “high amenity” features in rural communities such as the presence of a college, access to high speed internet service, and proximity to “metropolitan” communities.

Thirty one Iowa counties are considered “at-risk” in terms of projected population loss. Looking at the features that attract Creative Class residents, this Study identifies the six counties that have the most potential to turn around. The residents, business owners, and governments of these counties, by using this information for future planning and economic growth initiatives, can better focus their efforts, targeting specific areas for improvement.

Focusing on high-amenity features to attract desirable, new tourists and residents sounds good and has logical, positive aspects. However, problems arise when governments attempt to use taxpayer funds to force rural counties and recreational facilities into the “High Amenity, Destination Resort” category.

In Iowa, the first attempt by State Government at developing a destination resort designed to attract tourists and the Creative Class is the Honey Creek Resort at Lake Rathbun in Appanoose County. While there is some private sector and local government investment in Honey Creek, the contracts call for all of those funds to be repaid from the hotel tax revenues collected once the lodge opens. So in effect there is no “public/private partnership.” The state is responsible for the entire project.

Broader questions also remain: If this is an economically feasible and profitable project and a project which the local community members enthusiastically and strongly supported, why didn’t the citizens and business owners do it on their own? Why did several attempts to privately develop this park fail? And why should the State of Iowa, the taxpayers of Iowa, assume the risk?

In contrast there are two interesting examples of private-sector, high-amenity rural development in Iowa which have attracted both tourists and the Creative Class, and are impacting the rural economies of their communities: Dickinson County with Big Spirit Lake and Lake Okoboji and the town of Fairfield in Jefferson County. Both counties have some, but not all of the competitive advantage features critical to the Creative Class, however they are successfully working to attract the Creative Class.

## *Executive Summary*

*“The contracts call for all of those funds to be repaid from the hotel tax revenues collected once the lodge opens. So in effect there is no “public/private partnership.” The state is responsible for the entire project.”*

# Government or Capitalism

Many state reports and newspaper articles over the last few years have bemoaned the continuing “long line of dire forecasts” for population loss in rural Iowa.<sup>1</sup> Most recently the updated population projections for the State of Iowa from Woods and Poole Economics, Inc. in Washington, D.C., indicate that 41 of 99 counties are projected to lose population between now and 2030. In addition, many of these counties would fall to a total population of less than 10,000. Other reports bemoan the “brain drain” of young people and college graduates not staying in Iowa to work, start businesses, buy homes, and raise families, but instead leaving for the excitement of the big cities and new places.<sup>2</sup> Iowa is not alone in these worries. Population loss and the resulting problems of declining property values, fewer and lower paying jobs, and lower functioning schools are occurring in many rural states.

Tourism is one of the economic development tools being used to address the job and income loss accompanying population loss. If an area can attract tourists, it can provide jobs for current residents while presenting the favorable attributes of the area to potential business people and new residents. In particular it is thought that state-sponsored “Destination Resorts” are particularly attractive to tourists, bringing people and businesses in for a

longer period of time, resulting in both higher daily and higher total expenditures. If they like the area, visitors may decide to return multiple times and even to invest by buying vacation property or becoming permanent residents and moving businesses. As new residents they will buy houses, start new businesses, and bring in new capital funds.

Additionally, another phenomenon discovered in the 1990s is being used today to try to remedy rural population loss. It was found that “high-amenity” rural communities had greater job and population growth because they attracted the “Creative Class” of resident. Attracting these people creates the potential to turn around the negative economic factors accompanying population loss.

The “Creative Class” is typically made up of well-educated people who have experience as business owners, managers, engineers, scientists, or architects, and those who are in design, arts, and entertainment. These are people who are perceived as having “talent.” In today’s economy talent can be taken, moved, and used anywhere, not just in an urban area. These people are identified as the ultimate source of economic growth in the knowledge-based economy.<sup>3</sup>

Creative Class people often have a high level of geographic

*“41 of 99 counties are projected to lose population between now and 2030.”*

mobility, according to the U.S. Department of Agriculture, which is good news for rural areas. They want a high quality of life with cultural diversity, active downtowns, and a wide variety of outdoor opportunities. They might be any mix of young families, midlife career changers, or active retirees.

What constitutes a “High Amenity” feature which might be used to attract Creative Class residents? As suggested by the April 2007 *Amber Waves* from the United States Department of Agriculture (USDA), the presence of colleges and recreational opportunities can be used to determine “High Amenity” status. Any type of college campus, whether public or private, four-year or community college, within a county would be of interest to those who are already highly educated and want the opportunities of a college environment.

Creative Class people are also drawn to beautiful scenery — including mountains and oceans, of which we have few in Iowa. However, the Hawkeye state does offer a wide variety of beautiful rivers and lakes. In evaluating these rivers and lakes, the presence of an active national or state park could be used to indicate attractive recreational opportunities, which would attract both tourists and Creative Class residents. Logic leads to the conclusion that

the best of these recreational opportunities, such as extensive boating, water parks, and golf courses could be included in a “Destination Resort” complex.

Another feature of a rural county which is required to attract Creative Class talent in today’s economy is easy access to high speed internet service. Much of the work, banking, shopping, and research done by these people requires good internet service for communicating with their customers, allowing them to do their work, and to take full advantage of the amenities offered by the colleges and recreational opportunities in the rural areas. No matter how nice the environment, how wonderful the college, and how inexpensive the housing — if you don’t have high speed internet, Creative Class people will not move there.

#### **At-Risk Rural Counties and Potential Competitive Advantages**

For purposes of this Policy Study, “Rural” is considered to be any county with an urban population density of less than 50 percent according to the U.S. Census Bureau 2000 analysis, and a 2005 population of less than 50,000, according to the Woods and Poole report.<sup>4</sup> Additionally, the only counties under consideration are those which are projected to lose population between 2005 and 2030, according to the Woods

## ***Solution to Rural Population Loss?***

*“The Hawkeye state does offer a wide variety of beautiful rivers and lakes.”*

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and Poole report.<sup>5</sup> Those three factors of rural density, low total population, and losing population produced an initial list of 31 at-risk counties in Iowa.<sup>6</sup>

Which of these 31 counties could be targeted as having potential competitive advantages? Will they be able to turn around their downward population trend and become economically more viable by attracting more tourists and the Creative Class of resident? Should the effort be market driven or created by a government program?

all of which encourage use by both local community members and tourists, were considered as “active” economic contributors for purposes of this analysis.<sup>7</sup>

Additionally, the author decided that counties located on one of Iowa’s major transportation and scenic rivers — either the Mississippi or the Missouri — would also be considered to have recreational value, potentially drawing Creative Class people. Of the list of 31, this includes Clayton, Fremont, Lyon, and Monona counties. Finally, if one considers general weather issues as part of the

State Park Name	County	Area Acres	Camping	Cabins	Lodge	Swim	Fishing	Lake Acres	Boat Rental	Boat Ramp	Concession Restaurant
Black Hawk	Sac	86	Modern			Yes	Yes	957		Yes	
Honey Creek	Appanoose	828	Modern	Future	Future	Yes	Yes	11000		Yes	
Lake Anita	Cass	1062	Modern			Yes	Yes	171		Yes	
Lake of Three Fires	Taylor	1155	Modern	Season	Yes	Yes	Yes	85		Yes	
Lewis and Clark	Monona	176	Modern		Yes	Yes	Yes	250		Yes	
Nine Eagles	Decatur	1119	Modern			Yes	Yes	67	Yes	Yes	
Pikes Peak	Clayton	970	Modern							Yes	Yes
Pine Lake	Hardin	585	Modern	Yes	Yes	Yes	Yes	69-50	Yes	Yes	Yes
Prairie Rose	Shelby	661	Modern			Yes	Yes	218		Yes	
Rice Lake	Winnebago	15				Yes	Yes	900		Yes	
Volga River Recreation	Fayette	5500					Yes	135		Yes	

Source: Iowa – Department of Natural Resources, [www.iowadnr.com/parks/recreaton\\_opp/index.html](http://www.iowadnr.com/parks/recreaton_opp/index.html)

*“Should the effort be market driven or created by a government program?”*

## Recreational Opportunities and Geography

Not all national or state parks bring significant numbers of tourists or significant economic growth to their area. Only those parks in the at-risk counties which have modern (electric) campsites and cabins, lodges, concessions, boat rentals, and similar features,

geographic factors affecting tourism and residency, the warmer counties on Iowa’s Southern border could offer some additional high amenity, Creative Class benefit. Of the initial list of 31, five counties meet this criterion: Appanoose, Decatur, Fremont, Taylor, and Wayne.<sup>8</sup>

## Internet Access

In evaluating high-speed internet access, the 2006 Iowa Utilities Board (IUB) report, “Assessing High-Speed Internet Access in the State of Iowa: Fifth Assessment” was used.<sup>9</sup> The report finds that over 92 percent of both rural and non-rural Iowa communities now have at least one type of high-speed internet provider. It is projected that over 95 percent of rural communities would have access by 2007, with almost 60 percent having two or more providers.<sup>10</sup> High-speed internet is defined, according to the IUB, as technology capable of providing access with over 200 kilobits per second (Kbps), consistent with the Federal Communication Commission’s definition. The service can be any combination of xDSL, High-speed cable-modem, or wireless/satellite access. These percentages are a significant increase from just four years ago, when only 47 percent of rural communities and 61 percent of non-rural Iowa communities had access.<sup>11</sup>

The IUB defines rural communities as having less than 2,500 inhabitants and not being served by an urban exchange. Therefore, the IUB study looks at individual communities within counties, as service is not universal within a county. To evaluate on a countywide basis this author is considering a county to have

favorable access to high-speed internet service if 75 percent of the communities within the county, whether rural or urban, had two or more types of service available by January 2007 (such as xDSL and wireless or cable-modem and wireless). These counties are listed on the following analysis table.

## Solution to Rural Population Loss?

Iowa At-Risk Counties (31)	County Seat	Number of communities with 2 of 3 types of H-S internet access	Total number of Communities	Percent with good High-Speed access
Cass	Atlantic	8	8	100%
Cherokee	Cherokee	8	8	100%
Ida	Ida Grove	5	5	100%
Lyon	Rock Rapids	8	8	100%
O'Brien	Primghar	11	11	100%
Sac	Sac City	10	11	91%
Pocahontas	Pocahontas	8	9	89%
Crawford	Denison	12	14	86%
Monona	Onawa	8	10	80%
Palo Alto	Emmetsburg	8	10	80%
Butler	Allison	10	13	77%
Shelby	Harlan	10	13	77%
Fayette	West Union	13	17	76%
Osceola	Sibley	6	8	75%
Wright	Clarion	8	11	73%
Wayne	Corydon	7	10	70%
Carroll	Carroll	11	16	69%
Audubon	Audubon	5	8	63%
Greene	Jefferson	5	8	63%
Appanoose	Centerville	9	16	56%
Chickasaw	New Hampton	5	10	50%
Clayton	Elkader	12	26	46%
Hardin	Eldora	7	16	44%
Monroe	Albia	3	7	43%
Winnebago	Forest City	3	7	43%
Mitchell	Osage	5	14	36%
Adams	Corning	2	6	33%
Howard	Cresco	3	10	30%
Decatur	Leon	2	10	20%
Taylor	Bedford	1	10	10%
Fremont	Sidney	0	10	0%

Source: *Assessing High-Speed Internet Access in the State of Iowa: Fifth Assessment*, Iowa Utilities Board.

# Government or Capitalism

*“None of the at-risk counties meet all six of the evaluation criteria.”*

## Metropolitan Access

Another feature considered as being attractive to a Creative Class person is easy access to a “metropolitan” community, a larger, less rural county which provides access to more urban amenities such as better shopping and more entertainment. For this study, the county borders have to be over 50 percent connected to be considered adjacent. This criterion affects eight of our initial 31 at-risk counties: Audubon, Butler, Chickasaw, Fayette, Greene, Hardin, Ida, and Monona.

## Potential Turn Around Counties

After evaluating all of the data, in order to be categorized as a potential “Creative Class” county, for this Policy Study a rural county must have three of the six criteria. The following table shows the criteria outlined and summarizes the results.

None of the at-risk counties meet all six of the evaluation criteria. Only two counties, Fayette and Monona, meet four of the criteria. However, some of the criteria they do not meet can not be changed: Fayette

County Name	County Seat	2005 Population	Projected 2030 Population	Percent Change 2005 to 2030	50 Plus Percent Rural	College Campus	State or National Park	River Co.	High-Speed Internet	South Co.	Next to Metro County
Adams	Corning	4,223	3,611	-14.50%	x						
Appanoose	Centerville	13,584	12,739	-6.20%	x		Yes			Yes	
Audubon	Audubon	6,363	6,192	-2.70%	x						Yes
Butler	Allison	15,045	14,584	-3.10%	x				Yes		Yes
Carroll	Carroll	21,015	20,478	-2.60%	x	Yes					
Cass	Atlantic	14,161	13,111	-7.40%	x		Yes		Yes		
Cherokee	Cherokee	12,245	11,567	-5.50%	x				Yes		
Chickasaw	New Hampton	12,472	11,866	-4.90%	x						Yes
Clayton	Elkader	18,224	16,783	-7.90%	x		Yes	Yes			Yes
Crawford	Denison	16,888	16,477	-2.40%	x				Yes		
Decatur	Leon	8,645	8,632	-0.20%	x	Yes	Yes			Yes	
Fayette	West Union	21,195	20,510	-3.20%	x	Yes	Yes		Yes		Yes
Fremont	Sidney	7,698	7,561	-1.80%	x		Yes	Yes		Yes	
Greene	Jefferson	9,962	9,536	-4.30%	x						Yes
Hardin	Eldora	17,925	16,976	-5.30%	x	Yes	Yes				Yes
Howard	Cresco	9,721	9,440	-2.90%	x						
Ida	Ida Grove	7,342	6,513	-11.30%	x				Yes		Yes
Lyon	Rock Rapids	11,690	10,745	-8.10%	x			Yes	Yes		
Mitchell	Osage	10,872	10,453	-3.90%	x						
Monona	Onawa	9,504	8,874	-6.60%	x		Yes	Yes	Yes		Yes
Monroe	Albia	7,798	7,064	-9.40%	x						
O'Brien	Primghar	14,410	13,060	-9.40%	x	Yes			Yes		
Osceola	Sibley	6,648	5,753	-13.50%	x				Yes		
Palo Alto	Emmetsburg	9,669	9,423	-2.50%	x	Yes			Yes		
Pocahontas	Pocahontas	7,931	6,799	-14.30%	x				Yes		
Sac	Sac City	10,651	10,248	-3.80%	x		Yes		Yes		
Shelby	Harlan	12,566	12,323	-1.90%	x		Yes		Yes		
Taylor	Bedford	6,553	5,756	-12.20%	x		Yes			Yes	
Wayne	Corydon	6,548	6,304	-3.70%	x					Yes	
Winnebago	Forest City	11,360	10,406	-8.40%	x	Yes	Yes				
Wright	Clarion	13,601	13,377	-1.60%	x				Yes		



is neither a southern county, nor a river county; Monona is not southern. On the variable criteria, which can be altered by business, government, and community activity, Fayette and Monona meet most of the outlined competitive advantage criteria.

There are only four more counties which meet any three of the five criteria. They are Clayton, Decatur, Fremont, and Hardin. Of these counties, all four fail in the important internet access criteria, as less than 75 percent of their communities have two forms of internet access. However, the IUB is currently updating the 2006 internet access study, which may provide a better result. In looking at the top six counties which meet three or more of the six competitive advantage criteria, there is a wide diversity between east and west, north and south. Four of the six are part of the access-controlled National Highway system, with good four lane highways easily accessible.

An additional 11 counties have two of the five selection criteria: Appanoose, Butler, Cass, Ida, Lyon, O'Brien, Palo Alto, Sac, Shelby, Taylor, and Winnebago.

The residents, business owners, and governments of the 31 at-risk counties, by using this information for future planning and economic growth initiatives, can better focus

their efforts, targeting specific areas for improvement, and helping to turn around the dire predictions for the future.

Focusing on high-amenity features in attempting to turn around counties with low populations and the resulting economic problems by attracting desirable, new tourists and residents sounds good and has logical, positive aspects. However, problems arise when governments attempt to use taxpayer funds to force rural counties and recreational facilities into the "High Amenity, Destination Resort" category and try to attract tourists and the "Creative Class" resident without a solid foundation for change.

#### **Good and Bad Examples of High Amenity, Destination Resort Developments.**

Destination resorts located on state parks have been growing in popularity over the past several years, with Mahoney State Park in Nebraska and Eagle Creek Resort in Illinois being examples. They offer not only the ubiquitous camp sites and hiking trails, but upscale golf courses, hotel rooms, meeting spaces, and water parks.

Probably the best example of a well-developed, high-amenity destination resort in the states closest to Iowa is

## ***Solution to Rural Population Loss?***

*"Problems arise when governments attempt to use taxpayer funds to force rural counties and recreational facilities into the "High Amenity, Destination Resort" category."*

# Government or Capitalism

*“It was developed in 1991 as a full public/private partnership, with almost 85 percent of the development funds being provided by the private sector.”*

Mahoney State Park, located near Ashland, Nebraska in Cass County, Nebraska. This resort is just off of Interstate 80, halfway between Omaha and Lincoln. It was developed in 1991 as a full public/private partnership, with almost 85 percent of the development funds being provided by the private sector.<sup>12</sup> This included individuals, foundations and corporations and involved some naming rights. Mahoney features a “spectacular” selection of amenities, including lodging with wireless internet, group meeting facilities, a restaurant, and a family aquatic center. Other features are a 70-foot observation tower, a nature conservatory, a modern theater, and Platte River access. In winter there are also a wide variety of activities, including an ice skating rink. Mahoney is in high demand as a conference center for businesses with offices in both Omaha and Lincoln. The average hotel room cost is \$83.00 and according to staff, they are booked full for the rest of 2007 and into 2008, with over 1 million visitors a year.<sup>13</sup>

The population of Cass County has grown from 21,318 in 1990 to 25,963 in 2006.<sup>14</sup> It is listed as the fifth fastest growing county in Nebraska, with a 3.7 percent increase in population from 2000 to 2003.<sup>15</sup> The average wage per job has risen to \$32,228 in 2005 from \$21,182 in 1998.<sup>16</sup> In addition

to Mahoney, Cass County has other recreational facilities in the Platte River area to appeal to both tourists and the Creative Class. Several colleges are in the area, including the University of Nebraska at both Lincoln and Omaha, and Creighton University in Omaha. There are historical and tourist attractions available, including the Strategic Air and Space Museum. The easy Interstate 80 access ensures an agreeable commute for residents and business people going to either Omaha or Lincoln for personal and business needs.

On the other end of the spectrum, in North Carolina the city of Roanoke Rapids has used Tax Increment Financing (TIF) to sell \$21.5 million in bonds to build a 1,500 seat state-of-the art theater specifically for Dolly Parton’s brother, Randy Parton. Mr. Parton is the featured artist and manger of “The Randy Parton Theater.”

The theater is part of the 1,000 acre Carolina Crossroads project, located at the junction of Interstate 95 and North Carolina Hwy 125, in eastern North Carolina. The area is promoted as being half the way between New York and Florida, a potential draw for tourists driving between the two locales. The entire Carolina Crossroads project, of which The Randy Parton Theater is a small component, is estimated to cost \$247 million.<sup>17</sup>

The theater itself cost approximately \$14.5 million, paid for from the TIF bonds. According to the *Carolina Journal* over \$5 million in other public funding has been used for the project, including \$500,000 for marketing, \$1.9 million for water and sewer development, and \$2.5 million for road improvements.<sup>18</sup>

The deal to ensure Mr. Parton's participation includes the city paying him an "artist's fee" of \$1.5 million per year, and private entities buying him a new house and providing a new car. In addition, Mr. Parton reportedly received a \$500,000 advance in order to come to Roanoke Rapids and has not invested any of his own money in the project.<sup>19</sup>

Part of the total \$21.5 million in bonds included a \$3 million reserve fund for initial lease payments and start up costs. As of September 2007, \$2.4 million of the reserve has been spent. The theater opened in July to "good" turnout, but not sold-out shows, and Mr. Parton's show has been the only one running from Wednesday to Saturday of each week. At this time the monthly lease payments are being made, but there is concern among some in the community that the contract between Mr. Parton's company, Moonlight Bandit Productions, and the city of Roanoke Rapids allows the financial reports to be kept confidential. Therefore, community members have no

ability to perform oversight on the theater's income and corresponding expenses.

The payback plan calls for payments to be made based on 50 percent of the theater ticket sales. To meet the scheduled bond payments, this would be \$619,000 the first year, which would jump to \$977,800 in following years. These payments require gross income of \$1.24 million the first year and almost \$2.0 million thereafter. The revenues are to be disbursed as an initial \$750,000 to the artist's fee, then to pay the actual operating cost for the theater and staging shows, including the payments of the debt service. After that, additional revenues will be used to pay the remainder of the artist's fee, up to a total of \$1.5 million. Any funds remaining will go into an equity fund, which could be used to pay the bond payments in the future.<sup>20</sup>

The 2005 economic development analysis for the project by Economics Research Associates (ERA), an international consulting firm, projected that the Randy Parton Theater could be "market-viable" if certain assumptions were met. Among these were that "at least 200,000 square feet of other retail space, and additional entertainment and amusements opportunities are operational by the time the theatre opens." At this time, only one hotel is under

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*"One must question the appropriateness of spending tax dollars for the benefit of a specific individual."*

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construction and “none of the retail space” has been started.<sup>21</sup>

Though Mr. Parton is a highly regarded country music singer and significant personal success, one must question the appropriateness of spending tax dollars for the benefit of a specific individual. Additionally, while this project is expected to lure “busloads” of tourists, vacationers, and shoppers, it does not seem designed to attract a permanent “Creative Class” resident.

## A Destination Resort and Iowa State Government

Here in Iowa, the first attempt by State Government at developing a destination resort with the high-amenity features designed to attract tourists and the Creative Class is the Honey Creek Resort at Lake Rathbun in Appanoose County.

In contrast to the fairly quick development of Carolina Crossroads, this resort has been discussed for some 30 years. Finally, because of rejections by hundreds of potential developers, the State of Iowa decided to build their own “destination resort” at Honey Creek State Park at Lake Rathbun. The goal of the resort is to bring more tourism and economic development to a chronically poor part of the state and to attract the “Creative Class.” Historically, private sector developers

have not been interested in Honey Creek because they could not project a 15-20 percent return on investment. However, the enthusiastic citizens, legislators, and state officials who have always had a fondness for the park and a jealousy of the destination resorts in other states are now building it anyway.

In Appanoose County, the location of Honey Creek State Park, travelers spent approximately \$1.2 million in 2005, providing 1,200 jobs and \$178,000 in payroll income. Unfortunately, those numbers are virtually unchanged from 2002, when approximately \$1 million was spent and payroll was \$169,000.<sup>22</sup> Additionally, the population of the county has fallen steadily from 15,515 in 1980 to just over 13,400 in 2006, becoming older at the same time. It is undeniably one of the poorest counties in the state with a per capita personal income of \$20,327 (ranked 95<sup>th</sup> of 99 counties).<sup>23</sup> The State of Iowa is hoping to significantly alter those numbers with the development of the Honey Creek Resort State Park. It will be the test case as the state begins trying to compete with the destination resorts of surrounding states, such as the previously discussed Mahoney State Park.

Rathbun Lake Dam was dedicated by President Richard M. Nixon in 1971 as a flood and drought control system.

## *The Iowa Experiment:*

*“The State of Iowa decided to build their own “destination resort” at Honey Creek State Park at Lake Rathbun.”*

The lake has 11,000 acres of water and 155 miles of shoreline, according to the U.S. Army Corps of Engineers. Economic development discussions started almost immediately after the dam gates closed, with an initial effort in 1978 to bring in private developers. This effort failed, as did later attempts in the late 1980s, and in 2004, each offering more and more state support and funding, and requiring less and less private-sector investment.

The current park has the typical facilities, including modern campsites and full RV hookups. There are water activities, including marinas for use by sail and power boaters, fishing, and swimming, plus many miles of hiking trails. Approximately one million people visited Honey Creek State Park in 2006. For the size of the lake, Honey Creek is considered significantly under-utilized. The new resort development will feature a lodge with 105 rooms, an indoor water park, a restaurant, 8,000 square feet of meeting space, 28 family cabins, an 18-hole golf course, boat ramps and slips, and an RV park.

Unfortunately, in contrast to both Mahoney State Park and The Randy Parton Theater, Honey Creek is not on a major highway system, being located on state roads almost 2.5 hours from Des Moines. Currently, Highway 5 from Des Moines is

four lanes for half the distance, a significant accessibility feature, but not all the way and not an interstate highway.<sup>24</sup> Drive time from other major cities such as Kansas City, Omaha, and St. Louis ranges from 3.5 to 5.5 hours. In contrast, Mahoney State Park in Nebraska is halfway between Omaha and Lincoln and about 15 minutes off I-80, and Carolina Crossroads is right on the interstate.

The market size and revenue numbers used by the State of Iowa to project payback ability on Honey Creek come from the same company, ERA, which was used to develop the Carolina Crossroads projections. The official marketing report uses a cash flow statement estimating that the average hotel room rental will be \$120 and that the year round occupancy will average 58 percent. However, currently hotels in Iowa have an Average Daily Rate of only \$60 and an Average Occupancy Rate of 56 percent.<sup>25</sup>

Initial cash flow drafts from 2004 for Honey Creek showed that there would be a net loss of approximately \$130,000 per year for the first two years of operation, moving into a positive cumulative cash flow in year five. This was with a 20-year bonding cycle.<sup>26</sup> Because this was unacceptable, the revised bond package was sold in 2006 with a 30-year payback. At

## *Solution to Rural Population Loss?*

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# Government or Capitalism

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that term, the project does show minor profitability of \$316,000 or approximately 5 percent, on a Total Revenue of \$6.4 million in year three, considered the stabilization year. Previously, state officials had discussed profits of 10-15 percent as being acceptable for state development, versus the 20-25 percent required for private sector developments. At this time Honey Creek will be fortunate to achieve the minimal 5 percent figure. As a state-owned facility, any profits are returned to the project for use in further improvements, maintenance, and paying back bonds.<sup>27</sup>

The fully developed park was originally estimated to cost \$59 million, with \$33 million in state revenue bonds being issued for the Phase I development. Unfortunately, the only two bids submitted for the construction of the lodge and water park, came in well above the Iowa Department of Natural Resources (DNR) estimates. The lowest bid submitted for the lodge construction, originally estimated at \$13.5 million, came in at \$24.3 million, 80 percent more than the DNR estimate. The lowest cabin bid came in closer to estimates, at only \$27,000 above projections. Both bids were rejected.

In early summer 2007 The DNR re-issued the RFP's, reducing the square feet in the lodge by 22,000, revising the

space features, and simplifying the Heating, Ventilation and Air Conditioning (HVAC) systems. For the cabins, the DNR removed the environmental elements, altered the HVAC, and reconfigured some of the space finishing requirements. Bids on the revised proposals were opened on June 21, 2007.

This time there was only one bid submitted for the lodge and water park by Hansen Construction of Johnston, Iowa. It was submitted for \$19.1 million, in contrast to a state engineers estimate for the revised project of \$18.3 million. Two companies submitted bids for the cabin construction, with the low bid being \$4.22 million. The revised estimate for the cabins had been \$4.19 million.<sup>28</sup>

Only the lodge and water park bid was accepted by the DNR. Though the project has been downsized, the cost is still \$5.8 million over the initial construction estimate, which was a key number used to project the bond payback ability. The completion date has now been pushed to late summer 2008, resulting in a significant loss of revenue during the major summer vacation months.

The initial contracts for infrastructure work and golf course development were issued in 2006 and that work is well underway. The course is anticipated to open in the

spring of 2008. According to the President of the Iowa Golf Association the current market for new golf courses in central Iowa is “very challenging” and Rathbun Golf links at Honey Creek will be competing with over two dozen other public courses, most of which are not 80 miles from a major population center.<sup>29</sup> According to the ERA report, which does not include the Des Moines area courses, there are 11 golf courses within the immediate Honey Creek area, with 9 hole fees of \$6 to \$25 and 18 hole fees of \$33 to \$45.<sup>30</sup>

Because of the above budget construction bids, the cabins, which were an integral part of the ERA market and financial projections, are not going to be built with the initial bond funds. Currently, the Iowa DNR plans to go back to the Legislature in 2008 to ask for additional bonding authority. The Project Manager, Terry Montgomery, estimates that the cabins will be built in late 2009 or 2010, after additional government and private sector funding is acquired.<sup>31</sup>

However, the cash flow projections were too low for private sector development even with the cabins being built from the initial \$33 million in bonds, and the income from the cabins will no longer be available to help meet the revenue projections. According to the legislation signed in 2006 by Governor Vilsack,

the bonds are to be paid back from the “Net” proceeds after operating expenses, not the “Gross”. Therefore if the resort doesn’t break even, the funds to pay the bond holders will have to come from another source, presumably tax revenues.

Until recently Honey Creek was to be managed by Regency Hotel Group of South Dakota, not by state employees. Regency was also being paid to coordinate the overall development of the resort and after opening would have been paid a 3 percent annual management fee, approximately \$200,000 per year. However, Regency recently attempted to negotiate a higher management fee, which the Iowa DNR refused to pay, and is no longer the resort management company. They are still the project’s development manager, and Regency employees have been hired by the state to continue taking reservations for 2008 and to manage the golf course.<sup>32</sup> The DNR anticipates having another management company hired by the end of 2007.

While there is some private sector and local government investment in Honey Creek, the contracts call for all of those funds to be repaid from the hotel tax revenues collected once the lodge opens. So in effect there is no “public/private partnership.” The State of Iowa is responsible for the entire project.

## *Solution to Rural Population Loss?*

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# Government or Capitalism

*“Honey Creek has not even opened and the cash flow and economic development projections have not been met.”*

Honey Creek Resort State Park will be built. However, the broader question remains: If this is an economically feasible and profitable project and a project which the local community members enthusiastically and strongly supported, why didn't the citizens and business owners do it on their own? Why did several attempts to privately develop this park fail? And why should the State of Iowa, the taxpayers of Iowa, assume the risk?

If the cabin rental revenues were required to meet the initial bond payments, where will the income be generated to pay the new, cabin-specific bonds? Honey Creek has not even opened and the cash flow and economic development projections have not been met. How will these bonds get paid?

## What the Free Market Has Done

In contrast to Honey Creek there are two interesting examples of private-sector, high-amenity rural development in Iowa which have attracted both tourists and the Creative Class, and are impacting the rural economies of their

communities: Dickinson County with Big Spirit Lake and Lake Okoboji and the town of Fairfield in Jefferson County. Both counties have some, but not all of the competitive advantage features critical to the Creative Class, both in terms of recreational opportunities and colleges, however they are successfully working to attract the Creative Class.

Dickinson County not only has a very viable cluster of recreational lakes, but is the location of Iowa Lakes Community College and Buena Vista University Lake and Prairie Campus. Though in far northern Iowa with no Interstate access, there are four lane roads from both Minnesota and from northern Iowa. The internet access is excellent, with 10 of 12 communities having at least two access methods. In 2005 the population was 16,746 and is expected to grow by over 26 percent to 21,220 by 2030.<sup>33</sup> The general economic growth reflects amenities designed to appeal to the Creative Class, including the Lakes Art Center, the Iowa Rock & Roll Hall of Fame, and the Okoboji Sumer Theater, along with a championship golf course, and a wide variety of water sports in both summer and winter.

County Name	County Seat	2005 Population	Projected 2030 Population	Percent Change 2005 to 2030	50 Plus Percent Rural	College Campus	State or National Park	River Co.	High-Speed Internet	South Co.	Next to Metro Co.
Dickinson	Spirit Lake	16,746	21,220	26.70%	30.40%	Yes	Yes		10 of 12/ Yes		
Jefferson	Fairfield	16,000	16,985	6.20%	42.70%	Yes			2 of 12/ No		



On the southern end of the state Jefferson County is anchored by the Maharishi University of Management and the strong accompanying communities of Fairfield and of Vedic City, specifically associated with that philosophical approach. Jefferson County's population in 2005 was 16,000 and is expected to grow to 16,985, or by 6.1 percent, between now and 2030.<sup>34</sup> While this is not as much as Dickinson County, it is growth. Jefferson County, though not a true southern border county, is on the southern side of the state and has good roads, with the slightly larger communities of Mt. Pleasant and Ottumwa 25 miles to the east and west, respectively.

Fairfield has a reputation for supporting entrepreneurial and industrial sectors. Recently an Ottumwa-based storage tank manufacturer, WINBCO expanded operations to Fairfield.<sup>35</sup> Increased attendance at the Maharishi University is expected to support continuing growth in the educational field. The tourism sector is supported in many ways, including a "First Friday Art Walk," designed to support and encourage the many artists in the area. Vedic City, established in 1991, is the newest town in Iowa, a unique community founded on the ideas of the Maharishi Mahesh Yogi.<sup>36</sup> The outdoor recreational opportunities are varied and include Lake

Darling to the north, though in Washington County.

In another example of a private-sector, free-market approach to addressing rural problems, the Iowa Farm Bureau has a new three-year rural development program called "Renew Rural Iowa."<sup>37</sup> This program was started in September of 2006 as a mentoring and business model system designed to support entrepreneurs in communities with less than 30,000 people. The main program consists of a two-day seminar on banking, marketing, legal, and capital issues, with in-depth, personal attention on a company's specific issues and needs. The Farm Bureau's goal is to "breath new life into small towns in terms of more local commerce, jobs, retail spending and people," according to Dave Sengpiel, Iowa Farm Bureau Senior Investment Manager.<sup>38</sup> In Elkader, Iowa (Clayton County, one of our target counties) a group of entrepreneurs working with this program have moved their high-end lighting manufacturing company from California and are expanding other businesses. The area offers a good road system, high-speed internet, and technically trained workers — along with the family-friendly and recreational benefits of a rural community, and without the cost and work of living in a large city.

## *Solution to Rural Population Loss?*

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# Government or Capitalism

*“Focused and motivated individuals are not sitting back and waiting to be rescued by the government; they are working aggressively to promote and revitalize their communities. We would all benefit from following their example.”*

Additionally, a group of local innkeepers formed the Elkader Lodging Association, bonding together to counter the idea that there are no overnight accommodations in the area. The group of 10 innkeepers offers motels, cottages, bed and breakfasts, resort rooms and more, all within 15 miles of the city. They have created a new web site, [Elkaderlodging.com](http://Elkaderlodging.com), with links to the specific lodging options. The members of the group are working collaboratively and independently of the government to promote their own self-interest and own community because, “we live in one of the natural paradises in the U.S.” according to John Nikolai of the Goshawk Farm Bed and Breakfast.<sup>39</sup>

## **Moving towards 2030**

Recently the “Generation Iowa” bill was passed by the Iowa Legislature, creating a 15-member commission of Iowans from 15-35 years old to talk about ways to make the state more appealing to young people and make recommendations to the Legislature and Governor for potential new programs.<sup>40</sup> The first people they need to talk to are in Clayton, Dickinson, and Jefferson Counties. In these counties, focused and motivated individuals are not sitting back and waiting to be rescued by the government; they are working aggressively

to promote and revitalize their communities. We would all benefit from following their example.

Based upon review of the six at-risk counties meeting the initial competitive advantage criteria for potential high-amenity development designed to attract the tourism and the Creative Class residents (Clayton, Decatur, Fayette, Fremont, Hardin, and Monona) it would be interesting to see what might happen over the next 20 years if a concentrated effort is made by business people and current residents in these counties to promote and further develop their high-amenity features through capitalism and the free market economy. The private citizens and business people in Elkader, Fairfield, and Okoboji have already started. They are not waiting to see if the government can do it better.

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- <sup>7</sup>State Parks and Recreation Areas Directory, Iowa Department of Natural Resources, <[http://www.iowadnr.com/parks/state\\_park\\_list/index.html](http://www.iowadnr.com/parks/state_park_list/index.html)>, <[http://www.iowadnr.com/parks/recreation\\_opps/index.html](http://www.iowadnr.com/parks/recreation_opps/index.html)> (August 30, 2007).
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- <sup>10</sup>*Ibid.*, p 19.
- <sup>11</sup>*Ibid.*, p 5.
- <sup>12</sup>Conversation with Jim Swenson, East Region Parks Manager, State of Nebraska, October 5, 2007.
- <sup>13</sup><<http://www.ngpc.state.ne.us/parks/guides/parksearch/showpark.asp>> (May 24, 2007).
- <sup>14</sup><<http://www.neded.org/files/research/intercen.htm>> (September 25, 2007).
- <sup>15</sup><[www.epodunk.com/top10/countyPop/coPop28.html](http://www.epodunk.com/top10/countyPop/coPop28.html)> (September 24, 2007).
- <sup>16</sup><<http://www.neded.org/files/research/avcowage.htm>> (September 25, 2007).
- <sup>17</sup>Lance Martin “Parton theater financing plan gets green light,” *Roanoke Rapids Daily Herald*, March 2, 2006.
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- <sup>29</sup>Dan Piller “Rathbun golf spot will enter crowded market” *The Des Moines Register*, June 25, 2007, p. B1.
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- <sup>35</sup>“Fairfield able to sustain retail, industrial sectors,” *Mt. Pleasant News*, May 10, 2007, p. 3.
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