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Rural Conditions and Trends

1999, Volume 10, No. 1

2 **Overview**
Key Changes Involve Transportation, Emergency Farm Aid, Training, and Public Housing

6 **General Assistance**
New Impetus for Several General Assistance Programs

13 **Infrastructure Assistance**
Transportation Programs Receive Big Funding Increases

18 **Business Assistance**
Microlending Is Latest Trend in Business Assistance

24 **Housing Assistance**
Federal Public Housing Programs Are Overhauled

30 **Transportation Reauthorization**
TEA-21 Authorizes Record Funding for Highways and Transit Through 2003

36 **Training and Vocational Education**
Training and Vocational Education Programs Are Revised

40 **Emergency Agricultural Assistance**
Legislation Boosts Farm Assistance to Highest Level Since 1993

46 **Tax Policy**
Additional Farm Tax Relief Among New Tax Measures

49 **Regulatory Policy**
Regulatory Policy Affects Rural Development in Many Areas

57 **Appendix A**
Rural Share of Selected Programs

59 **Appendix B**
Data Sources and Definitions

Key Changes Involve Transportation, Emergency Farm Aid, Training, and Public Housing

Federal assistance has increased significantly for highway and transit programs, and farmers are benefiting from emergency farm aid and new tax breaks. Meanwhile, Congress has overhauled the Federal training and public housing programs, giving State and local authorities more flexibility. Most other programs important for rural development are relatively unchanged. Rural areas will benefit, however, from 25 new rural Empowerment Zones and Enterprise Communities, and several other new general assistance initiatives. Areas of key regulatory policy changes include transportation, telecommunications, air pollution, land use and natural resources, and banking and finance.

Last year, Congress enacted legislation with important implications for all aspects of rural development, including transportation, housing, training, agriculture, and economic development. This issue of *Rural Conditions and Trends* (*RCaT*) examines these Federal policy changes, focusing on their potential implications for rural development. It includes special articles covering the reauthorization of Federal highway and transit grants, the reform of Federal training programs, and emergency agricultural assistance legislation. It also includes articles on each of four major types of development programs (infrastructure, housing, business, and general assistance) and reviews tax and regulatory changes affecting rural areas.

For the largest infrastructure, housing, business, and general assistance programs, we provide funding totals for 1998 and 1999, and indicate the percentage change from 1998 to 1999 (fiscal years, unless otherwise indicated). We also identify the region and type of rural county or State that is most likely to be affected by each program, using Census data on the geographic distribution of Federal programs, where possible. Data and definitions used to identify places affected by Federal programs are explained in appendix B, and an appendix table shows the rural share of funding for each of the major programs covered.

Economic Growth Paves Way for Increased Highway and Transit Aid

The most significant new legislation, at least in dollars, is the Transportation Equity Act for the 21st Century (TEA-21), which reauthorizes Federal highway and transit programs through 2003. This legislation was delayed 1 year because of divergent views on the appropriate level of assistance for surface transportation. However, an agreement was reached in 1998 guaranteeing surface transportation programs a certain portion of the Federal Budget. The resulting increase in funding for these programs was partially caused by economic improvements that increased Federal Government revenues.

TEA-21 increases funding for most types of surface transportation assistance, including highways and bridges, transit, and related environment/development programs. The overall magnitude of the programs ($218 billion over 6 years), the programs' large increase in funding (40 percent over previously authorized levels), and the fact that most of the funds are grants rather than loans, makes transportation aid stand out from other development assistance. This underscores the large and growing significance of highway and transit assistance in the development process and its key role in facilitating and shaping development nationwide.

The highway aid formula change should particularly benefit the more rapidly growing States in the South and West, which include a relatively large share of the rural population. TEA-21 also contains new provisions that should enhance the role of local officials in highway planning for rural projects, and authorizes significantly more funding for rural transit, which is important to meet the welfare-to-work challenge in many rural areas. These provisions are discussed in more detail in our special article on TEA-21.

Farmers Get Several New Forms of Assistance

Due partly to the economic difficulties in developing countries in Asia and elsewhere, agricultural prices were depressed for major commodities and many farmers experienced significantly lower income in 1998. This financial setback and other factors, such as drought, have led to various Federal measures to relieve the economic strain on farmers in 1998 and 1999. Some measures, such as ending sanctions against India and Pakistan to enable them to use U.S. guaranteed loans to buy U.S. farm products, are aimed at stimulating demand and, hence, indirectly boosting farm prices and income. Other mea-

sures have directly increased farm income by providing farmers with about $6 billion in emergency assistance and $1 billion in tax cuts over 5 years.

The emergency farm assistance and tax cuts for farmers are part of the 1999 supplemental spending package (P.L. 105-277), totaling $21 billion, which includes funding for anti-terrorism efforts, year 2000 computer solutions, Hurricane Georges disaster relief, and various military and intelligence programs (fig. 1). This assistance is in addition to the $6.1 billion that Congress provided in April 1998 (P.L.105-174) to supplement disaster relief and Bosnia peacekeeping efforts in 1998.

Emergency farm assistance is discussed in more detail in our special article on farm relief legislation. The 1998 legislation is significant in at least two respects. First, it provides substantial assistance to distressed farmers. Second, the major 1996 farm legislation had been expected to obviate the need for such assistance. The agricultural tax cuts are targeted to farmers with farm losses and little or no other income and are discussed in more detail in our article on tax policy.

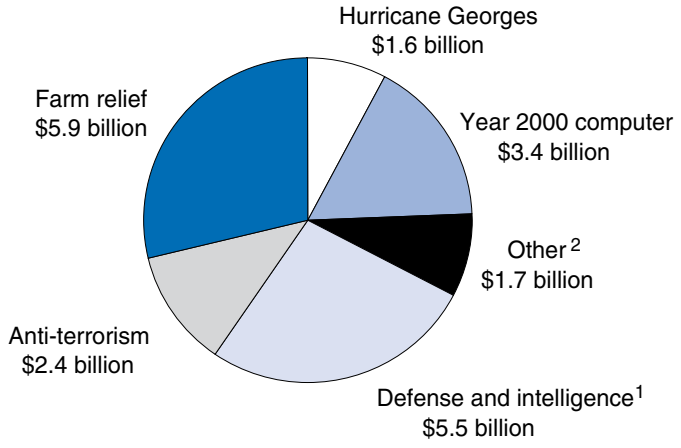
Some farmers will benefit significantly from settlements of two high-profile lawsuits. One was the tobacco deal. After Federal legislative efforts failed to settle the lawsuit between the States and tobacco companies, the States settled directly with the tobacco companies for $206 billion. Included in the deal was a $5 billion fund to compensate tobacco farmers for anticipated reduction in tobacco sales. The other lawsuit involved the Department of Agriculture's (USDA) settlement of the *Pigfurd* and *Brewington* class action discrimination lawsuits by African American farmers. Eligible farmers could receive up to $50,000 plus forgiveness of debt. The settlement could ultimately pay out as much as $1 billion in claims.

Training and Public Housing Programs Further Decentralize

In 1996, welfare reform created a more decentralized program in which States have more flexibility in structuring and operating their welfare system. Last year, Congress continued this decentralizing trend in revising training and public housing programs.

Figure 1
Emergency spending in the 1999 omnibus appropriation legislation

Farm relief accounts for more than one-quarter of emergency spending



[1]Includes military readiness ($1.1 billion), missile defense ($1 billion), Bosnia peacekeeping ($1.9 billion), and intelligence ($1.5 billion).

[2]Includes Defense/Coast Guard anti-drug program ($0.9 billion) and other miscellaneous items.

Source: ERS calculations, based on data from *CQ Weekly*, October 17, 1998, p. 2,800.

Two pieces of legislation overhaul the training programs. The first is the Workforce Investment Act, which covers those programs that had been part of the Job Training Partnership Act. This legislation has adopted a one-stop delivery system as the most efficient way of delivering assistance. State and local boards decide on the services to be delivered and to whom. A separate form of assistance is provided to eligible youths through academic and occupational training programs.

The second piece of legislation is the Carl D. Perkins Vocational and Technical Education Act of 1998, which overhauls vocational education and training assistance. This Federal aid helps schools that start and operate technical training programs to prepare students for jobs. The new legislation increases the amount of funding going to local schools and organizations, allowing States to reserve 10 percent of the funds for rural areas and several other special categories of places that might require more assistance than they would get directly from the formula aid distribution. The Workforce Investment Act and the Vocational Education legislation are discussed in more detail in the training and vocational education article in this report.

The public housing reform legislation is covered in our article on housing assistance. As was the case with the training legislation, public housing reform aims to provide local authorities with more flexibility in allocating resources. This moves toward greater use of performance-based policies. Projects will be systematically evaluated, and projects deemed "troubled" may be taken over by the Department of Housing and Urban Development (HUD) or an appointed receiver. Although the new law may result in more diversity and less concentration of low-income families in the rental properties, HUD's assisted housing programs continue to be targeted to low-income populations. For public housing, at least 40 percent of annual admissions must be below 30 percent of area median income; for Section 8 tenant-based assistance, at least 75 percent of annual admissions must be below 30 percent of area median income; and for Section 8 project-based assistance, at least 40 percent of annual admissions must be below 30 percent of area median income. HUD's assisted housing programs spend more money in urban areas than in rural areas, but they remain very important to the many rural communities with substantial numbers of low-income residents. Almost all rural counties benefit to some degree from these programs.

Other Themes Involve Infrastructure, Business, General Assistance, and Tax and Regulatory Changes

Funding for most of the larger development programs has not significantly increased or decreased. However, there are some notable exceptions. Among the infrastructure programs, the highway and transit programs, the public works program of the Economic Development Administration (EDA), and several USDA infrastructure programs have received substantial funding increases. These programs are discussed in our article on infrastructure programs. Budgets have been cut for several of the business assistance programs, including the Small Business loans guarantee (7a) program and USDA's Business and Industry loan program. These, along with microlending programs, are examined in our article on business assistance. Housing assistance is increasing for the rental and public housing programs, including USDA's Rural Rental Assistance program, and HUD's public housing assistance. These changes, plus a more detailed discussion of the overhaul of HUD's public housing programs, are discussed in our article on housing assistance.

Several general assistance programs (the Economic Development Administration and the Appalachian Regional Commission) have been reauthorized, and several other rural general assistance initiatives have begun or are growing in importance. Among the latter are a new $25 million HUD program devoted to rural housing and economic development, a new regional commission (the Denali Commission) assisting rural areas in Alaska, and grant funding for the second round of USDA's rural Empowerment Zones and Enterprise Communities. Congress also has authorized the creation of two new clearinghouses for rural economic development information (one in EDA, the other in HUD). These developments are discussed in more detail in our article on general assistance programs.

In addition to the tax breaks targeted to distressed farmers (mentioned earlier in this article), several other important tax changes take effect in 1999. These include the long-term extension (through 2007) of the tax incentives for ethanol fuels and the short-term extension (through July 1, 1999) of the work opportunity tax credit and the welfare-to-work tax credit. State volume limits on private activity tax-exempt bonds have been increased by about 50 percent, and farmers and other small rural businesses will benefit from increased deductions for health insurance costs of the self-employed. These and other tax developments are discussed in more detail in our article on tax policy.

Foremost among the developments discussed in our regulatory policy article is the more aggressive regulatory stance with air and rail transportation, due to the continuing consolidation of these industries and concerns for service to rural areas and industries. Other regulatory issues discussed in this article include the continuing legal battle involving telecommunications deregulation, EPA's new air pollution requirements, a variety of land use and natural resource policy changes, several changes affecting banking and farm credit institutions, and miscellaneous changes such as the possible introduction of new Census Bureau methods and definitions for data collection. Deregulation of electricity, discussed in last year's Federal Programs *RCaT*, might also have significant impact on rural economies. *[Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]*

New Impetus for Several General Assistance Programs

New legislation funds the second round of USDA's rural Empowerment Zone/Enterprise Community program, reauthorizes the Economic Development Administration and the Appalachian Regional Commission, creates a new rural development program, and extends several other recent initiatives.

General assistance programs offer flexible or comprehensive assistance to help communities with diverse needs, ranging from poverty-related problems to natural disasters. Most of the larger programs have maintained stable funding in 1999 (references to years in this article refer to fiscal years) (table 1). However, some new assistance is available, and Congress has reauthorized two programs to put them on a sounder footing.

USDA's Empowerment Program Gets Another Boost

The Empowerment Zone/Enterprise Community (EZ/EC) program provides comprehensive assistance to distressed communities that formulate holistic, strategic, sustainable

Table 1

Federal funding for selected general assistance programs by fiscal year[1]

Funding is relatively steady for most of the large general assistance programs

Program	1998 actual	1999 estimate	Change	Rural areas most affected by the program[2]
	Billion dollars		Percent	
HUD State/small cities community development block grants	1.26	1.27	1	Small towns and rural areas in Farm and poverty States
HUD section 108 loan guarantees	.38	—[3]	—[3]	Same as above
EDA adjustment assistance, includes economic and defense adjustment, planning, and technical assistance	.15	.15	0[4]	Low-income areas, vary from year to year[5]
FEMA disaster relief[6]	4.06	3.49	-14	Earthquake- and flood-prone areas
USDA's extension activities	.42	.44	5	Small towns and rural areas
BIA Native American assistance programs	1.70	1.74	2	Indian reservations

Note: HUD = Housing and Urban Development; EDA = Economic Development Administration; FEMA = Federal Emergency Management Agency; USDA = U.S. Department of Agriculture; BIA = Bureau of Indian Affairs.

[1]Unless otherwise indicated, new budget authority is used for funding levels.

[2]See appendix for definitions of rural areas and States.

[3]The amount of section 108 loan guarantees is mostly a function of demand by communities; thus, it is impossible to provide accurate estimates for 1999 or for change from 1998 to 1999.

[4]Funding increased by $1 million.

[5]In 1997, these programs provided the most assistance to rural areas in the South and West, mining- and government-dependent counties, poverty counties, and highly rural counties not adjacent to metro areas.

[6]FEMA funding amounts shown are for new obligations. The 1999 amount could rise when new national emergencies are declared and supplemental funding is supplied.

Source: *Budget of the United States Government, Fiscal Year 1999.*

development strategies over a 10-year period. Round 1 of the program designated 33 rural EZ/EC's (3 EZ's, and 30 EC's) in December 1994. In fall 1997, USDA was authorized to designate five new (Round 2) rural Empowerment Zones (EZ's) to receive tax incentives over 10 years. However, unlike Round 1, funding for the Round 2 zones was not appropriated at the time the competition was held and no provision was made at that time for any new Round 2 Enterprise Communities (EC's).

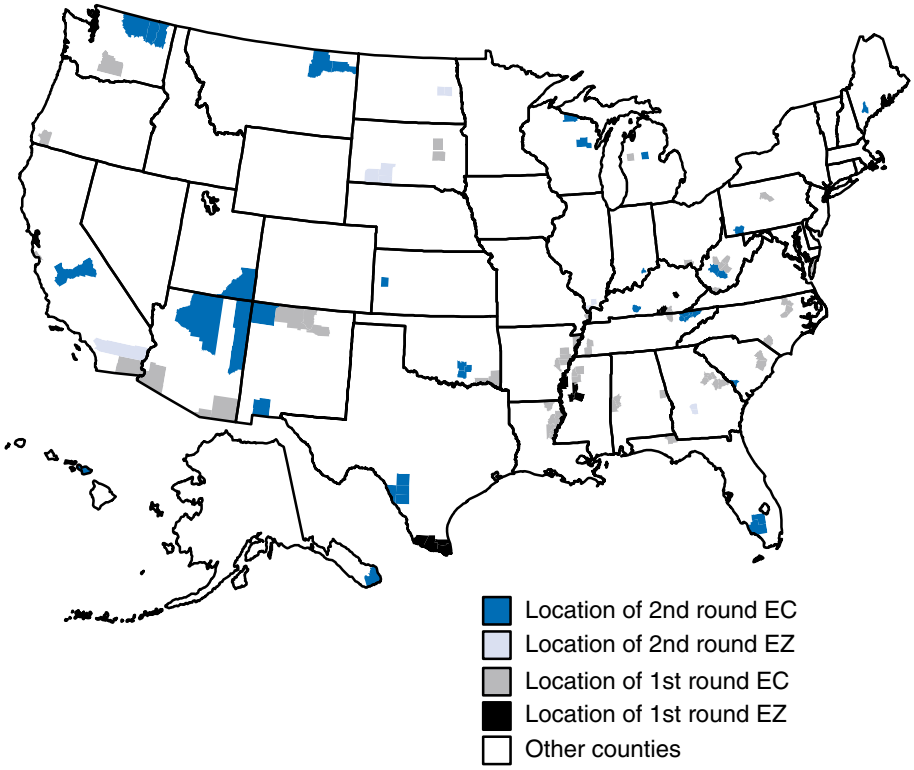
In 1998, Congress provided 1999 grant funds for this program, including $10 million in grants for the five (Round 2) rural EZ's ($2 million each). In addition, Congress authorized the creation of 20 new rural EC's, providing them with $5 million in grant money ($250,000 each). USDA had already solicited applications for the Round 2 EZ's, and from those applications it selected the 25 new rural EZ/EC's in December 1998. The new rural EZ/EC's are much more widely spread across the country than were the Round 1 EZ/EC's (fig. 1). This pattern is partly because Congress has allowed Round 2 to include Indian reservations (which are the only significant high-poverty areas in some regions of the country) and some EZ/EC's may now also qualify based on outmigration of population.

Although the initial grants for Round 2 are smaller than they were for Round 1 (Round 1 rural EZ's received $40 million in grants each, and rural EC's received about $3 million each), future appropriations are expected to provide additional grants for the Round 2

Figure 1

Rural Empowerment Zones and Enterprise Communities

The second round of Rural Empowerment Zones and Enterprise Communities is more widespread than the first round



EC = Enterprise Community; EZ = Empowerment Zone.
Note: The second round EZ in Georgia (Dooly/Crisp Counties) was converted from a first round EC.
Source: ERS, using information from USDA'S Rural Development mission area.

EZ/EC's. Another change is that USDA provides the new grants directly to the local EZ/EC, rather than State agency intermediaries indirectly providing the grants as with the Round I Social Service Block Grants (Title XX). Some of these intermediaries charged a fee for this service.

EDA and ARC Reauthorizations Help Solidify Their Programs

One of the big stories for rural development is the Economic Development Administration and Appalachian Regional Development Act of 1998 (P.L. 105-393), which reauthorizes both the Economic Development Administration (EDA) and the Appalachian Regional Commission (ARC) programs. Through much of the 1980's and 1990's, proposals to eliminate or reduce these programs were made, and both sustained budget cuts. Both EDA and ARC released independent evaluation studies that pointed to the effectiveness of their programs, aiding their efforts to gain reauthorization. The resulting legislation is the first major revision since the 1970's for these two agencies. This legislation is particularly significant for regional development organizations in rural areas because both programs operate through multi-county regional organizations (EDA employs Economic Development Districts; ARC employs Local Development Districts).

In many respects, the legislation formalizes practices that had already been adopted, but it also includes some new provisions. For example, for EDA, the legislation consolidates nine eligibility factors into three basic distress factors: high unemployment (1 percent above national average), low per capita income (20 percent below national average), and "special need" as determined by the Commerce Secretary, such as need associated with increased unemployment or the presence of a pocket of poverty or high unemployment. The legislation also establishes a clearinghouse for economic development information, requires regular evaluations of EDA's university centers and economic development districts, and limits the agency's share of project grants to 50 percent (total Federal Government share is limited to 80 percent) to encourage more local participation. The legislation also formalizes EDA's spending of funds in places adjusting to problems related to defense cutbacks and natural disasters.

The ARC reauthorization formalizes the agency's use of various categories of counties, defined as competitive (approaching parity with rest of country), attainment (already attained parity), transitional, and distressed (severe and persistent distress). Restrictive limits have been placed on funding for the economically strong counties (competitive and attainment), and the Federal share of funds to ARC projects has been limited to 50 percent—distressed counties can get up to 80 percent in Federal funds (see *RCaT*, Vol. 9, No. 1, for a map of ARC's distressed and nondistressed counties; see *Rural Development Perspectives,* Vol. 13, No. 3 for more information on ARC's programs). Though it remains up to ARC to define the county categories, the legislation requires that ARC review these categories annually. While reaffirming ARC's traditional emphasis on infrastructure investment, the legislation also endorses ARC's newer strategies that emphasize entrepreneurship, economic diversification, training, technology, and global competitiveness.

EDA is reauthorized through the year 2003 and ARC's nonhighway programs are reauthorized through 2001 (ARC's highway program was shifted to the Department of Transportation last year). Though EDA is reauthorized for a longer period, its authorized funding levels will decline from $398 million in 1999 to $368 million in 2000, leveling off at $335 million for the final 3 years. ARC's nonhighway program funding is authorized to rise slightly, from $68 million in 1999 to $69 million in 2000 to $70 million in 2001. The level of funding actually appropriated for these two agencies in 1999 is discussed later in this article.

Congress Establishes a New Rural Development Program

The Community Development Block Grant (CDBG) program of the Department of Housing and Urban Development (HUD) included a $25 million "set-aside" for rural economic development for 1998. This modest effort is being extended and formalized in 1999 by establishing HUD's new Office of Rural Housing and Economic Development,

funded with $25 million in new money (plus $7 million carried over from 1998). Although the funding is small compared with the amounts available under CDBG, this program is unique among HUD's programs because it is a direct Federal-to-local program benefiting rural areas nationwide, and it assists entities other than local governments. This will be a competitive program; eligible recipients include Indian tribes, State housing finance agencies, State community and/or economic development agencies, local rural nonprofit organizations, and community development corporations—local governments are not eligible. The objective is to support innovative housing and economic development activities in rural areas. Part of the program is reserved for capacity building and technical assistance activities, including $3 million for rural nonprofits, community development corporations, and Indian tribes and $1 million for developing a clearinghouse of ideas for innovative rural housing and economic development strategies.

Little Change in Funding for Most of the Large General Assistance Programs

The CDBG program provides general assistance to fund housing, infrastructure, and business development, both in urban and rural areas. This program has been appropriated $4.75 billion in 1999, including $526 million in "set-asides" for special purposes. The State/Small Cities portion of the CDBG program, which serves small cities and rural areas, plus some portions of metropolitan areas, has received $1.27 billion for 1999, up only slightly from the year before.

HUD's section 108 loan guarantees help communities finance housing rehabilitation, public facilities, and large-scale business development projects in both urban and rural areas. The legal limit for this program remains $1.3 billion, but the actual amount of loans guaranteed is determined by demand for the program and is unlikely to reach this limit. In 1998, this program provided for $382 million in loan guarantees, up from $189 million in 1997. While it is difficult to estimate the amount for 1999, this remains one of the largest credit programs offering general assistance. In 1999, a new risk assessment approach will be used in an attempt to provide differential subsidies to loans with different risks; the goal is to improve the secondary market resale for these loans.

The Department of Commerce provides general assistance to both rural and urban areas as part of its economic development assistance programs administered by EDA. EDA provides three types of general adjustment assistance: planning, technical, and economic/defense adjustment assistance (EDA's large public works program is discussed in the article on infrastructure). These programs focus on job generating to adjust for local economic problems. Funding for these general assistance programs remains relatively stable in 1999 with $24 million for planning grants, $9 million for technical assistance, and $119 million for adjustment grants (including $85 million for defense adjustment and $34 million for economic adjustment). Additional funding goes to communities adjusting to natural disasters. EDA's general assistance programs help many rural economic development districts throughout the country (fig. 2).

While Congress provides funds from a variety of programs to assist communities recovering from natural disasters, the Federal Emergency Management Agency's (FEMA) disaster relief grants provide most of this kind of assistance. In 1998, FEMA's disaster relief totaled $4.1 billion. For 1999, FEMA has received $3.5 billion (includes unobligated beginning year balance) for such disasters, but the total could rise above 1998 levels if additional disasters require substantial supplemental funding.

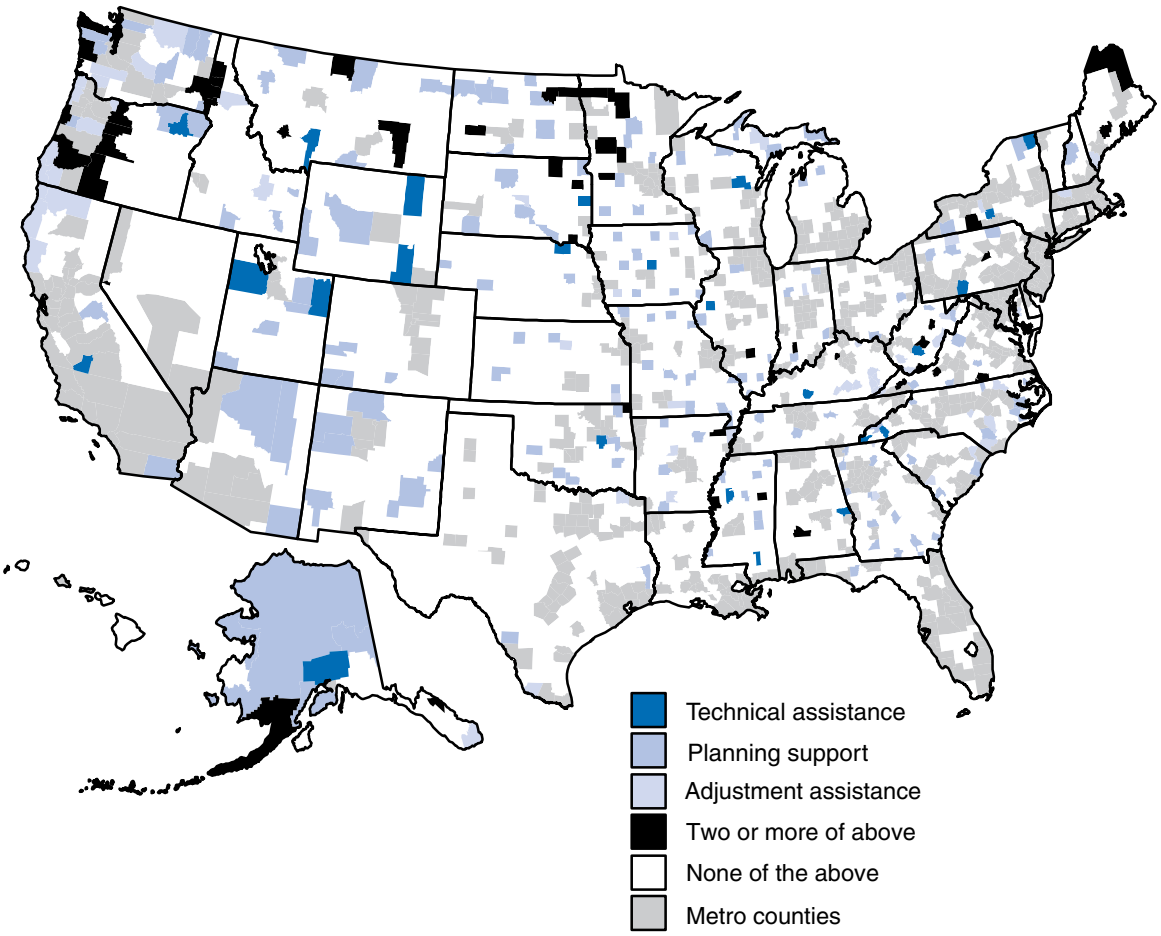
USDA's Cooperative State Research, Education, and Extension Service funds research-based technical assistance that helps rural communities adopt a wide range of farm and nonfarm development strategies. Federal funding for extension activities has grown slightly—from $423 million in 1998 to $438 million in 1999.

Funding for the Interior Department's Bureau of Indian Affairs (BIA) has increased slightly, from $1.70 billion in 1998 to $1.74 billion in 1999. The BIA programs provide general assistance to Indian reservations, mostly located in rural areas. Indian reservations also have received $67 million in set-aside CDBG funds for general assistance.

Figure 2

Counties receiving general development assistance from the Economic Development Administration, fiscal year 1997

Planning support is the most common form of general assistance



Note: Excludes Public Works Assistance, which is covered in our article on infrastructure assistance.
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

Small Programs Also Supply General Assistance

Small general assistance programs tend to focus on specific regions or places. Some of these programs are getting more funds this year than last. For example, ARC nonhighway programs, which were just reauthorized (see previous discussion), actually received $70 million for 1999, $3 million more than was appropriated for 1998. (These appropriation amounts differ only slightly from the amounts provided earlier in the authorizing legislation.) Included is $61 million for area development, $5 million for local development districts and technical assistance, plus $4 million in salaries and expenses.

Joining ARC in 1999 is a new regional development commission, the Denali Commission, which will provide economic development and job training assistance in distressed rural communities in Alaska. The Denali Commission has been authorized for 5 years and has received $20 million in 1999 to start up its operations. Meanwhile, a third regional development entity, the Tennessee Valley Authority, has withstood efforts to terminate Federal funding of its nonpower development programs, receiving $50 million in 1999, down from $70 million in 1998.

The Interior Department's payments in lieu of taxes have increased, from $120 million to $125 million. These payments go to areas that must forgo local taxes on Federal lands within their jurisdictions. This increase primarily benefits the West with its substantial Federal land holdings.

USDA has several small programs that provide general assistance. USDA's Forest Service helps natural resource-dependent and persistent-poverty communities increase skills and capacity to manage change, including efforts to diversify economies, strengthen social infrastructure, and increase community participation in land stewardship activities. The Economic Recovery, Rural Development, and Forest Products Conservation and Recycling programs provide direct technical and financial assistance. Funding for these programs has fallen only slightly, from $10.1 million to $9.9 million, in 1999.

Funding for USDA's Resource Conservation and Development (RC&D) program is steady at $35 million. Administered by USDA's Natural Resources Conservation Service, this program provides assistance to 315 designated RC&D areas to address local environmental, economic, and social needs.

USDA's rural economic development grants and loans cover project feasibility studies and startup costs, business incubators, and other rural development activities. For this program, loans will fall from $25 million in 1998 to $15 million in 1999 (loan levels for this program, however, remain higher than in 1997), while grants will hold steady at $11 million. Another USDA-Rural Development program, the Business Opportunity Grant Program, will provide about $1 million for local planning and technical assistance related to community economic development.

USDA's Fund for Rural America operated last year with $34 million for research related to rural development, environmental issues, and agricultural competitiveness. Funds were not available to administer the program in 1999, though research projects already funded will be implemented.

Several Initiatives Continue

The Brownfields National Partnership to help clean up and redevelop polluted sites in disadvantaged communities is now in its second year, with a 2-year budget of about $300 million. This 15-agency effort includes assistance from the Environmental Protection Agency (EPA) to fund assessment and cleanup operations and related training, from HUD to provide community development and housing assistance, and from EDA and the Small Business Administration (SBA) to provide economic development assistance. For 1999, EPA has been provided with $91 million ($4 million more than last year), and HUD has received $25 million for its economic development initiative grants for brownfields (the same amount as last year). HUD will target section 108 loan guarantee assistance to this effort, and brownfields have become permanently authorized as an acceptable use for HUD's CDBG program. Although EDA has no special funds for brownfields projects, it spent $79 million from existing programs last year on 78 brownfield projects, and will continue this effort in 1999. While most brownfields are located in urban areas, some high-poverty rural areas should benefit from this initiative, particularly places where land for development is scarce, such as in mountainous areas.

The Community Development Financial Institutions (CDFI) initiative's budget has been increased from $80 million in 1998 to $95 million in 1999. This initiative, which began in 1996, revitalizes distressed urban and rural communities by helping selected financial organizations extend credit and provide technical assistance to promote community development. As of the beginning of 1999, 273 CDFI's were certified by the Department of Treasury's CDFI Fund to receive Federal assistance. These CDFI's provide a wide range of financial products and services, including mortgage financing to first-time homebuyers, rental housing rehabilitation, startup business loans, and basic retail/consumer financial services for low-income residents.

The American Heritage Rivers initiative designated 14 rivers for assistance to help restore and revitalize waterfront areas. These include the Blackstone/Woonasquatucket River

(MA, RI), Connecticut River (CT, VT, NH, MA), Cuyahoga River (OH), Detroit River (MI), Hanalei River (HI), Hudson River (NY), Lower Mississippi River (LA, TN), New River (NC, VA, WV), Potomac River (DC, MD, PA, VA, WV), Rio Grande River (TX), St. Johns River (FL), Upper Mississippi River (IA, IL, MN, MO,WI), Upper Susquehanna/Lackawanna Rivers (PA), and the Willamette River (OR). Using bottom-up plans from State/local partnerships, Federal agencies will focus resources from existing Federal programs to provide assistance.

The Northwest Economic Adjustment Initiative has been extended, but without significant new funding. This initiative assists workers, tribes, and communities hurt by reduced Federal timber harvests in Oregon, Washington, and northern California. Rural areas are the primary beneficiaries. Various Federal agencies (USDA, Labor, EDA, EPA, HUD, Interior, SBA, Commerce) provide financial and technical assistance through a comprehensive approach to revitalization, coordinated with State and local efforts. Although the initiative has been extended through calender year 2000, Congress has provided no additional funding. Federal, State, and local partners will continue to work collaboratively to benefit affected communities and workers, and some Federal agencies, such as USDA's Forest Service and Rural Development, will provide reduced amounts of funding in 1999 to help during this transitional period. *[Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]*

Transportation Programs Receive Big Funding Increases

Reauthorized highway and transit legislation has funded transportation at record levels in 1999. Most other rural infrastructure programs, including environmental and telecommunications programs, also have received higher funding.

Funding for the Nation's roads and mass transit systems is up sharply in 1999 with passage of the Transportation Equity Act for the 21st Century (TEA-21) (P.L. 105-178) (see "TEA-21 Authorizes Record Funding for Highways and Transit Through 2003," pg. 30, in this issue). TEA-21 authorizes a record $218 billion for highway and transit programs over the next 6 years (fiscal years 1998-2003), a 40-percent increase over the previous 6-year period. The majority of funding for most highway, highway safety, and transit programs is guaranteed. Highways, which are funded under the Department of Transportation's (DOT) Highway Planning and Construction Program, have received a record $28.2 billion in 1999, up 18 percent from 1998 funding levels (table 1). This program is important in many nonmetro counties, especially in the West where per capita allocations are highest.

Funding for public transit has increased sharply under TEA-21, with the main rural transit program (section 5311) receiving $178 million in 1999, a 32-percent increase. Rural transit also benefits from an increase in the share of funds available under the Nation's transit funding formula, growing 16 percent during 1998-2003. For the first time in the program's history, transit funding increases are largely guaranteed or "walled-off," assuring an estimated 80-percent return on authorized funding levels. These changes will likely benefit nonmetro service-dependent counties, which are clustered in parts of the West and the Midwest.

The Appalachian Development Highway System, the main road-building program of the Appalachian Regional Commission, has received $450 million in 1999, a 50-percent boost from the prior year's funding level. Funding for this program, the stated objective of which is to provide Appalachia with a modern system of four-lane highways, may benefit rural industries located in Appalachia, such as mining, manufacturing, tourism, recreation, and service industries.

Other Rural Transportation Programs

The $1.6 billion (1999) Airport Improvement Program, which provides grants for airport capital projects, such as runway repaving, control tower improvements, and aviation safety projects, is unchanged from the previous year. Nonmetro service-dependent counties, which are located throughout the Nation, with clusters in the West and Midwest, have received the highest per capita funding for this program. The Essential Air Services program, which funds air service for small communities that lost service after deregulation, has received $50 million in funding for 1999, unchanged from the year before. This program mostly benefits a small number of rural communities, mainly in the Midwest, the Rocky Mountain States, and Alaska (see *RCaT*, Vol. 9, No. 1) .

Amtrak has received $609 million in funding in 1999, which represents a 23-percent decrease from the prior year but remains in line with a 1997 agreement to decrease funding levels for day-to-day operations. Although Amtrak continues to gain significantly in ridership, most small towns are not greatly affected because relatively few nonmetro communities have passenger rail service.

Few Changes to Environmental Infrastructure Programs

The Environmental Protection Agency's (EPA) Drinking Water State Revolving Fund (SRF) program, which makes low-interest loans to public water systems and provides grants to Indian tribes and Alaskan Native villages as a means of improving local drinking water systems, has received $775 million in Federal funding for fiscal year 1999, an increase of 7 percent from the year before. The Clean Water State Revolving Fund, which provides financial assistance for wastewater systems, has received $1.35 billion in

1999, unchanged from 1998. Another important EPA rural water program, the U.S./Mexico Border Program, which provides funds to support the planning, design, and construction of high-priority water and wastewater and drinking facilities along the U.S./Mexico border, has received $50 million in 1999.

The largest USDA infrastructure program, the Water and Waste Disposal Program, provides loans and grants to small (10,000 or fewer residents) rural communities for establishing, expanding, and modernizing water and waste disposal facilities. Communities must first be denied access to commercial credit to be eligible for assistance. This program will

Table 1

Federal funding for selected rural infrastructure programs by fiscal year

Funding has increased for most infrastructure programs in 1999

Program	1998 actual	1999 estimate	Change[1]	Rural areas most affected by the program[2]
	Billion dollars		Percent	
DOT Highway Planning and Construction Program[3]	23.82	28.19	18	Counties in the West
DOT Airport Improvement Program[3]	1.60	1.60	0	Services-dependent and Federal land counties
EPA Drinking Water State Revolving Fund[3]	.73	.78	7	Disadvantaged communities with small water systems
EPA Clean Water State Revolving Fund[3]	1.35	1.35	0	Government counties in the South
USDA Water and Waste Disposal Program	1.32	1.32	0	Totally rural and persistent-poverty counties
USDA Community Facility Program	.29	.39	36	Totally rural counties in the South
EDA public works grants	.18	.21	16	Manufacturing counties
USDA telecommunication loans[4]	.40	.50	25	Rural areas in general
USDA Distance Learning and Telemedicine Program	.03	.16	523	Rural areas in general
USDA Electric Loan Program	.93	1.07	15	Rural areas in general

Note: USDA = U.S. Department of Agriculture; DOT = U.S. Department of Transportation; EPA = U.S. Environmental Protection Agency; EDA = Economic Development Administration, U.S. Department of Commerce. County types are defined in the appendix.

[1]Change is computed using actual amounts in millions of dollars, rather than rounded amounts shown in table.

[2]See appendix for definitions of rural areas.

[3]Includes funding for urban areas.

[4]Excludes Rural Telephone Bank loans.

Source: *Budget of the United States Government, Fiscal Year 2000*.

provide $1.32 billion in loans (primarily direct loans) and grants for 1999, unchanged from the prior year. This aid supports USDA's Water 2000 initiative, which targets Federal investment to rural communities having the most serious drinking water quality, quantity, and dependability problems. In 1999, the program is expected to create over 36,000 rural jobs, provide new water services to nearly 540,000 rural residents, and improve water services for over 1.1 million rural residents. Safe, affordable sewage disposal service will be provided to approximately 515,000 rural people. The location of water systems and other utilities served by USDA's Rural Utility Service are shown in figure 1.

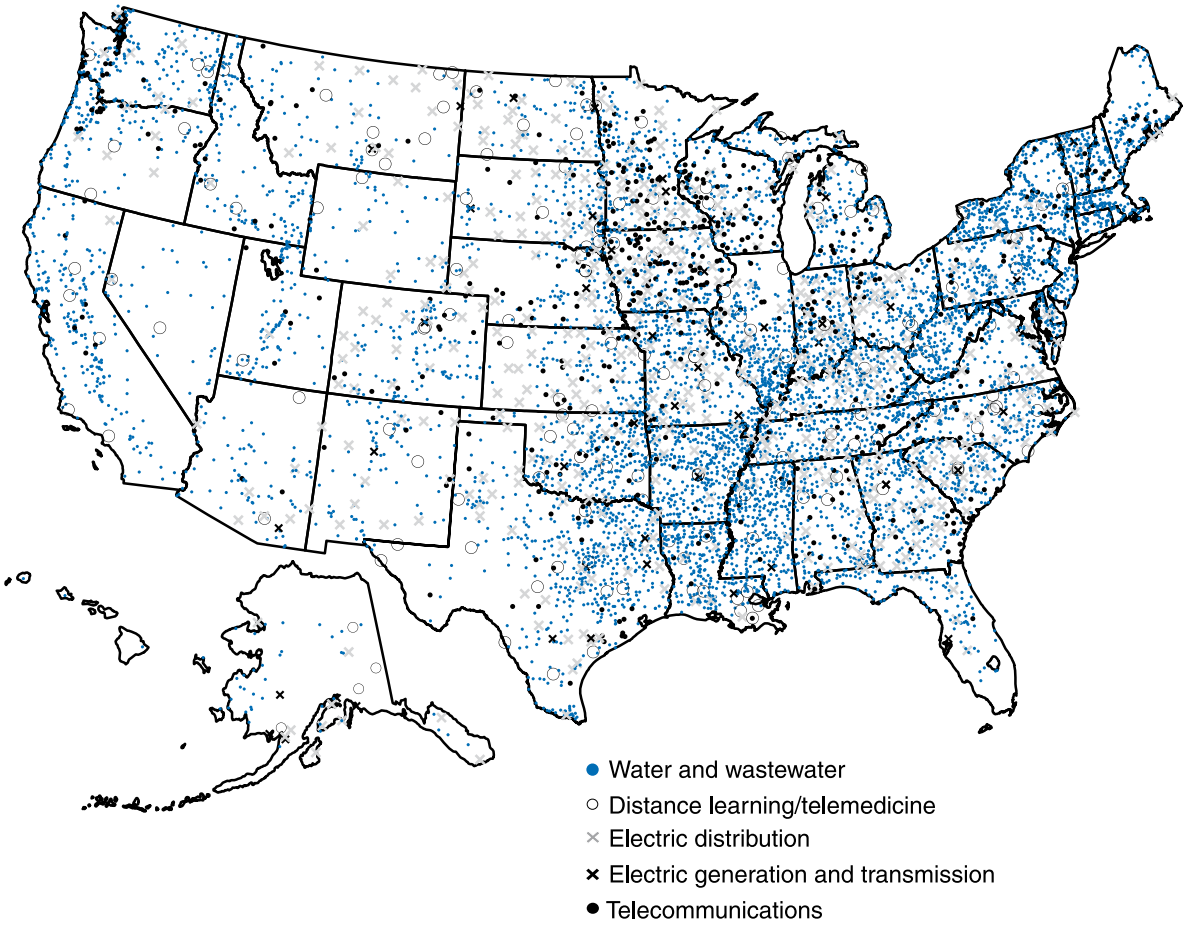
Other Infrastructure Programs

Most of USDA's other infrastructure programs are expected to finance larger amounts of infrastructure for fiscal year 1999 by increasing money available for guaranteed loans while reducing funds for direct loans. For example, the Rural Housing Service's $387 million (1999) Community Facility Program, which provides loans and grants for essential community facilities in rural areas, will get a 36-percent boost in funds compared with 1998. Guaranteed loan funds for this program have increased 223 percent, direct loan funds have decreased 19 percent, and grant funds have fallen 22 percent. Funds are allocated to each State based on its rural population, with the program mainly assisting totally rural areas in the South in recent years. The Forest Service's $242 million (1999)

Figure 1

Headquarters of utilities that are currently active borrowers of the Rural Utility Service, 1999

The Rural Utility Service benefits rural areas Nationwide



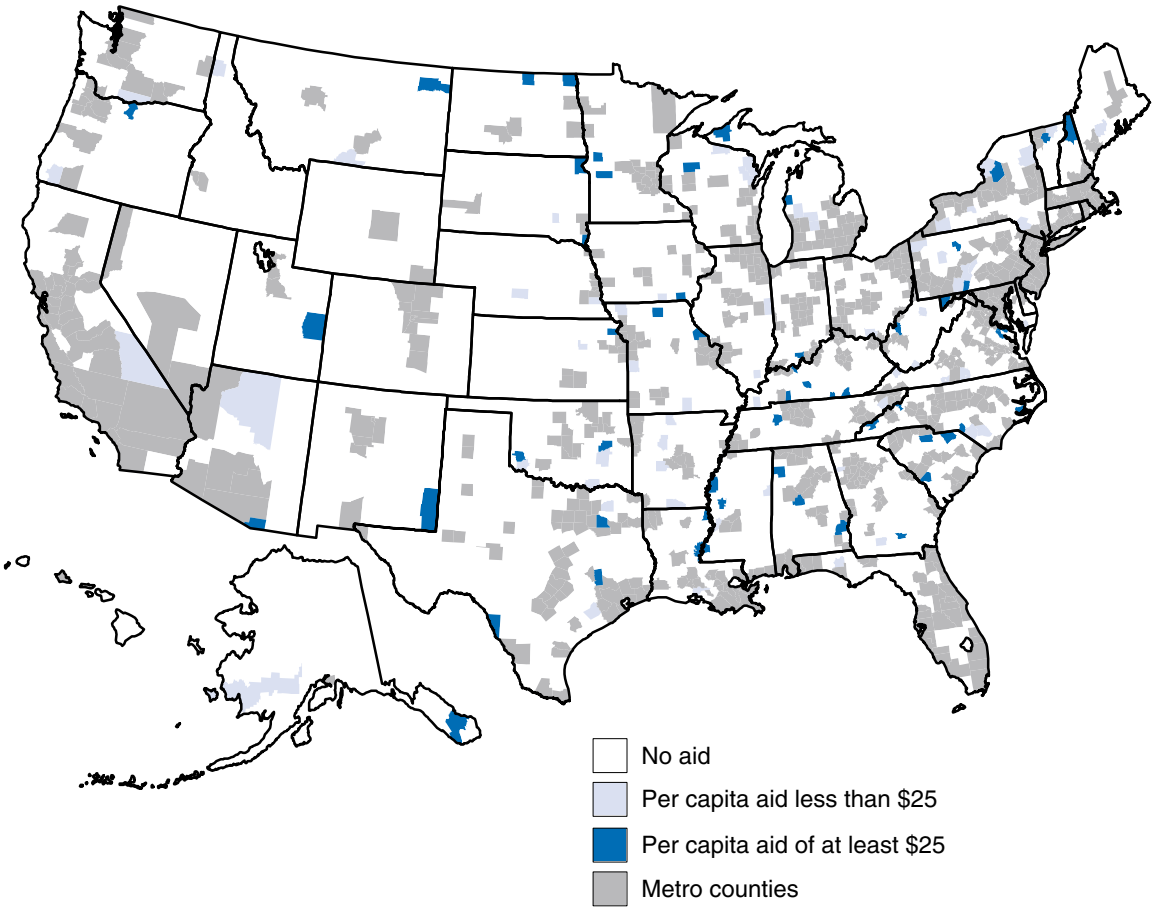
Source: ERS, based on USDA, Rural Utility Service.

Payments to States program, which provides grants for public schools and roads on national forest lands, has grown by 3 percent.

Economic Development Administration (EDA) public works grants help distressed communities create jobs by attracting new industries, promoting business expansion, and diversifying local economies. This Commerce Department program particularly benefits isolated rural counties (fig. 2). EDA funds have been used for a variety of public facilities, such as water and sewer systems, industrial access roads, port and railroad facilities, and business incubators. Funding for the EDA Public Works Grants program has increased by 16 percent for 1999 to $206 million. This program has been reauthorized, with some provisions rewritten (see General Assistance article).

The Tennessee Valley Authority (TVA), the quasi-Federal agency that provides flood control, navigation, and electric power in the Tennessee Valley region, has had power proceeds and borrowings of $6.1 billion in 1999, unchanged from the year before. TVA's role as the sole supplier of electric power to a largely nonmetro area of 80,000 square miles in the South is currently under review as Congress considers ways to restructure the electric power industry.

Figure 2
EDA Public Works Grants
Isolated counties receive highest levels of aid, per capita



Source: Calculated by ERS using Census Bureau data.

USDA's $495 million (1999) telecommunications loans are projected to grow by 25 percent over 1998 levels. Due to a decrease in appropriations, the $157 million (1999) Rural Telephone Bank loan program represents a projected decrease of 7 percent. These programs, important in totally rural counties, provide loans for upgrading and expanding telecommunications facilities that serve nonmetro residents. The great demand continues for program funds from USDA's $162 million Distance Learning and Telemedicine Program, which provides loans and grants to improve rural education and health care through advanced telecommunication technologies. The program is projected to grow by over 500 percent in 1999, due to increased loan activity. The Commerce Department's Information Infrastructure Grants program, which promotes the widespread use of telecommunications (the so-called Information Super Highway) to improve the quality and accessibility of various teleservices, such as health care and education, has received $18 million for 1999, a 10-percent cut.

USDA's $1.07 billion (1999) Electric Loan Program, which provides loans for upgrading and expanding electric services to rural residents, is projected to grow by 15 percent in 1999. This aid supplements money available from private credit sources and is most important to rural residents in totally rural areas and persistent-poverty counties. *[Dennis Brown, 202-694-5338, dennisb@econ.ag.gov]*

Microlending Is Latest Trend in Business Assistance

Business loans are projected to grow for the largest loan guarantee programs. Microlending, however, is a new and important trend, and the largest percentage increase in projected loans is in the Small Business Administration's microlending program.

Many sources of financing are available for small businesses. According to recent studies, commercial banks are the main source of small business funding; other sources include venture capital, finance companies, brokerage companies, insurance companies, and other financial institutions. For very small businesses, personal equity or credit cards often provide needed financing, and some businesses rely almost entirely on noncommercial financing provided through not-for-profit organizations. In terms of location, most small businesses acquire their needed capital from small local financial institutions. Local institutions, private and nonprivate, are believed to have an advantage in acquiring needed information about the economic viability of the business and, thus, can better assess the risk and financing needs of the business.

The larger Federal business assistance programs have adapted over the years to this borrower-lender structure and predominately function to reduce financial risk for lenders, through loan guarantees, and, thus, increase access to needed capital for high-risk borrowers. In those cases where businesses are startups or where information gaps preclude lenders from properly assessing loan potential, Federal programs provide more direct sources of debt and venture capital. However, these programs are increasingly offered through third-party, not-for-profit intermediaries and are usually offered in conjunction with additional programs that support increasing the human capital of the borrower.

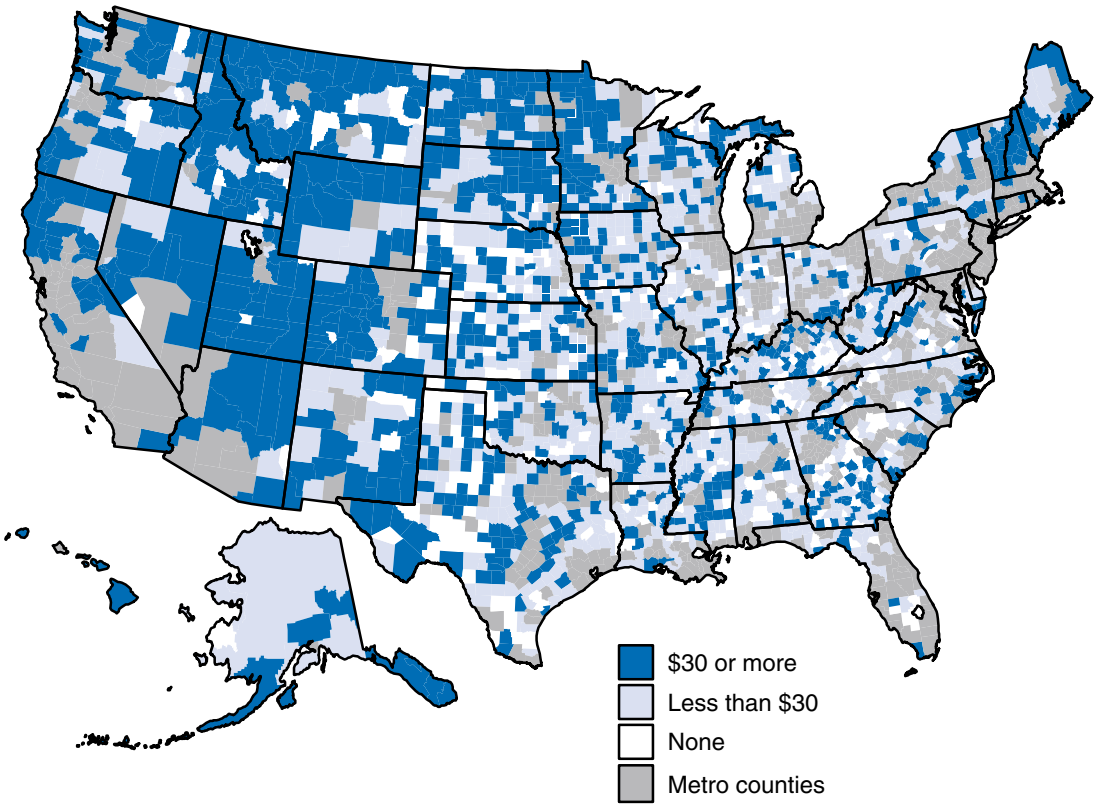
Demand for small business assistance may have declined recently because potential entrepreneurs are being attracted to job opportunities in existing businesses that are participating in the strong growth in the national economy. According to data from the National Federation of Independent Businesses (NFIB), fewer new businesses are being launched. Despite an abundance of credit and other bright economic conditions for startups—not to mention the success stories about young entrepreneurs striking it rich—the number of businesses started in the United States is on the decline. A recent study by the NFIB found that business starts fell 4 percent in 1997 on top of a 14-percent drop in 1996. Preliminary figures for 1998 point to a third consecutive decline. In all, 2.9 million businesses were launched in the United States in 1997 compared with 3.5 million in 1995. However, the NFIB study shows that, while fewer businesses are being launched, fewer small businesses are failing as well. Only 1.3 million small businesses folded in 1997, down from 1.6 million in 1996.

Of the 2,276 nonmetro (rural) counties, the highest level of per capita business assistance in 1997 was in the West, North Central, and New England regions (fig. 1). There were 332 nonmetro counties that received no assistance. The largest single business assistance program continues to be the Small Business Administration's (SBA) 7(a) guaranteed lending program, dwarfing all other programs in terms of dollars appropriated and loans made as a result. But, more interesting than the large, higher profile programs, are the smaller ones that offer funding to microenterprise or very small businesses. These microenterprise programs are of interest because of their possible positive effects on welfare-to-work efforts and on providing the very poor and the unemployed a foothold on the economic ladder. The most recent data available suggest that approximately 13.7 percent of the population, or more than 36 million individuals, live in poverty. Of the total population, 5.2 percent were unemployed over the past 2 years. The microenterprise programs that help these low-income and unemployed populations are often funded through revolving loan funds.

Microenterprise Lending Is a Relatively New Phenomenon

The Small Business Administration (SBA), USDA's Rural Business-Cooperative Service (RBS), and Commerce Department's Economic Development Administration (EDA) are

Figure 1
Per capita Federal nonmetro business assistance, fiscal year 1997
Business assistance was greatest in the West, North Central, and New England regions



Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

each directly or indirectly involved in development financing's latest trend. SBA has its section 7(m) Microloan program which utilizes community based nonprofit lending and training organizations across the country. RBS has its Intermediary Relending Program (IRP) that funds Revolving Loan Fund's (RLF's) making microloans, and EDA's Economic Adjustment Program (EAP) also supports RLF's making microloans. Microloan activity is also being supported by ACCION International in four major metropolitan areas, and other intermediaries have various levels of microloan activity underway.

What is microlending? Microloans are typically smaller than $5,000 per loan, although SBA's Microloan program will make loans up to $25,000. Typically, microloans are too small to be economically viable for traditional banks to make. These loans are usually targeted at individuals who have economically valuable human capital, but lack the necessary money or credit to buy physical assets needed to start or expand a business.

Microcredit or lending began in earnest in 1983 in Bangladesh, India. What began as an experiment has grown into a multibillion dollar lending mechanism used in many developing countries. In the last 7 to 8 years, various attempts have been made to transplant the financing technology to the United States.

International experiences have taught us important lessons over the years. The most important is that capital access is the main issue, not capital cost. All successful microloan programs have charged above-market interest rates that appropriately reflect risk. However, in most cases, the lenders have remained dependent on other outside

sources of funding to cover overhead and management expenses. Loan default rates have been kept low by using peer lending groups in lieu of traditional forms of collateral.

Microloan programs tend to be most successful in areas with a large pool of prospective borrowers who have undercapitalized labor skills. If individuals must sell their skills at near zero prices because someone else controls essential elements of production or distribution, then giving them access to capital to overcome a real credit constraint can empower these individuals and provide very positive returns to both labor and capital. Couple that with training to improve production methods and financial management, and positive things happen.

Studies indicate that rates on microloans need to be high enough to cover the costs of loanable funds plus overhead. In the United States, however, many programs are still funded by loans with subsidized interest rates, such as the IRP's 1-percent loans. This high-interest subsidy cost reduces the number of high-risk loans that can be financed with a given level of program budget authority.

Largest SBA Programs Projected To Grow in 1999

The Small Business Administration (SBA) provides the largest amount of business loans, most of it through its two largest programs, the section 7(a) and the section 504 programs (table 1). Use of SBA's section 7(a) guaranteed loan program declined last year after having increased dramatically in prior years. However, SBA projects that this program will grow in 1999.

The 7(a) program provides loans to small businesses unable to secure financing on reasonable terms through normal lending channels. The program operates through private-sector lenders that provide loans, which are, in turn, guaranteed by the SBA. In 1992, SBA made or guaranteed approximately 24,000 loans totaling about $5.9 billion. In 1998, SBA approved over 42,000 loans totaling over $8.5 billion, down slightly from 1997, when SBA financed 45,000 loans totaling $9.5 billion. The decrease may reflect the robust economy's pull on potential small business entrepreneurs.

In 1997, nonmetro areas received $19.45 ($24 in 1996) in per capita small business 7(a) guaranteed assistance, somewhat less than the $27 (no change) received in metro areas; the nonmetro areas that benefited most were in Southern counties not adjacent to metro areas and in counties specializing in services and farming.

Activity in the SBA's large section 504 Certified Development Company (CDC) program has also grown. A CDC is a nonprofit corporation set up to invest in the economic development of its community or region. CDC's work with the SBA and private-sector lenders to provide growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. There are about 290 CDC's nationwide. Each covers a specific area.

In 1992, this SBA program provided for about 2,000 business financings totaling nearly $560 million in loans. By 1998, those figures had increased to 4,930 financings and $1.8 billion in loans. SBA projects this program will increase its activity level again in 1999.

Metro areas tend to benefit more from this program than nonmetro areas. In 1997, nonmetro counties on average received just over $4 per capita in 504 loan guarantees compared with nearly $6 per capita in metro counties.

In contrast to these two large loan guarantee programs, the smaller disaster direct loan program is projected to decline in 1999. This could change, however, if new disasters result in supplemental disaster loan funding later in the year.

In 1998, SBA continued to increase its service to minority and women borrowers. To increase capital access for those small businesses that have had unusually difficult times obtaining financing, SBA expanded the pre-qualification loan program. Pre-qualification is performed by selected nonprofit and for-profit groups working with small business loan applicants one-on-one to develop viable business plans and loan packages. Once SBA

Table 1

Federal funding for selected business assistance programs by fiscal year[1]

Most business loan guarantee programs are expected to increase their loan activity in 1999

Program	1998 actual	1999 estimate	Change	Rural areas most affected by the program[2]
	Billion dollars		Percent	
SBA 7(a) business loan guarantees	8.50	10.50	23	Service counties and counties in West
SBA Certified Development Loan Company guarantee (section 504)	1.80	3.00	66	Service counties and counties in West
SBA disaster loans	.64	.40	-37	Places experiencing disasters
RBS Business and Industry loan guarantees (B&I)	1.2	1.0	-16	Manufacturing counties and counties in the West
RBS Intermediary Relending Program	.04	.03	-6[3]	Nonspecialized counties and counties in West
RBS Rural Business Enterprise Grants (RBEG)	.04	.04	0	Manufacturing counties and counties in South
EDA Economic Adjustment Grants[4]	.03	.03	0	Government and poverty counties and counties in the South

Note: SBA = Small Business Administration; RBS = Rural Business-Cooperative Service, U.S. Department of Agriculture; EDA = Economic Development Administration, U.S. Department of Commerce.

[1]Budget authority used for grant programs; projected loan levels (obligations or program level) used for loan programs. Note that, in some cases, budget authority may be falling at the same time that projected loan obligations are rising. This can happen for any number of reasons, including making use of greater efficiencies, reducing subsidies, charging fees, and using unobligated balances of funds from prior years.

[2]See appendix for rural area definitions.

[3]Loans are projected to decline from $35 million to $33 million, but budget authority remains constant.

[4]This represents just part of the larger EDAP program (see text); many of these grants are used to support revolving loan funds that issue loans to businesses; hence, a larger number of loans will result than indicated by this budget authority amount.

Source: *Budget of the United States, Fiscal Year 1998*.

finds the borrower to be eligible and creditworthy, it issues a pre-qualification letter to lenders indicating that the application appears appropriate for an SBA loan. The borrower then takes the entire package to a lender.

SBA originally launched a Women's Pre-Qualification Loan Pilot Program in June 1994. During the pilot, more than 2,220 pre-qualification loan applications were prepared and submitted to SBA. Of those, 1,460 received SBA commitment letters and more than 1,100 received SBA guaranteed loans. Of those, 818 loans valued at $80 million were for women, and 284 loans, valued at $32 million, were made to minority-owned firms. In addition, SBA provided $700,000 to enhance the Tribal Business Information Center

Program, as well as other initiatives to improve Native Americans' access to capital markets. SBA also continues to increase its targeting of the 7(a) and 504 programs to African American entrepreneurs. For example, in fiscal 1997, SBA provided 1,903 guarantees valued at $286 million to African American borrowers.

USDA's Largest Business Assistance Program Is Also Projected To Grow

The main business assistance programs of USDA's Rural Business-Cooperative Service (RBS) are the Business and Industry (B&I) program, the Intermediary Relending Program (IRP), and the Rural Business Enterprise Grants (RBEG) program. Unlike other Federal business assistance programs, RBS's programs target rural areas. Generally, RBS programs are available to communities with less than 50,000 population; in the case of the IRP, city populations are limited to 25,000. Also, RBS still maintains direct lending programs that are targeted to the poorest of counties.

Between 1993 and the end of fiscal year 1998, RBS approved 2,623 guaranteed B&I loans totaling over $3.4 billion and averaging $1.3 million. Over the 5-year period, B&I loans increased by almost 250 percent. RBS approved 803 loans in fiscal year 1997 for $1.2 billion. While guaranteed loans were approved for borrowers in every State, the largest number of loans went to California, Florida, and North Carolina, where more than 400 loans for over $508 million were approved. In fiscal 1997, per capita funding to rural counties was $9 compared with $19 for the SBA's 7(a) program. The subsidy costs for B&I loans was about 1.3 cents per dollar of loan.

RBS's IRP is an important source of capitalization for rural revolving loan funds. In 1998, RBS issued a revised rule for the IRP, to more clearly define the respective roles of the government and intermediaries, make the program more responsive to the needs of intermediaries and ultimate recipients, and facilitate the creation of rural jobs. Specific changes of note were (1) intermediaries with a delinquent outstanding Federal debt are ineligible; (2) eligibility requirements for ultimate recipients are provided; (3) eligible purposes are increased to include fees and existing debt refinancing; (4) responsibility for maintaining and managing the revolving fund are clarified along with a requirement for establishing a reserve for bad debts; and (5) USDA's State Rural Development offices are authorized to process applications rather than send them to the national office.

In recent years, Minnesota and Oregon together accounted for 51 of 315 loans made since 1993, for an estimated $50.9 million. This program's fiscal 1997 per capita funding in rural counties was $0.43. Subsidy costs for the IRP were high over this period, running about $154 million. The subsidy costs represent most of the total costs for these loans, reflecting the high-interest subsidy rate for IRP loans. Specifically, IRP loans are made at 1-percent interest, which is far below the agency's cost.

In 1997, USDA financed the startup and expansion of about 659 rural businesses and cooperatives, which created over 29,400 jobs. USDA also guaranteed over $815 million in loans. Since 1985, the losses of the B&I program have remained constant at nearly 4 percent of the total amount loaned. In fiscal year 1997, one new job was created, on average, per every $253 in USDA B&I investment subsidy. RBS estimates that $1 billion in guaranteed loans creates or saves about 40,000 jobs.

In 1998, RBS cosponsored a forum on how to increase the reach of microenterprise development in rural areas. This increase in activity would likely come through targeting IRP funds for microenterprise Revolving Loan Funds.

EDA's Economic Adjustment Program Was Reauthorized

Commerce Department's Economic Development Administration (EDA) won a long-fought battle in 1998 as lawmakers voted to reauthorize the agency for the first time since 1982. EDA's Economic Adjustment Program (EAP), which supports revolving loan funds, remains basically the same, as do its funding levels of roughly $33 million annually. Only about 10 percent of the money is actually used to capitalize revolving loan funds that actually make small business loans. One evolutionary change is the requirement that

grant recipients file somewhat more stringent financial performance reports for the revolving funds. Evaluations will focus on management standards, financial accountability, and program performance. (EDA's reauthorization is discussed in more detail in the article on General Assistance.) *[George Wallace, 202-694-5369, gwallace@econ.ag.gov]*

Federal Public Housing Programs Are Overhauled

The major story in Federal housing programs for 1999 is the dramatic change in HUD's public housing and other housing programs. These programs are quite important in providing housing assistance for low-income rural and urban families. The changes generally increase program flexibility for local housing authorities, while introducing incentives for tenants to work.

Three Federal agencies provide significant housing assistance in rural areas: the Department of Agriculture (USDA), the Department of Housing and Urban Development (HUD), and the Department of Veterans Affairs (VA). Although HUD has the largest housing budget of the three, USDA's programs are targeted more toward rural areas; hence, they take on a greater significance in rural areas.

Little Change in Homeownership Programs

USDA's Rural Housing Service (RHS) administers rural housing programs. It provides most direct mortgage lending in rural areas through its section 502 single-family housing program, which offers subsidized-interest loans to low-income and very-low-income families. The amount of lending under this program increased from $0.7 billion in 1997 to $1 billion in 1998 (all references are to fiscal years). A 4-percent decline is expected in this program's lending in 1999 (table 1).

USDA's less costly section 502 loan guarantee program insures market interest rate mortgages from private sector lenders. Families participating in this program usually have higher incomes than do direct borrowers, and pay mortgage insurance fees that cover a substantial portion of the program's loan losses and operating costs. The level of loans guaranteed depends on demand for the program, but it is usually near the authorized loan limit. Last year, the loan guarantee level increased markedly with the upturn in new home construction, financing $2.8 billion in rural (and suburban) homes in 1998, up from $2 billion in 1997. USDA expects to finance $3 billion in 1999.

Smaller RHS homeownership programs include very-low-income home repair loans and grants, self-help housing loans, and self-help housing technical assistance grants. Budget authority for these programs totals $57 million in 1999, down from $61 million in 1998.

The Federal Housing Administration (FHA) administers HUD's largest homeownership program. FHA's single-family home mortgage insurance program (the Mutual Mortgage Insurance Fund) provided over $90 billion of mortgage insurance in fiscal year 1998, up from $75 billion in 1997. Since 1998 was a near record year for home sales and mortgage originations, the projected 1999 level of $86 billion is somewhat lower. Only 6 percent of the amount insured in fiscal year 1997 was in nonmetro areas. These nonmetro loans were concentrated in the West and in counties that were more urbanized.

The nonmetro aid distributions of FHA and RHS programs were quite different, with the RHS section 502 program varying little by rurality level and FHA assistance considerably lower in the more rural counties. Totally rural counties not adjacent to a metro area had only $25 of FHA loans per capita compared with $99 for the most urbanized adjacent counties and $264 for metro areas.

One significant change for HUD's mortgage program is the increase in the maximum size of FHA loans. Legislation in 1998 increased this amount from $86,301 to $109,032 (in high-cost areas, the limit increased from $170,362 to $197,620). This increase would enable more people to purchase homes with FHA's insurance, and could change the geographic distribution of these loans. These higher income limits also apply to the RHS section 502 guarantee program. This legislation also allows FHA to increase the maximum adjustable-rate mortgage share of FHA's home loans up to 40 percent, and modifies the reverse mortgage program to facilitate more use of equity lines of credit and provide certain consumer protections to elderly borrowers. Consumer protection is also behind the requirement that all homes, other than those newly constructed, must be inspected before FHA can approve a loan.

Table 1

Federal funding for selected housing programs by fiscal year

Projected levels of some Federal housing loan programs are up in 1999; others are down

Program	1998 actual	1999 estimate	Change	Rural areas most affected by the program[1]
	Billion dollars		Percent	
HUD State/small cities community development block grants	1.26	1.27	1	Small towns and rural areas in farm and poverty States
USDA/RHS:				
Single-family (sec. 502) direct loans	1.00	.96	-4	West and Midwest, and retirement counties[2]
guarantees	2.82	3.00	6	Included above[2]
Multifamily (sec. 515)	.15	.11	-27	South, West, farming, and poverty counties
Rental assistance	.54	.58	7	Totally rural and poverty counties
VA:				
Loan guarantees	39.86	32.63	-18	West, urbanized nonmetro, and retirement counties
HUD:				
FHA single-family mortgage insurance	90.51	86.39	-5	West, and urbanized nonmetro counties
Section 8 public housing	16.83	19.99	19	Northeast, nonadjacent, and urbanized nonmetro

Note: HUD = U.S. Department of Housing and Urban Development; USDA/RHS = U.S. Department of Agriculture, Rural Development, Rural Housing Service; VA = U.S. Department of Veterans Affairs; FHA = Federal Housing Administration.

[1]Rural area definitions are explained in the appendix.

[2]Information on loan distribution combines direct and guaranteed loans in a single category.

Source: *Budget of the United States Government, Fiscal Year 2000.*

Like the other major housing loan-guarantee programs, VA's guarantee program financed a growing volume of loans in 1998, but this volume is projected to decline in 1999. The decline, however, is greater than that for other such programs, falling 18 percent to $32 billion because of a reduction in budget authority.

In fiscal year 1997, about 12 percent of VA's housing program activity was in nonmetro areas. Rural areas received over $21 per capita of such VA loans, slightly more than half of that received by urban areas. VA nonmetro loan levels were highest in the most urban and adjacent counties ($34) and lowest in the most rural and nonadjacent counties ($10). By region, nonmetro lending was highest in the West ($36) and lowest in the Midwest ($15).

More Changes in Rental and Public Housing Programs

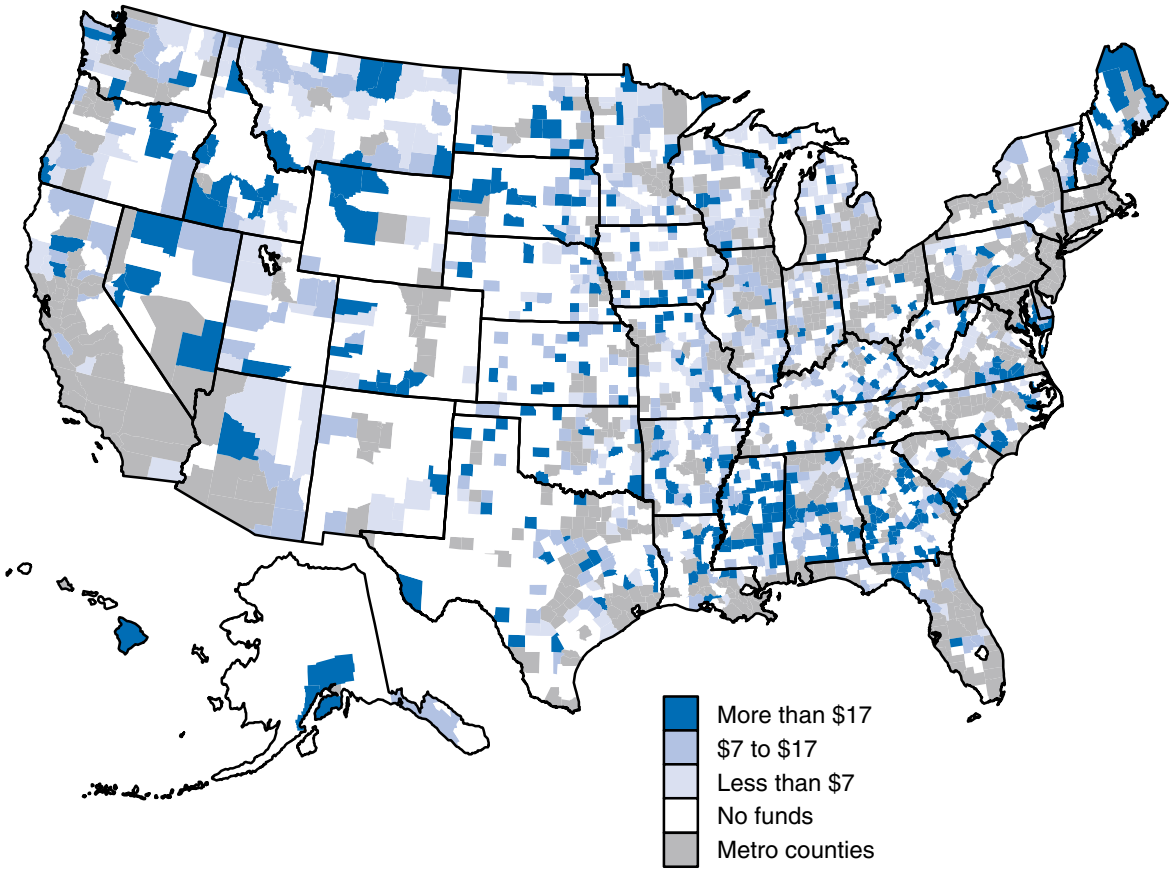
USDA's rental assistance program benefits very-low- and low-income tenants in RHS-financed rental housing. This program pays to the landlord the difference between market rent and the tenant's payment of 30 percent of income. In 1999, this program is expected to increase by about 7 percent, totaling $583 million. Because these are grants, rather than loans, this program is more costly than RHS's other programs, representing two-thirds of the total RHS budget authority, excluding costs for salaries and expenses. Hence, the increase in funding for this program is substantial and results in an overall increase in RHS's budget. This assistance is widely scattered, geographically, with concentrations in the Southeast, parts of the West, the Northern Plains, and New England (fig. 1).

RHS's section 515 multifamily rental housing program benefits very-low- and low-income tenants by providing loans and guarantees for the construction, purchase, rehabilitation, or repair of low-income rental housing. Over two-thirds of such RHS assistance went to nonmetro areas. While funding for the section 515 program declined in 1999, 1998 legislation gave it permanent authorization. For several years the annual budget bill has reauthorized section 515 for a year at a time. Direct loans (section 515) are expected to fall to $114 million in 1999, a 27-percent decline. USDA's other multifamily housing program (section 538) benefits somewhat higher income tenants (up to 115 percent of median

Figure 1

USDA rural rental assistance payments per capita, fiscal year 1997

Highest payments are in the Blackbelt in the Southeast and in parts of the West, the Northern Plains, and New England



Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

area income). This guaranteed loan program is projected to almost double its volume of guarantees, rising to $75 million in 1999.

RHS also has a farm-labor housing program, which will issue about $20 million in loans (up from $15 million) and $11 million in grants (down from $13 million) in 1999.

HUD's rental housing programs are much larger than USDA's. In 1999, HUD's assisted housing programs had a budget authority of about $20 billion, including $5.8 billion for operating and capital funds and $14.2 billion for subsidized, public, homeless, Indian, and other HUD housing assistance. The $20 billion total represents a 19-percent increase over 1998.

HUD's public housing programs primarily benefit urban areas, but rural areas also receive a substantial amount of this assistance. In fiscal year 1996, expenditures on HUD's major public housing programs were about $6.2 billion, which was $23 per capita nationally and $18 in rural areas. On a per capita basis, rural counties with higher funding levels were more often in the West, were isolated from metro centers, or contained Indian reservations.

HUD's Public Housing Programs Will Be Overhauled in 1999

One of the biggest stories of 1998 was the legislation that reformed HUD's public housing and other low-income housing programs. Supported by most House and Senate members and the Administration, the Quality Housing and Work Responsibility Act of 1998 (QHWRA) (Public Law 105-276) culminates nearly 2 years of intense negotiations. While the Act's effective date is October 1, 1999, many changes will be made earlier as regulations are finalized, while changes considered "self-implementing" were made effective by a February 18, 1999, *Federal Register* notice.

In general, housing authorities will now receive their funds in two block-grants, one for capital expenditures and the other for operating expenses. Local housing authorities are given much greater flexibility to design appropriate approaches. Provisions also address some of the negative elements that have long been associated with public housing, such as the heavy concentration of the lowest income families in public housing projects.

The affected programs are quite important to rural America, although, on a per capita basis, they provide more assistance to urban areas. Nonmetro communities received $0.5 billion for public and Indian housing in 1997 and another $2.5 billion for section 8 rental assistance. The larger umbrella of section 8 activities provided lower income housing assistance to most rural counties, with concentrations in the southern Mississippi Delta, the Northern Plains, the Southwest, Northwest, and the Appalachian and Rocky Mountains (fig. 2).

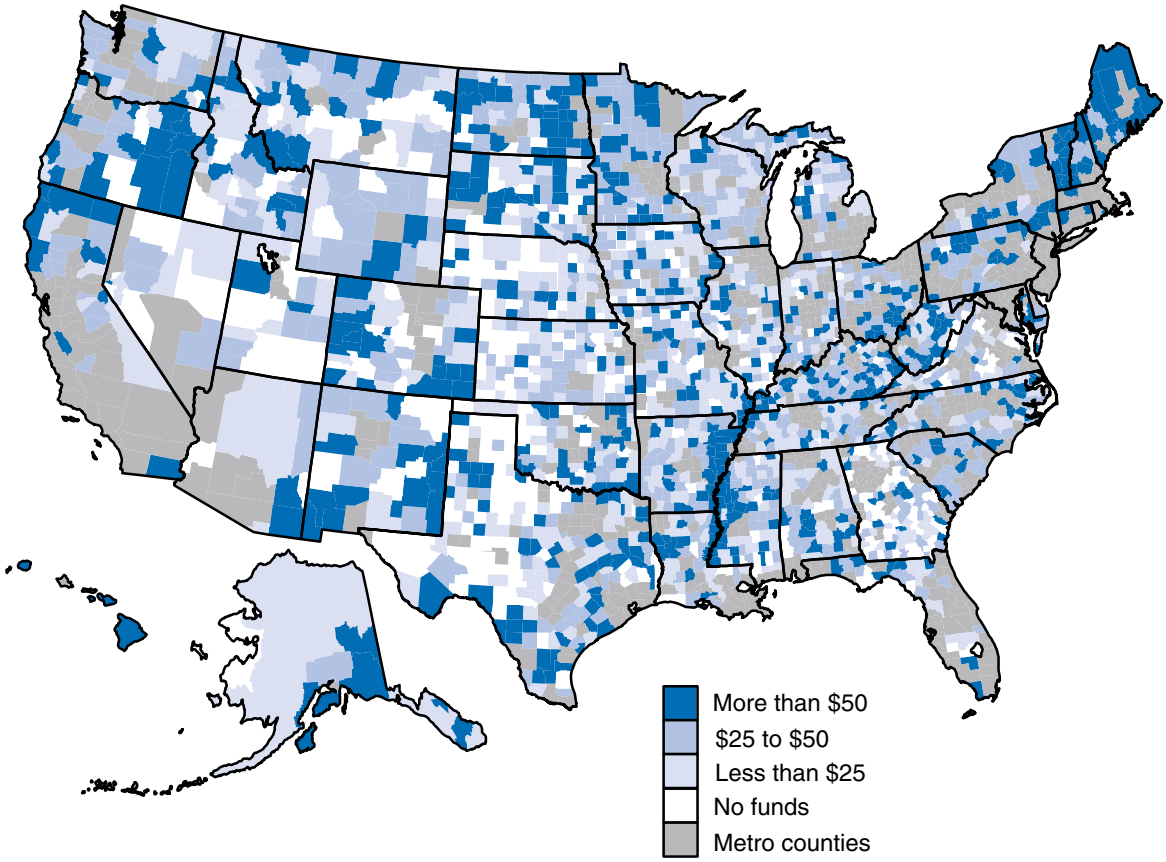
Housing authorities designated by HUD as "troubled" must improve their performance or be taken over by HUD or an appointed receiver. A mandated study will evaluate the appropriateness of current evaluation standards for housing authorities, alternative performance measures, and the desirability of independent accreditation. A demonstration program also allows for 100 local governments to develop their own low-income housing programs, if the local housing authority's performance, as measured by current evaluation standards, ranks them in the lower 40 percent of all housing authorities. Funding would be provided by redirecting grants that would otherwise go to the local housing authority.

Rents of most public housing tenants have long been set at 30 percent of income, providing a disincentive for tenants to work. New rules will allow tenants to annually choose either an income-based rent (no more than 30 percent of income) or a flat rate that is the unit's rental value. Tenants can switch from a flat to income-based rent if experiencing financial hardship. Income from employment must be disregarded for at least 12 months when calculating income-based rent. Then it will be phased into the rent basis over another 2 years. Decreased welfare assistance that results from a failure to comply with program requirements will not reduce income-based rent. Housing authorities must set minimum rents up to $50 on all units, but hardship exemptions are allowed. Each adult resident of a public housing unit must contribute 8 hours of public service work each month. There are a num-

Figure 2

HUD section 8 lower income housing assistance per capita, fiscal year 1997

Most rural counties benefit from section 8 programs



Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

ber of exceptions to the public service work requirement, including individuals age 62 or older, those with a disability, and those complying with welfare program requirements.

Current law requires that nationally 75 percent of units in public housing available before October, 1981 (the majority of all public housing), 85 percent of public housing first available at a later date, and all housing vouchers must go to tenants with no more than 50 percent of area median income. QHWRA requires that each housing authority rent at least 40 percent of available units to families with no more than 30 percent of area median income. The housing authority can lower this 40-percent requirement to 30 percent by increasing the share of section 8 vouchers going to this low-income population. Referred to as "fungibility," providing vouchers in place of public housing units is allowed only when the result is greater income diversity in the affected public housing project and less concentration of low-income families in certain housing projects.

Each public housing organization must have a person receiving housing assistance on its governing board. And a representative resident advisory board must be consulted by the housing authority in developing mandatory 1-year and 5-year plans. When provided for by their housing authority, up to 50,000 families nationally will be able to use their section 8 vouchers—generally used to pay rent—to make payments on a home that they are purchasing. Many other QHWRA provisions reduce past restrictions, such as the now-

removed requirement that housing authorities replace every lost public housing unit one-to-one with another unit.

Also authorized in HUD's 1999 budget is a new Office of Rural Housing and Economic Development. First-year program funding of $25 million is to be split between capacity building ($4 million) and innovative housing and economic development activities ($21 million). This new office is discussed in more detail in the General Assistance article. *[Jim Mikesell, 202-694-5432, mikesell@econ.ag.gov, and Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]*

TEA-21 Authorizes Record Funding for Highways and Transit Through 2003

Funding increases sharply for the Nation's highways and transit programs. New legislation encourages local involvement in planning rural transportation. "Welfare-to-work" programs and Appalachian roads have received significant funding.

In June 1998, Surface Transportation programs were reauthorized, sharply increasing money for Federal-aid highways, highway safety, and transit programs. The Transportation Equity Act for the 21st Century, or TEA-21, is the single largest public works bill in U.S. history, authorizing $218 billion in funding for highway, highway safety, and transit programs over 6 fiscal years (1998-2003), a 40-percent funding increase over the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), which provided funding for highways, highway safety, and transit for the previous 6-year period (1992-97) (fig. 1). TEA-21 authorizes $177 billion for the Nation's most important highways and highway safety programs and $41 billion for transit programs during 1998-2003. In fiscal year 1999, $28.2 billion is authorized for highway funding.

TEA-21 authorizes increased funding for several important rural development programs, including rural transit, bridges, Appalachian roads, and welfare-to-work initiatives. TEA-21 also encourages local officials and State officials to better coordinate their individual transportation needs. Thus, rural transportation interests may be better represented.

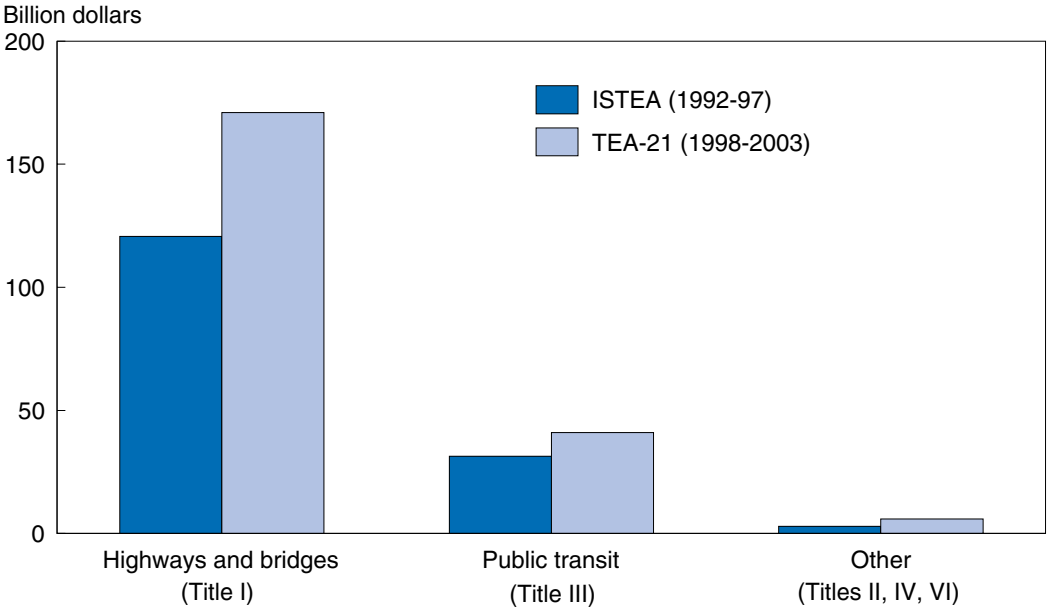
New State Aid Formula and Sharp Increase in Highway Funding May Benefit Rural Areas

Under TEA-21, as a result of the higher overall funding level, funding increases for every State, except Massachusetts (which was given special funding under the previous highway legislation). On average, the annual apportioned amount received by States grows by 44 percent. Federal highway aid goes to States, which then decide how to use the money based on their individual priorities, subject to Federal eligibility requirements.

Figure 1

Total funding for selected transportation programs under TEA-21 versus ISTEA

Funding increases under TEA-21 for highways, transit, and transportation programs



Source: U.S Department of Transportation.

TEA-21 guarantees that each State receives at least a 90.5-percent return of the share of the highway money it has contributed to the Trust Fund. It especially benefits the 20 States that have received less than a 90.5-percent return on the percent of funds contributed to the Trust Fund under ISTEA. Many of these States have large numbers of rural residents.

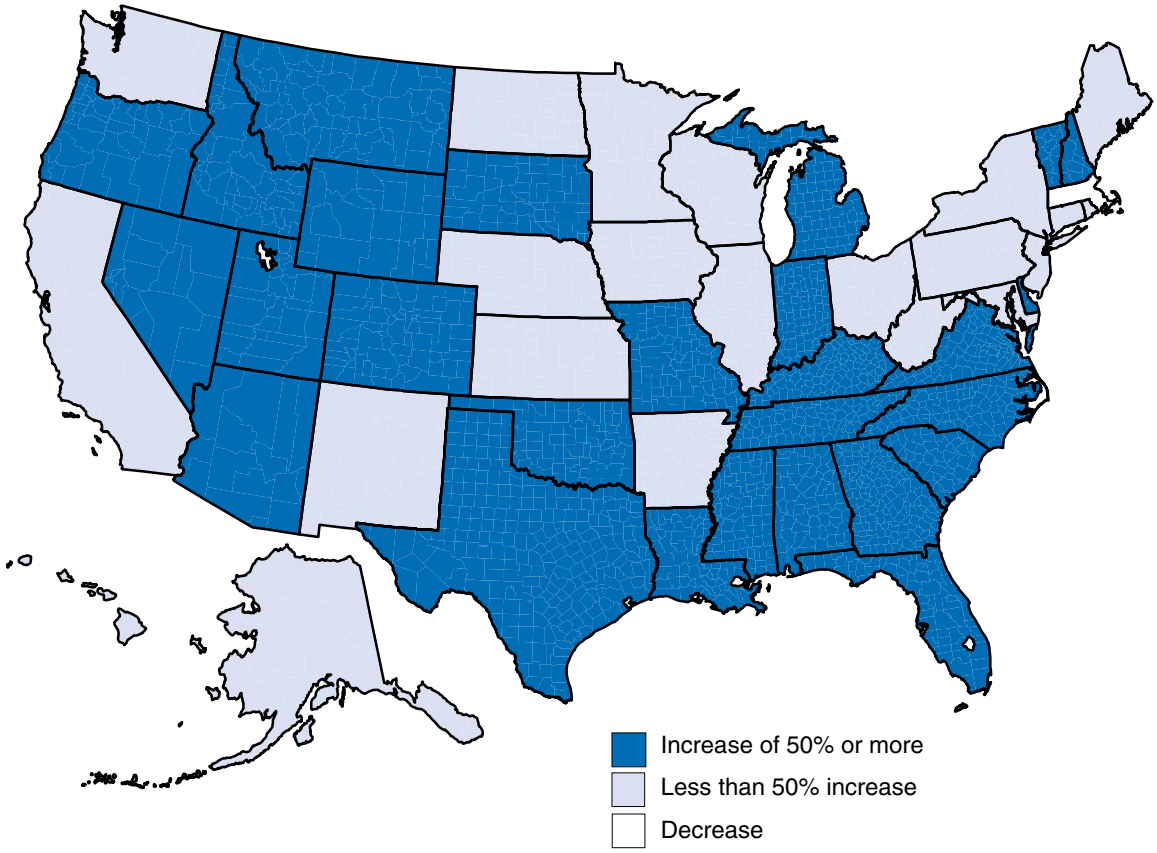
Many of the States with the largest funding increases are located in the South, where services and manufacturing are important nonmetro industries (fig. 2). The South also has a large concentration of poverty. Large funding increases have also gone to much of the Rocky Mountain West, where States with many Federal lands are located. These increases will likely benefit the region's remote rural communities, which depend heavily on highways. Most of the Midwest farming States have received relatively small increases in aid. Per capita funding for 1999 is highest for States in parts of the West, the Plains, the South, and New England (fig. 3).

TEA-21 encourages more consultation between local officials and State officials in planning transportation needs, requiring that, "each State shall, at a minimum, consider, with respect to nonmetropolitan areas, the concerns of local elected officials." The new provision is significant because it requires rural involvement in transportation planning issues, which should help rural areas to compete more equally with urban areas. TEA-21 authorizes the use of regional development organizations (although not mandated), which could help foster more effective participation of rural interests in the planning process.

Figure 2

Percentage change in State transportation funding under TEA-21 versus ISTEA

States in the South and Rocky Mountain West receive highest funding increases

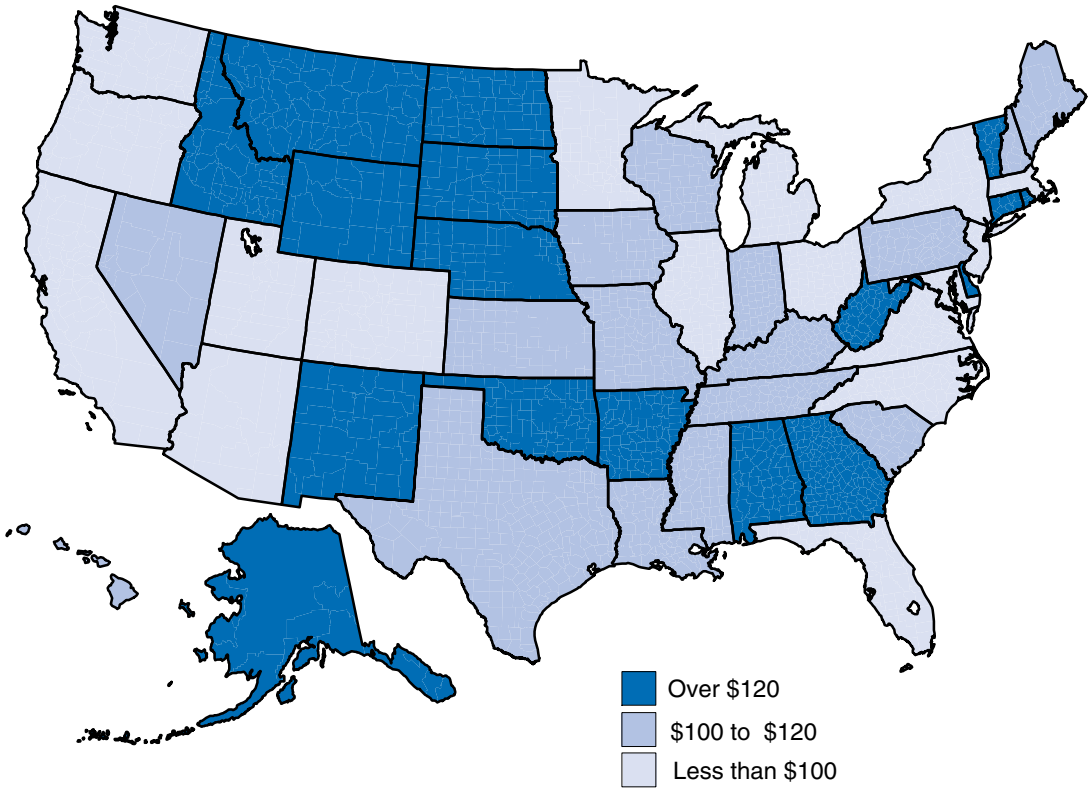


Source: Senate Environment and Public Works Committee.

Figure 3

Per capita highway aid under TEA-21, 1999

Aid is highest in parts of the West, the Plains, the South, and New England



Source: Calculated by the Economic Research Service using data from the U.S. Department of Transportation and the Census Bureau.

The new legislation also supports innovative financing methods, including loans and lines of credit, which are designed to encourage public and private funding of construction projects.

Continuing as a separate program with its own funding is the Bridge Replacement and Rehabilitation program, which provides $3.4 billion in 1999 for eligible bridges on public roads (table 1). With over 31 percent of the Nation's 582,000 bridges (those that are at least 20 feet in length) rated as either structurally or functionally deficient, this program is an important source of funds for those rural areas with bridges in need of repair. TEA-21 also authorizes $10 million in 1999 (subject to appropriations) for preserving and rehabilitating historic covered bridges, which are primarily located in rural areas.

TEA-21 continues highway aid for the smallest rural communities under the Surface Transportation Program (STP) substate distribution requirement that targets a percentage of STP funding to nonmetro areas with populations less than 5,000. TEA-21 also requires that a percentage of funds be reserved for areas under 200,000 population, which benefits nonmetro areas nationwide (as well as smaller metro areas).

TEA-21 provides $450 million in 1999 for the Appalachian Development Highway System, a program that provides aid for the construction of highways and access roads in Appalachia. Funding for this program may benefit rural industries located in Appalachia, such as mining and manufacturing, as well as tourism, recreation, and service industries. The new legislation also provides $23.5 million in 1999 for the National Scenic Byways Program, which offers technical assistance and grants to States for the development of recreational use roads, which are located primarily in rural areas.

Table 1

Federal funding for selected transportation programs under TEA-21 by fiscal year

New programs promote welfare-to-work initiatives and international trade

Program	1999	1998-2003
	Billion dollars	
Bridge Replacement and Rehabilitation Program	3.40	20.43
National Historic Covered Bridge Preservation Program[1]	.01	.05
Appalachian Development Highway System	.45	2.25
National Scenic Byways Program	.02	.15
Section 5311 (Rural Transit)	.18	1.18
Rural Transportation Accessibility Incentive Program	.00	.02
Rural Transit Assistance Program	.01	.03
Access to Jobs Program	.15	.75
Transportation and Community and System Preservation Pilot Program	.02	.12
National Corridor Planning and Development and Coordinated Border Infrastructure Program	.14	.70

[1]Not available until appropriated.

Source: U.S. Department of Transportation. 1998. *Transportation Equity Act for the 21st Century: Moving Americans into the 21st Century*.

TEA-21 continues to fund "transportation enhancement" (TE) activities (environmental, recreational, and general development activities) through a 10-percent set-aside from STP funds. Some have argued that TE funding takes scarce resources away from rural (and urban) highway needs by using money for programs other than roads and bridges. Others contend that enhancements are important for rural businesses, and that greater flexibility is needed in allowing their use for a wider variety of economic development projects. TEA-21 allows a State to transfer a portion of its TE funds to other programs.

A new provision in TEA-21 allows States to reserve slots for welfare recipients in On-the-Job Training programs that lead to positions in skilled highway construction trades. The welfare recipients will also have access to supportive services programs that provide pre-employment counseling, orientation to the requirements of the highway construction industry, basic skills improvement, assistance with transportation, child care, or other special needs, jobsite mentoring, and post-graduation followup. Rural areas with high levels of poverty should particularly benefit.

Rural Transit Programs Receive Record Funding

In recent years, lack of public transportation has emerged as an important issue for rural areas. For many rural households, lack of transportation limits access to employment opportunities and health and child care, and reduces the choices available when shopping for food and other items. Labor shortages have been increasingly common in hospitality, foodservice, and other industries in close proximity to rural areas with surplus labor, and the pressure under welfare reform to find jobs for welfare recipients there has increased. These factors have combined to bring attention to public transportation needs in rural areas.

TEA-21 increases 1999 funding for the main rural transit program (Formula Grants for Other than Urbanized Areas, also known as section 5311) by 32 percent over 1998 levels to nearly $180 million, which is almost double the percentage increase received by urban transit programs. Funds for this program are apportioned in relation to each State's nonurbanized population and can be used for capital transit projects, operating expenses, and meeting State and project administration requirements. In 1990, Pennsylvania, Texas, and North Carolina had the largest nonurban populations.

Rural transit's share of funds available under the transit funding formula increased 16 percent. For the first time in the program's history, total transit funding increases are largely guaranteed or "walled-off," assuring an estimated 80-percent return on authorized funding levels. Funding increases will likely benefit those rural residents who use transit as a means of getting to and from medical appointments, child care facilities, and jobs. In particular, rural businesses, such as those in the service industry, that look upon public transit as a source of transportation for their workers, will likely benefit. Nonmetro service-dependent counties are found throughout the Nation, with significant clusters located in parts of the West and the Midwest.

The new legislation provides $2 million in 1999 for the Rural Transportation Accessibility Incentive Program, which supports "over-the-road" bus service. This program helps bus operators finance capital and training costs incurred in complying with U.S. Department of Transportation regulations on intercity bus service. Funding may be used for intercity fixed-route over-the-road bus service and other over-the-road service, such as local fixed-route, commuter, charter, and tour service. Funding for this program is to be distributed through a competitive grant selection process. TEA-21 also provides $5.3 million in 1999 for the Rural Transit Assistance Program, which promotes delivery of safe and effective transit service in rural areas.

New under TEA-21 is the Access to Jobs program, which makes available $150 million in 1999 for transit assistance to provide access to jobs. Under this program, 20 percent ($30 million) is reserved for rural areas (with populations less than 50,000). Important considerations in allocating funds include the number of welfare recipients in the target area, the extent to which applicants demonstrate coordination with existing public and human services transit agencies, and the degree of innovativeness of specific approaches.

Other Rural Provisions

New under TEA-21 is the $20 million (1999) Transportation and Community and System Preservation Pilot Program, which provides aid for improving local and State transportation systems. Under the program, States and local governments can receive discretionary grants for planning and implementing strategies to improve the efficiency of transportation systems, reduce the need for future infrastructure spending, mitigate negative effects of transportation on the environment, and ensure efficient access to jobs. This planning-based assistance should be particularly helpful in promoting sustainable community development in rapidly growing rural areas.

TEA-21 authorizes a new Railroad Rehabilitation and Improvement Financing program to provide credit assistance, in the form of direct loans and loan guarantees, to public or private sponsors of intermodal and rail projects. Although the legislation does not provide specific budget authority, it authorizes future appropriations and contributions from poten-

tial borrowers and other non-Federal sources to fund the credit assistance, with a limit of $3.5 billion on outstanding loans and guarantees. Eligible projects include the acquisition, development, improvement, or rehabilitation of intermodal or rail equipment or facilities, including track, bridges, yards, buildings, and shops. Rural areas with rail facilities in need of repair may benefit from this program.

A new National Corridor Planning and Development and Coordinated Border Infrastructure Program coordinates the planning, design, and construction of transportation corridors of national significance. The purpose of this program is to use transportation corridors to promote economic growth through interregional and international trade by improving the safe movement of people and goods at or across the U.S.-Canadian and U.S.-Mexican borders. Total funding for this program is $140 million in 1999. *[Dennis Brown, 202-694-5338, dennisb@econ.ag.gov]*

Training and Vocational Education Programs Are Revised

Title I of the Workforce Investment Act overhauls the Job Training Partnership Act programs, creating new methods for meeting the education, training, and employment needs of low-income adults, dislocated workers, and youth. Building on past experience, it gives local organizations greater flexibility in providing services through the One-Stop approach to service delivery, and it gives individuals more control over the assistance they receive. Separate legislation overhauls the vocational education programs, providing more funding directly to the local level, while allowing States to hold back part of these funds for rural areas and other places with a particular need for training.

On August 7, 1998, President Clinton signed Public Law 105-220, the Workforce Investment Act (WIA), into law. This legislation reforms job training programs. Its key benefit is to bring together a variety of federally funded programs into one location to provide easy access to services. It uses previous experience to frame a new system that more effectively meets the needs of job seekers, of workers who want to advance themselves, and of businesses that employ them.

The Act establishes three funds that flow from the Department of Labor to to States to finance Adult Employment and Training Activities, Dislocated Worker Employment and Training Activities, and Youth Activities (fig. 1). The 1999 program year funding levels for these programs are $0.95 billion, $1.4 billion, and $1 billion, respectively. The first two activities are based on similar programs already established by the Job Training Partnership Act (JTPA), and the third activity consolidates a pair of JTPA activities (Youth Training and Summer Youth programs). As the new programs, under the Employment and Training Administration of the Department of Labor, replace the older ones, the JTPA will be phased out by July 1, 2000.

The WIA is particularly important for rural America because the economic, social, and demographic changes of the past few decades have dramatically challenged the training resources available to rural populations. The need for training programs varies according to where eligible populations live. Per capita payments vary significantly by State according to the statutory formula, which employs various measures of need (fig. 2).

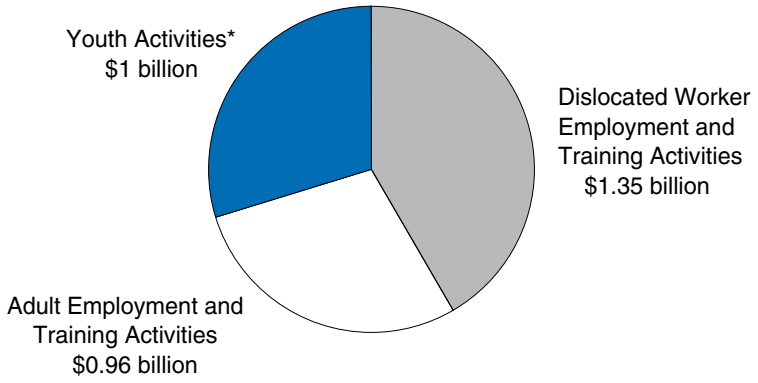
Revision Is Based on Lessons From Past State and Local Experience

Iowa provides a good example of how State and local experiences helped shape the WIA. Iowa had gone through the agricultural crises of the late 1970's and early 1980's which

Figure 1

Major components of new training programs, fiscal year 1999

The 1999 funding streams for Workforce Investment Act programs come from several Job Training Partnership Act programs



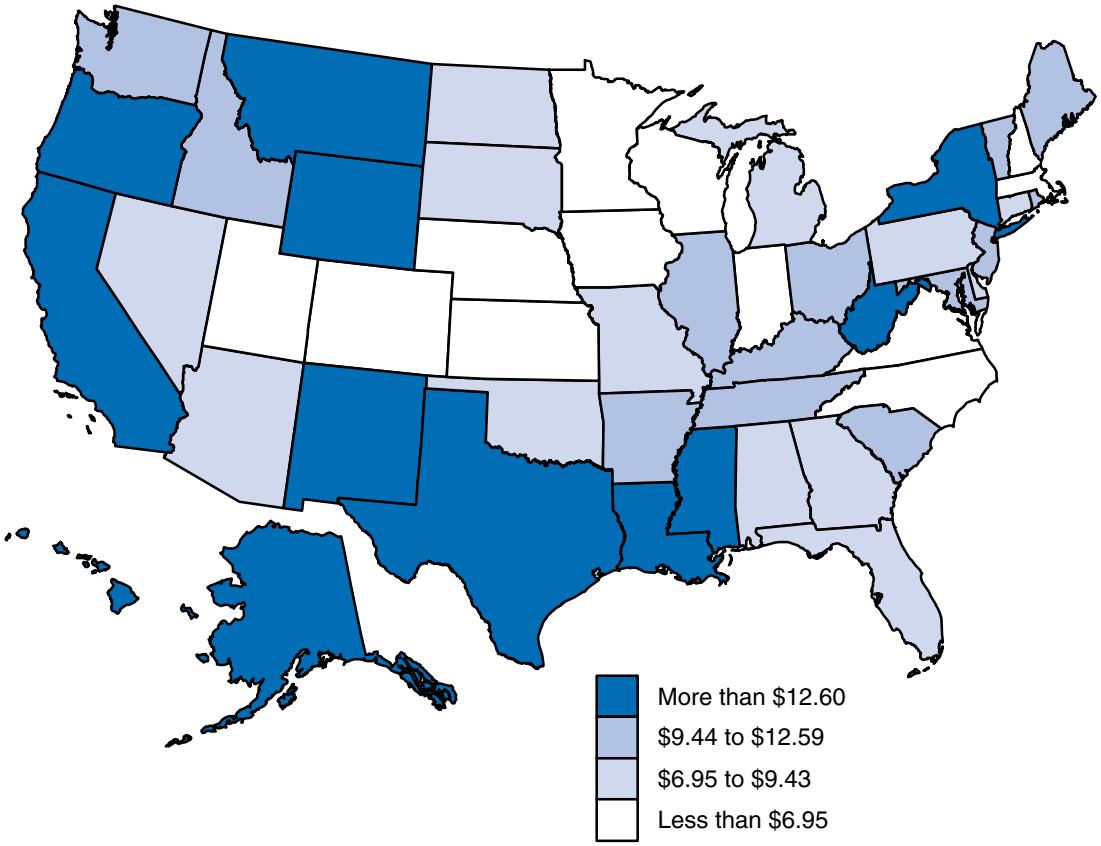
*Youth Activities program combines the JTPA Youth Training Grants ($0.13 billion) and Summer Youth Employment and Training Programs ($0.87 billion).

Source: Calculated by ERS using data from the U.S. Department of Labor.

Figure 2

Per capita State allotments from job training programs in Workforce Investment Act, fiscal year 1999

Highest payments are in the Northwest and South Central regions



Source: Calculated by ERS using data from the U.S. Department of Labor.

resulted in further farm consolidation and the displacement of agricultural workers with no other job experience. At the same time, there had been a shift away from traditional manufacturing practices, which challenged—and sometimes frightened—both labor and management. Iowa was particularly hard hit by these factors. By the mid-1980's, the Iowa Government had begun experimental public workfare development programs. They recognized that having multiple offices for various programs was inefficient, particularly in a time of shrinking budgets. So they combined and integrated a variety of programs into what became known as the "One-Stop" approach. State Government was streamlined by reducing the number of old departments by one-third in 1986 and creating a Department of Workforce Development a decade later.

Although Iowa has a number of medium-sized cities, such as Des Moines, Cedar Rapids, Davenport, and others, which face their own problems in the changing economy, the overwhelming majority of Iowa counties are rural. An example in the evolution of the One-Stop idea occurred in the circle of seven counties centered on the town of Creston (population 3,000). Five of these counties had lost their largest employer, and along with the rest of Iowa, the number of residents employed in agriculture had declined by 30 percent during the preceding two decades. A central office was set up in Creston, but distance and poor transportation created difficulties for customers in outlying areas. To ameliorate

this problem, workers from the center would often spend 1 day in other towns using space donated by local government, schools, or other cooperating institutions.

Both Iowa and its Creston district typified developments in States throughout the Nation as they faced the massive economic, social, and demographic changes of the late 20th century. These experiences, and the experiments made at State and local levels no doubt had a strong influence on the authors of the Workforce Investment Act.

How the Workforce Investment Act Works

The WIA is more sensitive to the changing conditions in America as a new century approaches than were the previous JTPA programs. The WIA proposes that One-Stop centers be developed and managed locally so that the needs of both job seekers and employers are met. The centers must give the customers access to information about training, education, and employment. To get into training programs, customers are screened and then choose organizations which will provide the programs they believe they need. The providers, moreover, must share their success rate with potential customers.

State and local boards play an important role in this program. Title I of the Act authorizes a Workforce Investment System, with each State establishing a Workforce Investment Board that is responsible for developing a 5-year strategic plan. Governors designate and oversee local workfare investment areas (similar to the seven-county Creston, Iowa, area), and each local area establishes a local board. Both the State and local boards will have representatives from labor, educational, and other groups, but business representatives must be in the majority. Local boards will include Youth Councils as a subgroup in order to deal with specific issues related to youth. The local boards will designate the One-Stop operators and partners who guide customers in selecting education, job training, and other services. The State and local boards cooperate in deciding the initial standards for training service providers and in judging their success. State and local boards will also have considerable flexibility, rather than adhering to a Federal standard of "one size fits all." State and local boards will also cooperate with the managers of continuing activities, such as the Job Corps, Native American, and Migrant and Seasonal Farmworker programs.

The Workforce Investment Act differs from most previous programs because it responds flexibly to the needs of a local area as well as to the unique needs of individuals through the One-Stop system. The separate funding streams for adults and dislocated workers provide for One-Stop service on three levels: core services, intensive services, and training services. Core services are the most basic. At the very outset they determine the eligibility of the customer and make an initial assessment; then they may move onto providing labor market information, career counseling, job search and placement information, or information on training providers, determining eligibility for Welfare-to-Work, other supportive services, and a follow-up service. Intensive services are for unemployed adults and dislocated workers who cannot get jobs through core services and for those who the One-Stop operator determines are in need of further assistance. In most cases, the local board contracts with approved public or private service providers. Intensive service providers do diagnostic tests, help the individual develop an employment plan, give group and individual counseling, and provide similar assistance. Training service programs are for those for whom intensive services have not succeeded in finding or holding employment. The One-Stop system evaluates them to see if they have the qualifications to participate in training which interests them and to see if the training would help them. The training must be for occupations in their locality or other areas where they are willing to move. In local areas where funds are limited, low-income individuals have priority for both intensive services and training services. The authorization for transportation assistance and such other support services is especially helpful in rural areas. The key to the success of these services is the customers' sense of individual responsibility in choosing—with counseling—the training which will give them the skills and credentials to succeed.

Eligible youth are those aged 14 through 21 and with low income. They must also meet one or more of the barriers to entry into employment: dropout from school; literary skill

deficiency; homeless, runaway, or foster child; a parent or pregnant; an offender; facing problems completing education or getting or keeping a job. Youth customers are prepared for the workforce through a combination of academic and occupational learning and work experience. Youth participants have a broad range of preparatory programs capped with at least a year's follow-up services.

The centers will keep current on employment opportunities and provide customers with realistic job searches and career counseling. Efficiencies can be expected by having job seekers in one location. As the centers gain experience, they can more easily set standards for providers by measuring both customer and employer satisfaction. Providers must initially meet established criteria and maintain or improve indicators such as completion rates of customers, the percentage of participants who get unsubsidized jobs, and wage levels.

Titles II and IV reauthorized the Adult Education and Literacy programs for fiscal years 1999-2003 and the Rehabilitation Act programs through FY 2003. These programs are also linked to the State and local Workforce Investment system. Title V is a catchall with general provisions, such as incentive grants to States that surpass previously set performance levels, as well as provision for orderly transition from earlier programs such as the Job Training Partnership Act.

In conclusion, the Workforce Investment Act marks a distinct departure from the types of programs that have existed for 60 years or more. The new programs rely upon State and, especially, local boards that are familiar with the circumstances of the area and have the potential for making innovations. The customers must also take individual initiative within a market-driven system, thereby giving a sense of empowerment hitherto often lacking.

Vocational and Technical Education Assistance Also Is Revised

Congress revised Federal vocational and technical education assistance in separate legislation, the Carl D. Perkins Vocational and Technical Education Act of 1998 (P.L. 105-332), in October 1998. This assistance, currently funded at about $1.15 billion, helps students achieve high academic and skill standards at secondary and post-secondary schools that run technical training programs, and, hence, it is important in meeting the growing need for skilled workers in today's increasingly high technology economy.

Along with the WIA, this legislation promotes the development of seamless, One-Stop, education and workforce development systems. The new legislation drops some requirements, providing State and local institutions greater flexibility to design systems to meet their needs. It also creates a State performance accountability system with incentive grants for States that exceed agreed-upon performance goals. The legislation also reauthorizes Tech-Prep programs that promote work-based learning and the use of new technologies, and it encourages partnerships with business, labor organizations, and institutions of higher education.

The new legislation also shifts more control of funds from the State to the local level, giving local organizations and schools 85 percent of the funding, up from 75 percent. Beginning in program year 2000 (which starts July 1, 1999), States will be allowed (but not required) to reserve up to 10 percent of the 85 percent of local funding to award grants to two or more of the following categories of places: (1) rural areas; (2) areas with high percentages of vocational and technical education students; (3) areas with high numbers of vocational and technical students; and (4) communities negatively impacted by changes in the formula. Thus, some rural areas could receive more assistance in States that choose to reserve funds for them. *[Lowell Dyson, 202-694-5348, lkdyson@econ.ag.gov]*

Legislation Boosts Farm Assistance to Highest Level Since 1993

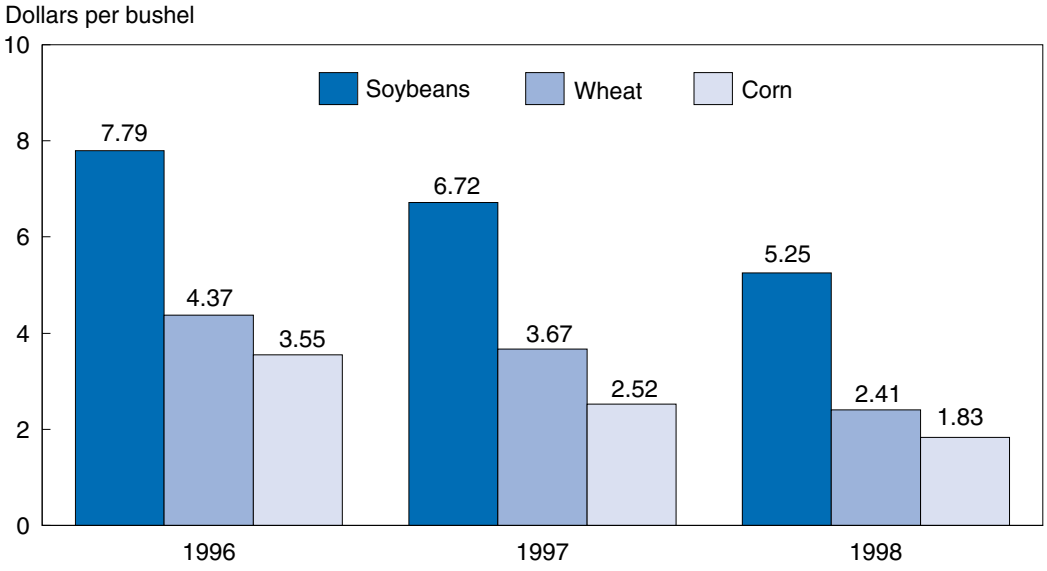
In 1996, legislation overhauled many farm programs and policies that in one form or another had been in place since the 1930's, moving the agricultural sector further toward a more market-based system. In response to financial problems faced by some producers, Congress has appropriated funding that brings the 1999 level of government agricultural payments to the highest in the decade.

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) revised many farm commodity programs and policies, some of which had been in place in various forms since the 1930's, putting agriculture on a more market-based footing. The legislation freed farmers from most production restrictions and ended acreage reduction (set-aside) requirements. Farmers who signed up for production flexibility contracts were set to receive seven fixed, but declining, payments through 2002. This program, called the Production Flexibility Contract (PFC) program, reflected the transition from government subsidies and production controls to reliance on farm commodity prices that are largely determined by the market.

Almost 99 percent of the Nation's eligible acreage was enrolled in the PFC program. Contract commodities included wheat, corn, grain sorghum, barley, oats, upland cotton, and rice. The contract requires producers to comply with existing conservation plans for the farm, wetland provisions, and planting flexibility provisions, as well as to keep the land in agricultural use. Except for some limitations on fruits and vegetables, any commodity or crop could be planted on contract farm acreage without a loss in payments.

In 1998, a weakened trade situation due to flagging export demand, good yields in other countries, and 3 years of bumper crops in the United States, caused prices of some commodities to drop. Grain producers, particularly wheat farmers in the Northern Plains, have been among those hurt by the lower prices (fig. 1). In the midst of falling prices, unfavorable weather and crop disease aggravated the situation in 1998. While farmers in the Northern Plains had to deal with diseased crops, farmers in the South, particularly cotton farmers, had to deal with droughts, hurricanes, and flooding. Despite these yield losses, world stocks of grain and oil crops remain relatively high. Prices received by farmers fell, causing cash receipts to decline over $10 billion in 1998. This contributed to

Figure 1
September crop prices, 1996-98
Harvest crop prices on the decline since 1996



Source: National Agricultural Statistics Service, USDA.

the $2.8 billion decline in net farm income in 1998 (fig. 2), which would have been a larger decline were it not for the emergency farm assistance.

With the 1996 Act's production flexibility payments, farmers would have received declining payments from 1997 through year 2002. The payments for 1998 and 1999 were to be lower than the 1997 payments, but still higher than payments were in 1996. But, in 1998, in response to the financial problems faced by some producers, Congress substantially increased direct government payments to farmers. Congress allocated new funding through the emergency and market loss provisions of the 1998 appropriations bill. In addition, lower prices triggered provisions of the marketing loan legislation in the 1996 Act, and expanded loan deficiency payments for crop year 1998. These and other new provisions could make the 1999 level of government payments the highest in the decade of the 1990's (fig. 3).

The 1998 legislation also changed the rules so that farmers, particularly those in areas affected most by climatic disasters and lower prices for grains and soybeans, could take their entire fiscal year 1999 PFC payment in 1998. This brought 1998 production flexibility payments up to about $6 billion.

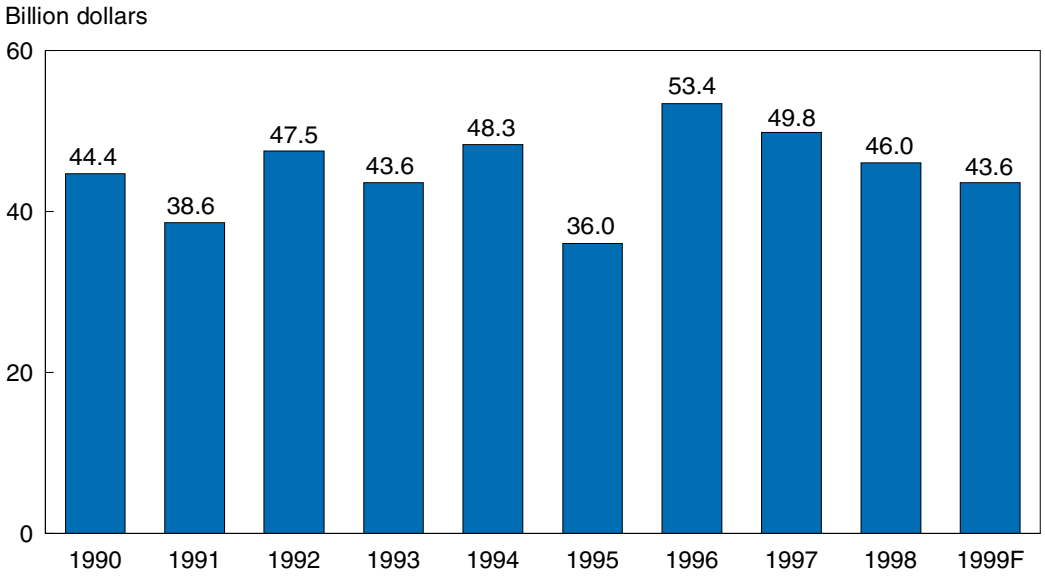
Almost $6 billion of new funding for the agricultural sector was slated for 1998-99, with disaster payments composing almost one-half of the additional funding. Farmers are receiving the disaster component during this 1999 calendar year.

Because of low prices, loan deficiency payments have become a significant portion of direct government payments in 1998 and 1999. Farmers can receive payments for the difference between the loan rate (for example, $1.89 per bushel for corn in 1998), adjusted to local markets (at the county level), and the daily market price, also adjusted to the local market. Once farmers take a loan deficiency payment for an eligible commodity, they can no longer place this same crop under a nonrecourse loan. Such payments are exceedingly complex to forecast. USDA's Farm Service Agency reported $1.8 billion in crop year 1998 loan deficiency payments. ERS's estimate was that loan deficiency payments could reach $4.5 billion in 1999. Adding the expected impact of new legislation

Figure 2

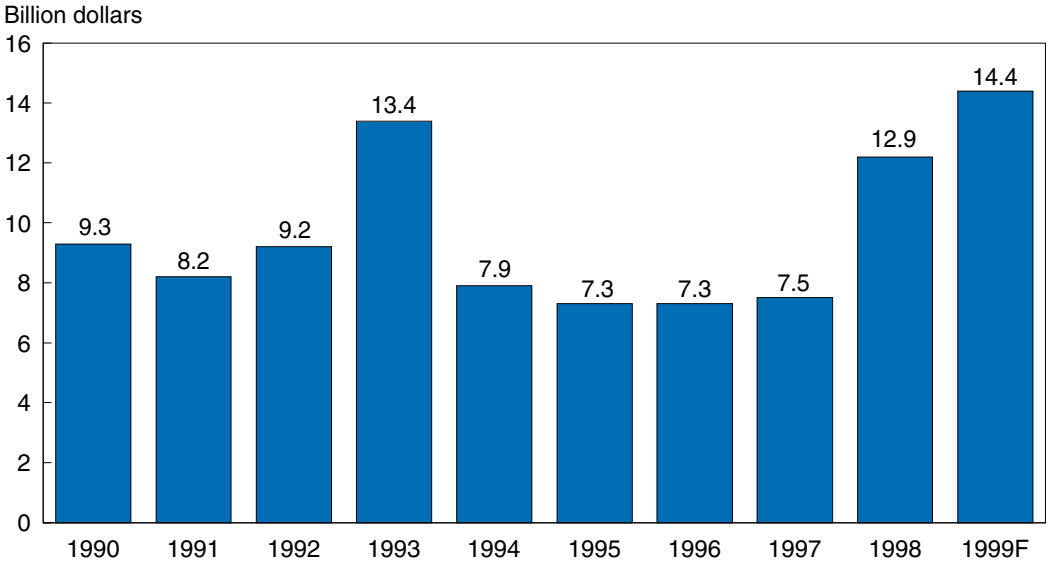
Net farm income, 1990-99

Farm income has been on the decline recently



Note: F=Forecast.
Source: Economic Research Service, based on data from National Agricultural Statistics Service, USDA.

Figure 3
Government agricultural assistance payments, 1990-99
Agricultural payments have increased significantly since 1997



Note: F=Forecast.
Source: Economic Research Service, based on data from National Agricultural Statistics Service, USDA.

and the growing importance of loan deficiency payments brings the 1998 forecast of government payments to $12.2 billion and $14.4 billion in 1999.

Government Payments Important to Midwest and Northern Plains

Commodity programs were originally designed to control the supply of selected crops and support and stabilize the incomes of farmers growing those crops. For a picture of the farms and areas of the country that are most affected by government payments, we use historic data from the Agricultural Research Management Study (ARMS). (See appendix for a description of the data source.)

Billions of additional dollars from government payments will boost total farm income, but for the individual farm the importance of benefits varies widely. Not every farmer is eligible for the programs because the commodity programs were traditionally centered around crops, not livestock. Disaster programs have targeted livestock operations in the past, and the 1998 fall legislation included an appropriation for just over $400 million in livestock disaster and market loss assistance. Only about three-quarters of a million farms, or 36 percent of farms, received government payments in 1997, for an average payment of $2,903 (table 1). The participation rate in the production flexibility contract program is 29 percent of all farms.

Not surprisingly, because production flexibility payments are based on past production, larger farms received higher payments per farm. Farms with sales over $250,000 were much more likely to participate in the programs, with 55 to 70 percent of farms in this group receiving payments in 1997. These larger farms received 36 percent of payments, and produced 47 percent of program commodity sales. While the average payment for the larger farms was considerably higher than for smaller farms, payments were a smaller proportion of their gross cash income—about 3-6 percent compared with 9-12 percent for smaller farms. Limited-resource farms had the lowest rate of participation (12 percent) in the program. For this group, production flexibility contract payments averaged 9 percent of gross cash income.

Table 1

Government payments by type of farm, 1997

Very large farms get largest payments; limited-resource farms get smallest payments

Type of farm	Number of farms	Average payment	Share of farms receiving payments	Average payment for farms receiving payments
	Number	Dollars	Percent	Dollars
Limited-resource	195,572	424	19.4	2,183
Retirement	304,293	1,906	29.8	6,395
Residential/lifestyle	811,752	941	24.5	3,844
Farming occupation low sales	396,698	2,307	46.6	4,948
Farming occupation high sales	178,210	7,987	73.4	10,889
Large family farms	79,240	13,483	75.9	17,766
Very large family farms	49,804	19,411	60.5	32,087
Nonfamily	37,816	5,975	36.4	16,401
All farms	2,049,384	2,903	36.3	7,987

Note: Farm types are explained in the appendix. Government payments include production flexibility contract payments, disaster payments, payments from participation in conservation programs, EQIP cost-share payments, and payments from other State programs.

Source: Economic Research Service, based on data from the National Agricultural Statistics Service, USDA.

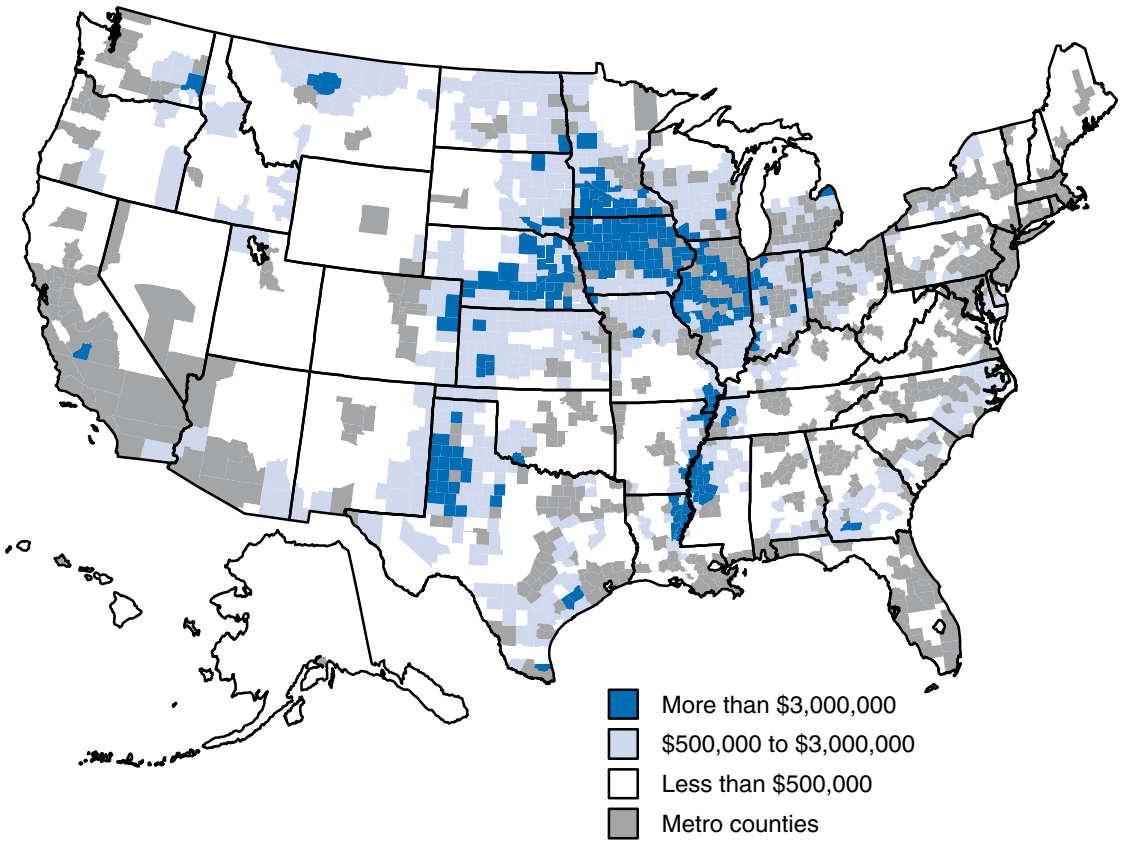
Government payments, especially from conservation programs, are particularly important for small farms categorized as limited-resource, retirement, or residential/lifestyle. These three groups make up 64 percent of the farms receiving payments from the Conservation Reserve Program or Wetlands Reserve Program. Many small farm operators report that they are retired. These operators, mainly on limited-resource or retirement farms, also rely heavily on Social Security and other public programs. Retirement farms received an average of $5,000, the highest average payment among the various farm categories under these conservation programs. Even so, operators of smaller farms depend more on off-farm wages or self-employment earnings for most of their income. Few of these farm households are affected greatly by changes in farm sector income.

How do farm program payments affect the financial viability of farms across the country? Because most PFC payments go to producers of cash grains, payments are concentrated in the Corn Belt and Northern Plains regions (fig. 4). Particularly in the Northern Plains, farms are more financially vulnerable, and are more likely to benefit from increases in income. Nevertheless, farmers in this region are more likely to have reached their maximum debt levels given current income, removing the option of taking on more debt to get through tough times. Farms in the cotton-producing areas of the Southwest also continued to have a high ratio of contract payments to gross cash farm income and high debt-to-asset ratios in 1997. Vulnerable farms (those with high debt and negative income) received about 5 percent of total government payments in 1997—roughly equivalent to

Figure 4

Direct government payments to farmers in nonmetro counties, fiscal year 1997

Direct government payments for wheat, feed grains, cotton, rice, and wool provided more than $3 million to 241 nonmetro counties, primarily in the Corn Belt, the Plains, and the lower Mississippi Valley



Note: The National Wool Act expired as of December 31, 1995.
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

their contribution to commodity sales. Financially stressed farmers for whom payments are a large share of gross income may have some difficult adjustments ahead.

Producers who specialize in grain and soybeans have recently experienced the difficult financial situations. Their net income may fall 20 percent or more in 1999. Most grain and soybean producers operate relatively small farms (with gross sales between $100,000 and $250,000) that have much tighter cost-revenue margins than their larger counterparts. They also depend less on off-farm income than do other farm households. Because of the regional concentration of grain and soybean producers, net income reductions could be largest in the Northern Plains, Corn Belt, and Lake States. Many affected farmers may have begun 1999 by eliminating or reducing unnecessary expenditures and liquidating inventories and other assets. Increasing earning in the off-farm sector and tapping into savings are ways to offset some farm losses. When these measures fall short, producers with current debt obligations will visit their lenders to restructure existing loans and take advantage of low interest rates. Others may consider taking on new debt.

On the other hand, many farmers entered 1999 optimistically. In large part, the viability of the farm economy is derived from the financial soundness of the balance sheet. Assets are continuing to increase in value, though at a slower rate than in recent years. Growth in farm debt is expected to level off or decline, ending 6 years of increases.

Agricultural Assistance Helps Brighten Outlook for Farm Sector

Additional government payments, coupled with lower production expenses and improved receipts for some commodities, will reduce the harmful effects of low prices for the sector. Beef cattle operations should see increased earnings based on higher prices and prospects for lower expenses this year. Hog producers that have endured the current low prices and significant industry restructuring should see some income recovery. The economic outlook is also favorable for other commodity subsectors, such as vegetables, fruits, and cotton.

In recent years, prosperity in the nonfarm economy has been an important factor in maintaining average farm household incomes. There will be no exception to this trend in 1999. Even though earnings from farming are expected to be lower, average farm household income should increase with a significant contribution from off-farm earnings.

Most, but not all, farm financial problems in 1999 will be cash-flow related as a result of low prices. These cash-flow difficulties, however, reflect different economic conditions than in the early 1980's, when agriculture last suffered a financial crisis. Then, asset values were falling and farmers carried excessive debt. The declining financial situation on farms, combined with high inflation and still higher interest rates, triggered a widespread farm financial crisis. The fragile general economy made it difficult to turn to off-farm earnings to relieve any farm financial problems. Many farm businesses went bankrupt.

Now, many farms are struggling with cash flow-difficulties due to poor weather or low commodity prices, or both. These farms may not get much relief in the form of higher commodity prices in 1999. Overall, prospects for the sector are fairly good, but there will be pockets of farm stress due to the inevitable unfavorable weather and relatively low prices for some commodities. *[Janet Perry, 202-694-5583, jperry@econ.ag.gov; Mitch Morehart. 202-694-5581, morehart@econ.ag.gov; David Peacock, 202-694-5582, dpeacock@econ.ag.gov]*

Additional Farm Tax Relief Among New Tax Measures

New Federal tax legislation important to rural America extends expiring tax provisions and provides relief for farmers facing financial stress. The importance of the earned income tax credit continues to grow as a source of income support for low-income rural residents, and new tax rules will increase the number of farmers who benefit from the credit.

Following the Taxpayer Relief Act of 1997, which is expected to provide substantial tax relief to farmers and other rural residents in 1999, tax legislation enacted in 1998 was more limited and primarily involved extending expiring tax provisions and providing relief for farmers facing financial stress due to low commodity prices. Legislation included the Transportation Equity Act for the 21st century, the Internal Revenue Service Restructuring Act of 1998, and the Omnibus Consolidation and Emergency Supplemental Appropriations Act of 1999.

The Transportation Equity Act extends the Federal excise taxes levied on gasoline, diesel fuel, and special motor fuels, which were scheduled to expire on September 30, 1999, through September 30, 2005. The Act also extends the existing excise tax reduction or income tax credit for ethanol fuels through 2007. As extended, the tax benefit for ethanol will be reduced from 54 cents to 51 cents per gallon by January 1, 2005. However, preserving the ethanol incentives even at a slightly lower rate will benefit those rural communities where the production of ethanol is important to the local economy.

The Internal Revenue Service Restructuring and Reform Act of 1998 is the most comprehensive overhaul of the Internal Revenue Service's internal operations in more than four decades. The Act also reduced the 18-month holding period requirement for favorable capital gains treatment to 1 year. The primary benefits to most taxpayers, however, are the new rights and protections that govern any dealings with the agency.

Perhaps the most significant tax legislation passed in 1998 was the Omnibus Appropriations Act. The Act targets tax relief to farmers, extends some expired tax provisions, and makes changes to other tax provisions that will benefit farmers and other small rural businesses.

The Act targets significant tax relief to farmers. This relief permanently extends income averaging, extends the carryback period for net operating losses, and allows farmers to report production flexibility payments in the year actually received even if they are made available to farmers in an earlier tax year. These changes will provide the greatest relief to those farmers with farm losses and little or no income from other sources.

Among the extended tax provisions that had been scheduled to expire in 1998 or early 1999 are the work opportunity tax credit and the welfare-to-work tax credit. Both credits provide employers an incentive to hire individuals from certain targeted groups, including long-term recipients of public assistance. Both credits have been extended through July 1, 1999. These credits can provide small businesses with an opportunity to reduce labor costs while increasing employment opportunities for individuals from certain target groups.

Farmers and other small rural businesses will also benefit from the rescheduled deduction allowed for the health insurance costs of self-employed individuals. Under prior law, self-employed individuals were allowed to deduct 45 percent of the cost of providing health insurance for themselves and their families. The deduction was scheduled to increase to 100 percent by 2007. The new legislation increases the allowable deduction to 100 percent by 2003, with an increase to 60 percent for 1999.

State volume limits on private-activity tax-exempt bonds have also been increased. These bonds are used by State and local governments to provide private businesses with a source of low-interest financing, including some beginning farmer programs. Under prior law, the State volume cap was equal to the greater of $50 per resident or $150 million. The Act increases the volume cap by 50 percent, to be phased in by 2007. This should increase the availability of funding for those programs that provide low-interest financing for rural business development and beginning farmer programs.

Earned Income Tax Credit Developments

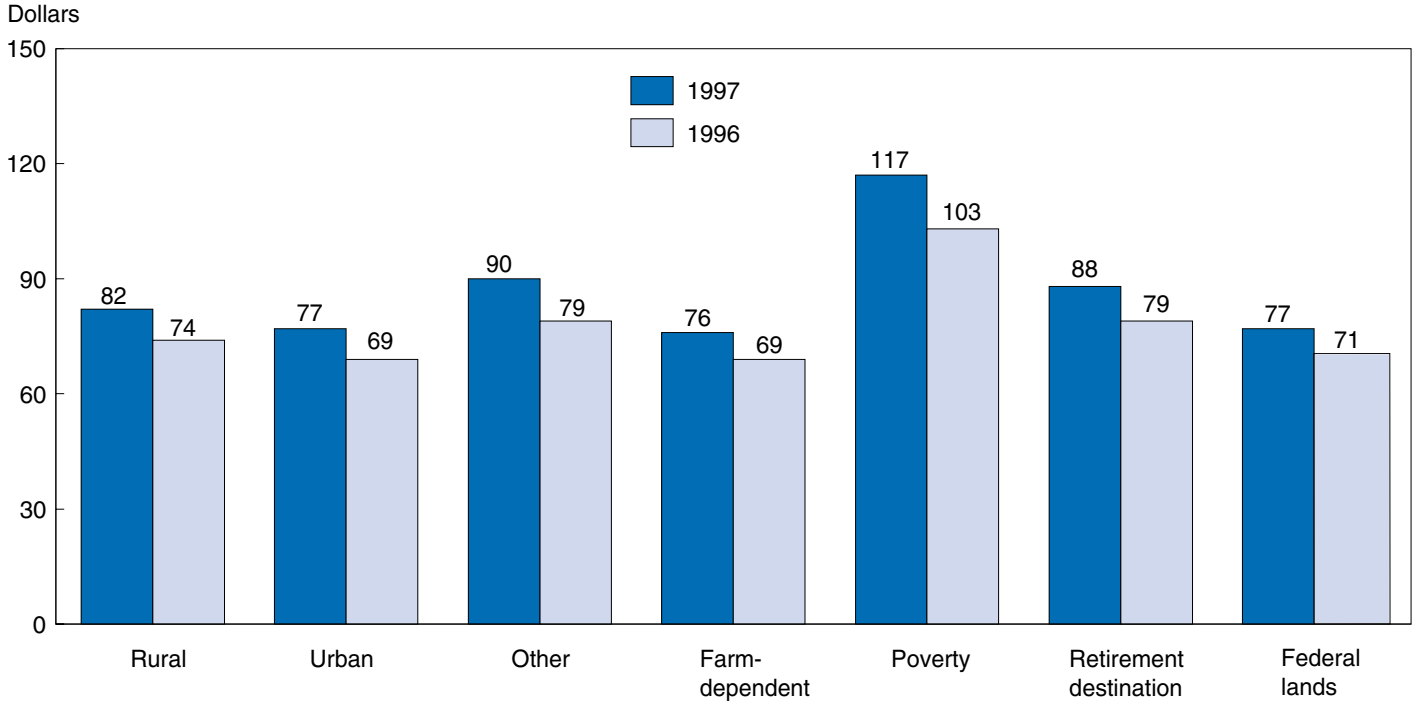
After several years of rapidly increasing benefits and a series of amendments designed to improve the targeting of the credit, there were few developments regarding the earned income tax credit in 1998. The Internal Revenue Service (IRS) has issued a ruling that will increase benefits to a large number of farmers denied eligibility as a result of a limit on investment income. Under the investment-income test, interest, dividends and net capital gain cannot exceed $2,200. Since the IRS initially considered the sale of business assets as net capital gain, as many as one out of every five farmers lost eligibility for the credit. However, the IRS has recently indicated that sales of business assets, such as dairy and breeding livestock, should not be considered for purposes of the investment-income test. This change will provide an estimated 50,000 livestock and dairy farmers with an additional $75 million in benefits each year.

Although legislative developments regarding the tax credit were limited, the credit continues to be an important source of income support for low-income rural workers. For fiscal year 1998, the credit provided all low-income workers and their families with about $30.3 billion in benefits, with the rural share estimated at about $7.5 billion. About one out of every five rural residents benefits from the credit. The credit continues to provide the greatest benefits to those States classified as persistent-poverty States, with the refundable portion of the credit alone providing an average per capita benefit of $117 in fiscal year 1997 (fig. 1). The total value of the credit is expected to increase again in 1999, although at a much slower rate, with the total credit estimated to reach $31.3 billion in fiscal year 1999. The refundable portion is expected to increase by an even greater amount as a result of the reduced income tax burdens associated with the tax relief enacted in 1997. For 1999, over 80 percent of the earned income tax credit is expected to be refunded to low-income taxpayers. Thus, farmers and other rural taxpayers should receive over $6 billion through the refundable portion of the earned income tax credit in 1999.

Figure 1

Per capita earned income tax credit benefits by type of State, fiscal year 1996-97[1]

Benefits in 1997 increased compared with those in 1996[2]



[1]Refundable portion of credit only.
[2]See data definitions for State classifications.
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

Additional Tax Relief Expected in 1999

The potential for even larger budget surpluses for fiscal year 2000 and beyond enhances the prospects for further tax reductions in 1999. The Administration has proposed a wide range of targeted tax relief proposals. These proposals would increase energy efficiency, improve the environment, revitalize depressed communities, make child care more affordable, provide education incentives, make long-term care more affordable, encourage retirement savings, and extend expiring tax provisions. Congressional proposals include an across-the-board cut in marginal income tax rates, relief from the alternative minimum tax, further reductions in (or the repeal of) Federal estate and gift taxes, and a reduction in the marriage penalty. Thus, while as in past years, there is no shortage of tax relief proposals, given the general agreement to set aside a large portion of the surplus to address the long-term solvency problem of social security and the "pay-go" requirements (which require offsetting revenue provisions or mandatory spending reductions) and the potential for disagreements with regard to such offsets, the amount of tax relief enacted in 1999 may be limited, especially when compared with projected surpluses. *[Ron L. Durst, 202-694-5347, rdurst@econ.ag.gov.]*

Regulatory Policy Affects Rural Development in Many Areas

Significant regulatory changes include transportation, telecommunications, air pollution, land use and natural resources, banking and finance, and other activities important to rural development.

In this section, we discuss regulatory changes that were announced or proposed in 1998 or early 1999, affecting transportation, telecommunications, air pollution, land use and natural resources, banking and finance institutions, and other aspects of rural development.

New Guidelines May Benefit Rural Air Service

Airline competition continues to be an important issue for the Department of Transportation (DOT). Last year, guidelines were proposed to shield small, startup airlines, which are important in many rural areas, from the predatory behavior of major carriers. The final version of these guidelines is expected later this year. DOT has also been investigating various competition-related practices at airports and among major airlines. For example, DOT is interested in determining whether airport landing fees and the spending practices of major carriers put small airlines at a competitive disadvantage.

Another important issue is whether major carriers use their control of airport gate leases and "slots" (rights to take off or land at a certain time) to stifle competition from smaller carriers. Providing more slots to smaller carriers might give rural customers better air service. However, if major carriers are forced to give up slots, some fear that competitive pressures may cause rural air service to suffer as major carriers concentrate service on the most profitable, well-traveled routes.

Among other Administration proposals designed to increase airline competition and boost service to rural airports is a plan to provide matching grants to small airports. Another proposal would make it easier for small airlines serving rural airports to connect, or "interline," with flights on dominant hub carriers (something that would probably be strongly opposed by major carriers, especially if it entails a mandatory transfer of luggage and other services with smaller carriers).

These planned initiatives are part of a big aviation package in 1999 that includes reauthorization of the Federal Aviation Administration (FAA) and multiyear funding of the $1.6 billion (1999) Airport Improvement Program, which finances airport capital improvements. Although specific details are still being worked out, one avenue for encouraging competition may be available through a change in the "passenger-facility charge," which is a fee collected by airports from air travelers (and is currently set at $3 per airport and capped at $12 per round-trip ticket). *[Dennis Brown, 202-694-5338, dennisb@econ.ag.gov]*

Railroad Consolidations Attract Regulators' Attention

Disruption of rail service from railroad consolidations has become an issue for agriculture and other rail-dependent industries as many bulk commodities and manufactured goods are moved by rail. Traffic along the rail network was severely disrupted in mid-1997 and 1998 when the largest rail freight company, Union Pacific, had difficulties in absorbing operations of the Southern Pacific railroad, with which it merged in 1996. Although the long-term economic effects of consolidations in the rail freight industry remain unclear, service was severely disrupted in the short term when congestion on rail routes, initially centered in Texas, quickly spread to other States. Industries that have been affected include chemical, automobile, agriculture, and most other bulk commodities. Changing trade flows due to the North American Free Trade Agreement (NAFTA) have also created transportation bottlenecks along the U.S.-Mexico border, which have disrupted rail service, prompting Congress to provide $700 million for border projects and major road corridors for north-south trade. As shippers have tried to shift to other transportation modes, many trucking operations have been unable to keep up with the growing demand for their services, further tying up the Nation's rural transportation freight network. Throughout this period, the Surface Transportation Board (STB), the Federal agency that oversees all

mergers in the rail freight industry, has monitored the situation closely and issued rulings addressing the rail bottleneck.

In mid-1998, the STB approved the purchase of the Consolidated Rail Corporation (commonly referred to as Conrail) by Norfolk Southern and CSX railroads. This merger occurred despite rail traffic disruptions that resulted from the Union Pacific-Southern Pacific merger and despite concerns about lack of competition in grain transport arising from the 1995 merger of the Burlington Northern and Santa Fe lines. The Conrail breakup is not expected to seriously hurt competition in rail service because bulk commodities, except for coal, have not traditionally moved in large volume on Conrail's routes. Water and truck shipments compete on some Conrail routes, and past mergers have shown that these transportation modes, when used together, can provide effective long-haul competition for rail service. As of this writing, the effect on rural areas of recent rail disruptions associated with the Conrail breakup is still unclear.

To avoid traffic disruptions like those following the Union Pacific-Southern Pacific merger, the STB will closely monitor the situation, maintaining weekly reports on rail congestion in former Conrail railyards. The STB also has frozen rail shipping rates for 3 years for some shippers and has taken steps to ensure that some smaller lines do not lose access to the new network. These provisions may provide some relief to agricultural and other bulk commodity shippers.

Continuing consolidations in the rail freight industry should add to the fortunes of "small railroads" (railroads with 1995 annual revenues less than $255.9 million). Since the railroad industry was deregulated in 1980, small railroads have been established in many rural areas, helping offset some of the negative effects of mergers, while helping many smaller communities to continue to be served by rail service in the face of a rail abandonment. Federal funding for the establishment of small railroads has been available through DOT's Local Rail Freight Assistance program (although no new funding was made available in fiscal year 1999). *[Dennis Brown, 202-694-5338, dennisb@econ.ag.gov]*

Further Legal and Regulatory Development of the Telecommunications Act

Three years after the Telecommunications Act was enacted into law, telecommunication company mergers and legal challenges to regulations continue to dominate the industry's news. One legal action, the Supreme Court's decision on January 25, 1999, to overturn a lower court decision, may lead, in addition to the debate over revisiting the 1996 Act, to a battle over the reauthorization of the Federal Communications Commission (FCC). The decision resolved a turf question between State regulators and the FCC. The ruling was a victory for long-distance companies in their quest to deal with a single national standard for network access. While the decision results in less authority for State regulators and makes it easier for long-distance phone companies to provide local phone service, it also overturned an FCC regulation that, in the Court's view, gave cheap and complete access to costly networks built by local telephone companies. The Court viewed FCC's rule considerations in this particular case not to have included adequate local market analysis. The Court's majority opinion included Justice Scalia's statements that the 1996 law was full of ambiguity and self-contradiction.

Another major battle is looming over access to cable television networks. Cable television's cables potentially could be used for voice communication and very fast Internet service (much faster than current standard phone lines) in addition to the traditional TV fare. It is a battle primarily with AT&T on one side and MCI WorldCom, America On-line, GTE, and the Baby Bells (US West, etc.) on the other. AT&T, in one of the major mergers of the past year, is buying Tele-Communications, Inc. (TCI), the country's largest cable television provider. AT&T wants to provide local phone service through TCI's network while denying access to the network by others. MCI WorldCom and other companies want access so that they also can provide voice and data services through the networks. They argue that since the law requires eventual access to local telephone company networks, it should also require access by competitors to cable television networks. AT&T argues that by opening up the networks, no competition will develop because no

one will be able to recoup their investments. The FCC has indicated that they may not require AT&T to give its competitors access. The fight is moving to Capitol Hill. *[Peter Stenberg, 202-694-5366, stenberg@econ.ag.gov]*

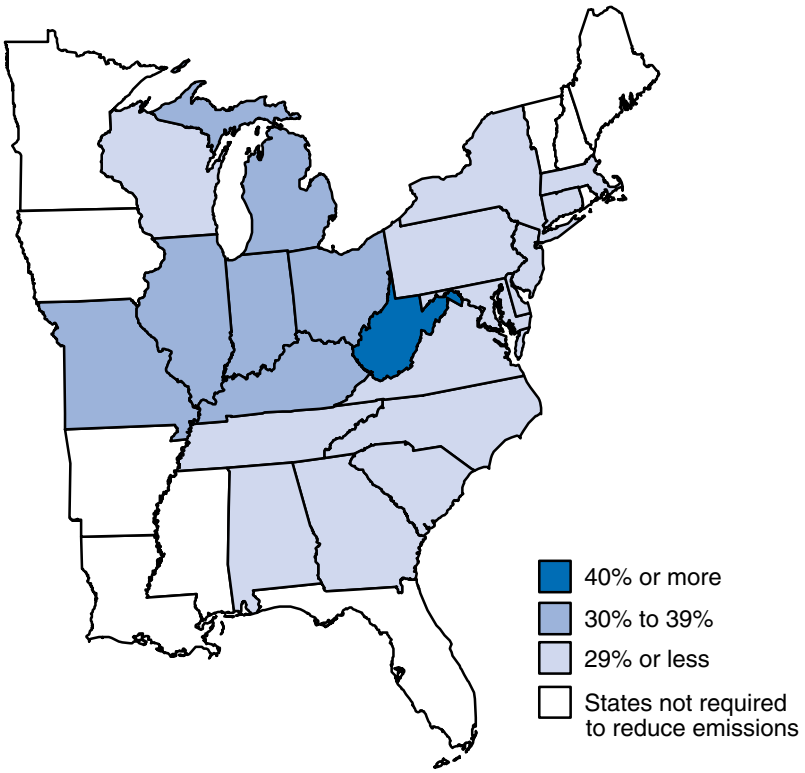
Air Pollution Regulations Evolve

The Environmental Protection Agency (EPA) is moving forward with proposals to reduce unhealthy low-level air pollution, such as smog. In May 1999, EPA proposed regulations that would restrict pollution from cars, pick-up trucks, and sport-utility vehicles. Larger pick-up trucks and sport-utility vehicles previously did not have to meet as stringent standards as cars, but their popularity in recent years has made them a growing source of pollution. The new standards would require larger vehicles to meet the same standards as cars. As part of this action, EPA will also require a reduction in the level of sulfur in gasoline, as sulfur inhibits the performance of emission control devices.

EPA is under court order to propose regulations for recreation vehicles including snowmobiles and all-terrain vehicles in September of 2000. Some rural recreation areas could be particularly affected. A recent study indicated that emissions from these vehicles are a significant contributor to air pollution. EPA has already adopted standards for personal watercraft, such as jet skis, as well as lawnmowers and farm tractors.

Recognizing that much of the smog (or ozone) in some parts of the country comes from power plants, and that the wind carries the pollution across State boundaries, EPA adopted a regionwide smog-reducing plan in September 1998 that covers 22 Eastern States and the District of Columbia (see fig. 1). The regulations require States, which regulate

Figure 1
Air pollution reductions required by Environmental Protection Agency in the Eastern States
Largest reductions are in the Midwest and West Virginia



Note: The District of Columbia will be allowed a small increase (+3%).
Source: Environmental Protection Agency.

electric utilities, to reduce pollution that contributes to smog. Although reductions from electric utilities will be most cost-effective, States will have flexibility to choose which sources to regulate. Controls must be in place by 2003 and reductions achieved by 2007. EPA estimates that the cost of electricity associated with this action will be only a fraction of the cost associated with utility restructuring. EPA is also proposing to use an interstate trading system that allows for the transfer of pollution credits to encourage early action while providing flexibility.

On May 14, 1999, the U.S. District Court of Appeals ruled EPA's new air quality standards for ozone and particulate matter, which were issued in July 1997, violated the constitution's delegation of powers. In a 2-1 vote, the court struck down the standards, arguing that this was an issue that was too important for Congress to delegate to a Federal agency. EPA will recommend that the Department of Justice appeal the decision of the court. However, EPA's regulations described in this report will proceed on schedule because they are based on the old 1-hour ozone standard.

Meanwhile, the global warming treaty continues to be debated in Congress. This treaty, signed in Kyoto, Japan in 1997, and followed up with the Buenos Aires accord in 1998, aims at reducing greenhouse gasses thought to cause global warming. The Buenos Aires accord would start enforcing the agreement by late 2000, with reductions required over a 13-year period. However, it is not clear yet whether Congress will ratify the treaty. This decision must be made by the end of 1999 for the United States to take part. *[Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]*

Land Use and Natural Resource Regulations

In February 1998, the National Marine Fisheries Service (Commerce Department) proposed to protect steelhead trout and salmon in the Pacific Northwest (parts of Washington, Oregon, and northern California) by listing the species as either endangered or threatened. This would make it illegal to kill these fish or harm their habitats, and the fisheries service would develop a recovery plan that could restrict fishing, roadbuilding, mining, agriculture, and other activities within the region. Because the plan would apply to both urban and rural areas, it might also affect the use of fertilizer on lawns and gardens.

In February 1999, the Forest Service proposed a 2-year moratorium on hard rock mining in the mountain wildlife areas in Montana in an effort to protect threatened wildlife, including elk, deer, grizzly bear, and mountain goat. The restriction would apply along a 100-mile region called Montana's Rocky Mountain Front. The Forest Service is also considering making the restriction permanent in the region. This follows the restriction of oil and gas exploration for this region in September 1997.

In May 1998, the Interior Department proposed reducing the level of protection offered to 29 species of animals and plants, including the bald eagle, the peregrine falcon, eastern timber wolf, and others that were on the endangered species list. Some may be de-listed entirely, others placed on the threatened list. Most will still receive some level of protection either by Federal or State authorities. However, this action should make development easier in some places.

Legislation was enacted in November 1998 that affects the way the national parks will be managed. This law (P.L. 105-391) calls for the National Park Service to earn 8-percent royalties from concession sales. Lawmakers also extended a pilot program allowing parks to charge entrance fees and allowing most of the proceeds to be used in the park where they are collected. While some more ambitious fee collection proposals were not included (such as charging film companies fees to make movies in the parks), the new rules should help the National Park Service make much needed repairs and protect valuable wildlife and other amenities.

After Congress enacted legislation in 1998 imposing a moratorium on increasing oil and gas royalty fees on public lands, the Interior Department announced its intentions to increase such fees on June 1, 1999, the day the moratorium was to expire. The new formula would impose fees based on the price in the commodity market rather than based

on individually negotiated deals between oil and gas producer and buyer. This change would result in $66 million in new revenues for the Interior Department. State and local governments in affected areas would also benefit from their share of the payments. However, the supplemental spending bill enacted in May 1999 extended the moratorium on applying the new fee structure beyond the June 1 date.

In June 1998, the Army Corp of Engineers proposed new rules concerning development of wetlands. The new rules would allow developers to fill up to 3 acres of most types of wetlands for certain purposes (building houses, malls, and some other developments), and 10 acres for "master planned" development activities, without detailed Federal review. Special restrictions would apply to rare wetlands. Regional offices would enforce these activity-based rules.

In February 1999, the U.S. Supreme Court upheld an Iowa Supreme Court ruling against Iowa's "right-to-farm" law, which protected farmers from lawsuits by neighbors objecting to odors, noise, dust, and other perceived nuisances. The Iowa court's reason for striking down the law was that it reduced the value of neighbors' land, amounting to a government "taking" without compensation. The ruling appears to invalidate similar laws in other States that were enacted to fend off rural sprawl and the threat it poses for farming businesses. Without such laws, some State and local governments may be forced to turn to other approaches, such as tax incentives and zoning, to protect farmland from encroaching development. *[Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]*

Some Bank and Credit Institution Regulations Have Changed

Beginning June 1, 1997, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permitted interstate branching through bank mergers. Though Montana and Texas passed legislation opting out of interstate branching, at least one large banking firm used a loophole from earlier legislation to convert its Texas offices to branches of its main office in another State. While rural banks are typically too small to attract attention from the mostly large banks that actively participate in interstate banking, many rural banks and bank branches often already belonged to large banks that were taken over by even larger banks. Rural residents and businesses served by branches of distant banking firms may be concerned that those banks will neglect their credit needs. Regulations governing the Community Reinvestment Act (CRA) were revised earlier this decade in an attempt to make the Act both more effective and less burdensome. One change required large banks to provide geographic breakdowns of their lending to small businesses and to small farmers. Two years of these data are now available to help rural communities and activists evaluate the extent to which large banks lend to farmers and to small businesses in rural areas served by offices of those banks.

In 1998, the House narrowly passed a bill to revise the Glass-Steagall Act and related legislation which limits bank activity in the insurance and securities industries. However, the bill did not make it through the Senate, partly because of opposition to applying the CRA to new categories of financial firms that would be created by this legislation. Further, the Administration promised to veto any bill incorporating the Federal Reserve's views on how to organize and supervise firms with enhanced financial products. The Federal Reserve argued that the safety of the Federal deposit insurance funds could be maintained only if insurance and securities activities were separated from traditional bank services by forcing banking firms to provide new financial services through affiliates of holding companies. But the Treasury Department believed that using bank subsidiaries to enter the insurance and security industries is good enough.

Both chambers of Congress are making financial reform a priority this year, but disputes have resurfaced, in addition to that between the Federal Reserve and Treasury. Some wish to push reform even further by allowing financial firms to own commercial firms, and conversely. Rural and other small banks fear that removing all Glass-Steagall barriers would concentrate economic power in a few giant, noncompetitive firms. The resulting institutions would offer a wide array of financial services, but some wonder whether they would neglect the farm and small business sectors in rural areas.

In 1998, the banking industry won a Supreme Court decision preventing what it perceives as unfair extensions of credit union common bond requirements. Congress quickly passed legislation to overturn that decision, but bankers are currently monitoring the situation closely as the National Credit Union Administration prepares regulations to implement last year's legislation. Bankers want to make sure that an individual credit union cannot easily serve large communities and large, unrelated groups of workers. Whether or not these concerns are addressed, there will not be a legal impediment preventing credit unions from having the opportunity to spread more widely in rural areas, since rural populations are too small for this to become an issue.

The Farm Credit Administration (FCA) is an independent agency of the Federal Government that regulates the Farm Credit System (FCS). For several years, FCA's board of directors has focused on regulatory reform to reduce business costs and barriers to customer-oriented operations while maintaining safety and sound operations. In 1998, FCA extended this focus by issuing a philosophy statement on intra-FCS competition and proposing a new rule with respect to chartered territories. In addition, a Federal appeals court overturned some customer eligibility regulations that were challenged by commercial bankers, but it affirmed others.

The philosophy statement on intra-system competition could lead to substantial changes in FCS structure and operations. This statement affirms the board's belief that unrestricted competition among FCS lenders will benefit eligible borrowers. The FCA board supports (1) the flexibility for associations to choose their source(s) of funding, (2) initiatives brought to the FCA by the FCS that allow institutions to become more efficient and relevant in the marketplace, (3) removal of geographical boundaries of FCS entities, (4) movement toward institutional structures that would encompass short-term lending, long-term lending, and Bank-for-Cooperatives-type lending, and (5) interpretations of the statutes that will enable FCS institutions to become more competitive.

The proposed rule with respect to chartered territories of FCS lenders is a first step in implementing this new policy. It would allow eligible borrowers to obtain credit and financial services from FCS lenders of their choice, regardless of the location of their residence or agricultural activity—effectively eliminating territorial restrictions on FCS lenders. However, each FCS lender would still be obligated to serve all eligible, creditworthy borrowers in its designated territory. Any FCS lender conducting substantial business beyond its designated territory would be required to adopt a board policy and a business plan addressing extraterritorial activities.

Previously, FCA had issued controversial final rules for eligibility and scope of financing which were challenged in court by the American Bankers Association and the Independent Bankers Association of America, who alleged the regulations conferred powers on the FCS not intended by Congress. In November 1997, a Federal Court dismissed the suit, but it was appealed. In January 1999, the Court of Appeals struck down regulations governing rural housing and farm-related businesses. The court ruled that the FCS could not finance rural homes for nonrural residents and that loans to farm-related businesses by those FCS lenders that only have authority to make long-term mortgage loans must be limited to financing land, buildings, equipment, and initial working capital. The court affirmed that other rules challenged by the banking organizations were consistent with statutory language and congressional intent, including rules for financing farm-related service businesses, lending to service cooperatives, processing and marketing loans, and eligibility of legal entities.

The overall effect of these changes on rural borrowers is likely to be small, especially in the next few years. Those who have been eligible to borrow from FCS lenders, especially those with large or specialized needs, may notice better service or lower interest rates if FCS lenders start competing with each other. Some borrowers who were formerly considered ineligible to borrow from the FCS will now be allowed to do so. *[Daniel Milkove, 202-694-5357, dmilkove@econ.ag.gov, and Robert Collender, 202-694-5343, rnc@econ.ag.gov].*

Other Changes Are Important for Rural Development

Statistical Changes. Several key changes in how statistics are collected and measured will have significant implications for many rural areas. In April 1998, the Bureau of Labor Statistics announced that it will use a revised cost-of-living adjustment (COLA) to correct for an overstatement in the cost of living that was built into the consumer price index (CPI). The revision will have the effect of reducing the annual increase in the index by about 0.8 percentage points. Because the CPI-based COLA is used to adjust Social Security payments, the revision will reduce Social Security payments beginning in January 1999. Over time, this reduction could make a significant difference in the economies of rural areas with high percentages of elderly people.

Another proposed statistical change involves the decennial census. The Bureau of the Census wants to use statistical sampling techniques to adjust for undercounting various places. The Supreme Court decided in January 1999 that sampling could not be used to reapportion the number of congressional seats after the decennial census. However, it did not rule on whether sampling could be used for other purposes, such as redrawing congressional districts or adjusting population estimates when determining State and local funding allocations in Federal programs. The use of sampling for such purposes could increase the level of assistance to rural and urban areas with substantial undercounted minority populations and decrease the level of assistance elsewhere, particularly where double-counting tends to take place. A recent General Accounting Office study found that some Southern and Western States (California, Texas, Arizona, Georgia, and Louisiana) would have received more than $100 million in additional Federal assistance had sampling techniques been used to allocate 15 large grant programs in the 1990's, while 23 States would have lost funds, with the largest loss in Pennsylvania.

The Census Bureau is also considering changing the way it defines rural/nonmetropolitan areas. Such definitions are often used in programs that target either urban or rural places, affecting eligibility and the level of assistance received. Significantly narrowing the definition of the term "rural" would reduce the rural share of the Nation's population, and it could change the way people think about rural America and the government assistance it receives.

Health Program Changes. In July 1998, Medicare payments to nursing homes were capped, reducing payments by $4.3 billion per year. The new system of payments promotes efficiency and effective care. However, because of diseconomies of scale, some small rural nursing homes find it difficult to make enough efficiency gains to cover the reduced payments. Another change that took place last summer was the President's decision to waive the so-called "100 hour rule" that limited Medicaid for two-parent families working over 100 hours a month. This waiver helps families retain health care when unemployed parents find jobs, hence it should particularly help in poor rural communities which generally have large numbers of working poor.

Changes Affecting Small Businesses. In June 1998, the Clinton Administration announced new bidding rules for Federal Government contracts that should benefit small minority-owned businesses. If such businesses can show that their share of Federal contract business is smaller than their share of the market, they can bid as much as 10 percent over the lowest bidder and win the contract. Small businesses and their workers could be more significantly affected by proposed rules by the Occupational Safety and Health Administration (OSHA). Current rules exempt small employers from recordkeeping and planned inspection requirements, but under the draft proposal, all businesses, regardless of size, would have to do regular workplace safety inspections. OSHA plans to provide a lot of Federal assistance to help small businesses design safe workplaces before any new regulations would be enforced.

New Waiver Guidelines. In April 1998, a presidential memorandum was sent to the heads of Federal agencies describing new guidelines for waivers that delegate authority to Federal employees to deviate from internal agency rules. Agencies are to approve or deny waiver requests within 30 days, and only the head of the agency can deny the waiv-

er. Although the new guidelines do not apply to rules mandated by law, they should provide new flexibility to agency officials in the field; flexibility is often important in rural areas where conditions are much different than in the country as a whole. Waivers have also been touted as a key policy tool to help empower distressed communities, such as those participating in USDA's rural Empowerment Zone/Enterprise Community program. *[Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]*

Appendix table—Rural share of selected programs, fiscal year 1997

Agency[1] and program	1997 funding[2]	Nonmetro counties	Rural States
	Billions of dollars	----------Percent----------	
Exhibit: share of 1997 U.S. population	NA	20.3	11.4
General assistance:			
HUD State/Small Cities Community Development Block Grants (CDBG)	1.155	———	22.2
EDA adjustment assistance:			
Planning support	.021	61.0	34.7
Technical assistance	.011	22.0	21.2
Special economic development and adjustment assistance[3]	.159	22.3	30.1
FEMA disaster relief	3.392	———	19.1
USDA/CSREES extension activities	NA	NA	NA
BIA Native American assistance programs	1.211	———	30.2
Infrastructure assistance:			
USDA/RUS Programs—			
Rural Water and Waste Disposal Grants	.462	77.5	26.6
Rural Water and Waste Disposal Direct Loans	.807	68.9	27.0
Rural Water and Waste Guaranteed Loans	.003	50.0	14.5
Rural Electrification Loans and Loan Guarantees[4]	.799	49.2	18.6
Rural Telecommunication Loans and Loan Guarantees[4]	.381	78.6	23.5
Distance Learning and Medical Link Grants	NA	NA	NA
Rural Community Facilities Direct Loans	.132	75.7	24.9
Rural Community Facilities Loan Guarantees	.079	74.3	38.5
DOT Highway Planning and Construction Grants	17.820	31.0	16.9
DOT Airport Improvement Grants	1.352	12.7	21.9
DOT Nonurban Public Transportation	.150	——	23.4
EPA Clean Water and Drinking Water State Revolving Funds	NA	NA	NA
EDA Public Works Grants	.167	52.4	20.2

See notes at end of table.

—Continued

Appendix table—Rural share of selected programs, fiscal year 1997—Continued

Agency[1] and program	1997 funding[2]	Nonmetro counties	Rural States
	Billions of dollars	----------Percent----------	
Exhibit: share of 1997 U.S. population	NA	20.4	11.4
Business assistance:			
SBA Small Business Loan Guarantees—7(a)	6.811	15.5	9.1
SBA Certified Development Loan Company guarantees (section 504)	1.449	15.5	11.5
SBA disaster loans			
Economic Injury Disaster Loans	.035	43.2	37.0
Physical Disaster Loans	1.027	25.2	41.9
USDA/RBS Programs—			
Business and Industry Loan Guarantees	.801	60.7	28.8
Intermediary Relending Program Loan Guarantees	.037	63.3	39.2
Rural Business Enterprise Grants (RBEG)	.046	67.8	27.7
EDA Special Economic Development and Adjustment Assistance[5]	.159	32.3	30.1
Housing assistance:			
USDA/RHS Single Family Housing (section 502) Direct Loans and Guarantees	2.632	44.2	22.9
USDA/RHS Multifamily Housing (section 515)	.056	69.4	23.7
VA Guaranteed and Insured Housing Loans	8.603	11.7	11.8
HUD/FHA Single-Family Mortgage Insurance	60.962	5.8	8.2
HUD mortgage insurance for low/moderate income families	.171	9.9	6.2
HUD Public and Indian Housing	3.349	16.1	10.3
HUD low income housing assistance (section 8)	19.983	12.7	9.2

——— = Data not accurate at the county level.
NA=Not applicable, or data not available.
[1]Agency abreviations in table are HUD=U.S. Department of Housing and Urban Development; EDA=Economic Development Administration (U.S. Department of Commerce); FEMA=Federal Emergency Management Agency; USDA=U.S. Department of Agriculture; CSREES=Cooperative State Research, Education, and Extension Service; RBS=Rural Business-Cooperative Service; RUS=Rural Utilities Service; RHS=Rural Housing Service; BIA=Bureau of Indian Affairs (U.S. Department of the Interior); DOT=U.S. Department of Transportation; EPA=Environmental Protection Agency; SBA=Small Business Administration; FHA=Federal Housing Administration; VA=U.S. Department of Veterans Affairs.
[2]Dollar amounts are for the U.S. total (includes both metro and nonmetro) for fiscal year 1997. The data come from the Bureau of the Census, and these totals may differ from those cited from other sources.
[3]Includes economic and defense adjustment.
[4]Federal Funds data covering RUS electric and telephone loans only track funds to the county where central offices are located. The services provided by these programs often cover multicounty areas; hence, these data probably understate the extent to which nonmetro counties benefit from the programs.
[5]The percentages reported here refer to the entire Special Economic Development and Adjustment Assistance program, which includes both economic adjustment and defense adjustment (this program was also reported earlier under general business assistance).
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

Data Sources

Federal Funds Data. The principal data source we use to indicate geographic dispersion of program funding is the Consolidated Federal Funds Reports data from the U.S. Department of Commerce, Bureau of the Census. We usually refer to these data as the Federal Funds data. The Census Bureau collects these data annually from each Federal department or agency. We aggregated the latest available data (fiscal year 1997) to the county, State, region, and national levels for each program. (Unless otherwise specified, references to years are fiscal years.) We have also computed per capita estimates by type of nonmetro county and type of State (the typologies are explained later in this appendix). These per capita estimates form the basis for our information indicating the types of rural places that are particularly affected by each program.

The Census data for 1997 covered 1,256 individual programs, but not all of these programs had reliable data at the county level. Each program has individual characteristics that affect the way the data show geographic patterns. For example, funds for many programs go directly to State capitals or regional centers that redistribute the money or program benefits to surrounding areas. Examples include block grant programs and some procurement programs that involve a substantial degree of subcontracting. Census screens the data to identify such programs, and we have added our own screening, which separates out those programs that allocate 25 percent or more of their funds to State capitals. We ended up with 816 programs that we believe are fairly accurate to the county level for 1997. For the screened-out programs, we believe it is only meaningful to indicate geographic variations among States but not among counties. Thus, for some of the programs, we provide county maps and statistics, while for others we rely on State maps and statistics. Appendix table 1 lists the programs covered in this report, including the percentage of funds going to nonmetro counties (for programs deemed accurate to the county level) and the percentage of funds going to rural States (for all programs, including programs not deemed accurate to the county level).

The benefits of Federal programs do not all go to the places that receive funds. For example, money spent on national parks benefits all who visit the parks and not just those who live where the parks are located. USDA's money going to county extension offices may be expected to provide services to surrounding multicounty areas. Similarly, rural electric loans go to borrowers who may be located in one county but provide electric service to a much wider, multicounty area. Such spillover benefits are present in almost all Federal programs and are not reflected in the Federal funds data. In addition, different programs affect communities in different ways and have different multiplier effects on local income, employment, and community well-being. Thus, even if the reported funding dispersion is considered to be an accurate depiction of where the funds are spent, care is required when interpreting the data as program effects.

Federal Funds data may represent either actual program expenditures or obligations, depending on the form of the data provided to Census. Direct loans and loan guarantees are reported according to the volume of loans obligated, and do not take into account interest receipts or principal payments. Consequently, these data do not always correspond to program totals reported in government budget documents, such as budget authority, outlays, or obligations (see definitions).

ERS' Federal Funds Data—sorted by type of county and State and used to produce tables, charts, and maps for this publication—will be available for sale on CD-Rom, as one of ERS's Standard Data Products. *[Faqir Singh Bagi, 202-694-5337, fsbagi@econ.ag.gov; Samuel Calhoun, 202-694-5339, scalhoun@econ.ag.gov; and Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]*

Budget Data. We obtained information on regulatory changes and recent changes in program funding levels, such as the level and change in funding from 1998 to 1999, from various sources, including *Congressional Quarterly Weekly Report*, the President's Fiscal Year 2000 Budget, the 2000 budget summaries provided by major government agencies, Congressional legislation, conference reports, and legislative summaries, and from the

most recent Catalogue of Federal Domestic Assistance. In some cases, we contacted budget officials by phone to obtain information.

Population Data. Per capita funding amounts were estimated using 1997 county population estimates from the Bureau of the Census.

ARMS Farm Data. Farm data for this report come from USDA's 1997 Agricultural Resource Management Study (ARMS), formerly know as the Farm Costs and Returns Survey (FCRS). Composed of several questionnaire versions, all versions include the same core group of questions related to farm income, expenses, and operator characteristics. USDA administers the survey each spring in the 48 contiguous States through personal enumeration. The target population of ARMS is operators associated with farm businesses representing agricultural production in the United States (excluding Alaska and Hawaii). A farm is defined as an establishment that sold or normally would have sold at least $1,000 of agricultural products during the year. Farms can be legally organized as proprietorships, partnerships, family corporations, nonfamily corporations, or cooperatives. The ARMS is a probability survey. Probability surveys are designed on the premise that every unit in the population has a known probability of being selected. An expansion factor, or weight, is established for each reporting unit (sample) which allows ARMS to expand to the USDA official number of farms. Because data here represents an estimate of government payments to the one operator contacted, estimates will differ from administrative records which include payments to entities other than the farmer, such as landlords. Government payments received by the farmer for other farms are not itemized in the survey.

Definitions

County Typologies. Classification systems developed and periodically revised by ERS to group counties and States by economic and policy-relevant characteristics. The county typology codes used in this issue are those described in Peggy J. Cook and Karen L. Mizer, *The Revised ERS County Typology: An Overview*, RDRR-89, U.S. Department of Agriculture, Economic Research Service, December 1994. The State typology codes were first developed in Elliot J. Dubin, *Geographic Distribution of Federal Funds in 1985*, Staff Report AGES89-7, U.S. Department of Agriculture, Economic Research Service, March 1989, and were revised for the 1996 Federal Funds *RCaT*.

County Economic Types (mutually exclusive; a county may fall into only one economic type):

Farming-dependent—Farming contributed a weighted annual average of 20 percent or more of total labor and proprietor income over the 3 years of 1987-89.

Mining-dependent—Mining contributed a weighted annual average of 15 percent or more of total labor and proprietor income over the 3 years of 1987-89.

Manufacturing-dependent—Manufacturing contributed a weighted annual average of 30 percent or more of total labor and proprietor income over the 3 years of 1987-89.

Government-dependent—Federal, State, and local government activities contributed a weighted annual average of 25 percent or more of total labor and proprietor income over the 3 years of 1987-89.

Service-dependent—Service activities (private and personal services, agricultural services, wholesale and retail trade, finance and insurance, real estate, transportation, and public utilities) contributed a weighted annual average of 50 percent or more of total labor and proprietor income over the 3 years of 1987-89.

Nonspecialized—Counties not classified as a specialized economic type over the 3 years of 1987-89.

County Policy Types (overlapping; a county may fall into any number of these types):

Retirement-destination—The population aged 60 years and older in 1990 increased by 15 percent or more during 1980-90 through inmovement of people.

Federal lands—Federally owned lands made up 30 percent or more of a county's land in 1987.

Commuting—Workers aged 16 years and over commuting to jobs outside their county of residence were 40 percent or more of all the county's workers in 1990.

Persistent-poverty—Persons with poverty-level income in the preceding year were 20 percent or more of total population in each of 4 years: 1960, 1970, 1980, and 1990.

Transfer-dependent—Income from transfer payments contributed a weighted annual average of 25 percent or more of total personal income over 3 years of 1987-89.

State Types (the first three types are mutually exclusive; a State may fall into only one category; the remainder are overlapping).

Because many Federal programs do not have accurate county-level data, we developed a State typology to assist in differentiating among types of States and their funding levels. First, we categorized States into three groups (rural, urban, and other) based on the percentage of a State's population residing in urban parts of metro areas. We defined four other types of States: farming-dependent, persistent-poverty, retirement-destination, and Federal lands. In each case, we used the same kinds of measures that were used to construct ERS's county typologies. However, the cutoffs were lowered because States have more internal socioeconomic diversity than most counties.

ERS's State types are defined as follows:

Rural—In 1993, 45 percent or less of the State's population resided in urban areas within the metro areas.

Urban—In 1993, 70 percent or more of the State's population resided in urban portions of metro areas.

Other (neither urban nor rural)—More than 45 percent but less than 70 percent of the State's population in 1993 resided in urban portions of metro areas.

Farming-dependent—In 1991-93, 4 percent or more of the total labor and proprietor income came from farm labor and proprietor income.

Persistent-poverty—Fifteen percent or more of a State's persons had income below poverty in 1960, 1970, 1980, and 1990.

Retirement-destination—A State's aged (over 60) population in 1990 increased by 5 percent or more due to net inmigration from 1980 to 1990.

Federal lands—The Federal Government owns 28 percent or more of total land in the State.

These State types were illustrated in figures 1-5 of the 1996 Federal Programs *RCaT*.

Rural States include Alaska, Arkansas, Idaho, Iowa, Kentucky, Maine, Mississippi, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, South Dakota, Vermont, West Virginia, and Wyoming.

Urban States include Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Hawaii, Illinois, Maryland, Massachusetts, Nevada, New Jersey, New York, Rhode Island, Texas, and Utah.

Other States include Alabama, Georgia, Indiana, Kansas, Louisiana, Michigan, Minnesota, Missouri, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Virginia, Washington, and Wisconsin.

Farm-dependent States include Arkansas, Idaho, Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota, and Wyoming.

Poverty States include Alabama, Alaska, Arkansas, District of Columbia, Georgia, Kentucky, Louisiana, Mississippi, New Mexico, South Carolina, South Dakota, Tennessee, and West Virginia.

Retirement-destination States include Arizona, Florida, Hawaii, Idaho, Nevada, New Mexico, North Carolina, Oregon, South Carolina, Utah, and Washington.

Federal lands States include Alaska, Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

The Farm Typology

Small farms:

Limited resource. Any small farms with 1) gross sales less than $100,000, 2) total farm assets valued less than $150,000, and 3) total household income less than $20,000. Limited-resource farmers may report farming, retirement, or non-farm occupations.

Retirement. Farms with sales under $250,000, whose operator report they are retired, excluding those meeting the "limited resource" definition.

Residential/lifestyle. Farms with sales under $250,000, whose operators who report their occupation as non-farm, excluding those meeting the "limited resource" definition.

Farming occupation/lower sales. Farms with sales less than $100,000 (but which do not meet other limited resource qualifications), and whose operators report farming as their major occupation.

Farming occupation/higher sales. Farms with sales of more than $100,000 but less than $250,000 and whose operators reported farming as their major occupation.

Other farms:

Large family farms. Sales between $250,000 and $499,999, regardless of operator's occupation.

Very large family farms. Sales of $500,000 or more, regardless of operator's occupation.

Non-family farms. Farms legally organized as nonfamily corporations or cooperatives, as well as farms operated by a hired manager.

Regions

Census Regions—We used the conventional four Census-defined regions as follows:

Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

South: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

West: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

In most cases, we used only the nonmetro portion of these regions when referring to county-level data variations.

Other Definitions

Metro and Nonmetro Areas

Metro areas. Metropolitan Statistical Areas (MSA's), as defined by the Office of Management and Budget, include core counties containing a city of 50,000 or more people or have an urbanized area of 50,000 or more and a total area population of at least 100,000. Additional contiguous counties are included in the MSA if they are economically integrated with the core county or counties. For most data sources, these designations are based on population and commuting data from the 1990 Census of Population. The Current Population Survey data through 1993 categorizes counties as metro and nonmetro based on population and commuting data from the 1980 Census. Throughout *Rural Conditions and Trends*, "urban" and "metro" have been used interchangeably to refer to people and places within MSA's.

Nonmetro areas. These are counties outside metro area boundaries. In *Rural Conditions and Trends*, "rural" and "nonmetro" are used interchangeably to refer to people and places outside of MSA's.

Rural-Urban Continuum County Codes

Classification system developed by ERS to group counties by the size of their urban population and the adjacency to metropolitan areas. (See Margaret A. Butler and Calvin L. Beale, *Rural-Urban Continuum Codes for Metro and Nonmetro Counties, 1993*, AGES 8428, U.S. Department of Agriculture, Economic Research Service, September 1994).

Metro counties—

Central counties of metro areas of 1 million population or more.

Fringe counties of metro areas of 1 million population or more.

Counties in metro areas of 250,000 to 1 million population.

Counties in metro areas of fewer than 250,000 population.

Nonmetro counties—-

Urban population of 20,000 or more, adjacent to a metro area.

Urban population of 20,000 or more, not adjacent to a metro area.

Urban population of 2,500 to 19,999, adjacent to a metro area.

Urban population of 2,500 to 19,999, not adjacent to a metro area.

Completely rural or less than 2,500 urban population, adjacent to a metro area.

Completely rural or less than 2,500 urban population, not adjacent to a metro area.

Nonmetro adjacent counties—

Nonmetro counties physically adjacent to one or more metro areas and having at least 2 percent of the employment labor force in the county commuting to the central metro county.

Budgetary Terms

Budget authority. The authority becoming available during the year to enter into obligations that will result in immediate or future outlays of government funds. In some cases, budget authority can be carried over to following years. It can take the form of appropriations, which permit obligations to be incurred and payments to be made, or authority to borrow, or authority to contract in advance of separate appropriations. Supplemental appropriations provide budget authority when the need for funds is too urgent to be postponed until the next regular annual appropriations act.

Obligations incurred. Once budget authority is enacted, Government agencies may incur obligations to make payments. These include current liabilities for salaries, wages, and interests; contracts for purchase of supplies and equipment, construction, and the acquisition of office space, buildings, and land. For Federal credit programs, obligations are recorded in an amount equal to the estimated subsidy cost of direct loans and loan guarantees.

Outlays. This is the measure of government spending. Outlays are payments to liquidate obligations (other than repayment of debt), net of refunds and offsetting collections.

Direct loan. This is the disbursement of funds by the government to a non-Federal borrower under a contract that requires repayment, with or without interest.

Loan guarantee. This is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender.

Fiscal year. A fiscal year is the U.S. Government's accounting period. It begins October 1 and ends September 30, and is designated by the calendar year in which it ends.