

Statement of
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Rural Definition

Chairman Johnson, Ranking Member Costa and Members of Subcommittee, it is my pleasure to be with you today to discuss one of the most fundamental, and vexing questions we face in USDA Rural Development –how “rural” is defined, and what role rurality should play in how we function on behalf of the U.S. Department of Agriculture.

These are fundamental questions for USDA , as we exist to provide economic and community development to overcome obstacles based on rurality. Rural areas have experienced economic stress from long-term poverty and decades of population decline. Federal assistance from USDA is essential to these communities as they often don’t have access to private capital markets and have limited access to assistance from other departments in the Federal Government. Moreover, they do not have the total population to support repayment of a bond to finance critical infrastructure needs or their population is so widespread that such a system would be prohibitively expensive.

These questions are vexing because, under current law, rurality is used to determine a project’s basic eligibility for most of our programs and is defined almost solely in terms of total population thresholds. As a result, a single standard for program eligibility is applied equally in New Jersey and New Mexico, in Alabama and Alaska, in Virginia and the Virgin Islands. Given that each state has the right to determine its own municipal structures, a single standard that may sound simple in theory can be difficult to apply in practice. For example, Congress added language in the 2002 Farm Bill limiting the universe of eligible applicants for the Water and Waste Disposal program of Rural Utilities Service (RUS) and the Community Facilities program of Rural Housing Service (RHS) to “cities, towns, and unincorporated areas” whose populations did not exceed the previously established population limits. Such language does not properly account for the variety of local forms of government including townships, boroughs, and other municipalities that in many states describe the very less-populated municipalities those programs are intended to reach. It also overlooks some of the structural uniqueness of several of the original colonies – in the role of a town and the status of a village, for example – dating back to the original Plymouth settlement in the 17th Century.

Further, relying almost solely on total population as the definition of rural leaves out other obvious characteristics of a rural area compared to a metropolitan area. Those characteristics might help direct USDA Rural Development’s resources to areas of greatest need and opportunity. Every state and territory have areas that are more rural than others, certainly based on total population, but also based on other factors such as population density, the presence of

natural assets like lakes and forests, zoning regulations and land uses that might be covered in local ordinances, the prevalence of production agriculture and its infrastructure in the area's gross domestic product and workforce, whether a community qualifies for its own share of Community Development Block Grant funds from the Department of Housing and Urban Development or Community Services Block Grant funds from the Department of Health and Human Services or has to compete for some of the remainder after urban centers have taken their share, and so forth. USDA's Economic Research Service (ERS) has done extensive work on rurality, as have the other witnesses you will hear from today. Much of ERS' work is available on line through virtual briefing rooms found at <http://www.ers.usda.gov/Briefing/>. ERS also is about to release a new interactive atlas looking at many characteristics of rural areas. I believe it will be a very useful tool for Congress, USDA, and our private sector partners in rural economic and community development. Mr. Chairman, I'm sure that my colleagues in ERS would gladly do a demonstration of the new atlas for Subcommittee Members and staff.

Applying a single standard to determine rural eligibility along with the variety of standards that exist in current law has been challenging for Rural Development staff and exasperating for applicants and lenders.

Apparently, it also has been a source of frustration for Members of Congress. In recognition of the problems created by the rural area definitions, the 2008 Farm Bill provided the Under Secretary with limited authority to determine areas that do not meet the rural area definition as "rural in character" and thus an eligible rural area. While helpful, this authority has proven far too limited to fix the problems with the current definitions of rural area. In addition, each year Congress adds a series of general provisions to the agriculture appropriations legislation declaring that a certain municipality is deemed to be rural even though its population exceeds the statutory eligibility standard for that program.

Given that those general provisions largely expire with the release of new decennial census data, the timing of today's hearing is even more important. Many communities that have been eligible by reason of a general provision will not be after the new 2010 census data is released. Further, the census data will show that other communities no longer are eligible rural areas for certain programs, while still others that have experienced population loss might become eligible for the first time in decades. Now is an incredibly important time to review rurality and begin determining the best way to achieve our shared objectives of helping to create economic opportunities for rural citizens and helping them improve their quality of life. Mr. Chairman, I congratulate you and the other members of the Committee for digging into these questions now.

USDA Rural Development administers over 40 different programs through its three agencies – Rural Utilities Service, Rural Housing Service, and Rural Business – Cooperative Service – delivered through 47 Rural Development state offices and nearly 500 area offices. These programs were authorized by several different laws. A complete set of all of our statutory "rural area" definitions is attached to my testimony as Appendix 1. I would like to focus the balance of my testimony today on three of those laws: the Consolidated Farm and Rural Development Act, or CONACT; the Rural Electrification Act; and the Farm Security and Rural Investment Act, which was amended by the Energy title of the 2008 Farm Bill.

Section 343(a)(13) of the CONACT defines “rural” and “rural area” for programs of USDA Rural Development authorized therein, principally business programs and community-based programs. In general, the Act provides a definition of “rural” or “rural area” that is, “any area other than – (i) a city or town that has a population of greater than 50,000 inhabitants; and (ii) any urbanized area contiguous and adjacent to a city or town described in clause (i)”. This definition would act as a default definition for new CONACT programs, and is historically the definition applied to the business programs of Rural Business – Cooperative Service (RBCS).

The CONACT provides separate definitions for two additional program areas. For the Water and Waste Disposal direct loans, guaranteed loans, and grants of Rural Utilities Service, the Act defines “rural” and “rural area” as a, “city, town, or unincorporated area that has a population of not more than 10,000 inhabitants”. For the Community Facilities direct loans, loan guarantees, and grants of Rural Housing Service, the Act defines “rural” and “rural area” as a, “city, town, or unincorporated area that has a population of not more than 20,000 inhabitants”.

The Rural Electrification Act’s definition of eligible “rural area” for Rural Utilities Service’s electric loan and loan guarantee programs was changed in the 2008 Farm Bill from “any area of the United States not included within the boundaries of any city, village, or borough having a population exceeding 1500”, to instead align with the Community Facilities program definition in Rural Housing Service, i.e. municipalities with a total population not more than 20,000. However, those Rural Electric Cooperatives which still had an outstanding loan with RUS at the time and had been eligible under the prior definition retained their eligibility – once rural, always rural.

With the exception of Section 9007, the Rural Energy for America Program, the portions of Title IX of Farm Security and Rural Investment Act of 2002 assigned to Rural Development do not have a statutory requirement that projects be financed in a rural area. Proposed rules nonetheless including a “rural area” eligibility requirement comparable to other business programs were published by Rural Business – Cooperative Service (RBCS) for the Biorefinery Assistance Program (§9003), the Repowering Assistance Program (§9004), and the Bioenergy Program for Advanced Biofuels (§9005) on April 16, 2010 with a 60-day public comment period. Our intent was to have these programs mirror other types of business financing programs available from RBCS. Interim final rules for all three programs have been published.

Rural Development staff administering these loans, loan guarantees, and grants must ensure that funds are invested only in eligible areas. Once basic eligibility is determined, both the CONACT and agency regulations provide additional tools for targeting resources, particularly grant funds, to communities with the smallest populations and the lowest median household incomes. For examples:

- The RUS Special Evaluation Assistance for Rural Communities and Households (SEARCH) program makes predevelopment planning grants for feasibility studies, design assistance, and technical assistance, to financially distressed communities in rural areas with populations of 2,500 or fewer inhabitants for water and sewer projects (§306).

- The RUS technical assistance grants for water and sewer projects provide highest priority to communities with fewer than 5,500 residents (§306).
- The RHS Community Facilities Grant program directs the Secretary to provide higher Federal grant shares for facilities in communities that have lower community population and income levels, and creates a separate grant program for rural communities with extreme unemployment and severe economic depression (§306).
- The RBCS Rural Business Enterprise Grant program gives highest priority to projects in communities with fewer than 5,000 residents (§310B).

These additional priorities are applied as applications are scored or evaluated by Rural Development staff. Our success in targeting in loans, loan guarantees, and grants was one of several things discussed in Economic Information Bulletin Number 65 published by ERS in April 2010. This study found, among other things, that USDA's rural development programs provide more funding per capita to totally rural areas (non-metro counties with less than 2,500 census-defined urban residents) and to distressed non-metro areas (persistent poverty, low employment, and population loss counties) than to non-metro areas in general. The study is available on line at www.ers.usda.gov/Briefing/ruraldevelopment/eib65.

The Rural Development Mission Area is often asked why USDA offers programs that offer assistance for home ownership, business and community development, public and waste water projects and electrical and biofuel ventures given that there are a number of other agencies that provide similar services. USDA provides these services specifically to rural communities that might not otherwise receive this funding. Moreover, our field structure allows our applicants to rely on Rural Development staff in state and area offices and assist them in the application process. However, the problem is that we only have the ability to bring our entire tool box to municipalities of fewer than 10,000 residents that are not adjacent to an urbanized area. Elsewhere, our role involves helping to find other partners to do what we are prevented from doing ourselves because of eligibility standards.

Rural Development also plays a somewhat unique role as the primary economic development arm of the Department of *Agriculture*. Eligibility standards for our loan, grant, and loan guarantee programs can lead to conflict with the Department's other priorities and missions, particularly in states that have been grappling with significant urban sprawl. By eliminating from the CONACT eligibility definition for business programs not just those cities and towns larger than 50,000 inhabitants but also the adjacent urbanized areas, Rural Development focuses financing in projects outside the incorporated area on surrounding farmland and open spaces. Prior to returning to USDA in March 2009, I served for six years as Deputy Secretary for Marketing and Economic Development in the Pennsylvania Department of Agriculture (PDA). One of my duties was to chair the Agricultural Lands Condemnation Approval Board, whose approval was required before State or local government entities could condemn preserved farmland for road improvements or other public uses. Our standard was to allow the conversion of farmland only when there was no reasonable and prudent alternative.

My PDA experience now stands in stark contrast to an eligible rural area standard for USDA's business programs that makes conversion of farmland the attractive first choice rather than the last resort for siting a business project. In several states, rapid sprawl has created urbanized areas in locations that were rural by anyone's measure only a decade ago. Congress took its first steps towards acknowledging sprawl problems in the 2008 farm bill by creating the potential for exceptions in the business programs. Projects could be sited in urbanized areas if, on a case-by-case basis, the Under Secretary for Rural Development determined that the site remained "rural in character". Attached to my testimony as Appendix 2 is a spreadsheet showing how RBCS has administered that new flexibility in fiscal years 2009 and 2010.

Finally, Mr. Chairman, Congress has acknowledged that there are circumstances in which the best economic opportunities for rural people – no matter how "rural" is defined – can be realized by financing projects located in urban areas with access to infrastructure and markets. The CONACT, for example, allows cooperatives to finance agricultural value-added processing ventures in urban areas through the Business & Industry Loan Guarantee program, provided the purpose of the co-op is help producers within an 80-mile radius of the facility and that jobs created would go primarily to rural residents.

The 2008 farm bill added three additional examples. In addition to the new programs in the Energy title, Section 6015 created a carve-out in the CONACT of at least five percent of funding in the Business & Industry Loan Guarantee program for local and regional food systems, with priority for projects that benefit urban, rural, or tribal underserved areas, often called food deserts. Also, section 6108 amends the Rural Electrification Act to authorize electric loans for renewable energy (solar, wind, hydropower, biomass, or geothermal sources) for resale to rural and non-rural residents.

Just as Congress has recognized in these programs that people in rural communities sometimes benefit from the economic activity that occurs in neighboring non-rural areas, USDA has been working with its current programs to respond to many rural communities' efforts to organize on a more regional basis. This work recognizes that USDA has the responsibility to utilize our programs in such a way that best supports the hard work and ingenuity of those who live in rural communities. As this work progresses, we believe that it may also inform this important discussion around rural definition.

Mr. Chairman, we look forward to receiving new census information over the coming months and with it a clear view of how rural America has changed over the last decade. We also look forward to continued discussions with this Subcommittee as to how best to meet evolving needs of rural citizens, helping them seize opportunities for economic growth that will help rural communities thrive. Thank you for holding today's hearing, and I would be happy to address any questions at this time.