

Supporting Rural Main Streets Post-COVID

Prepared For: Region Five Development Commission

Prepared By: New Growth Innovation Network

During the height of the pandemic, small businesses were heavily impacted by reduced consumer spending and forced closures. As the U.S. economy transitions to a post-pandemic future, questions remain on what long-term impacts will persist. The growth in remote work may challenge small businesses, especially main street businesses in small rural towns.

The following analysis examines trends that might impact the future of small rural main streets, while providing information on local trends seen in the Region Five Development Commission area. This report also provides some strategies and tools to help main street small businesses continue to thrive in a post-COVID economy.



This analysis is part of the Inclusive Recovery Initiative, a U.S. Economic Development Administration-funded initiative to support Economic Development Districts in embedding inclusive strategies into the CEDS as part of COVID-19 Recovery.

Rural Trends

Defining rural regions in the United States is difficult, and rural areas across the country vary in terms of place, culture, and economy. Despite these differences, economic development practitioners across the country can identify their own regions as rural and can pinpoint certain characteristics that are shared among rural regions, including low population density, few homes per acre, a single main street or small downtown area, and economies centered on agriculture and/or manufacturing.

In recent decades, rural communities have also been united by some common trends related to declining population and lagging economic growth. As of 2020, the U.S. nonmetro or rural population stands at about 46 million people. Between 2010 and 2020, the rural population declined by less than a percent, compared to an average of 7.4% population increase across the United States.¹ Research suggests a variety of factors influence population changes in nonmetro

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¹ [USDA, Rural America at a Glance: 2021 Edition](#)

regions. Among the most influential are poverty rates and local industry. Regions that saw a decline in population were more likely to be dependent on farming, manufacturing, and natural resource/gas extraction. Conversely, local economies based on recreation and retirement/social services have seen increases in population among different demographics over the past 10 years.²

Counties are termed persistently poor if 20 percent or more of the population lived at or below the Federal poverty line during four consecutive U.S. Census measurements dating to 1980. Rural regions that experienced persistent poverty between 2010-2020 were not only disproportionately impacted by decreasing population, but also saw disproportionate impacts of COVID-19. Persistently poor rural regions had significantly higher unemployment rates during the pandemic than the average rural region.³

Rural Downtowns

As smaller, rural cities decline in population, rural downtowns and main streets have also seen drastic changes in demographics, real estate, and overall use. Rural downtown centers have historically been supported by retail and food and drink establishments. As population declines in rural areas, this directly impacts the ability for these local businesses to thrive.

Each month, community bank presidents and CEOs in nonurban, agriculturally and energy-dependent portions of the 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included.

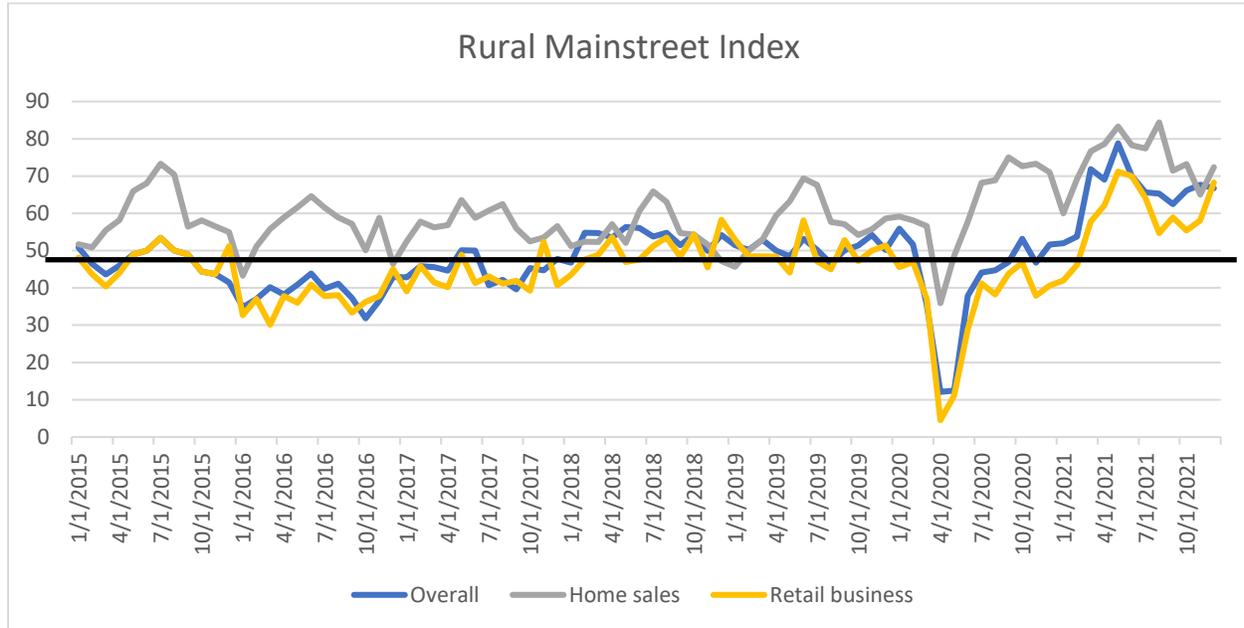
This survey represents an early snapshot of the economy of rural, agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy.⁴

As the below chart shows, confidence related to retail businesses in rural areas has struggled since 2015. This is despite positive momentum related to home sales. While the pandemic drastically reduced the short-term outlook for rural main streets, the influx of capital and funding from federal programs has created an opportunity for rural communities to invest in their downtowns in a more significant way than has been done in decades.

² [Homestead Funds, 2021 U.S. Economic Outlook A Focus on Rural America](#)

³ [USDA, Rural America at a Glance: 2021 Edition](#)

⁴ [Creighton University, Mainstreet Economy Historical Data by Year](#)



COVID-19 Impact on Rural Businesses

The pandemic's effect on small business has been prolonged and uneven, disproportionately impacting microbusinesses in underinvested communities.⁵ Rural areas, still recovering from the Great Recession, were hit especially hard since they are more likely to be dependent on the hospitality/leisure industry.⁶ Business closures, decreased travel, and decline of in-store shopping all greatly contributed to differences in recovery by industry and place.

As shown below, revenue from technical/professional services, manufacturing, retail, warehousing/transportation and arts and leisure grew at an almost identical rate prior to the pandemic. However, since the pandemic, business revenue growth rates have varied significantly.⁷ The art and leisure services industry revenues not only decreased at a higher rate but continue to lag professional services revenue compared to 2017 left.

While manufacturing and warehousing/transportation both experienced similar declines during the pandemic, warehousing/transportation has seen a much stronger recovery than manufacturing. Black-owned and minority-owned not only closed at higher rates than white-owned businesses, but lack of access to finance exacerbated recovery.⁸ Furthermore, rural areas already struggle with existing vulnerabilities such as poor broadband connectivity, and a

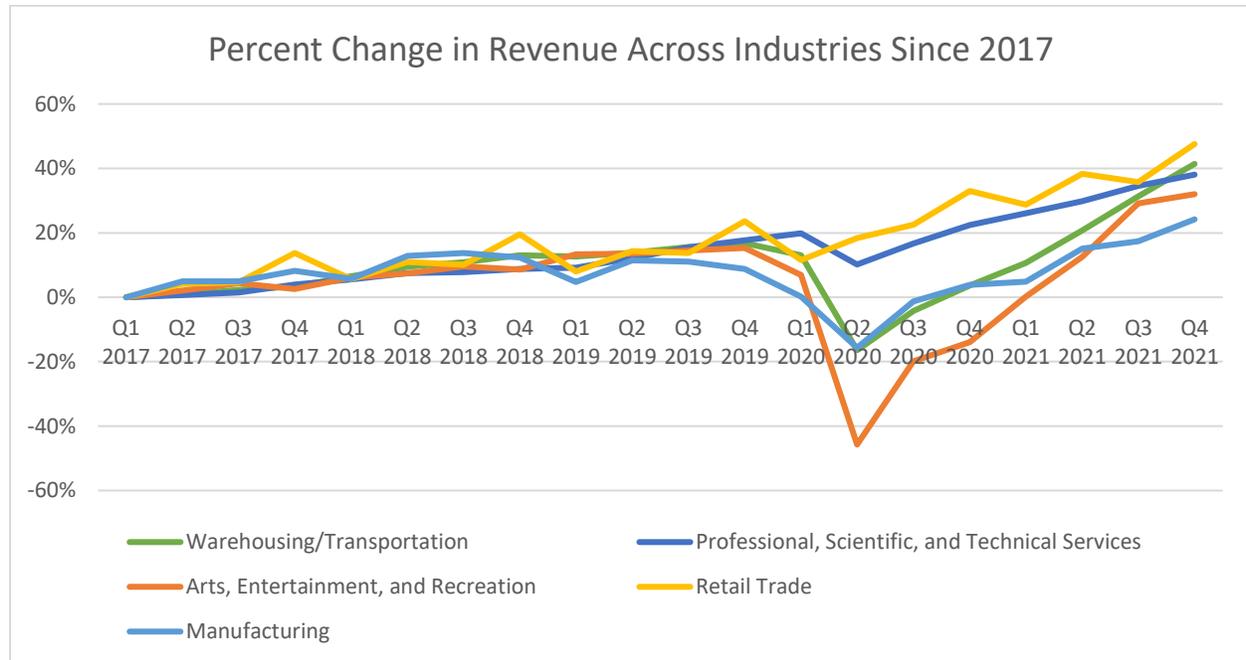
⁵ [Brookings Institution, Rural Small Businesses Need Local Solutions to Survive](#)

⁶ [Brookings Institution, Redesign required: Principles for reimagining federal rural policy in the COVID-19 era](#)

⁷ [Census Bureau, Business and Industries Quarterly Services Survey](#)

⁸ [McKinsey and Company, Black-owned businesses face an unequal path to recovery](#)

higher share of businesses in the most immediately vulnerable industries that the pandemic has exploited due to an increased dependence on remote work.⁹



Growth in Remote Work

The pandemic saw a massive increase in the number of people who work remotely. However, this was only an extreme escalation of a trend that has already been present. Remote work has seen a 159% increase in the past twelve years, and a report from Upwork predicts that over 70% of all businesses will have remote workers by 2028.¹⁰

A recent survey released by FlexJobs found that rural workers seek remote work for different reasons than general job seekers and are more willing to sacrifice more to access remote jobs.¹¹ The largest reasons that rural residents seek remote work compared to general job seekers are a poor local job market and gas prices. This survey shows that rural job seekers would benefit greatly from accessing remote work due to the specific challenges that face their community.

However, lack of access to reliable/affordable broadband and public transportation stands in the way of rural areas reaping the benefits of remote work such as a larger pool of

⁹ [Brookings Institution, *Building resilient rural places: Strategies from local leaders to strengthen rural assets, diversity, and dynamism*](#)

¹⁰ [Upwork, *Third Annual Upwork "Future Workforce Report" Sheds Light on How Younger Generations are Reshaping the Future of Work*](#)

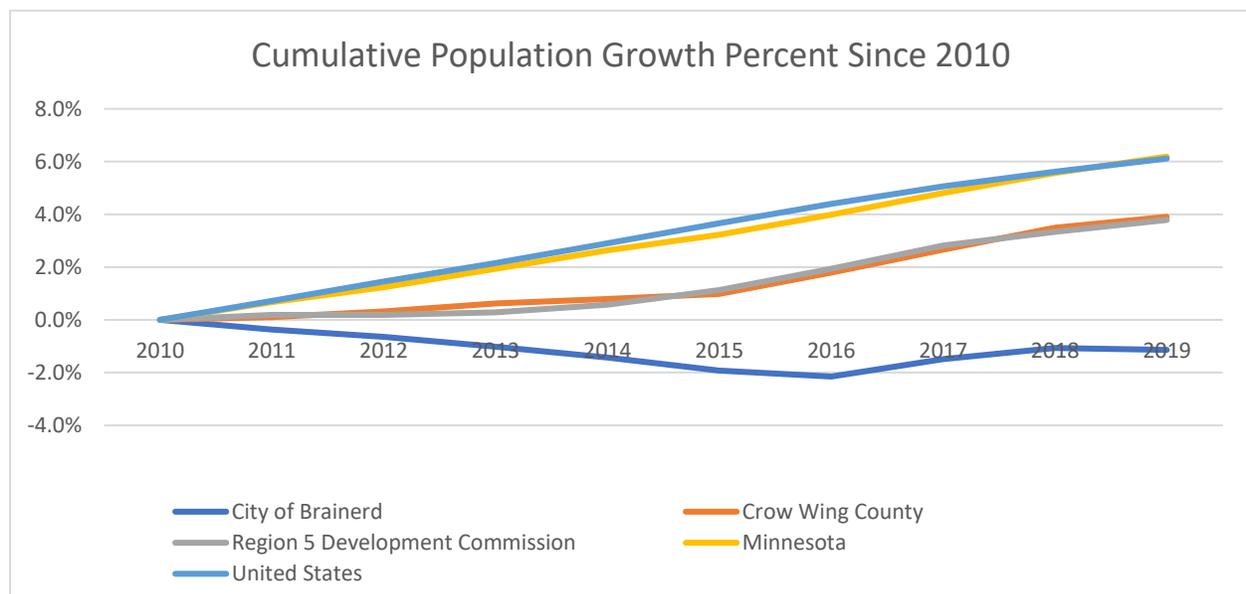
¹¹ [FlexJobs, *How Flexible Work Impacts Rural Workers: Survey Findings*](#)

opportunities.¹² Due to these challenges, Main Street America published a guide for what to consider in reviewing how COVID-19 impacts remote work.¹³ The guidance is broken down into two segments and provides resources to help practitioners adjust to this national trend and reap the benefits of remote work. The guidance falls under either programmatic initiatives or policy initiatives.

Main Street America’s eight programmatic initiatives and two policy initiatives provide groundwork on how rural areas can lay the groundwork for successfully integrating remote work into their communities. The programmatic initiatives include Incentivize People Recruitment, Understand Impacts on Your Office Sector, and other suggestions for outreach and analysis to help address the challenges that rural areas face when attempting to adopt remote work as a sustainable option.¹⁴

Trends in Region Five

Brainerd, Minnesota in Crow Wing County is located in a rural region with a central main street/downtown area running through its center. While Brainerd has not seen significant population decline in the last 20 years, its population has not increased on track with national averages. Crow Wing County and the broader Region Five Development Commission area have both seen total population growth just below 4% since 2010. However, the city of Brainerd lost 1.13% of its population over the same period.



¹² [FlexJobs, How Flexible Work Impacts Rural Workers: Survey Findings](#)

¹³ [Main Streets, Spotlight: How Rural Economies Can Leverage the Rise in Remote Work](#)

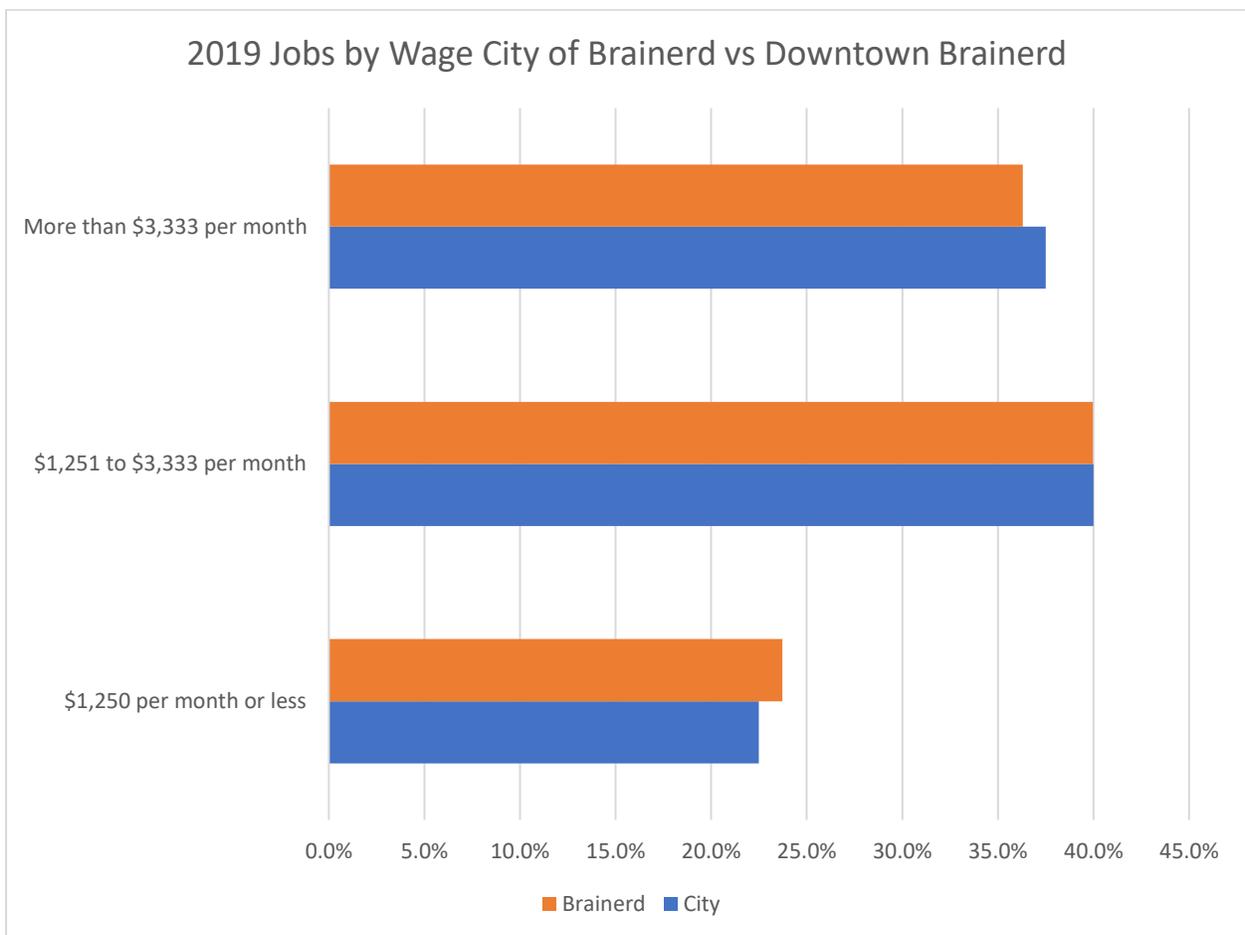
¹⁴ [Brookings Institution, Redesign required: Principles for reimagining federal rural policy in the COVID-19 era](#)

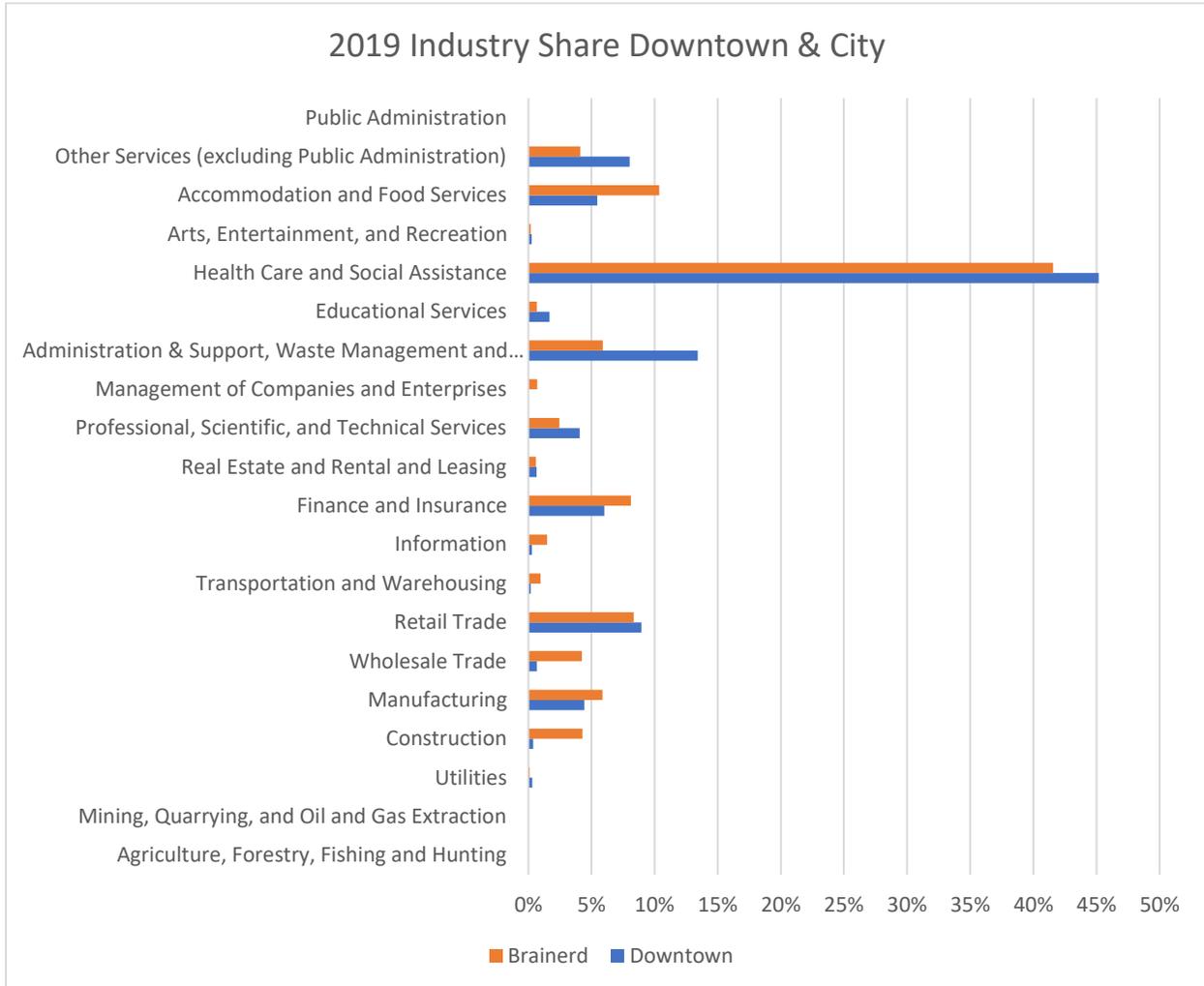
Local Brainerd Employment Trends

In order to understand some of the recent changes in the City of Brainerd and downtown, the following section maps income and employment differences between the main street/downtown area and compared that to the city as a whole.

Brainerd’s downtown area, located around Washington Street, has different economic characteristics than the city’s surrounding area. Downtown Brainerd has fewer low-paying jobs, a similar percentage of mid-paying jobs, and more higher paying jobs than the surrounding region. Since 2002, the downtown area saw a greater increase in the number of jobs paying more than \$3,333 a month than the region.

The downtown also has a higher concentration of jobs in services, retail, and healthcare. The city of Brainerd overall has a higher concentration of jobs in manufacturing and transportation and warehousing.





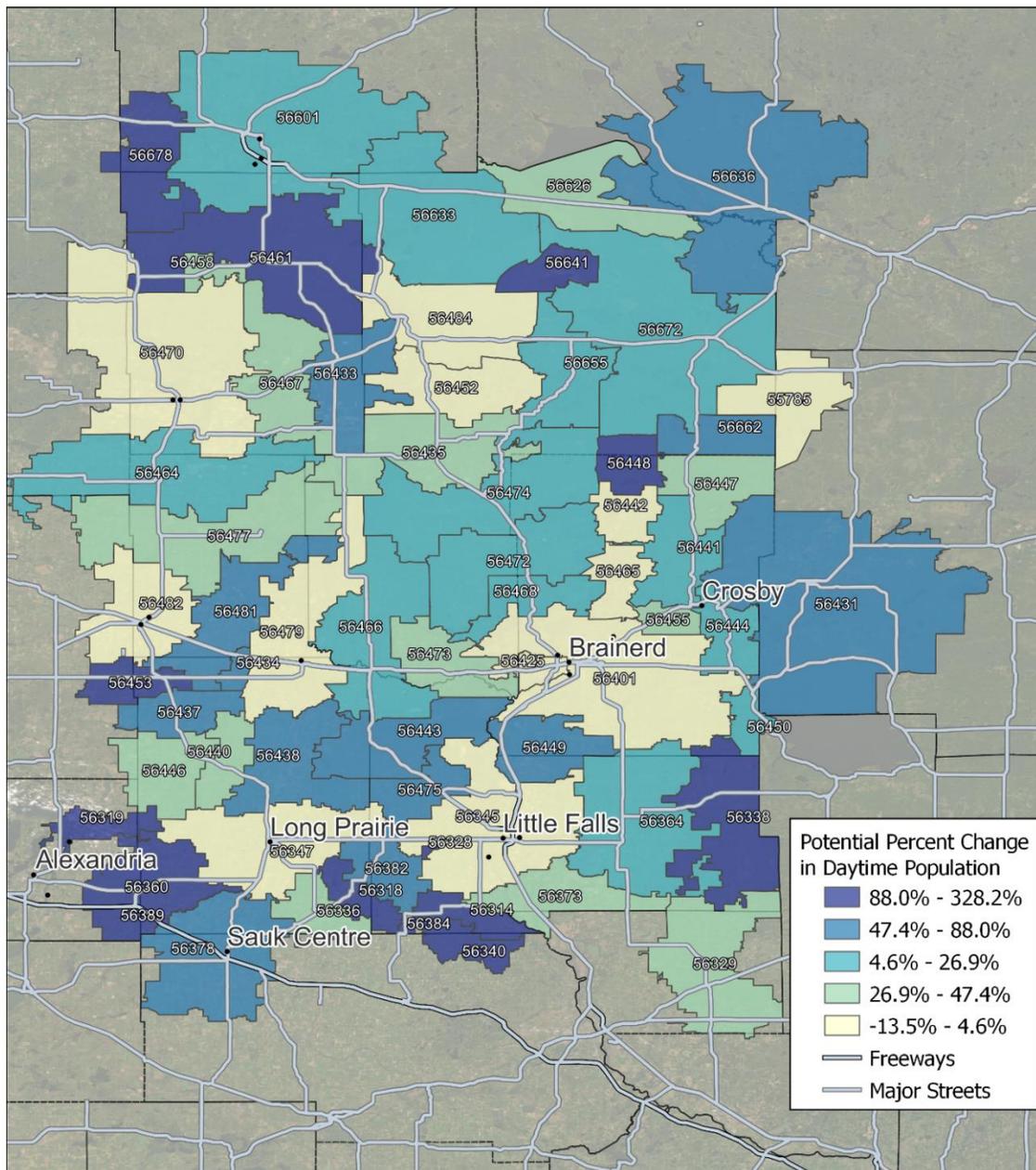
Potential Impacts of Remote Work on Main Street Businesses in Region Five

It is difficult to estimate the impacts that remote work might have on a given region or community. However, NGIN utilized a model developed by Fourth Economy to estimate the potential change in daytime population in Region Five at the zip code level based on ability to work from home. This analysis utilizes data on the work and home-based location of workers from the U.S. Census Bureau and data from the Bureau of Labor Statistics on the ability to work from home for different types of jobs.¹⁵ It is a forecasted model based on the potential ability to work remotely. It should not be viewed as actual change in daytime population.

¹⁵ The Change in Daytime Population model was developed by Fourth Economy and utilizes BLS Job Flexibilities and Work Schedule data, 2017-2018 and Census Longitudinal Employer-Household Dynamics data, 2018.

The resulting map showcases zip codes in the Region Five area where daytime population could increase or decrease if all workers that could work remotely worked from their home location. In total, the daytime population for the region would increase around 6%. However, 12 zip codes would see a total loss of around a thousand daytime workers, the most significant of which would be zip code 56425, the area covering Baxter, which would lose around 8% of its daytime population.

Potential Percent Change in Daytime Population Due to Increased Number of Remote Workers



The results of this analysis were used to estimate the impact that might occur to downtown small businesses because of the decrease in daytime workers. This model estimates a decrease in demand for services from downtown based on a smaller number of people working in the downtown area. For this, NGIN used data from Quarterly Workforce Indicators and the Economic Census on the number of workers in small businesses and the revenue generated per worker in the retail; arts, entertainment, and recreation; accommodation and food services, and other services industries. This analysis looked at the zip code that includes Baxter (56425) as well as a portion of zip code 56401 designed to represent the city of Brainerd.¹⁶

NGIN estimates in this region there are approximately 336 small businesses representing 2,261 employees and over \$410 million in annual revenue. The following table shows the potential impact of a decrease in demand for small business products and services due to a lower daytime population in downtown areas as a result of increased remote working in the region. This model is not designed to provide a forecast or prediction for the impact of increased remote workers in Region Five, but it can provide insights into how an increase in remote work could impact downtowns in the Region Five area.

Forecasted Impact on Small Businesses from Decrease in Demand Due to Increased Remote Work in Baxter and Brainerd

	Small Businesses Impacted	Small Business Employees Impacted	Monthly Small Business Sales Impacted
8% Decrease in Demand (100% of workers who can work remotely do)	30	180	\$2,774,850
4% Decrease in Demand (50% of workers who can work remotely do)	15	90	\$1,387,425
2% Decrease in Demand (25% of workers who can work remotely do)	7	50	\$693,715

¹⁶ Census Longitudinal Employer-Household Dynamics data with Quarterly Workforce Indicators was used to estimate small business employment and the number of small businesses. Economic Census Data was used to estimate sales.

Proposed Recommendations for Inclusive Recovery in Rural Downtowns

The current economic outlook presents many challenges for rural communities but may create some opportunity for reinvestment not seen for these regions in many decades. As economies and demographics of rural regions have changed, rural main streets must adapt as well in order to continue to serve the residents of their regions and weather future economic shocks that might arise in the future.

Below are some proposed recommendations for communities looking to support their rural economies post-pandemic. These recommendations build upon reports from [Brookings Institution](#) and the [Massachusetts Institute of Technology](#) (MIT) that outline strategies to foster economic resiliency in rural regions as well as incorporating NGIN analytics of this particular region.

Recommendation 1: Creative Main Street Revitalization

Revitalizing main streets can include creative repurposing of unused space, supporting local entrepreneurs, and creating shared creative spaces. However, researchers suggest that both physical and social infrastructure are critical to revitalization. Physically, the necessity for housing, office space, and increased accessibility all contribute greatly to main street revitalization.¹⁷

Social infrastructure includes communication pathways, built relationships, and networks that can support residents during times of distress and need. Social infrastructure such as nurturing an economic ecosystem, building an inclusive social environment, and encouraging locally organized civic structures/engagement are important to help main streets thrive. A key recommendation is the necessity for local empowerment and involvement in the revitalization process.

This local empowerment is often difficult in rural downtowns where some historic and underutilized properties have out-of-state owners. These owners may have less incentive to invest in renovations that could better adapt these properties to the uses and needs of today's small-town residents. For example, adapting the second story of buildings into residential uses, or converting office space into retail or restaurant space can make older buildings much more suited to the kind of uses needed in today's economy.

Local governments should identify financing tools and strategies to partner with and/or incentivize property owners to make needed investments in their properties. Alternatively, strategically acquiring certain properties for redevelopment can help local governments gain

¹⁷ [Massachusetts Institute of Technology, *Rebuilding Main Street After COVID-19*](#)

some form of local control over the future direction of development in a community. This can also allow for investment in additional local public amenities that can increasingly attract people to downtown areas, mitigating some challenges presented by an increase in remote workers in rural areas.

Recommendation 2: Sustained and Accessible Financial Capital

A large hurdle that both small businesses and local governments face is cash flow and access to capital. Having accessible financing options that provide financial incentives for creative growth, support local entrepreneurs, and provide a safety net for economic shocks is vital to maintaining a robust and inclusive economy. Lack of accessible capital also tends to disproportionately impact business owners of color.¹⁸ A third of female business owners said lack of capital/cash flow was a top problem they faced.¹⁹ Times of distress such as a pandemic only serve to exacerbate existing issues.

Ensuring access to capital for local small businesses through federal grants, local grants, community funds, or traditional/non-traditional loans is crucial to the revitalization and strength of a local economy. A survey of small business owners by MIT indicated that grants and financial incentives were more critical to main street businesses than providing technical assistance or direct programmatic support.²⁰

Many local governments developed small business grant programs during the pandemic designed to provide much needed support for businesses struggling with declining revenues due to decreased consumer spending. Continuing and adapting grant and/or loan programs to continue post-pandemic can help support small businesses into the future.

Providing support in connecting small business owners to traditional and non-traditional forms of financial capital can also help build internal capacity for small businesses, especially for women and BIPOC-owned businesses that might be disconnected from resources. The pandemic highlighted the challenge to connect businesses with federal grant and loan programs when they have limited relationships with existing financial institutions. Helping businesses build these connections can help prepare them for both planned growth that might require additional capital and future economic shocks.

Recommendation 3: Collaborative Small Business Support Systems

While access to capital may be the critical element allowing small businesses to thrive in a changing economy, providing wraparound support services can help them adapt to future economic shocks. Downtowns and main streets are the ideal places to build supportive systems

¹⁸ [McKinsey and Company, *Black-owned businesses face an unequal path to recovery*](#)

¹⁹ [Guidant Financial, *Entrepreneurs of Color – 2021 Trends*](#)

²⁰ [McKinsey and Company, *Black-owned businesses face an unequal path to recovery*](#)

designed to connect new entrepreneurs with the resources needed to advance their businesses. Advanced revitalization and reuse of downtown spaces can include the development of coworking, incubator, or accelerator spaces that can foster innovation and support businesses at all stages of development.

These spaces can also attract remote workers. As discussed earlier, remote work for those in rural areas may involve a transition to jobs not physically located in the region. The flexibility that remote work provides can allow greater access to jobs for rural residents. This can also potentially attract residents to the community that might not have previously been able to locate there due to the lack of jobs in specific industries.

Creating space for these residents to work within the community provides not only practical support but can foster a deeper connection to the community and generate activity within the downtown area. This can reinforce community revitalization efforts by building a more thriving main street environment.

All of this work is dependent on increased levels of planning designed to help rural communities prepare for and adapt to future economic shocks. Detailed assessments of the types of space needed as the economy evolves is a critical component of this work. This planning should include not only data analysis of trends in the local economy but also comprehensive engagement with the community to ensure the downtown continues to serve existing and future residents.