Rural Development
July 2006

I. Introduction

This paper is the third in a series of briefing papers that assess general themes advanced at the 2007 Farm Bill Forums held during 2005 by Secretary Mike Johanns as well as related issues that have emerged in recent months. This paper describes the current state of rural development, discusses and evaluates current key rural development programs available to communities and individuals through the Department of Agriculture (USDA), and concludes with a discussion of general policy alternatives. The alternatives represent generalized approaches to addressing some of the key concerns that have been raised with regard to rural development. The alternatives are not recommendations but are presented for further discussion for the 2007 Farm Bill.

II. Background: Rural Development, What Is It and Where Are We Today?

What is Rural Development?

Rural development is the improvement in overall rural community conditions, including economic and other quality of life considerations such as the environment, health, infrastructure, and housing. For most small communities, this improvement involves population and employment growth, however, such growth is neither a necessary nor a sufficient condition for rural development.

What is the Current State of Rural Development?

This report uses the Office of Management and Budget (OMB) 2003 nonmetro county definition to describe rural people and places. OMB designates as metropolitan (metro) areas those counties that contain an urbanized area (an urban nucleus of 50,000 or more) and outlying counties with significant (at least 25 percent of workers) commuting of workers either to or from the urban nucleus. All other counties are nonmetropolitan (nonmetro) counties.

Rural-Urban Differences. Rural America is home to about 50 million people and covers 75 percent of the total land area of the nation. Rural America is extremely diverse in geography, population density, and economic and social assets. Rural America has also long lagged behind urban America on key indicators of economic well-being, having higher poverty rates, lower incomes, and lower rates of employment growth. In recent years, the rural-urban gap for some of these indicators has diminished, however the gaps remain. These differences in economic, environmental, and social conditions have motivated Federal programs to specifically help address the needs of rural residents and communities.

Employment has grown in both metro and nonmetro areas in recent years. However, nonmetro employment has grown at a slightly slower rate (Table 1). Since 1990, the employment growth

Table 1. Rural-Urban Differences

Indicator	Nonmetro	Metro	Gap
Annual employment growth	Percent		Percentage Points
1990-2005	1.0	1.2	0.2
2000-2005	0.4	0.7	0.3
2004-2005	1.4	1.8	0.4
Unemployment rate, 2005	5.4	5.0	0.4
Real per capita income	2004 Dollars		Percent
1990	21,204	29,671	28.5
2000	24,148	34,540	30.1
2004	25,104	34,668	27.6
Poverty rate	Percent		Percentage Points
1990	16.3	12.7	3.6
2000	13.4	10.8	2.6
2004	14.9	12.3	2.6
Adults 25 and older with college degree	Percent		Percentage Points
1990	12.4	22.1	9.7
2000	15.1	26.4	11.3

Source: ERS calculations based on data from the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the Bureau of the Census.

in nonmetro areas has averaged 1 percent per year compared to 1.2 percent in metro areas. Metro and nonmetro unemployment rates have also been roughly comparable in recent years, with unemployment rates of 5.4 percent for nonmetro and 5.0 percent for metro in 2005.

Average income levels exhibit more significant rural-urban differences. In 2004, per capita nonmetro incomes averaged $25,104, 27.6 percent below the $34,668 average for metro areas. This income gap has fluctuated over time. In 1990 it was 28.5 percent, while in 2000 it was 30.1 percent. However, both metro and nonmetro areas have seen their average incomes rise over time in real (inflation adjusted) dollars. The average income levels in metro and nonmetro areas are not adjusted for cost of living differences. Rural areas are believed to have a cost of living advantage over urban areas. Although there is no generally accepted method for making such adjustments, the relatively higher cost of living in urban areas would cause the rural-urban gap to diminish if such adjustments were made. Nevertheless, poverty varies across the United States and rural America has many persistently-poor areas.

During the 1990s, real per capita income rose about 14 percent in nonmetro areas, and despite slow U.S. economic growth in the early 2000s, nonmetro real income levels rose an additional 4 percent from 2000 to 2004. Along with the rise in incomes, the percentage of nonmetro persons living in households with incomes below the poverty threshold declined. In the 1990s, the nonmetro poverty rate declined markedly from 16.3 percent to 13.4 percent. With the slow U.S.

economic growth in the early 2000s, however, nonmetro poverty increased, and by 2004 (the most recent data) the nonmetro poverty rate was at 14.9 percent. While this is still 2.6 percentage points higher than in metro areas, the nonmetro-metro poverty gap has declined since 1990 when the difference was 3.6 percentage points.

One of the reasons for these continuing rural-urban differences involves education. Rural workers tend to be less educated than urban workers, a distinct disadvantage at a time when the U.S. economy has been moving toward more high-skilled, service-based jobs. While the rural workforce has improved its educational attainment over time, with the percentage of adults age 25 and older with college degrees increasing from 12.4 percent in 1990 to 15.1 percent in 2000, the urban-rural gap has also grown from 9.7 percentage points in 1990 to 11.3 percentage points in 2000.

Conditions Vary by Type of Place. Since rural areas are no longer dominated by agriculture, the rural economy has become highly diverse. In 1950, about 40 percent of rural people lived on a farm and one-third of the rural workforce worked in production agriculture. Today, less than 10 percent of rural people currently live on a farm and only 6.5 percent of the rural workforce is directly employed in farm production. While the dominance of agriculture in the rural economy has declined sharply over the past 50 years, one in five rural counties continues to rely heavily on farming for employment or earnings (Figure 1). Located mainly in the Great Plains, 78 percent of these 403 farm-dependent counties experienced a loss in population from 2000 to 2005. Research conducted by USDA's Economic Research Service (ERS) found these places are not losing as many farm jobs as in previous years. Their main problem in generating population growth has been inadequate natural amenities and the lack of nonfarm employment opportunities, making it hard to attract or retain young people.

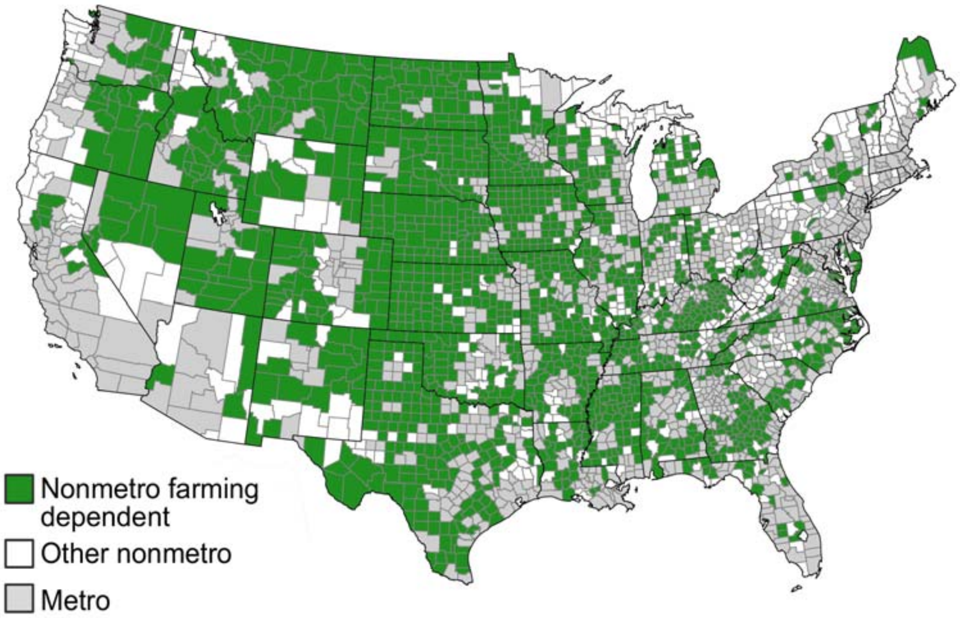
Manufacturing now directly accounts for over a quarter of rural private sector earnings. More than one in every four nonmetro counties depends primarily on manufacturing for its economic base. Many of these counties are in the South, where wages and education levels tend to be relatively low. Rural manufacturing employment declined during and after the last economic slowdown. Although it appears to have stabilized in the last few years, concerns remain over possible future employment losses from global competition, especially related to textile and apparel plants, many of which are in the South.

Rural recreation counties, which are generally located near mountains, lakes, beaches, and other desirable natural amenities, have had rapid growth in employment, with improvements in local income levels, earnings, and other measures of socioeconomic well-being. ERS has identified 334 of these rural recreation counties as of 2002. Retirement-destination counties and counties adjacent to metropolitan areas have also experienced relatively high rates of growth. The location of rural recreation and retirement-destination counties are presented in Figure 2.

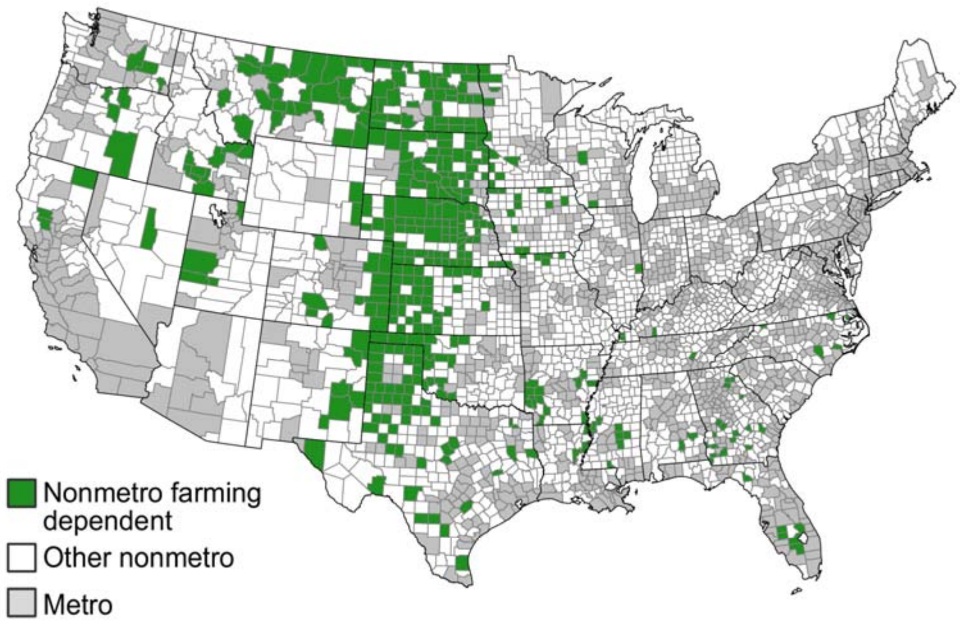
Rural Population Growth and Migration Patterns. In recent years, rural population growth has slowed after strong growth in the 1990s. The U.S. nonmetro population increased by over 10 percent from 1990 to 2000, substantially above the 3 percent growth in the previous decade. From 2000 to 2005, the nonmetro population grew an additional 2.2 percent, reaching 49.9 million in 2005. This growth rate is about a third lower than that of the previous five years, 1995-2000, and significantly lower than the 6 percent growth in metro areas. However, different sub-population groups have grown at different rates. For example:

Figure 1. Farming-Dependent Counties in 1950 and 2000

Nonmetro farming-dependent counties, 1950



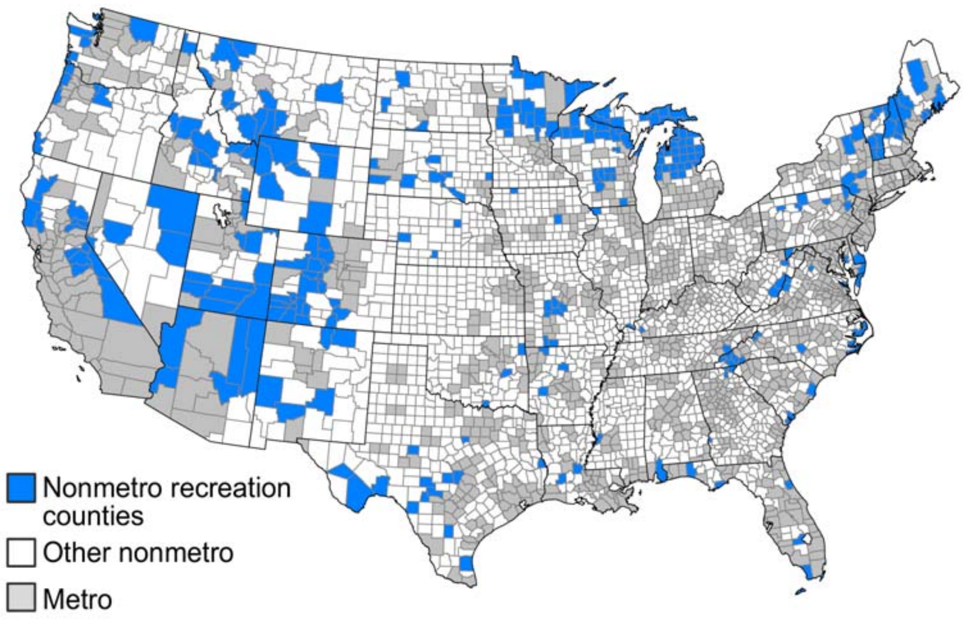
Nonmetro farming-dependent counties, 2000



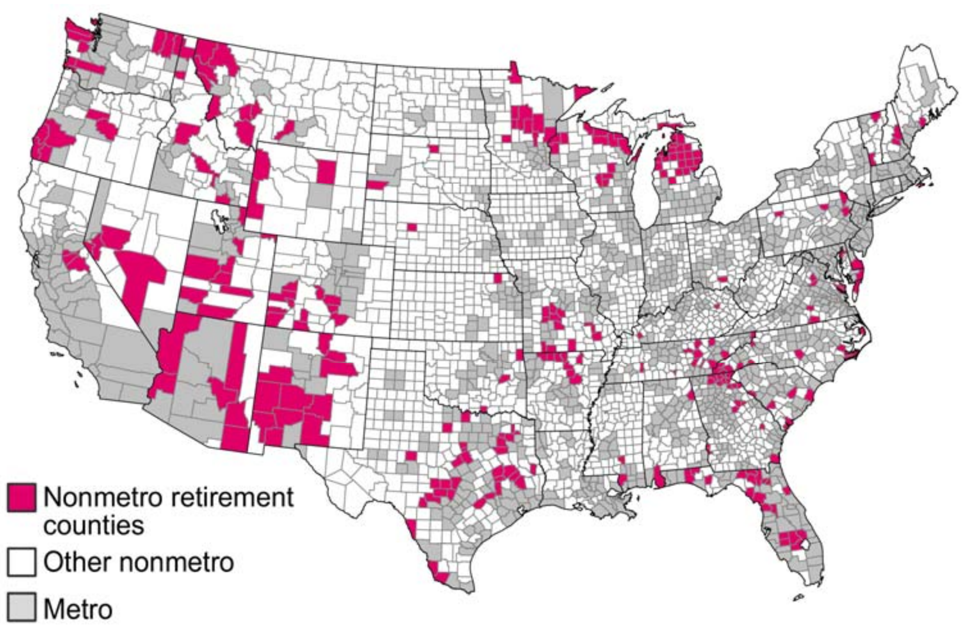
Source: Farming-dependent counties are defined by ERS. Metro/nonmetro status is based on the Office of Management and Budget (OMB) June 2003 classification.

Figure 2. Recreation and Retirement Counties

Nonmetro recreation counties



Nonmetro retirement counties



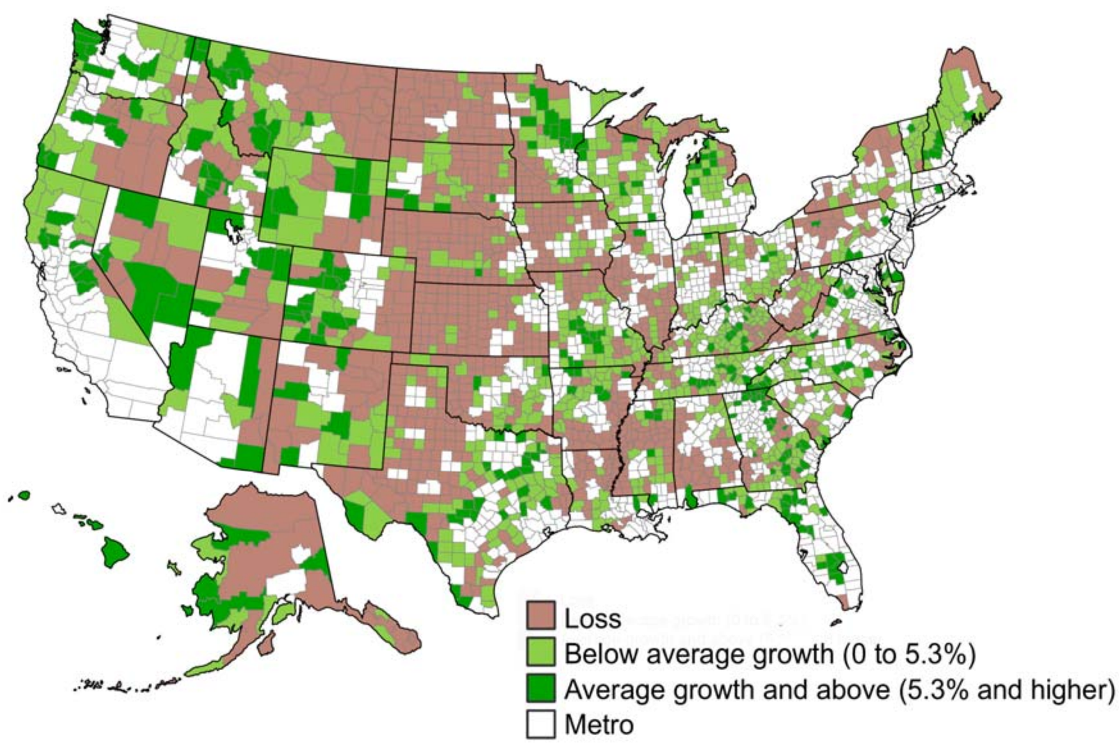
Source: ERS County Typology Codes, 2004. Metro/nonmetro status is based on the Office of Management and Budget (OMB) June 2003 classification.

- Since 2000, the growth in the nonmetro population of 1.1 million has been evenly divided between natural increase—an excess of births over deaths (541,000)—and net immigration (545,000). Three-fifths of the in-movement was from abroad. The rest came from metro areas, as more people have moved to rural and small town places than away from them.

- Nonmetro population growth was higher among Hispanics than among non-Hispanic Whites, both in number (390,000 compared with 361,000) and rate (15 percent versus 1 percent). Asians shared a similarly rapid rate of growth but on a smaller population base, so the numeric change was smaller (47,000) than for either Whites or Hispanics.

- Population fell in about half of the nonmetro counties from 2000 to 2005. Declining counties tend to be lightly populated and 30 percent of these counties are in farm-dependent areas, located mainly in the Great Plains and western Corn Belt, and also in mining areas and some Southern manufacturing areas (Figure 3).

Figure 3. Nonmetro Population Change, 2000-05



Source: Prepared by ERS using Census Bureau 2005 population estimates.

While the word "rural" is used here to describe only nonmetropolitan counties, millions of metropolitan residents living in open country and small settlements within metro areas are also defined as rural according to the Census definition. The Census Bureau considers open countryside and settlements with a population of less than 2,500 as rural; urban areas are larger (more populated) places with densely settled areas around them.

Slightly more than half of the Census-defined rural residents now live in metro areas. Metro counties that are primarily rural in population have been growing more rapidly than other metro counties in recent years.

A comparison of Figure 3 to Figures 2 and 1 shows the largest growth in rural population has occurred in areas which rely on non-traditional income sources. These include areas of the country that have either capitalized on natural resources and climate for recreation and retirement or their proximity to urban areas. Alternatively, those regions of the country that rely on farming, lack urbanization, or are remote from large cities have seen declines in population.

Rural areas, especially those near urban areas, also continue to experience changes in land use that changes the character of the rural areas. The National Resources Inventory data indicates that between 1982 and 2001, about 34 million acres—an area the size of Illinois—were converted to developed uses. The rate of development between 1997 and 2001 averaged 2.2 million acres per year. This was the same average rate experienced between 1992 and 1997, but up from 1.4 million acres per year in the previous decade (1982 - 1992). Between 1992 and 2001, about 6 million acres (28 percent) of the new land developed was prime farmland.

Rural Development and Agriculture. At one time, many viewed rural development and farm policy as synonymous. Over the past 60 years, rising productivity of farm labor has released labor to work in the growing industrial and service sectors of the economy. As we have seen, agriculture is no longer a dominant segment of the rural economy. Because farming is not the primary source of jobs and income in many rural areas, farm payments and other policies that affect farms generally have little noticeable impact on rural areas as a whole. There are some counties where reliance on farming is still high, and government policies can have noticeable impacts in those areas. However, even in farming-dependent counties, payments to farms are less than one-fifth of all Federal assistance in those counties.

While agriculture is a small part of the rural economy, farm households have become increasing dependent on off-farm income. In 2003, 68 percent of farm households reported that the operator or spouse or both worked off the farm. In aggregate, almost 89 percent of U.S. farm household income reported in 2003 came from off-farm sources. Dependence on off-farm work has led many to observe that agriculture is far more dependent on the rural economy than the rural economy is on agriculture

III. Federal Government Approaches to Rural Development

USDA is the lead Federal agency for rural development as designated by the Rural Development Policy Act of 1980. However, many other Federal agencies have significant rural development programs. A 2006 report by the Government Accountability Office found that while the USDA had most programs providing economic development assistance for rural areas, the U.S. Department of Transportation provided the largest amount of assistance. Many Federal agencies have some assistance aimed at rural development including the Small Business Administration; the Environmental Protection Agency; and the Departments of Housing and Urban Development, Labor, Commerce, Health and Human Services, and Homeland Security. Because the focus of this paper is on providing information for consideration in the 2007 Farm Bill, we focus only on those programs within USDA.

Rural Development Program Overview

USDA's rural development activities focus on financing housing, community facilities, and community water and wastewater systems; providing financial and technical assistance for business development, including in the area of alternative energy; expanding the availability of broadband; financing generation, transmission, and distribution of electricity; providing payments and technical assistance to develop, maintain, and conserve natural resources; and conducting research to study how agricultural products can be processed and developed for new uses, including for the production of alternative energy sources.

Types of Assistance

The instruments used by USDA to stimulate rural development are just as diverse as the goals of USDA's rural development programs. Current USDA programs involve grants, direct loans, loan guarantees, and direct assistance. The instruments used by USDA include:

- **Grants made for specific purposes.** Grants do not require repayment and are typically evaluated on criteria established by law or regulation, including limits on the grant amount. For example, the Rural Development, Business and Cooperative Programs (BCP) makes grants under the Rural Business Enterprise Grants (RBEG) program to public bodies, private nonprofit corporations, and Federally-recognized Indian Tribal groups to finance and facilitate development of small and emerging private business enterprises located in any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such a city or town. The funds are used for the financing or developing small and emerging businesses.

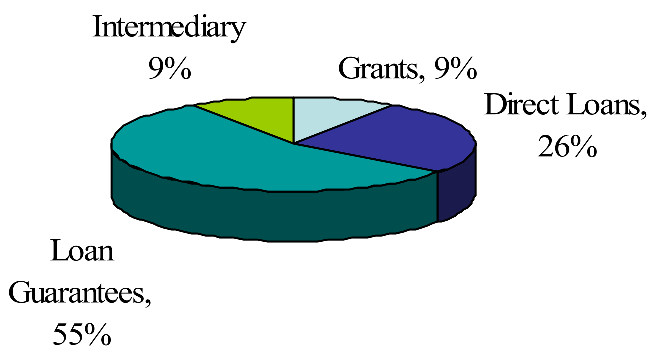
- **Direct loans for specific purposes.** Direct loan eligibility and conditions for repayment and satisfaction are established by USDA program. Applications are evaluated on criteria established by law or regulation, including limits on the loan amount. An example of direct loans made by USDA is the Housing and Community Facilities Programs Direct Loan Program (DLP). Most of the loans made under the DLP are to families with income below 80 percent of the median income level in the communities where they live. Direct loans may be made for purchasing an existing home or for constructing a new home.

- **Loan guarantees to lenders.** Loan guarantees for repayment of a portion of loans provide assistance to the borrower. Loan guarantees may depend on whether a borrower can obtain loans without the guarantee. Applications are evaluated on criteria established by law or regulation, including any limitations on the amount of the loan guarantee. For example, the Business and Industry (B&I) Guaranteed Loan Program provides guarantees up to 80 percent of a loan made by a recognized commercial or other authorized lenders in rural areas. Loan guarantees to lenders expands the lending capability of private lenders in rural areas.

- **Intermediation.** USDA also acts as an intermediary, supplying funds and assistance support to segments of the credit industry providing services to defined participants. For example, under the Rural Economic Development Loan Program, USDA provides zero-interest loans to electric and telephone utilities. The utility is then required to re-lend, at zero-percent interest, the loan proceeds to an eligible third-party recipient for the purpose of financing job creation projects and sustainable economic development within rural areas.

The allocation of USDA resources among the various delivery systems is shown in Figure 4. The estimates presented in Figure 4 represent the share of program level financial assistance (e.g., loan principal on guaranteed loans). Program level assistance represents the gross value of financial assistance USDA provides the public. Because many rural development programs include loans and loan guarantees, program level assistance is greater than actual budget authority or outlays. For example, for fiscal year (FY) 2006, the program level assistance for the USDA Rural Development mission area is estimated to be about $18 billion, compared with budget authority of $2.6 billion.

Figure 4. Methods of Assistance of USDA Rural Development Mission Area Programs, FY 2006 [1/]



[1/] Shares are based on program level of assistance.

Loan guarantees represent over 50 percent of the total USDA rural development program level assistance. Direct loans represent about 26 percent of USDA program level assistance, and about 9 percent of USDA program level assistance goes toward supporting its role as an intermediary and in the form of grants.

USDA also provides direct assistance through research, technical assistance, and development assistance. Direct assistance services are provided either directly by USDA or through USDA funding to third party organizations such as universities that offer the services to the ultimate recipient. Most program areas have some component of direct assistance. Assistance may range from services given to individual recipients to services available to rural areas or the general public in educational settings. For example, USDA's Cooperative State Research, Education, and Extension Service (CSREES) Regional Rural Development Centers (RRDC) link the research and educational outreach capacity of the nation's public universities with communities, local decision-makers, entrepreneurs, families, and farmers and ranchers to help address a wide range of development issues. In some cases, direct assistance may take the form of cost-share arrangements, where USDA provides funds only if the private sector or State government provides additional funds.

Types of Programs

USDA's rural development programs mainly fall in the Rural Development (RD) mission area but other USDA mission areas also contribute to rural development. For example, the RD mission area can be divided into eight program groups made up of nearly 80 activities organized into about 40 programs. The Research, Education and Economics (REE) mission area which includes the Agricultural Research Service (ARS), the Cooperative State Research, Education, and Extension Service (CSREES) and the Economic Research Service (ERS) also aids rural development through research, education, and extension.

The USDA conservation and farm price and income support programs also support rural development through investment in rural economies. In addition, conservation programs support rural development by protecting and enhancing environmental amenities which can attract amenity-oriented businesses to rural areas, encouraging sustainable production practices that help ensure the long-term economic viability of rural areas, and providing direct rural development assistance to rural areas. The Natural Resources and the Environment (NRE) mission area, which includes the Natural Resources Conservation Service (NRCS) and the Forest Service (FS), administers over 25 USDA conservation programs. In the Farm and Foreign Agricultural Services (FFAS) mission area, the Farm Service Agency (FSA) administers farm price and income support programs, the Conservation Reserve Program, and farm operating, farm ownership, and emergency loan programs while the Risk Management Agency (RMA) administers crop insurance. This paper only discusses those USDA programs not addressed in the first two USDA Farm Bill Theme Papers. For details on USDA farm programs, see the *Risk Management* Farm Bill Theme Paper and for details on USDA conservation programs, see the *Conservation and the Environment* Farm Bill Theme Paper. Also, we do not consider FSA direct and guaranteed farm ownership, operating loans, or emergency loan programs.

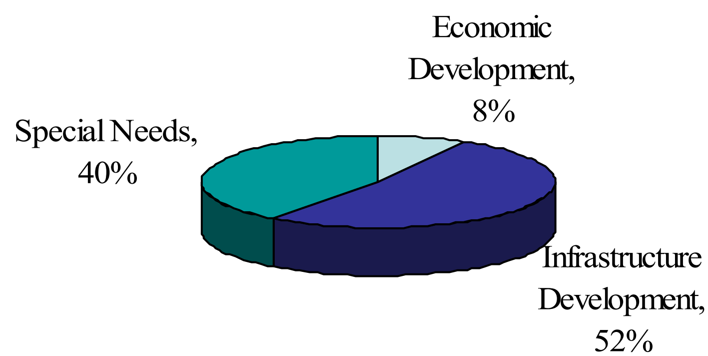
To facilitate an overview of the types of rural development programs, we group the programs under four broad categories:

(1) economic development,
(2) infrastructure development,
(3) special needs programs, and
(4) natural resource enhancement.

These development activities are interrelated. Programs aimed at economic development bring new business and employment to rural areas and offer new opportunities for income enhancement. Enhanced infrastructure development programs are designed to counter deficiencies caused by rural poverty or to equalize amenities with metro inhabitants. Special needs programs are designed to provide individuals and communities without sufficient income access to some level of basic services such as housing, sanitation, or health care. Natural resource enhancement programs are focused on improving the services provided by the natural environment such as improving water quality and recreational opportunities.

The allocation of USDA resources among the various rural development activities is shown in Figure 5. Over one-half of USDA rural development program level assistance is directed toward infrastructure development. This includes programs devoted to providing electricity, improving water and waste water facilities, and telecommunications. About 40 percent of USDA rural development program level assistance is devoted toward special needs, such as housing and community facilities. Less than 10 percent of USDA rural development program level assistance is aimed at economic development. An overview of USDA RD programs, their objectives, uses, and target population can be found in the appendix to this paper.

Figure 5. Category of Assistance of USDA Rural Development Mission Area Programs, FY 2006 [1/]



[1/] Shares are based on program level of assistance.

Economic Development. Economic development is a change in the economic activities of a community or area that generates sustained income and employment opportunities. Not only is such development self-sustaining, it creates multiplier effects on other businesses as well. It leads to further growth along with accompanying income and employment that enable individuals to purchase housing and services otherwise beyond their reach. Economic development generates the resources, through taxes and other means, needed to build and maintain the kind of infrastructure that would otherwise require assistance.

Business. The driving force in rural life and rural development, however defined, is associated with business enterprises. Ten business programs in the RD mission area focus on strengthening business, helping entrepreneurs develop new businesses and new ideas, and maintaining the local character of such businesses. Program assistance provided through direct or guaranteed loans, grants, and technical assistance assists businesses directly or encourages business development through community service improvement. Among the business oriented programs are those that assist purchases of real estate, buildings, equipment, supplies, and working capital for qualified endeavors. Feasibility studies, startup operating costs, and other activities may be funded for educational institutions, hotels, and recreational facilities to encourage development. Business programs also include assistance, through utilities borrowers, to establish revolving loan programs, support community development, and provide technical assistance. In FY 2006, the RD mission area is estimated to provide grants, direct loans, and loan guarantees with a program level over $1.3 billion for the business and community development objectives of business programs. The largest of these programs is the B&I loan guarantee program, which provides protection against loan losses so that private lenders are willing to extend credit to establish, expand, or modernize rural businesses. Program level assistance for the B&I loan guarantee program is estimated to exceed $900 million in FY 2006.

Cooperatives and Producer Enterprises. Programs directed to agricultural producer-owned and controlled cooperative organizations deliver service through 16 assistance and grant programs. Value-added agricultural product market development grants are given directly to agricultural producers, producer groups, cooperatives, and majority-controlled producer-based business ventures to develop new markets and add value to agricultural commodities, supporting ventures in emerging markets. Other programs enable entities to develop venture capital systems for emerging rural enterprises. Cooperative programs support producer cooperatives with technical assistance, development assistance, research, and education, both for existing cooperatives and for producers organizing cooperatives. These programs do not provide funding to cooperatives. However, assistance may be provided to universities to carry on research on market structures and farmer organizations. Special organizations are established and supported at universities to provide sources of information on sustainable agricultural production and value-added agriculture. In FY 2006, the program level assistance for cooperatives and producer enterprises is expected to total about $110 million.

Energy. A new and growing area for USDA is in alternative energy and energy conservation. For example, Section 9006 of the 2002 Farm Bill authorizes loans, loan guarantees and grants for farmers, ranchers, and rural small businesses to produce alternative energy or makes changes to their operations that conserve energy. Most of the program level for the 9006 Program is for loan guarantees, which has a program level of over $150 million in FY 2006. USDA has a range of other loan, research, and procurement programs that support alternative energy and bio-products. Energy will be the subject of the next Farm Bill theme paper.

Infrastructure Development. Improvements supported by these programs enhance communities' abilities to generate economic development because they provide the infrastructure needed to attract capital, entrepreneurs, and skilled labor, including blue collar and white collar workers and other professionals. Examples include modernized community facilities and systems, including broadband, access to expert medical advice, and educational opportunities.

Electricity. The RD mission area offers direct loans and loan guarantees to electric utilities serving customers in rural areas through ten programs. USDA is the majority note-holder for nearly 750 electric systems. Assistance is available through various programs to finance electric distribution and sub-transmission facilities, build bulk transmission and generation facilities, acquire equipment, construct or improve facilities, and associated activities. Ninety-six percent of the energy companies receiving assistance are non-profit cooperatives owned and operated by the rural residents they serve. Technical assistance and training are also funded. Financing assistance is offered for solar, wind, hydropower, biomass, and geothermal energy generation under newer programs. The RD mission area also provides assistance to rural communities with extremely high energy costs. In FY 2006, electricity programs are estimated to provide a program level of more than $5.4 billion, including technical assistance.

Water and Waste Disposal. The RD mission area makes direct loans and grants to develop drinking water and wastewater systems in rural areas through eight programs. Programs also include solid waste disposal and storm drainage assistance. Financial assistance is offered to construct and improve water and waste facilities as well as design and provide technical assistance to local and regional governments. In FY 2006, these programs are estimated to have a program level of nearly $1.6 billion in grants, loans, and loan guarantees to public entities and Native American Tribes.

Telecommunications. The RD mission area provides loans and loan guarantees to telecommunications providers throughout rural America. Assistance is provided to build, acquire, extend, improve, and refinance telephone infrastructure. Telecommunications have changed dramatically in the last two decades and USDA has responded through new programs. A new rural broadband access program provides loans in rural areas without broadband services. Educational and health care needs of rural America are also supported by loans and grants under the distance learning and telemedicine programs. Equipment, land, facilities, and other needs are met by an array of funding activities. In FY 2006, the program level assistance for the various telecommunications programs is estimated at $1.3 billion in grants, direct loans, and loan guarantees.

Special Needs. Special needs programs are intended to raise the quality of life for rural residents by providing access to basic individual and community services. One objective of assistance is to enable individual rural residents with comparatively inadequate income to maintain, at least at a minimal level, basic needs such as housing, sanitation, and health care. Programs in this category provide resources directly to individuals in need or make resources available for individuals to draw upon.

Another group of programs address what may be viewed as effects of the prevalence of low income in some rural areas at the community level. This may be evidenced by inadequate public services, including the lack of adequate health care facilities. Programs that alleviate housing, sanitation, health care, and other such needs that are unmet because of low income levels are included in this category of programs.

Housing. Sixteen programs implement the RD housing mission. Primarily through grants, loans, and loan guarantees, USDA assistance addresses several needs in rural housing. The housing programs help finance new or improved housing for low- to moderate-income families and individuals. Grants, direct loans, and loan guarantees in several programs are used by individuals to build, purchase, or repair their homes and remove health or safety hazards. In others, rental subsidies are paid directly to renters meeting certain qualifications. Programs address the special needs of agricultural workers. Funds in other programs can be used to build multi-family rental housing; buy and develop building sites with associated roads, streets, and utilities; and for rehabilitation of multi-family dwellings. Programs address both single-family housing needs and multi-unit facilities. A program level of $7.4 billion for FY 2006 is estimated for grants, direct loans, and guaranteed loans for rural housing and related purposes. Several programs also include technical and supervisory assistance for mutual self-help efforts. Housing programs are authorized by the Housing Act of 1949 which is under the jurisdiction of the Senate Banking Committee and the House Financial Services Committee. Neither of these Committees directly participates in the development of Farm Bills, so these programs may not be the subject of upcoming Farm Bill debate.

Community Facilities. Seven programs in the RD mission provide necessary community services for those living in rural areas. Direct loans and guarantees to third party loans are used to develop essential community facilities in rural areas. Funds may be used to construct, enlarge, or improve more than 80 types of community facilities for health care, public safety, public transportation services, among others. Programs of technical assistance are designed to help recipients develop or increase their capacity to undertake community-based projects in rural areas. In FY 2006, the community facilities programs are estimated to provide a program level of $541 million for essential community facilities for public use.

Natural Resource Enhancement. Enhancing the natural resources in rural areas has a positive effect on rural development by attracting amenity-oriented businesses, providing recreational and tourism opportunities, encouraging sustainable agricultural and forestry production practices that help ensure the long-term economic viability of rural areas, and providing direct rural development assistance to rural areas. A study by ERS found that population change in rural counties since 1970 has been strongly related to their attractiveness as places to live. Natural aspects of attractiveness include: a mild climate, varied topography, and proximity to water.

Encouraging Sustainable Agricultural and Forestry Practices. Another aspect of USDA conservation programs is they contribute to long-term economic viability by conserving natural resources. Programs that contribute to the sustainability of rural areas include the NRCS Environmental Quality Incentives Program (EQIP), Conservation Security Program (CSP), Wildlife Habitat Incentives Program (WHIP), and Wetlands Reserve Program (WRP); and the FSA Conservation Reserve Program (CRP), including the Conservation Reserve Enhancement Program (CREP). The NRCS Resource Conservation & Development (RC&D) Program provides technical assistance to communities within USDA designated multi-county areas for land conservation, land management, and water management. Other programs such as NRCS's Farm and Ranch Lands Protection Program (FRPP), Grassland Reserve Program (GRP), along with the FS Forest Legacy Program (FLP) all support the purchase of conservation easements that protect farm, ranch, and forest lands from conversion to non-agricultural or non-forestry uses. In addition, programs such as the FS Forest Stewardship Program (FSP) provide technical assistance to private landowners to improve forest management using the authorities provided by the Healthy Forests Restoration Act of 2003 (HFRA) to work with communities to develop Community Wildfire Protection Plans (CWPP). CWPP reduce wildland fire hazards in areas surrounding communities.

Providing Recreational and Tourism Opportunities. Tourism is the third largest industry in the United States. The National Survey on Recreation and the Environment estimated that 63 million Americans visited farms in 2000-01 and spent an average of $45 per person. The survey indicated that 86 percent of the visitors to rural areas took the trip to enjoy the scenery. The growth in farmers markets (over 3,300 in 2003) is another indicator of the interest the public has in rural areas. In response to the public's interest in farm related recreation, during the past two decades, landowners have shifted to alternative enterprises and agri-tourism to supplement their income. In addition, the FS estimates that annual visits to National Forest Service (NFS) lands exceeds 200 million and annual visits to viewing corridors approaches 175 million.

Distribution of Assistance by Location and Need

Most USDA RD mission area programs have eligibility requirements defined by recipient location or the location of services provided by recipients, a natural consequence of the focus on economic opportunities and improved quality of life in rural America. As a result, most, though not all, programs in the RD mission area are targeted to geographic areas. In addition, many programs either restrict eligibility to lower income individuals or give preference to low income places when awarding grants or loans. This generally results in low income places receiving more assistance, on a per capita basis, than other places. Table 2 compares 2001 assistance data of persistently poor nonmetro counties with nonmetro counties in general. Persistently poor nonmetro counties tend to benefit more from grants and direct loans and less from guaranteed

Table 2. Assistance To Persistently Poor Counties, 2001

Selected USDA Programs	All Nonmetro Counties	Nonmetro Poverty Counties
	Dollars per capita, 2001	
Economic Development	**27.45**	**23.08**
Business		
Intermediary Re-lending Program Direct Loans	0.52	0.92
Business and Industry Direct Loans	0.64	0.98
Business and Industry Guaranteed Loans	25.09	19.63
Rural Business Enterprise Grants	0.60	1.20
Rural Business Opportunity Grants	0.12	0.14
Cooperatives and Producer Enterprises		
Rural Cooperative Development Grants	0.48	0.21
Infrastructure Programs	**18.01**	**24.78**
Water and Waste Disposal System Direct Loans	9.66	11.79
Water and Waste Disposal System Grants	7.38	11.92
Water and Waste Disposal System Guaranteed Loans	0.05	0.02
Section 306C Water and Waste Disposal Grants	0.39	0.55
Technical Assistance and Training Grants	0.19	0.00
Solid Waste Management Grants	0.03	0.02
Emergency Community Water Assistance Grants	0.31	0.48
Special Needs	**51.23**	**49.68**
Housing		
Farm Labor Housing Direct Loans	0.19	0.16
Farm Labor Housing Grants	0.01	0.02
Low Income Housing Direct Loans	9.17	11.03
Low Income Housing Guaranteed Loans	23.95	12.63
Rural Rental Housing Loans	0.93	1.13
Rural Rental Assistance Payments	8.57	13.19
Very Low-Income Housing Repair Direct Loans	0.45	0.90
Very Low-Income Housing Repair Grants	0.45	0.82
Rural Self-Help Housing Technical Assistance Grants	0.14	0.15
Rural Housing Preservation Grants	0.10	0.15
Section 504 Housing Repair Grants – Natural Disaster	0.03	0.10
Section 502 Housing Direct Loans – Natural Disaster	0.07	0.10
Community Facilities		
Community Facility Direct Loans	4.34	3.49
Community Facility Grants	1.09	3.04
Community Facility Guaranteed Loans	1.34	2.54
Other Special Needs Programs		
Empowerment Zones Program Grants	0.04	0.14
Rural Economic Development Direct Loans	0.09	0.09
High Energy Cost Rural Communities Grants	0.27	0.00

Source: ERS calculations, using Consolidated Federal Funds Reports data, Bureau of the Census.

loans, since the repayment burden for guaranteed loans for poor borrowers is greater. For example, per capita assistance on low income housing guaranteed loans in all nonmetro counties averaged $23.95 in 2001 compared to only $12.63 in persistently poor nonmetro counties.

Alternatively, per capita rural rental assistance in all nonmetro counties averaged $8.57 in 2001 compared to $13.19 in persistently poor nonmetro counties. Some guaranteed loan programs are also in more demand in high growth areas, which are not generally poor.

Assistance also varies by type of program. Per capita assistance from programs aimed at increasing economic development, such as business programs, was higher in all nonmetro counties compared to persistently poor nonmetro counties, while per capita assistance from programs aimed at improving infrastructure were greater in persistently poor nonmetro counties compared to nonmetro counties in general. The differences in assistance by type of program reflect both the types of assistance mechanisms available and the diversity in needs for various services.

IV. Economic and Policy Issues for Rural Development Programs

This section provides a general assessment of the support provided by current programs using several evaluation criteria: furthering rural development, targeting of funds, program cost, and implications for U.S. commitments under the World Trade Organization (WTO). However, there is no unique measure for rural development. We evaluate how current USDA programs further rural development within two goals: economic development and improving the quality of life in rural communities. This section draws on conclusions based primarily on two sources of information: the USDA's FY 2005 Performance and Accountability Report and the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) reviews. While we do not evaluate every USDA program, our evaluation covers a majority of USDA program level assistance for rural development.

Economic Development

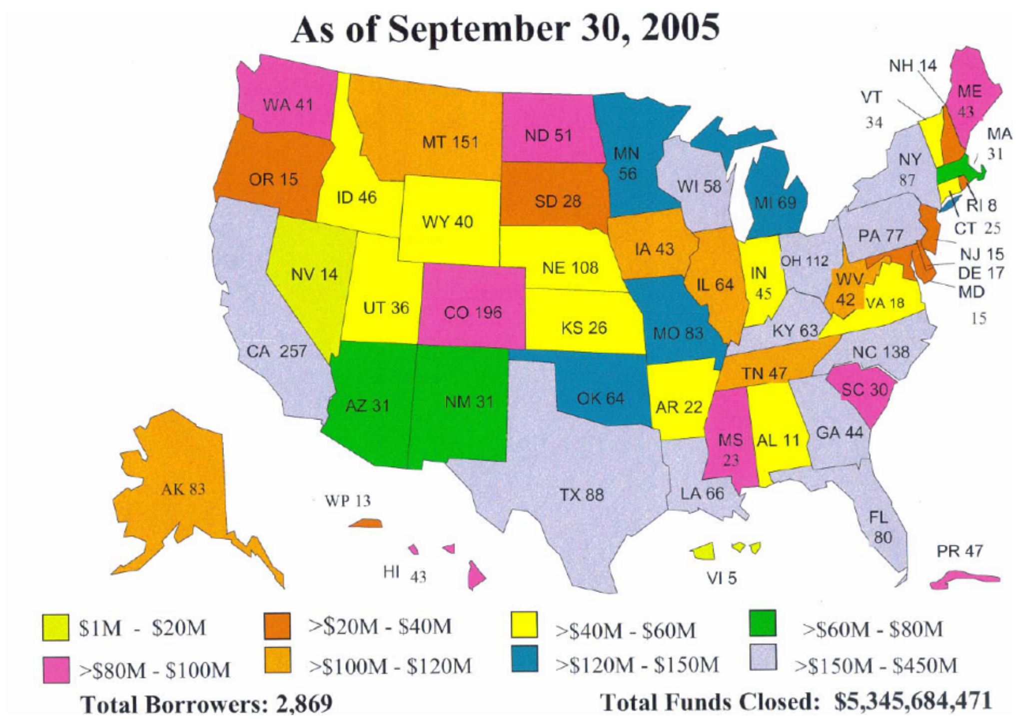
Economic development programs fall generally into two categories: (1) those that focus on enhancing entrepreneurship through direct assistance, training, information dissemination, and enterprise development and (2) those that enhance capital formation in rural communities. USDA is developing a pilot information system, the Socio-Economic Benefit Assessment System (SEBAS) to enhance its ability to measure program-investment effectiveness. SEBAS, which uses detailed information about loan or grant awards, will enable USDA to measure the direct and indirect impacts of program assistance on local and regional economic performance, and the quality of life in rural areas.

Business. The RD mission area estimates that in FY 2005 its business programs created over 73,000 jobs and "impacted" over 12,000 businesses. The largest business program, in terms of program level assistance, is the B&I loan guarantee program. The B&I program represented about 80 percent ($675 million) of the program level assistance the RD mission area allocated to business programs in FY 2005. The program provides guarantees up to 80 percent of a loan made by a commercial lender. The primary purpose of the B&I program is to create and maintain employment and improve the economic climate in rural communities. The capital formation combined with technical assistance and enterprise development enables businesses to start and grow, providing income and employment in rural areas.

One measure of the contribution of the B&I program toward rural development is the number of jobs created in rural areas. The B&I program counts jobs when the loan is closed, a practice also used for several grant programs. In FY 2005, the B&I program guaranteed 335 loans and is estimated to have created 4,500 jobs and saved an additional 11,000 jobs. This translates into 1 job created or saved for every $2,200 in FY 2005 budget authority. During FY 2002-05, the B&I program has guaranteed over 2,200 loans and created almost 23,000 jobs and saved almost 68,000 jobs or 1 job created or saved for every $1,500 in budget authority. In addition to direct jobs created and saved, the indirect economic benefits to the rural community through greater economic activity are estimated to be $2.50 for every dollar in guaranteed loans closed, according to U.S. Department of Labor statistics. While these measures of effect may be useful for comparing one program to another or a program over time, they are limited in that they do not provide estimates of net employment—the employment after the investment less the employment that would have occurred in the absence of the investment. The SEBAS project is designed to address this deficiency.

The B&I program is targeted to rural residents, and is further prioritized to meet the greatest need of communities suffering from out migration, persistent poverty, long-term population decline and job deterioration, natural disasters, and fundamental structural changes in its economic base. A geographic distribution of B&I loans for FY 2001-05 is presented in Figure 6, which indicates California, North Carolina, Ohio, Texas, New York, Florida, and Pennsylvania have received the largest amount of B&I assistance.

Figure 6. Distribution of B&I Loans, FY 2001-05



The FY 2005 OMB PART review for the B&I program raised a concern over the number of defaulted loans occurring in this program. National and regional economic trends are the primary influence on default rates, followed by the local business environment and finally the quality of the agency's loan underwriting. While USDA cannot control macroeconomic factors or the conditions of each rural community, it has begun strengthening loan underwriting through continuous training, as well as implementing an accreditation program. The results have started to appear in the form of decreasing delinquency rates.

Cooperative and Producer Enterprises. Entrepreneurship enhancement is found in several programs. The most direct assistance is implemented by Cooperative Programs. Cooperative Programs staff provides information, research, technical assistance, education, and development services to rural cooperatives. Cooperative Programs focuses on entrepreneurship so the program's impact is not measurable by the funding provided to recipients.

Cooperative Programs also administers the Value Added Producer Grant Program (VAPG). In FY 2005, 172 grants were awarded that allowed individuals and businesses to assess the feasibility and take initial steps in bringing creative entrepreneurship to rural areas by developing value adding businesses for agricultural producers and producer groups. Grants in FY 2005 totaled almost $15 million to enterprises located in 42 States. Table 3 presents a regional breakdown for VAPG assistance in 2005. Data are not available on the effects of VAPG on rural growth and employment.

Table 3. Value Added Producer Grants, FY 2005

State	Number	Assistance	State	Number	Assistance
AZ	1	$30,050	MS	4	$495,000
CA	13	$1,196,630	MT	1	$59,998
CO	3	$252,000	NC	2	$179,600
CT	1	$150,000	ND	2	$250,000
DE	1	$150,000	NE	16	$1,113,540
FL	6	$613,717	NH	1	$40,362
GA	2	$168,404	NJ	3	$51,500
HI	1	$105,275	NY	3	$162,783
IA	13	$1,177,075	OH	3	$98,750
ID	2	$139,667	OK	1	$25,000
IL	4	$299,125	OR	11	$536,985
IN	3	$300,000	PA	3	$258,248
KS	7	$504,616	RI	1	$50,000
KY	1	$150,000	SD	2	$198,250
LA	1	$30,400	TN	1	$150,000
MA	1	$180,400	TX	11	$1,074,896
MD	2	$175,852	VA	2	$94,500
ME	1	$33,937	VT	1	$150,000
MI	4	$441,452	WA	6	$461,175
MN	7	$823,250	WI	5	$549,789
MO	17	$1,750,446	WY	2	$200,000
			U.S. Total	**172**	**$14,872,672**

Infrastructure Development

Electricity. Under authority of the Rural Electrification Act of 1936, USDA makes loans and loan guarantees to electric utilities to serve rural customers. These borrowers are responsible for about 40 percent of the national electric distribution grid. The rationale for government involvement is that providing electricity in rural areas is more difficult and expensive per customer than in urban areas. Working through rural cooperatives, not-for-profit associations, public bodies and for-profit utilities, RD programs provide leadership and capital to upgrade, expand, maintain, and replace the rural electric infrastructure. The electric programs help rural utilities expand and keep their technology current as well as establish new and vital electrical services.

In FY 2005, USDA's electric programs approved 111 loans to rural distribution, generation, and transmission providers, worth more than $3.3 billion. The loans connected about 195,000 new consumers and improved electrical service to about 2.4 million customers. Customers served by new or improved electric facilities totaled almost 22 million for FY 2002-05. Through program operations in past years, the Federal Government is now the majority note holder for more than 750 electric systems.

In the next 5-7 years, the United States is facing a shortage of cost effective base load electric generation capacity. RD and the rural electric industry estimated that during that time RD's current generation and transmission borrowers will need an additional $30 billion in financing from the Rural Utility Service (RUS) to meeting this demand for base load generation capacity.

The OMB FY 2005 PART review for the RUS electric loans program raised a concern that except for the Hardship loans, RUS electric loans are not provided in such a way that would focus support to areas of greatest need. In addition, loan funds do not always go to rural areas.

Table 4 presents a geographic breakdown of RUS electric loans in FY 2005. The program statistics show that the State-by-State benefits distribution varies widely among programs and depend on program objectives and targets. While identified by State, ultimate recipients, in this case consumers of electricity, will be found in many regions of rural America.

Table 4. Rural Electric Loans for Distribution Facilities, FY 2005

State	Number	Assistance	State	Number	Assistance
AL	2	$18,650,000	MT	4	$22,185,000
AK	1	$82,448,000	NM	1	$13,823,000
AR	1	$33,231,000	NY	1	$4,300,000
CO	3	$45,390,000	NC	4	$129,789,000
FL	1	$75,000,000	ND	2	$14,185,000
GA	7	$104,411,600	OH	2	$10,713,000
IL	1	$1,464,000	PA	2	$22,300,000
IN	1	$5,500,000	SC	3	$128,540,000
IA	2	$6,000,000	SD	8	$59,310,000
KS	6	$31,814,000	TN	5	$78,585,000
KY	8	$150,697,000	TX	6	$58,923,000
LA	3	$109,698,000	VA	2	$25,800,000
MI	3	$35,154,000	WI	1	$5,527,000
MN	10	$69,426,000	WY	2	$11,057,000
MO	2	$33,216,000	**U.S. Total**	**94**	**$1,387,136,600**

Water and Waste Disposal. Water and wastewater disposal loans and grants are provided to rural communities for the development, replacement, or upgrading of such facilities. The Environmental Protection Agency (EPA) found that small communities (communities with fewer than 10,000 people) with an average daily wastewater flow of less than 1 million gallons, have documented needs of approximately $16 billion for wastewater treatment over the next 20 years. The EPA also found the total rural needs for wastewater treatment systems was in excess of $50 billion over the next 20 years. In terms of infrastructure needs to insure safe drinking water quality, the EPA found that medium-size communities (3,300 to 50,000 people) will need to spend about $43 billion, in total, over the next 20 years, while small communities (3,300 and less people) will need to spend almost $31 billion, in total, over the next 20 years.

The need to improve water and waste disposal systems has created a demand for RD mission area water and wastewater disposal loans and grants with a considerable backlog of applications. Since the program's inception in 1937, water and wastewater disposal borrowers have received $29 billion in direct loans, loan guarantees, and grants. In FY 2005, 1.3 million customers were served by new or improved water and wastewater disposal systems funded by the programs. During FY 2002-05, about 3.65 million individuals have directly benefited from the programs.

The programs have become proactive in creating better output and outcome measurements. These measurement changes are designed to quantify program effects and identify solutions to serve rural residents better. In May 2005, the program revised its long-term measures to focus strategically on reducing rural peoples' exposure to water-related health and safety hazards by FY 2010. Another long-term goal will focus on maintaining sustainable water systems in rural communities. Annual analyses will track program data to improved funds leveraged for project development. The analysis will also be used to improve the loan-to-grant mix so that more loan dollars are directed to systems that can afford maximum debt capacity, and provide grant funds only to the neediest systems.

The OMB FY 2005 PART review for the Rural Utility Service (RUS) water and wastewater disposal loan program noted that RUS has also established a priority ranking system in its regulations to target financial and technical resources to the neediest communities. Water and wastewater projects designated as priorities for financial assistance are those that (1) serve low population communities, (2) address health risks, and (3) serve communities with median household income less than the poverty level or the State non-metropolitan median. The Rural Development National Office also has discretion to establish priorities for projects based on identified target areas, specific set asides, and reserve accounts. Projects may be given priority consideration for emergency conditions and cost overruns.

Telecommunications/Rural Broadband. A new broadband loan and loan guarantee program was established by the 2002 Farm Bill. The program is designed to fund the cost of constructing, improving, and acquiring facilities and equipment for broadband service in rural communities of defined size. Direct loans are made for the life of the facilities financed. Loans may be made at a 4 percent rate of interest to rural communities where broadband service currently does not exist. The number of counties receiving new service measures the extent to which the deployment of broadband is achieved.

The broadband loan program is different from USDA's traditional telecommunications program portfolio. First, even in today's technology-driven marketplace, broadband service, while critically important, still is not a "necessity-of-life" in the same manner as electricity, telephone service, and water and wastewater disposal. Second, a majority of the current applicants are "start-up" companies with little, if any, history of doing business in this industry. Third, today's marketplace is highly competitive as opposed to the traditional monopolistic environment. Finally, many applications cover multi-State service territories, rather than a single cooperative serving a single rural community. Many of the applications request to serve 50, 75, or in excess of 100 rural communities in several States. These differences, while opening the door to a greater number of potential applicants, pose new challenges for a lending program. Fewer than expected eligible and complete applications have been received in the broadband program. Program staff have revised procedures and worked with applicants to improve the efficiency of applications review and loan processing, and facilitate participation by borrowers.

Customers served by new or improved broadband facilities totaled 232,000 in FY 2005. Combining this with the two previous years in which the program operated, 988,000 customers are served with assistance of the broadband program.

While consumers have benefited from greater broadband service, the program has come under some criticism. In 2005, the USDA Office of the Inspector General (OIG) found that "During the 4 years the RUS has administered Federal loans and grants for extending broadband service to rural America, the program's focus has shifted away from those rural communities that would not, without Government assistance, have access to broadband technologies." The OIG found the change in focus occurred because (1) RUS has not satisfactorily implemented statutory requirements for serving rural instead of suburban areas, nor does it have a system that can guarantee that communities without preexisting service receive priority and (2) inconsistent administration of the programs has resulted in irregularities in approving and servicing grants and loans. OIG questioned over half of the funds reviewed.

Special Needs

Housing. Of the Nation's 2,000-plus nonmetro counties, 302 are defined as housing stressed, according to ERS's county typology. In these counties, at least 30 percent of households failed to meet widely used standards for minimum basic amenities in 2000. This categorization of household-level housing stress requires that one or more of the following conditions be met: (1) housing expense/income threshold—expenses exceed 30 percent of income, (2) crowding—more household members than rooms, (3) incomplete plumbing—home lacked necessary bathroom facilities, and (4) incomplete kitchen—home lacked essential kitchen facilities

To address these housing needs, USDA implements a wide variety of housing programs. Through its Single Family Housing Direct and Guaranteed Loan Programs, USDA helps rural families who would otherwise not be able to own homes. In FY 2005, USDA invested $4.24 billion to assist 44,224 rural families obtain homes, and an additional $66 million to rehabilitate the homes of more than 11,700 very low-income families. Minority homeownership increased by 7,605 as a result of these programs. From FY 2002 to FY 2005, financial assistance was provided to 180,284 rural households with an increase in minority homeownership of 32,875.

The average annual income for families receiving direct loans is approximately $22,200, while the average for guaranteed loans is approximately $40,627. Families obtaining repair loans had average incomes of $11,330, while elderly households receiving repair grants earned only $10,240.

While the results are somewhat dated, a 1998 study conducted by ERS regarding the RD mission area single family direct loans (known as Section 502 loans) found that borrowers from the program were under 40, had children, had low or modest incomes, had a home that is better than their previous residence, and were satisfied with their current home, neighborhood, and the Section 502 program. Most believed that, without assistance from the program, they would have been unable to afford a comparable home for at least 2 years and possibly never.

Another aspect of USDA's housing program is the rental assistance provided as part of its multi-family housing program. Rental assistance make up the difference between 30 percent of income that low-income tenants contribute toward their rent and a "basic" rent that reflects the operating costs of the project, including the project's debt servicing requirements. The assistance is linked to units in a project as long as that project remains in the program and the units are occupied by tenants who qualify for the assistance. Unlike vouchers, rental assistance cannot be retained by tenants who move. About 60 percent of the units in USDA's multi-family housing portfolio receive rental assistance payments.

Concerns have been raised regarding USDA's multi-family housing program. Most of the properties in the program were constructed between 1977 and 1990, and they are reaching the end of their normal useful life as constructed. Based on an internal study of these properties, USDA determined it was more cost effective to rehabilitate these properties than to rebuild them. For FY 2006, RD received funds to support a program level of over $150 million to start the process of rehabilitating these properties.

In FY 2004, the USDA OIG had found that USDA's Rural Housing Service (RHS) needed to do a better job of inspecting and repairing its aging portfolio of rural rental housing projects, implement wage matching to identify excessive rental assistance, and identify and prevent theft (equity skimming) of project funds. However, due to regulation changes initiated by RHS, the OIG removed this issue from its list of management challenges facing the Department.

Community Facilities. USDA provides a series of grants, loans, and loan guarantees to finance the development of facilities essential to a modern standard of living in rural communities. A wide range of public facilities and equipment can be financed by these programs including hospitals, fire trucks, police cars, child-care centers, food banks, schools, medical clinics, nursing homes, community centers, town halls, jails, and street improvements. The programs leverage Federal funds with private capital to invest in rural infrastructure, technology, and human-resource development.

In FY 2005, 12.9 million individuals were served by new or improved community facilities. USDA provided funds to construct, renovate or improve 812 essential community facilities, including 112 health-care facilities, 312 public-safety facilities, 92 educational facilities, 15 energy-related facilities, 157 public buildings, 7 recreation facilities, and a number of other essential community facilities. Community facilities assisted during FY 2002-05 served 39.3 million individuals.

The OMB FY 2005 PART review for the RHS community facilities program noted that the program had clearly stated population and income requirements targeting low-income rural communities which, by definition, have severely limited resources to meet the needs of their residents. Priority is given to communities with populations of 5,000 or less and priority points are also given to communities where the median household income of the service area is less than the poverty line for a family of four, or less than 80 percent of the State-wide nonmetropolitan median household income.

Natural Resource Enhancement

Resource Conservation & Development (RC&D). One USDA program that was not discussed in the first two Farm Bill Theme Papers is the RC&D program. NRCS administers the RC&D program, which includes specific activities directed at fostering both natural resource conservation and rural development. The purpose of RC&D program is to accelerate the conservation, development and utilization of natural resources, improve the general level of economic activity, and to enhance the environment and standard of living in designated RC&D areas. In addition, the program works to improve the capability of local citizens to plan and implement programs and projects that address natural resource and community development issues within and across communities within a geographic region. Program objectives address improving the quality of life, including social, economic and environmental concerns; continuing prudent use of natural resources; and strengthening local citizens' ability to utilize available sources of assistance through USDA and other Federal agency partnerships. Objectives of the program are delineated by the statutory program elements of land conservation, water management, community development, and land management. The NRCS-administered RC&D program uses the local non-profit RC&D leadership, the RC&D Council, to ascertain community needs that are not being addressed by other programs or through other avenues, to form the basis for each individual strategic RC&D Area and annual plan. The average RC&D Area covers seven counties. Nearly half of the Councils members are locally elected officials such as mayors, judges, or commissioners. RC&D councils are able to create unique program applications that address unmet needs not previously recognized by other programs. The RC&D program also improves the capability of State, tribal and local units of government and local nonprofit organizations in rural areas to plan, develop, and carry out programs for resource conservation and development. The RC&D councils objectives include:

- provide small business loans to natural resource-based business;
- create job opportunities through business planning and financial opportunities for small businesses;
- coordinate activities between communities and planning agencies for ecotourism, heritage tourism and historic preservation in rural communities;
- assist with land acquisitions for green space and recreational opportunities;
- facilitate the use of multiple USDA RD programs within their communities such as establishing revolving loan programs, establishing or improving community infrastructure;
- provide the resources for rural areas to understand opportunities available from the RD mission area;
- provide services as managers for land trusts, conservation easements, and mitigation programs for improved natural resource amenities;
- assist small natural resource-based businesses to expand into value added approaches through enhanced marketing programs;
- facilitate programs that enhance rural housing needs for the under-privileged;
- facilitate process between landowners and Federal agencies for conservation, wildlife and recreational opportunities; and
- provide creative solutions and be on the cutting edge of emerging issues such as implementation of bio-energy projects and environmental credit trading opportunities.

The RC&D program is an appropriated account and the Administration's 2007 Budget proposes to modify the Federal RC&D council coordinator position to provide more technical oversight duties instead of day-to-day administration support. The local RC&D councils would be responsible for operation of their non-profit corporations. This proposal would consolidate the number of Federal coordinator positions, eliminate duplication of rural development coordination efforts, but NRCS would still maintain its strategic planning and oversight assistance for all 375 authorized RC&D Areas nationwide.

Forest Conservation Programs. Two FS programs that were not discussed in the first two USDA Farm Bill Theme Papers were the Forest Legacy Program (FLP) and the Community Wildfire Protection Plans (CWPP).

FLP. FLP aids in protecting private forest land from being converted to non-forest uses. The FLP is a partnership with States and supports State efforts to protect environmentally sensitive forest lands. FLP helps States develop and carry out their forest conservation plans and encourages and supports acquisition of conservation easements without removing the property from private ownership. FLP participation is limited to private forest landowners. To qualify, landowners are required to prepare a multiple resource management plan as part of the conservation easement acquisition. The Federal government may fund up to 75 percent of project costs, with at least 25 percent coming from private, State or local sources. In addition to gains associated with the sale or donation of property rights, many landowners also benefit from reduced taxes associated with limits placed on land use. The FLP has grown in recent years to an FY 2006 budget authority level of $57 million and has protected over 1 million acres.

In a 2005 PART review of the FLP, the OMB noted: the program performs very well when compared to other land conservation programs, is efficient in getting maximum funds to the field to produce acquisitions, and has enjoyed excellent leveraging of Federal resources to produce acquisitions. The 2005 PART review also noted that in independent evaluations from OIG, the Government Accountability Office (GAO), FLP compared favorably with other government and private programs.

CWPP. One of the most significant conservation issues facing America today is the need to protect lives and property in communities near large areas of forested land, the so-called wildland-urban interface. CWPP's enable communities to establish a localized definition of the wildland-urban interface in their area, and high-risk areas identified in a CWPP receive funding preference from the Forest Service. As of December 2005, at least 450 CWPP's had been completed nationwide, covering at least 2,250 communities at risk from wildfire.

Catastrophic fires threaten communities dependent on wildlands and natural resources for tourism and recreation and wood products, ranching, and the service industries that support them. Destroyed forests and damaged watersheds also impose a variety of economic costs to communities. In 2005 FS also treated 2.7 million acres of land to reduce hazardous fuels, with over 60 percent of those acres in the wildland-urban interface.

Consistency with World Trade Organization Obligations

Another evaluation factor for rural development programs is their WTO consistency. Some rural development programs provide support to agricultural producers. The Uruguay Round Agreement on Agriculture (URAA) of the World Trade Organization (WTO) established criteria for classifying domestic farm programs by how much they distort production and trade. This classification is important because programs that are deemed to be minimally or non-trade distorting (so-called green box) are not subject to annual limits on domestic agricultural support, as are programs that are classified as trade-distorting (referred to as amber box). To be classified as minimally or non-trade distorting, a program must meet specific criteria spelled out in the URAA.

WTO member countries are obligated to notify, or report, programs to the WTO under the various domestic support categories. The United States has reported only two rural development programs under these paragraphs. (The last U.S. notification was made in 2004 for the crop years 2000 and 2001. No programs under the 2002 Farm Bill have been reported as the Doha negotiations have continued.)

Small expenditures have been reported for some salaries and expenses for the (former) Agricultural Cooperative Service and the (former) Alternative Agricultural Research program. The United States has also reported preferential loans and loan guarantees for structurally disadvantaged farmers ($103 million in 2001). These loans are often provided to beginning farmers who cannot qualify for conventional loans because they have insufficient financial resources, or to established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations. The United States has not notified to the WTO loans, loan guarantees, and grants under the RD mission area because these programs are aimed at providing services to nonagricultural entities and beneficiaries, including housing, medical facilities, utilities, rural businesses, water and wastewater, and telecommunications.

Some grant programs are directed at agricultural cooperatives and businesses. Issues of consistency between such rural development programs and WTO criteria can be illustrated by examining the Agricultural Value-Added Agricultural Producer Grant Program, which has not been reported to the WTO. The VAPG program provides grants primarily for project planning and feasibility studies for developing value-added ventures. The program does not allow the grants to be used for on-farm or business purposes, such as acquiring or repairing equipment. As such, these grants appear to be consistent with the WTO criteria.

V. Alternative Approaches to Rural Development

USDA's rural development programs are designed to accomplish two major purposes: provide socially-based assistance to local rural communities and residents in need and facilitate market-based rural development. Pressures on Federal budget authority coupled with the requirements of the Federal Credit Reform Act of 1990 (Credit Reform Act) are pushing USDA's rural development programs toward market-based development and away from socially-based assistance. Because most socially-based rural development programs involve grants and subsidized direct loans which tend to have higher Federal budget authority costs than unsubsidized loan guarantees. This situation encourages market-based over socially-based rural development. Under the Credit Reform Act, loan guarantees tend to "cost less" than direct loans because loan guarantees require a private lender to risk some capital which suggests that the underlying loan is more likely to be repaid. USDA can leverage Federal budget authority by a factor of 20 to 1 or more by moving away from grants and toward guaranteed loans. For example, grants require $1 of budget authority for every $1 of assistance while direct loans usually require $0.25 of budget authority for every $1 of assistance, and loan guarantees can require from $0 to $0.10 of budget authority for every $1 of assistance.

One challenge during the Farm Bill consideration of USDA's rural development programs is finding ways to use the available Federal budget authority most effectively to meet both of these two critical objectives. This section presents alternatives that could help the Administration and the Congress develop legislation that would address the balance between these two objectives given the realities of the current Federal budget situation and the requirements of the Credit Reform Act.

The alternatives presented are not meant to be exhaustive or mutually exclusive, nor are they meant to represent specific legislative proposals for the upcoming Farm Bill. No specific alternative is being advocated. Rather, the alternatives represent generalized approaches to addressing concerns that have been raised with regard to current programs. They are presented as candidates for further public discussion to help inform the 2007 Farm Bill debate.

This discussion addresses the implication of these alternatives for furthering rural development, defined as improving both economic opportunities and quality of life. Possible effects on the distribution of assistance and program costs are also discussed. Although WTO consistency is an issue that spans each of the alternatives, we do not discuss it since the alternatives are viewed as extensions of the existing programs, which are considered green box programs, based on the discussion in the preceding section.

During the Secretary's Farm Bill Forums, considerable support was expressed for rural development programs. Public commenters consistently said the programs were effective. Thus, the three alternatives raised here have a common theme—they each offer alternative criteria and objectives for employing the existing basic tools of USDA rural development programs: loans, grants and direct assistance. The first alternative suggests a series of targeting approaches for the existing set of rural development programs. The second alternative suggests a renewed focus on new business formation by inspiring and supporting rural entrepreneurship, with an emphasis on the use of rural financial capital grounded in the market-based rural development objective. The third alternative suggests consideration of broader regional areas as the focus of support thereby increasing the access of more local areas to supporting infrastructure, business services, leadership expertise and other resources.

These alternatives need to be considered in context with the existing diversity in rural America. Those areas of the country that have either capitalized on natural resources and climate for recreation and retirement or their proximity to urban areas have generally been growing in terms of population. Alternatively, those regions of the country that rely on farming, lack urbanization, or are remote from large cities have seen declines in population.

Alternative 1. Maintain the Structure and Tools of Existing Programs but Refine Program Targeting.

Most USDA rural development programs are "targeted" in several ways, many with multiple eligibility requirements. Examples of such targeting were identified in the basic program descriptions, although more specific targeting may be found in detailed program descriptions, in the application process, and in criteria applied to assess the applications for awarding program benefits. Program targeting encompasses both the broad policies of Federal government assistance for rural areas and the narrower policies of each program's definition and application. The two are, of course, necessarily connected. Legislation defines essential targeting characteristics and legislative changes can significantly modify current programs. Consequently, changed targeting of programs is the subject of Farm Bill consideration even where programs are maintained.

A prerequisite for targeting is objective information about program performance as measured against policy objectives. Many rural development programs have been operating for a considerable time, some for nearly three quarters of a century, while others are relatively new. Each program has an overall objective related to improving economic development and quality of life in rural America. While limited program results can usually be measured, the larger impacts on the rural economy and rural residents are generally not available. Without such measures, there is only the thinnest analytical base for better program targeting.

Legislation may be considered to establish systems for objective and continuous monitoring of program impacts on rural America. The results of such measures would (1) provide information on whether programs are achieving the ultimate goals of economic and quality of life improvements and (2) enable USDA to use authorized discretion to redesign the administration of programs to more equitably distribute funds and more efficiently meet program objectives. New measurement methods could build on methods of assessment currently applied to address the wide variety of programs, needs to which the programs are targeted, and methods used to provide benefits including grants, direct loans, loan guarantees, and direct technical assistance. Systematic impact assessment would likely include a single, in-depth study to establish baselines and ongoing assessment associated with and appropriate to each program.

Following are targeting issues that may be appropriately addressed in Farm Bill consideration while generally maintaining the overall structure and balance of current programs:

- **Targeting Based on Critical Needs.** Most current programs are based on a perceived need. While these programs contribute to rural development, it is not clear that they are addressing the most important needs in rural America. With changing demographics, economic opportunities, increased communication, and the multitude of other social and economic factors defining rural America, the needs facing rural America are also changing and some of those needs may not be as important as they once were. A more targeted approach would direct programs to those issues that address the most critical needs. Legislation establishing existing programs may be revisited to determine if greater targeting would place the benefits of the programs where the need is demonstrably the greatest.

  Emphasis on critical needs may in fact be a reversion to the original purposes of many USDA rural development programs. Such needs may have changed substantially since the programs were initiated because of the profound changes that have taken place in agriculture and rural America in the past few decades. Targeting programs based on defined and felt needs may redistribute benefits in a more efficient manner with greater impacts than currently is the case.

  Targeting may differ depending on the goal of the program. For example, socially-based rural development programs may be targeted on income by establishing an income test for socially-based rural development programs that may not at present have such a condition for benefits. The overall change would be to refocus from rural location as a key criterion to one based more on income, while retaining the rural location criteria as a necessary but not sufficient condition. Definitions of rural area may also be revisited, but redefining rural is not essential to re-target to income rather than rural as a sufficient condition for benefit eligibility. Targeting programs based on income may redistribute benefits in a more equitable manner with greater impacts than currently.

- **Targeting Based on Net Rural Development Impact.** Some rural development programs offer benefits to rural areas based on the assumed disadvantages of rural communities and amenities without necessarily determining if needs would be met in the absence of assistance. In some cases, this assumption may not be correct. This type of review should be conducted with respect to all programs. Examples may be where low-interest or guaranteed loans are made but other financing could be obtained, albeit at a somewhat higher rate. While these programs contribute to rural development, the marginal or net contribution of the program is relatively small in those situations. Programs could be re-targeted to circumstances where goods and services are not available and would not be provided by the private market without government involvement. Better targeting may be achieved if programs were limited to situations where alternative financing is significantly restricted and that goods or services needed for either economic development or an adequate quality of life are not forthcoming without the program's benefits.

  Legislation may be considered to inject considerations of net rural development impacts into program targeting. B&I and broadband loan programs are candidates for such consideration. Adjustments could take several forms including specific competitive considerations in selection criteria, requirements for competitive impact statements in applications, and more detailed analysis of program targeting where the net impacts on rural development are added to the assessments.

- **Targeting Market-Based Programs on Self-Sustainability.** Assistance provided under market-based programs is generally offered to businesses or communities with the hope that recipients will use the assistance to become self-supporting and self-sustaining. Other programs are not so restricted. Some are non-business assistance programs whose purposes are not economic development but poverty alleviation. Others support entities that may be able to function without the assistance once the initial assistance has been incorporated into on-going economic activity. Yet others provide benefits to businesses or organizations that could in one way or another function quite as well without government assistance. One targeting alternative would be to direct more assistance into the support of self-sustaining economic development projects and away from those that are either maintenance-oriented or would be self-sustaining without the benefits of the program.

  Self-sustaining economic activity may well continue to require programs oriented toward rural America. In some cases, economic activity in rural areas may naturally lag behind those of urban and industrialized areas, even where such activity may eventually become indistinguishable from similar activities in non-rural areas. The needs for special attention to the supporting infrastructure and amenities enabling rural development is inherent in many programs and can continue under this alternative. Finally, rural development programs should continue to recognize certain comparative advantages in economic development over other areas of the nation, advantages that can be supported by carefully targeted programs.

- **Targeting Assistance to Increase Funds Available for Socially-Based Programs**. Under the Credit Reform Act, most socially-based rural development programs cost more Federal budget authority to implement than market-based rural development programs. To the extent that rural development issues can be addressed with market-based solutions which take fewer Federal budget dollars, these Federal dollars can be applied to situations that can only be addressed with more expensive socially-based rural development solutions. During the consideration of the Farm Bill, legislative changes could be made to encourage RD and the people it serves to use market-based rural development solutions where possible. Reserving the socially based solutions to those situations where rural communities were in most need.

Further, RD needs flexibility to manage the costs of its programs to stretch the Federal budget authority further to help more people. During the Farm Bill, legislative changes could also be made to give RD more flexibility to operate its programs more efficiently with respect to its use of Federal budget authority.

A more thorough assessment of the economic, environmental, and infrastructure conditions in rural America coupled with targeted programs would lead to more efficient and equitable uses of Government assistance. For example, a conclusion may be reached that more immediate and needed benefits should be directed to acute community facility or health needs rather than maintaining existing and prospering utility companies. Similarly, financial support to emerging business enterprises may be found to add more to a community than funding that only supports on-going activities.

Effects on furthering rural development (economic and quality of life). A systematic program to monitor conditions in rural America and study the net impacts of the various programs on rural development would provide information on (1) the direct and indirect impacts of current programs and (2) the direct and indirect impacts of current programs under new targeting. Any consequent re-targeting would be directed specifically at the most efficient and equitable way to further rural development. Rural development would be enhanced because available funding and services would be directed toward the areas, individuals, and enterprises with greatest need and make the most efficient use of assistance to further subsequent economic development. By encouraging a greater reliance on market-based rural development solutions where possible, rural communities would have a greater stake in the success of the project.

Effects on distribution of assistance. Program targeting changes may result in three types of redistribution. First, the geographic areas in which benefits flow may change, either relative to rural or more urbanized areas or as a redistribution among communities, counties, and States. Second, the types of recipients may also change. For example, with more emphasis on individuals or on small businesses, these recipients may see greater benefits at the expense of benefits for large business entities currently providing services to rural populations. Third, the types of projects funded may change. Distribution of benefits resulting from alternative targeting may be more oriented toward demonstrated need, although some programs may define need in terms of personal or community assistance while others may define need in terms of the economic activity that a recipient business may generate with assistance. Targeting of funding to socially-based programs may also mean that some program participants would be encouraged to seek loan guarantees instead of grants and direct loans for certain types of projects.

The sheer number of programs focused on rural development and the fact that each program has one or more targets that may be changed in this alternative, precludes specific estimates of payment distribution effects.

Effects on program costs. Few of the alternatives suggested necessarily affect program costs. Total program costs may stay the same even with significant targeting changes. If the same program re-targets benefits to another eligible set of recipients, program costs will not change. Of course, if some programs are diminished as a result of targeting, costs associated with such programs will be reduced. However, if re-targeting shifts benefits to another program or part of a program, overall costs would change little. In the longer run, programs that enhance self-sufficiency and internal self-sustaining economic growth should eventually reduce or eliminate the need for development programming, thus reducing future program costs.

Alternative 2: Focus on New Business Formation Supported with Rural Private Investment

New business formation and expansion of existing business is necessary for growth in rural economic activity and jobs. The increase in activity and employment is not going to come from more farms employing more people; it is going to come from nonfarm business growth. Under this alternative, USDA would recognize new business formation as the core activity to increase rural economic growth and focus on market-based solutions.

USDA would work with State and local governments, regional organizations, as well as other stakeholders to focus on meeting the needs of rural entrepreneurs. These needs range from education to dealing with regulations to establishing relationships with supporting businesses to obtaining financial capital. Some commercial banks will not lend to business start-ups unless equity investors are liable beyond their invested capital. Many rural investors are reluctant to accept such liability. A focus would be on implementing strategies that facilitate investment by rural residents in rural businesses.

This alternative would require, among other things, identifying, aggregating and assisting many small individual investors to finance critical investments. While small business and micro lending would continue to have a role, under this option, USDA (or some new development funding entity) would focus on facilitating the aggregation of financing for new rural businesses by helping to bring together entrepreneurs with rural communities, banks, potential individual rural investors, and nonrural investors and creating mechanisms to utilize rural wealth to create more wealth.

Restraints on equity-based rural development are not due to a lack in rural equity. For example, the equity of farm businesses exceeds $1.4 trillion and the farm sector debt to asset ratio is at a 50-year low, suggesting that some farm businesses have the capacity to invest in rural business formation if inclined to do so. Further, a number of equity investment opportunities in rural America are emerging which are stemming from the development of alternative energy resources and the fact that the Internet allows an individual to live in rural America, but work globally. Investors are helping provide development opportunities for some rural communities, although some rural residents may not be in a position to take advantage of these opportunities.

One example were rural investors retained a portion of the wealth of their investments is the programs that financed the electrification of rural America. Under these programs, USDA not only brought electricity to local rural communities, they also encouraged the development of locally controlled rural electric cooperatives to give the local communities a financial and operational stake in these electric systems. Under these programs, these cooperatives have grown to become very valuable assets for rural communities. Rural electric cooperatives reinvest their revenues in the local community and provide a foundation for economic and cultural growth.

This alternative suggests a next logical step for rural development programs is to move from programs based on subsidized debt financing to development that is at least partially financed by rural people using their own equity.

Effects on furthering rural development (economic and quality of life). USDA's RD mission area has embarked on an effort to simplify the structure and delivery of its programs to release the staff and customers in its 800 local offices from unnecessary and overlapping regulations and administrative burden. This alternative would require that effort to continue to enable local staff to assume a larger leadership role in RD mission area activities of their rural communities by helping these communities become more financially and operationally involved in these new investment opportunities. USDA staff would need to overcome the transactions costs inherent in aggregating equity investments of rural residents, team the equity investments and Federal credit with successful entrepreneurs and projects for their area, and help deal with Federal, State and local regulatory and other impediments. Non-rural investment may have to be sought to absorb sufficient risk to obtain bank financing. Activities to generate successful entrepreneurship must extend beyond accessing rural wealth. Capacity building for entrepreneurship may also require education and training, infrastructure development, strategic planning, and establishment of linkages with other businesses across broader areas to access necessary business services. If increased coordination, organization, and targeting of USDA resources are successful, rural citizens would earn a return on their investments and would help generate economic growth and jobs.

Effects on distribution of assistance. Primary tools for generating more investment in rural businesses by rural residents are development of entrepreneurs, coordination and communication, information and analysis, and leveraging Federal resources through increased use of loan guarantees and private sector funding. Because this alternative is market-based, it would direct more assistance toward economically feasible and sustainable new businesses in areas where rural investors are willing to invest their available capital. Thus, this approach may reduce the amount of Federal funds going to areas where investable funds, including equity levels, are low and the rates of equity appreciation are low. These regions may have high concentrations of the most vulnerable rural residents.

Effects on program costs. Pursuing this alternative would not necessarily require increased budget authority or result in reduced budget authority. In recent years, USDA has increased its program levels for rural development without a significant increase in Federal budget authority by shifting toward loan guarantees and away from grants and direct loans. Under this alternative, USDA rural development programs would continue this trend. This alternative addresses the way in which existing resources would be used. For example, legislative restraints may need to be amended to provide the greatest flexibility possible to manage budget resources under the Credit Reform Act to supply the leveraged credit needed to generate rural economic activity. Some assistance would be needed to provide for education and training for rural entrepreneurial capacity building.

Alternative 3: Move Toward Greater Regionalized Assistance.

The Farm Bill debate has from time to time focused on the structure of USDA's rural development programs. For example, block grants have been considered as a way to redistribute Federal tax receipts as well as to pass some funding decisions from the Federal to the State level. Another restructuring approach which has garnered interest in recent years involves making more use of regional development strategies when awarding Federal grants and loans. Such a regional approach, it is argued, has more potential for succeeding in today's global economy.

In past years, rural communities competed mainly with their urban counterparts, specializing in products made with relatively low-cost rural labor. Today, facing increased global competition from places with much lower labor costs, many rural communities must rethink their development strategies. Some rural development experts argue that rural communities must band together to make the most of the local region's assets in pursuing a regional development strategy that can potentially provide them with a comparative advantage in today's global economy. To respond to budgetary pressure, USDA must look for ways to help communities provide for themselves in more cost effective ways. For example, it generally costs less to provide water services on an area or regional basis than to provide separate systems for every community.

Federal policy has already moved in this direction with the creation of new regional and sub-State regional development organizations. For example, the Delta Regional Authority (DRA), created in 2001, funds projects in the lower Mississippi Delta region. Similar to the Appalachian Regional Commission, DRA priorities arise from recommendations of State governors, and assistance goes to local multi-county development organizations (where they exist) which plan and implement the projects.

The DRA was reauthorized in the 2002 Farm Bill. That same legislation authorized three new regional initiatives:

- Northern Great Plains Regional Authority—similar to the DRA.
- Rural Strategic Investment Program—awards assistance competitively to regional investment boards which plan and implement comprehensive regional development strategies.
- Multi-jurisdictional Regional Planning Organization Program—provides assistance to regional organizations that assist local governments and organizations involved in local development.

While these last three regional initiatives were never funded, the regional approach remains an issue for consideration in the 2007 Farm Bill.

This alternative may be used without new Commissions or creating bureaucratic structures by changing regulations of some existing programs to encourage more assistance for projects that are included in the strategic plans of regional development organizations. For example, projects that are instrumental to regional development strategies might be given preference points in the selection process when awarding assistance or approval by regional development organizations might be required of all USDA rural development funded projects.

Effects on furthering rural development (economic and quality of life). Regional approaches may offer several advantages for rural development.

- Local regional development organizations benefit from economies of scale that give them a cost advantage over a single small rural town or county in doing economic development planning and in grant writing. This should enable them to do more strategic planning that may be needed to find a new niche for the local economy, and should increase their likelihood of identifying and obtaining financial assistance to support their strategy.

- Regional development organizations, which would have access to more assistance sources than typical local governments, may be better able to package different assistance streams together to leverage and finance larger, more comprehensive projects.

- Because of their broader geographical focus, regional strategies can make use of a wider variety of development assets (such as infrastructure, educational and financial institutions, etc.) than can individual towns or counties.

- Their broader geographical area is more conducive to some kinds of strategies that are popular today, including the growth of clusters of businesses that locate not just in one town but over an entire region.

- Encouraging collaboration at the regional level might help to reduce costly inter-local competition in bidding up tax incentives to businesses that locate in the region.

- At the regional level, impacts of policies that extend beyond the borders of individual towns or counties (externalities) are likely to receive more attention, leading to development that increases positive externalities (such as from education) and reduces the negative externalities (such as from pollution).

From these arguments, the effects on rural development would appear to be generally positive. Research evaluations have been generally positive of Federal agencies that have significant regional development dimensions such as the Economic Development Administration (EDA) and the Appalachian Regional Commission. However, the rural development effects from any new initiative would vary depending on the specific initiative. For example, initiatives that provide planning and operational funds to regional development organizations might be expected to have a bigger impact than initiatives that merely gave such organizations special preference in competing for program assistance. Rural development effects would also depend on how much assistance is targeted to regional development strategies, and whether this is new assistance or assistance that is recycled from existing programs, with the latter approach leading to less overall economic impact. One drawback of the regional approach is the potential difficulty of getting more political jurisdictions and geographically dispersed people to work effectively together.

Effects on distribution of assistance. Distributional effects depend on the type of regional initiative. For example, if the focus is on particular regions of the country, like the DRA or the proposed Northern Great Plains Regional Authority, the impacts will focus on those regions rather than being spread over the country. The rules governing the regional authorities will affect other distributional aspects, such as how assistance is targeted within the region: rural versus urban, high-income versus low-income, and population growth versus population decline.

One of the arguments behind empowering local regional development organizations is that smaller rural communities that have little grant-writing capacity to attract Federal funds might do better when represented by regional organizations backed by RD mission area program assistance. However, not all small communities will fare equally, since their receipt of assistance under such programs will depend on whether they play an important role in the regional development strategy. Even if they do not receive much of this assistance, however, they may benefit if the strategy produces jobs and income that they can obtain by commuting to regional growth centers.

Effects on program costs. The impact on program costs will depend on the specific initiative(s). For example, the Delta Regional Authority received $6 million in Federal funds in 2006. The more established Appalachian Regional Commission received about $65 million. These cost differences suggest that when creating a new regional program, costs might initially be quite small but they may rise over time, eventually leveling off at a higher level of assistance. The 2002 Farm Bill authorized $30 million for its proposed Northern Great Plains Regional Authority. The authorized amounts for the other two Farm Bill initiatives were $100 million for the Rural Strategic Investment Program and $30 million for the Multi-jurisdictional Regional Planning Organizations program. Although these 2002 initiatives were not funded, these amounts indicate the potential scale of program costs for similar regional initiatives in the future. In contrast to these initiatives, if existing program money is merely retargeted by regulation, no new assistance would be required.

VII. Suggestions for Further Reading

The following is a list of selected USDA publications related to the issues raised in this paper.

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Rural Development — Housing and Community Facilities Programs

Program	Objective	Applicant	Uses	Population	Loan/Grant	Terms/Conditions
Single Family Home Ownership Direct Loans (Section 502)	Safe, well-built, affordable homes for rural Americans.	Families and individuals. Apply to Rural Development.	Buy, build, improve, repair or rehabilitate rural home as the applicant's permanent residence.	Rural areas with populations of 20,000 or less.	Direct loan.	Up to 100 percent of market value or cost, whichever is less. Loan amortized for 33/38 years. Applicant may be eligible for payment assistance (subsidy) on the loan.
Single Family Home Ownership Guaranteed Loans (Section 502)	Assist eligible applicants in buying their homes by guaranteeing loans made by private lenders.	Families and individuals. Apply to lender.	Purchase new or existing home.	Rural areas with populations of 20,000 or less.	Loan guarantee.	30 year, fixed rate. Interest rate negotiated between lender and borrower. Loans to 100 percent of market value.
Single Family Home Ownership Direct Repair Loans and Grants (Section 504)	To help very-low-income homeowners remove health and safety hazards or to repair their homes.	Families and individuals who currently own their home. Apply to Rural Development.	Repair or replace roof, winterizing, purchase or repair of heating system, structural repair, and water and sewage connect fees, and similar uses.	Rural areas with populations of 20,000 or less.	Direct loan and grant.	Loan terms to 20 years at 1 percent. Assistance to individual may not exceed $20,000. Grants only available to very-low-income applicants 62 years or older who cannot afford to pay 1 percent loan.
Mutual Self-Help Housing Grants (Section 523)	Assist lower income families in building their own homes.	Non-profits and public bodies.	Technical assistance to qualify and supervise small groups of families to build each other's homes.	Rural areas with populations of 20,000 or less.	Grant.	Grant agreement.
Rural Rental Housing Direct Loans (Sections 515)	Safe, well-built, affordable rental housing for very-low, and low income individuals and families.	Individuals, limited profit and non-profit organizations. Apply to Rural Development.	New construction or rehabilitation of rental housing.	Rural areas with populations of 20,000 or less.	Direct loan.	Up to 100 percent of total development cost (non-profits); 97 percent (for-profits). 30-year term with up to 50 year amortization. For for-profit organizations with Low-Income Housing Tax Credits, 95 percent of total development costs.
Rural Rental Housing Guaranteed Loans (Section 538)	Safe, well-built, affordable rental housing for low to moderate income individuals and families.	Individuals, partnerships, limited liability companies, trusts, state and local agencies and Indian Tribes. Apply to lender.	New construction or substantial rehabilitation of rural rental housing.	Rural areas with populations of 20,000 or less.	Loan guarantee.	Up to 90 percent loan to value for loans made to for-profit entities, and up to 97 percent loan to value for loans made to non-profit entities. Repayment terms are 25 to 40 year amortization.
Housing Preservation Grants (Section 533)	Repair and rehabilitate housing owned or occupied by very-low- and low-income rural families.	Public bodies and non-profit organizations. Apply to Rural Development.	Operation of a program which finances repair and rehabilitation activities for single family and small rental properties.	Rural areas with populations of 20,000 or less.	Grant.	Grant agreement.
Farm Labor Housing (Sections 514 & 516)	Safe, well-built affordable rental housing for farm workers.	Individuals, public and private non-profit organizations. Apply to Rural Development.	New construction or substantial rehabilitation of rental housing.	No population restriction.	Direct loan and grant.	Up to 102 percent of total development cost. Up to 33 years to repay at 1 percent interest.
Community Facilities (Faith-Based and First Responder)	Provide essential community facilities for rural communities.	Public bodies, non-profit organizations, and Indian tribes. Apply to Rural Development.	Build facilities and purchase equipment for fire and rescue, early warning systems, police stations, health clinics, schools, libraries, hospitals, etc.	Rural areas with populations of 20,000 or less.	Direct loan or loan guarantee, grant.	Up to 100 percent of market value. Up to 40 years or life of security. Maximum grant 75 percent of project cost.

Direct Loans and Grants - Apply to Rural Development. Loan Guarantees - Apply to intermediary (approved banks, mortgage companies) *Revised June 01, 2006*

Rural Development — Business and Cooperative Programs

Program	Objective	Applicant	Uses	Population	Loan/Grant	Terms/Conditions
Business and Industry Guarantee Loans	Create jobs and stimulate rural economies by providing financial backing for rural businesses.	Businesses. Apply through Federal or State chartered banks, credit unions, or savings & loan associations.	Most legal business purposes except production agriculture. Include acquisition, start-up and expansion of businesses that create rural employment.	Any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such a city or town.	Loan guarantee.	Lender and borrower negotiate terms. Interest rate tied to published rate that may change no more often than quarterly.
Intermediary Relending Program Loans	Finance business facilities and community development projects in rural areas.	Public bodies, non-profit corporations, Native American tribes, and cooperatives. Apply to Rural Development.	Community development projects, establishment or expansion of businesses, creation or saving of rural jobs.	Rural areas and incorporated places with populations of less than 25,000.	Direct loan.	The intermediary makes loans to businesses from its revolving loan fund on terms consistent with security offered. Intermediary pays 1 percent for 30 years.
Rural Business Enterprise Grants	Finance and facilitate the development of small and emerging private business enterprises.	Public bodies, private non-profit corporations, and federally recognized Native American tribal groups. Apply to Rural Development.	Buy and develop land, establish a revolving loan fund, construct buildings, plants, equipment, access streets and roads, parking areas, utility and service extensions, and rural distance learning networks.	Any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such a city or town.	Grant.	When grant funds are used for revolving loan fund (RLF), the intermediary makes loans to businesses from its RLF on terms consistent with security offered.
Rural Business Opportunity Grants	Finance technical assistance for business development and conduct economic development planning in rural areas.	Public bodies, non-profit corporations, Indian tribes on Federal or State reservations, and cooperatives with members that are primarily rural residents.	Technical assistance, leadership training, establishment of business support centers, economic development plans.	Any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such a city or town.	Grant.	Must be completed within 2 years after project has begun.
Rural Economic Development Loans and Grants	Finance economic development and job creation in rural areas.	Electric and telephone utilities eligible for financing from the Rural Utilities Service. Apply to Rural Development.	Promote rural economic development and/or job creation projects including feasibility studies, startup costs, and business incubators.	Rural areas and places with populations of 2,500 or less.	Direct loan and revolving loan fund grant.	The intermediary (electric or telephone utility) makes loans to profit or non-profit business and public bodies for rural economic development and/or job creation projects. Loans are 0 percent for 10 years.
Rural Cooperative Development Grants	Establish and operate centers for cooperative development to improve the economic condition of rural areas through the development of new cooperatives and improving operations of existing cooperatives.	Non-profit corporations and institutions of higher education. Apply directly to Rural Development National Office.	To conduct feasibility studies, business plans, and applied research as well as provide training and other technical assistance to new and existing cooperatives and businesses.	Any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such a city or town.	Grant.	Applicants must meet specific selection criteria including a minimum 25 percent fund match. Grants are awarded on a competitive basis.
Value-Added Agricultural Product Market Development Grants	Assist independent agricultural producers to enter into activities that add value to their commodities.	Independent producers, farmer and rancher cooperatives, agricultural producer groups, and majority-controlled producer-based business ventures. Apply directly to Rural Development National Office.	Planning purposes such as conducting feasibility studies or business plans; or as working capital to help start the operations of a venture.	No population restriction.	Grant.	Applicants must meet specific selection criteria. Grants are awarded on a competitive basis. Funds cannot be used to build facilities or purchase equipment. Funds must be matched on a dollar-for-dollar basis.
Small Minority Producer Grants	Technical Assistance	Cooperatives or associations of cooperative whose primary focus is to provide assistance to small, minority producers and whose governing board and/or membership is comprised of at least 75 percent minority.	To conduct technical assistance such as market research, product and/or service improvement; legal advice and assistance; feasibility study, business plan and marketing plan development; and training.	All areas except cities of more than 50,000 and their contiguous and adjacent urbanized areas.	Grant.	Applicants must meet specific selection criteria and grants are awarded on a competitive basis. Funds are to be use only for Technical Assistance. There are no matching requirements for this program.
Renewable Energy Systems and Energy Efficiency Improvements Loans and Grants	Finance the purchase of renewable energy systems, and make energy improvements.	Agricultural producers and rural small businesses.	Construction or improvements, purchase and installation of equipment, energy audits, permit fees, professional service fees, business plans, feasibility studies.	Any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such a city or town.	Loan guarantee and grant.	Applicants must meet specific selection criteria. Loans cannot exceed 50 percent of eligible project costs. Grants are awarded on a competitive basis. Grant cannot exceed 25 percent of eligible project costs.
Biomass Research and Development Initiative	Finance the research and development of biomass based products, bioenergy, biofuels, and related processes.	Institutions of higher education, National laboratories, Federal or State research agencies, private sector entities, and non-profit organizations.	Research and development of biomass based products, bioenergy, biofuels, and related processes.	No population restriction.	Grant.	Applicants must meet specific selection criteria. Grants are awarded on a competitive basis. A minimum of 20 percent cost sharing requirements apply, and may be up to 50 percent depending on nature of project. Cost share must come from non-Federal sources.

Direct Loans and Grants - Apply to Rural Development. Loan Guarantees - Apply to intermediary (eligible banks, etc).

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Rural Development — Utilities Programs

Program	Objective	Applicant	Uses	Population	Loan/Grant	Terms/Conditions
Water and Waste Disposal Loans and Grants	Provide water and waste financing in rural areas to the most financially needy applicants resulting in reasonable user fees.	Public entities, Indian tribes, and non-profit corporations. Apply to Rural Development.	Build, repair, and improve public water systems, and waste collection and treatment systems. Also other related costs.	Rural areas, cities, and towns with up to 10,000 population.	Direct loan and grant.	Interest rates are set quarterly based on an index of current market yields for municipal obligations. Repayment period is a maximum of 40 years. Grant funds may be available.
Water and Waste Disposal Loan Guarantees	Provide loan guarantees to lenders serving financially needy applicants.	Public entities, Indian tribes, and non-profit corporations. Apply to Rural Development.	Construct, repair, modify, expand, improve water supply and distribution systems, and waste collection and treatment systems. Also other related costs.	Rural areas, cities, and towns with up to 10,000 population.	Loan guarantee.	Eligible lenders obtain up to a 90 percent guarantee on loans they make and service. Lenders should contact Rural Development Area or State Office.
Solid Waste Management Grants	Provide technical assistance and/or training to help communities reduce or eliminate pollution of water resources and improve planning and management of solid waste sites.	Non-profit organizations and public bodies. Apply to Rural Development.	Provide technical assistance and training to reduce pollution of water resources and improve management of solid waste facilities.	Rural areas, cities and towns with up to 10,000 population.	Grant.	Projects are funded based on selection at the National level. Applications are accepted from October 1 to December 31 of each year.
Rural Broadband Loans and Loan Guarantees	The deployment of broadband service to eligible rural communities.	Legally organized entities providing or proposing to provide broadband service in eligible rural communities. Cannot serve more than 2 percent of the telephone subscriber lines installed in the U.S.	The construction, acquisition, and improvement of broadband transmission facilities and equipment; land and buildings used in providing broadband service; and the refinancing of Telecommunications Program debt.	Eligible rural communities with a population of 20,000 inhabitants or less.	Direct loan and loan guarantee.	Loans are made at the Treasury rate of interest at the time of the advance for a period equal to expected composite economic life of the assets financed. Loans are guaranteed at the interest rate set by the private lender for no more than 80 percent of the principal amount.
Electric and Telecommunications Loans and Guarantees	Provide financial aid through direct and guaranteed loans for electric and telecommunications services.	For profit entities, non-profit and cooperative associations, public bodies, and other utilities. Apply directly to Rural Development National Office.	Generation, bulk transmission facilities, and distribution of electric power. Enhance 911 emergency service, digital switching equipment, fiber optic cable, along with traditional main system telecommunications service and broadband services.	Electric: Rural areas as defined by the U.S. Census. Telecommunication: Rural areas with populations of 5,000 or less.	Direct loan and loan guarantee.	Interest rates are established in accordance with 7 CFR 1745.
Distance Learning and Telemedicine Loans and Grants	Development and deployment of advanced telecommunication services throughout rural America to improve education and health care.	Incorporated entities, including municipal corporations, on a for profit or not-for-profit basis, that operate rural schools, libraries, health care clinics and other organizations that operate educational or health care facilities.	Equipment for classrooms: cameras, video monitors, computers, and LAN. Also for physician consultation, radiology, ex-ray scanners, and digital microscopes.	Rural areas with populations of 20,000 or less.	Direct loan and/or grant.	Matching funds are required.

Direct Loans and Grants - Apply to Rural Development. Loan Guarantees - Apply to intermediary (eligible banks, etc).

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