

RURAL ACTION BRIEF

VOLUME 1, ISSUE 1 DECEMBER 2004

THE NEW HOMESTEAD ACT

WHAT IS IT?

The New Homestead Act seeks to attract new residents and businesses to rural areas suffering high out-migration. The New Homestead Act would operate in “high outmigration” counties – those with out-migration of 10 percent or more over the last 20 years.

The New Homestead Act will allow many rural people to live the American dream. It was introduced in Congress in 2003. The tables below show the current sponsors.



House Resolution 2194 sponsored by	
Rep. Pomeroy ND	Rep. Osborne NE
Rep. Herseth SD	Rep. Kind WI

Senate Bill 602 sponsored by	
Sen. Dorgan ND	Sen. Dayton MN
Sen. Hagel NE	Sen. Durbin IL
Sen. Breaux LA	Sen. Harkin IA
Sen. Brownback KS	Sen. Johnson SD
Sen. Burns MT	Sen. Landrieu LA
Sen. Coleman MN	Sen. Lincoln AR
Sen. Conrad ND	Sen. Miller GA
Sen. Daschle SD	Sen. Pryor AR
Sen. Rockefeller WV	

WHAT WOULD THE NEW HOMESTEAD ACT DO?

- Forgive 50 percent of college loans for those who live and work in qualifying counties
- Provide a tax credit up to \$5,000 for home purchases in qualifying counties
- Provide tax incentives for new buildings in qualifying counties
- Create \$3 billion in business venture capital in qualifying counties
- Provide a tax credit for small businesses in qualifying counties
- Create savings accounts to help build savings and assets

WHAT ARE “HIGH OUT-MIGRATION COUNTIES”?

Any non-metropolitan county with net out-migration of 10 percent or more over the past 20 years and its residents would be eligible for any provision in the New Homestead Act.

“Migration” refers to the difference between population change and natural change (difference between births and deaths). A negative number is “Net Out-Migration” and means more people moved out than in.

Current population data show there are 677 high out-migration counties in rural America.

Only 12 states and the District of Columbia do not have a high out-migration county (see table to the right). Every other state has at least one high out-migration county. High out-migration counties are concentrated in the Great Plains and Midwest, but there are significant concentrations in the Mountain West, Southwest, Mississippi Delta, Appalachia, and Northern New England.

ONLY 12 STATES AND THE DISTRICT OF COLUMBIA DO NOT HAVE A HIGH OUT-MIGRATION COUNTY

CA	CT
DE	FL
HI	MD
MA	NH
NJ	RI
VT	WA

AN ESTIMATED 3.9 MILLION HOUSEHOLDS IN ELIGIBLE COUNTIES HAVE HOUSEHOLD INCOME QUALIFYING THEM FOR MATCHING INDIVIDUAL HOMESTEAD ACCOUNT FUNDS — ABOUT 18 PERCENT OF ALL NON-METROPOLITAN HOUSEHOLDS IN THE UNITED STATES (BASED ON 2000 CENSUS FIGURES)



RURAL RESIDENTS ARE MORE LIKELY TO BE UNINSURED THAN NON-RURAL RESIDENTS; 24 PERCENT OF NON-ELDERLY RURAL RESIDENTS ARE UNINSURED, COMPARED TO 18 PERCENT OF URBAN RESIDENTS

INDIVIDUAL HOMESTEAD ACCOUNTS

The New Homestead Act would create “Individual Homestead Accounts” – matching savings accounts to build individual and family assets. Individuals who are bona fide residents of a qualifying county are allowed to create Individual Homestead Accounts. Individual Homestead Accounts are generally identical to Individual Development Accounts (IDA) legislation and programs in use in communities across the nation.

WHAT ARE THEY? WHO CAN USE THEM?

- Individual Contributions up to \$2,500 per year for up to five years
- Federal government contributions of 25% to 100% of individual contributions
- Matching contributions based on a sliding scale, depending on income – those with less than \$30,000 income receive a 100% matching contribution; those with income of \$60,000 to \$100,000 receive a 25% matching contribution
- These accounts can be used tax and penalty-free after five years for the costs incurred in developing a small business, expenses related to obtaining higher education, first-time home purchases in qualifying counties, and unreimbursed medical expenses

MEDICAL EXPENSES

Individual Medical Accounts may be used for “qualified medical expenses” – any amount paid for medical care for the taxpayer, his/her spouse and dependents and not compensated by insurance or otherwise. On average, rural residents have health insurance coverage that pays less of health care expenses, and rural individuals and families devote more of their income to health care costs.

Of the 3.9 million households eligible for matching funds to Individual Homestead Accounts:

- 921,000 are without insurance
- 388,000 rely on individual market plans for their health insurance
- 1.3 million are significantly at health care expense risk – either uninsured or with plans that cover significantly less health care expenses
- With medical out-of-pocket costs at 11% of household income in non-metropolitan areas, these families incur nearly \$13 billion annually in medical out-of-pocket expenses

SCENARIOS FOR UNREIMBURSED MEDICAL EXPENSES

- A family in a qualifying county has a household income of \$30,000 (close to the average non-metropolitan household income). Assuming they have health insurance, maximum contributions to their Individual Homestead Account, and average out-of-pocket medical expenses, this family’s Individual Homestead Account would at best cover all of their out-of-pocket medical expenses, or, at worst, reduce them by more than half. Items such as preventative care would not have cost as a barrier. The Individual Homestead Account would result in total health care coverage for some and significantly better coverage for others.
- Take the same family, but without health insurance. The Individual Homestead Account would allow them to purchase health insurance that, depending on health status and policy particulars, could improve coverage of out-of-pocket expenses and health care access.

FIRST-TIME HOMEBUYERS

Non-metropolitan areas of the United States already have the highest home ownership rates in the nation, with 75 percent of non-metropolitan residents owning their home. Home ownership rates in rural areas decline, however, as place size increases, which may make this use of Individual Homestead Accounts temporarily more attractive in

those places with declining populations.

Assuming qualifying households in qualifying counties have a similar ownership rate, we estimate approximately 971,000 households would be potential beneficiaries of this allowable use of Individual Homestead Accounts.

The primary rural housing

issue is the affordability and quality of housing. While this allowable use of Individual Homestead Accounts will benefit a segment of the rural population, it may not be the best use of resources to address the housing challenges facing most low- and moderate-income rural people and the housing issues facing many of our rural communities.

NEARLY 971,000 HOUSEHOLDS COULD BE ELIGIBLE TO USE HOMESTEAD ACCOUNTS TO PURCHASE THEIR FIRST HOME

BUSINESS CAPITALIZATION COSTS

Individual Homestead Accounts are not specifically limited to the development of small businesses – an Individual Homestead Account may be used for the capitalization of “any trade or business located in a qualifying county.” However, because of account size, Individual Homestead Accounts will likely be used to develop and create small businesses and self-employment opportunities. Account proceeds may be used for any costs related to the creation or expansion of a business.

This use has the potential for significant contributions to economic development and job creation in rural areas. One-third of all rural residents are self-employed, and nearly half of rural workers are employed by firms with 20 or fewer employees. Nearly 60 percent of all jobs created during the 1990s in rural counties of the Great Plains are from nonfarm self-employment—and most of those counties are New Homestead Act counties. Small business development and entrepreneurship offer a new model of economic development in rural communities and a way out of poverty for many rural people.

INDIVIDUAL HOMESTEAD ACCOUNTS COULD CREATE 217,000 NEW BUSINESSES AND 368,000 NEW JOBS IN QUALIFYING COUNTIES, OR AN AVERAGE OF 544 NEW JOBS IN EACH QUALIFYING COUNTY
See note on page 5

HIGHER EDUCATION COSTS

Residents of nonmetropolitan areas have significantly lower educational attainment levels than do residents of metropolitan areas. Of residents 25 years old and over, 37 percent of metropolitan area residents have at least an Associate’s Degree compared to 25 percent of nonmetropolitan residents. The educational attainment levels of metropolitan and nonmetropolitan areas begin to significantly diverge at the Bachelor’s Degree level. High school

graduation and Associate Degree attainment levels are nearly identical.

Because of these facts, it is difficult to gauge the potential affect of this use of Individual Homestead Accounts. Because of the nature of qualifying counties – generally remote and a great distance from an institution of higher education – it is questionable how many eligible individuals will be able to take advantage of this allowable use, and data say few users will return to

rural communities.

The exception may be vocational education. By making specific references to vocational education, the New Homestead Act recognizes the fact that vocational education is a type of education that may avail itself to Individual Homestead Account use. The presence of community colleges and vocational training institutions in rural areas makes this an attractive and likely use in many qualifying counties.



A STUDY OF HOME-BASED BUSINESSES IN THE RURAL SOUTH FOUND THAT 38% OF SUCH BUSINESSES PURCHASED SUPPLIES LOCALLY, 47% ACQUIRED SERVICES LOCALLY, AND 42% MADE LOCAL SALES. CREATING THAT LEVEL OF ACTIVITY WILL SIGNIFICANTLY ENHANCE THE ECONOMIES OF RURAL COMMUNITIES.

EFFECT OF INDIVIDUAL HOMESTEAD ACCOUNTS ON RURAL COMMUNITIES

Job Creation and Business Activity: Developing or expanding small businesses in qualifying counties has the potential to create a significant number of new jobs in rural America. Further, the creation and expansion of such businesses has the potential to create a spiral of business activity within rural communities. Local small businesses invest much of their economic activity in the local community. Stronger families and communities will result.

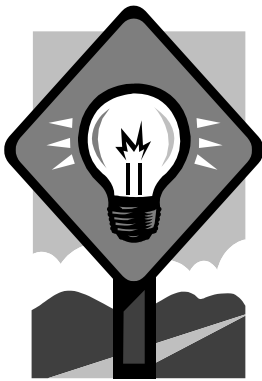
Training and Skill Development: Individual Homestead Accounts will allow residents of qualifying communities to enhance their skill and training, which in turn will benefit local economies both individually and collectively. Individuals and families will benefit by the higher wages and salaries that result from increased education, training and skills. Rural communities will benefit from a higher skilled workforce, greater business services, and opportunities that come with a trained and skilled populous and the community economic multiplier that comes with higher incomes. Even if the ultimate use of Individual Homestead Accounts for higher education costs centers primarily on vocational education and training, individuals, families and communities will benefit.

Health Care: Nearly \$13 billion in out-of-pocket medical and health care expenses could be freed up for other uses by rural individuals and families through the use of Individual Homestead Accounts. In addition, providing tools for the uninsured and underinsured to obtain enhanced medical services has the potential to enhance the health status of rural individuals and families.

RECOMMENDATIONS

The New Homestead Act is a worthy addition to the rural development debate, and Individual Homestead Accounts have the potential to contribute significantly to rural economic and community development. We offer the following suggestions to strengthen the Individual Homestead Account provision and make it more responsive to the needs of rural people.

1. Add home rehabilitation, renovation, and repair to the list of allowable uses.
2. Define “qualified medical expenses” to include health insurance premiums.
3. Allow home purchase costs for those who are not first-time homebuyers to address the issues of an aging and affordable housing stock.
4. Allow costs related to training and skill development that are not connected to an institution of higher education.
5. Specifically allow Individual Homestead Account proceeds to be used for manufactured homes, an increasingly important part of rural housing but often treated differently.
6. Relax the Individual Homestead Account trustee requirements to allow for non-profit organizations, faith- and community-based organizations, community action agencies, government agencies and others (as well as banks and other financial institutions) to act as account trustees.
7. Target the allowable use of Individual Homestead Accounts for business capitalization to investments in owner-operated businesses rather than any business investment. The goal of the program should be to broaden the base of people in the community who own and operate businesses.



8. Target the Individual Homestead Accounts contributions to those with lower incomes, for example, those individuals or households at 185 percent of the Federal Poverty Level, to help alleviate poverty in qualified counties.
9. Add business technical assistance as a qualified “business capitalization cost.”
10. Add business plan development as a qualified “business capitalization cost.”

WHAT CAN I DO?

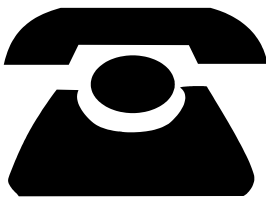
The New Homestead Act will be reintroduced in the 2005 session of Congress. It is unlikely to be adopted by Congress in its entirety as a free-standing bill – parts of it are more likely to be included in other bills, such as tax bills.

You can do the following to make the case for the New Homestead Act and its provisions.

- **Find out if the county you live or work in is a New Homestead County**—a list of qualifying counties is at www.cfra.org/resources/homestead_county_report.xls
- **Contact your U.S. Senators and U.S. House of Representatives** and educate them on the benefits of the New Homestead Act and Individual Homestead Accounts for your community and your state.
- **Write letters to your local newspapers** about the New Homestead Act and Individual Homestead Accounts and their benefits to your community and all rural communities.
- **Speak to local Chambers of Commerce and business associations, local service clubs, and other local groups** about the New Homestead Act and Individual Homestead Accounts and their benefits to your community and all rural communities.
- **Contact local economic development and community development groups and organizations** and ask them to endorse the New Homestead Act through a letter or resolution and have that endorsement sent to your U.S. Senators and Representative.
- **Contact your Governor and state legislators** and ask him or her to sponsor a resolution in support of the New Homestead Act.
- **Contact your county commissioners or supervisors** and ask them to sponsor a resolution in support of the New Homestead Act.
- **Organize a local New Homestead Act support group** and begin a letter writing and calling campaign to gain additional support.

*The numbers on page 3 are derived as follows:

- Two-thirds of the 3.9 million households are not self-employed = 2.6 million potential households
- One-third of those will become self-employed (rural average) = 866,667 self-employed households — of self-employed households, 25% will use Individual Homestead Accounts to start a business = (216,667 new businesses American Dream Demonstration data)
- Rural small businesses average 1.7 jobs/business (Association for Enterprise Opportunity data) = 368,334 new jobs
- Divided by 677 qualifying counties = 544 new jobs/county



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