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# Geographic Targeting Issues in the Delivery of Rural Development Assistance

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# Geographic Targeting Issues in the Delivery of Rural Development Assistance

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## Abstract

This report uses analysis of the geographic distribution of Federal funding to discuss potential tradeoffs for distressed rural areas when shifting from one form of rural development assistance to another, particularly when shifting to greater use of Government-guaranteed loans. The study also uses correlation analysis to document the extent of targeting rural development programs to highly rural areas and to rural areas experiencing distress in the form of poverty, low employment, and population decline. Findings indicate that distressed rural areas might fare worse than other nonmetro areas with some kinds of shifts, such as reducing grants and direct Government loans to fund increases in guaranteed loans. The effects on distressed areas would depend on the form of distress, the programs involved, and how they are targeted geographically.

**Keywords:** Rural development, rural policy, community development, guaranteed loans, Federal funds

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## Summary

The U.S. Department of Agriculture (USDA) administers rural development programs that assist rural housing, businesses, public utilities, community facilities, renewable energy systems, and cooperatives. The programs are designed to combat barriers to rural development like high poverty, population decline, low population density, underemployment, and isolation. Forms of assistance include direct payments to individuals (such as rent subsidies), technical assistance, grants, direct (Government-issued) loans, and Government guarantees of loans issued by financial institutions.

### What Is the Issue?

Federal agencies are under pressure to economize. Economic development agencies might save money by shifting from more costly grants and direct loans to less costly guaranteed loans. This report examines potential tradeoffs for distressed rural areas when shifting from one form of assistance to another, particularly from grants and direct loans to guaranteed loans. Although such shifts might reduce program costs to the Federal Government, small or distressed rural communities might be less able to take advantage of guaranteed loans. This study used 2005 Census data on the geographic distribution of Federal funds to examine the extent of targeting of USDA's rural development programs and to provide insights on what some of the tradeoffs would be in shifting from one form of assistance to another.

### What Did the Study Find?

*What Happens Under Existing Programs?* Distressed nonmetro counties receive more Federal grants per capita than nonmetro counties in general, with the highest average grant level, \$2,586, going to persistent-poverty counties.

- USDA's rural development programs provide more funding per capita to totally rural areas (nonmetro counties with less than 2,500 census-defined urban residents) and to distressed nonmetro areas (persistent-poverty, low-employment, and population-loss counties) than to nonmetro areas in general.
- The extent of geographic targeting by rural development programs varies by program and type of assistance, with grants and direct loans generally favoring distressed nonmetro areas of all types and guaranteed loans favoring totally rural and population-loss counties. Persistently poor and low-employment counties generally receive less assistance from guaranteed loan programs than does the average nonmetro county.
- An exception to this pattern is the Business and Industry (B&I) Loan Guarantee Program. Its funding is correlated with the local rate of population growth—the more rapidly a county grew during the 1980s and 1990s, the more B&I loan guarantees it received per resident.
- The Rural Telephone Guaranteed Loan Program is the only one of the five large USDA guaranteed loan programs examined in this study that clearly favors distressed counties: It provides higher per capita funding to places with less population growth (or greater population decline). However, this program's funding is not correlated with poverty, and it provides higher per capita funding to more fully employed places (measured by share of working-age residents who are employed).

- Of the large rural development programs, the one least targeted to distressed and rural areas is the Low Income Housing Loan Guarantee Program. This program's per capita funding is correlated with higher local employment and lower local poverty, and it provides more funding per capita to nonmetro counties that have lower shares of population that are rural.
- The large rural development programs that exhibited the most targeting to distressed areas are Community Facilities grants and Rural Rental Assistance payments.

***What Happens With a Shift in Funding?*** One or more distressed county groups might not fare as well as nonmetro areas in general from a shift from grants and direct loans to guaranteed loans. The outcome depends on which program's grants or direct loans are being cut and which program's guaranteed loans are being increased.

- Guaranteed loans entail lower cost to USDA (which can allow USDA to finance a larger volume of loans) and more private-sector involvement in community projects, which can enhance program efficiency and build local development capacity. The guarantees can also provide below-market interest rates because of reduced risk to the lender. However, guaranteed loans are more subject to variable interest rates and shorter repayment periods than are USDA's direct loans, which can increase cost and risk to the recipient. In addition, the tax-exempt status of municipal projects often negates the benefit from lower interest rates. Since federally guaranteed loans lose their tax-exempt status, local lenders may choose not to participate in a guaranteed loan program.
- Grants and subsidized direct loans are more costly to USDA, but they can significantly lower cost and uncertainty for the recipient, allowing some projects to go forward that would be otherwise unaffordable. Grants have been shown elsewhere to help leverage other forms of assistance, including funding from other Federal agencies, which offsets some of the cost to USDA. And grants help to pay for feasibility studies required before projects can get off the ground. Hence, grants are not strictly interchangeable with loans.
- Three hypothetical cases of shifts from grants, direct loans, and other forms of assistance to guaranteed loans revealed that: (1) a shift in low-income housing funding from direct to guaranteed loans would particularly benefit the less poor and less employment-distressed areas, but it could reduce funding to some people and places in persistent-poverty and low-employment counties; (2) a shift in funding from rental assistance (direct payments to individuals) to low-income housing loan guarantees might also reduce funding to some people and places in persistent-poverty and low-employment counties; and (3) a shift in funding from community facilities grants to B&I loan guarantees might reduce funding to people and places in all three county distress types (persistent-poverty, low-employment, and population-decline counties).
- Even in counties that are not particularly distressed, a shift away from grants, direct loans, and other assistance to low-income, unemployed, or disadvantaged people or places could reduce funding to low-income people

and communities within these counties, possibly adding to the counties' development challenges. While we do not analyze subcounty funding patterns, the same factors influencing geographic patterns at the county level should apply to smaller geographic areas or population groups as well.

### **How Was the Study Conducted?**

The ERS Federal funds database was analyzed to show how USDA's rural development programs were allocated across geographic areas nationwide. The funding data come from the U.S. Census Bureau's Consolidated Federal Funds Reports (CFFR) data for fiscal year 2005. This analysis aggregated Federal program funding using ERS' county typologies that represent different forms of socioeconomic distress. Funding levels were computed in per capita terms to provide comparability across different categories of counties. Correlation analysis was used to identify programs that appear to be targeting assistance based on various forms of distress. To better understand the importance of the alternative forms of assistance, interviews were conducted with USDA Rural Development employees, both in the national headquarters and in the field.





## Introduction

USDA's Rural Development (RD) mission area administers a variety of programs that assist rural housing, business, public utilities, community facilities, renewable energy systems, and farm cooperative programs. Although other Federal agencies have programs that affect rural development, USDA's programs are targeted to rural people and places and are meant to overcome barriers to rural development. These barriers include high poverty, population decline, employment problems, and problems associated with small, isolated rural communities, such as distance to urban markets and diseconomies associated with the small scale of rural communities. Consequently, the geographic targeting of these programs can be seen as critical to both their equity and efficiency.

Many questions arise concerning the targeting of rural development funds. For example, should rural development programs be targeted only to highly rural areas or to all places (urban and rural) that have significant rural populations? Should they be targeted to places with the most economic need (such as high poverty or unemployment) or to places that have the most development potential, where Federal aid might be expected to create more jobs and income? Should they be targeted to places with significant population decline to help stabilize their populations and maintain basic services or to rapidly growing places to help them provide jobs to residents of neighboring areas that lack job opportunities and to help growing communities catch up with the growth in demand for basic public services? Should they be highly targeted to maximize program effectiveness by providing a lot of assistance to a small number of places or spread out geographically to help a larger number of places? Should most rural development programs be targeted using the same eligibility and priority rules to simplify the application process, or should different programs be targeted differently to reflect the diversity of rural conditions and needs? Although these are all good questions, they are beyond the scope of this report, which is principally concerned with another issue—the targeting of different types of assistance to distressed rural areas.<sup>1</sup>

Rural development programs employ various types of assistance, including technical assistance, direct payments to individuals (such as rental assistance), grants, direct loans, and guaranteed loans. Because grants do not need to be repaid, they are usually considered more valuable to recipients than loans are, although they cost more to the Federal Government.<sup>2</sup> Direct loans sometimes come with subsidized (lower) interest rates and other provisions (to be discussed in more detail later in this report) that can make them more valuable to recipients (and more costly to the Federal Government) than unsubsidized (market rate) guaranteed loans. Consequently, grants and subsidized-rate direct loans are particularly useful to distressed people and places that might otherwise have difficulty obtaining and paying off loans.

In recent years, the Federal Government has faced growing costs associated with national defense, health care, retirement costs, and the recent financial crisis and recession. At the same time, the recession has depressed Federal revenues. Thus, Federal agencies have been under pressure to economize and exercise more fiscal restraint in their programs. One way for Federal economic development agencies to save money might be to shift from more costly grants and direct loans to less costly guaranteed loans. USDA's

<sup>1</sup>For a good discussion of targeting issues concerning USDA's rural development programs, see the Rural Development paper in the 2007 Farm Bill Theme Papers (U.S. Department of Agriculture, 2006).

<sup>2</sup>In some cases, loans may be preferable to grants, such as when grants come with mandatory requirements that are costly or undesirable to the recipient, including matching fund provisions that require the recipient to contribute significant up-front funding from local sources.

Business and Industry (B&I) loan program underwent such a transformation in the early 2000s, shifting from direct loans to greater use of guaranteed loans to help finance business development in rural areas.<sup>3</sup> If similar proposals are made to shift to greater use of guaranteed loans in other USDA rural development programs, what might the implications be for more distressed rural places? This report provides information to help answer this question. More generally, the report discusses the tradeoffs involved with the different types of assistance for rural development programs. The goal is to provide information that will help guide policymakers in their decisions about which type of assistance to use in rural development programs.

In our analysis of this issue, we do the following:

- Examine the geographic distribution of various types of assistance (grants, loans, etc.) provided by Federal programs in general, followed by a more in-depth analysis of the geographic distribution of USDA's rural development programs.
- Examine how rural development funding levels in areas experiencing particular kinds of distress compare with funding levels in metro and nonmetro areas in general.
- Examine differences in the targeting of grants, direct loans, and guaranteed loans, with a focus on some of the largest, most important rural development programs.
- Identify significant statistical correlations between RD funding and local area distress measures to indicate the degree of targeting used in each of the programs.
- Examine several hypothetical scenarios of policies that increase the volume of guaranteed loans by reducing funding for grants (and direct payments to individuals) or direct loans to show the varying effects that these policies can have in distressed rural areas, depending on which programs are involved.

After presenting the results of this analysis, the report discusses other factors to consider in evaluating changes in the type of assistance provided. A conclusion section briefly summarizes the findings, also noting some of the study's limitations. Two appendixes provide more detail about the distressed rural areas examined in the study, including maps that show where the distressed areas are located and a list of the individual rural development programs covered in the study.

## How Rural Areas Are Defined in This Report

To facilitate the analysis, we aggregate local receipts of Federal funds to the county area. We make urban/rural distinctions by using metropolitan/nonmetropolitan county area definitions: metropolitan (metro) counties representing urban areas and nonmetropolitan (nonmetro) counties representing rural areas.<sup>4</sup> We then use the 2004 county typologies developed by USDA's Economic Research Service (ERS) to focus on counties that are experiencing various forms of difficulty or distress. Because the emphasis of the analysis is on rural areas, we focus on how funding varies among nonmetro counties

<sup>3</sup>USDA's 2002 budget request called for ending the direct loan portion of its largest rural business program, the Business and Industry (B&I) loan program. Thereafter, this program provided only guaranteed loans, which involve less subsidy and cost to the Federal Government than direct loans. Throughout the decade of the 2000s, similar proposals were made to shift to more use of guaranteed loans. The most significant increase in guaranteed loans occurred in fiscal year 2008, when funding levels for the largest guaranteed loan programs, including the B&I program and the Section 502 Single Family Housing loan program, increased dramatically (U.S. Department of Agriculture, 2008, p. 18).

<sup>4</sup>In theory, alternative urban and rural definitions, based on subcounty data, could have been used, but we did not see any strong argument in favor of one definition over another, so the metro/nonmetro county-level approach was used. The decision to use county areas as the unit of analysis was based partly on this study's use of ERS county typologies to indicate places that are experiencing distress. This county-level approach is also consistent with past ERS research examining Federal funds data. Hence, use of county-level data meant that this analysis could be conducted more quickly because it did not require modification of the ERS database.

by comparing nonmetro counties in general with nonmetro counties that are experiencing difficulty or distress. We also assess the extent of targeting on more highly rural areas to take into account the particular needs or challenges (for example, high unit costs of providing public services) of counties that are totally rural. The metro and nonmetro definitions, as well as definitions of the distressed county types used in this study, are explained in detail in the “Measuring Rurality” briefing room on the ERS website (<http://www.ers.usda.gov/briefing/Rurality/>) and in appendix A of this report, which provides maps that show the locations of distressed and totally rural counties and tables that indicate the extent of overlap among these county types.

## Data on the Geographic Distribution of Federal Funds

We use 2005 Consolidated Federal Funds Reports (CFFR) data from the U.S. Census Bureau.<sup>5</sup> The CFFR data reveal how each Federal program’s funding is distributed geographically. The CFFR data for each program are also broken out by Census-defined types of assistance (loans, grants, direct payments to individuals and others).

Using the CFFR data, ERS compiled a database that adds value by showing how funding varies among different ERS-defined types of rural counties, such as persistent-poverty counties. In addition, ERS “function” classifications can be used to aggregate data into categories of programs with particular purposes, such as transportation or national defense. In this study, we focus our analysis on USDA’s programs that fall into the broad ERS functional classification of “community resources.” This classification covers such rural development functions as housing, business assistance, community facilities, environmental protection, and community and regional development. Most of USDA’s general-purpose rural development programs are therefore included in this analysis. Special-purpose programs, such as those focusing mainly on agricultural or energy development, were excluded to maintain a focus on community development programs.

The decision to use fiscal year 2005 data was based on data quality concerns. At the time that we conducted our analysis, the latest CFFR data available from the Census Bureau were for fiscal year 2006; however, the ERS database that adds value by excluding programs not accurate to the county level was not updated to 2006 until after we completed our analysis. We had to rely on this ERS database for our analysis of the targeting of all Federal programs (see table 1). After the 2006 ERS database was completed, we considered updating our analysis to fiscal 2006. We were concerned, however, that supplemental funding associated with the Federal response to Hurricane Katrina, the costliest hurricane in U.S. history, which hit the Gulf Coast on August 29, 2005, might cause unusual distortions in geographic funding patterns for fiscal year 2006. Thus, we decided that fiscal year 2005 data were the most recent that we could use for this study.

In this report, per capita (per resident) dollar amounts are reported in the tables, which helps us make comparisons among county types with different population levels because the more populous counties would be expected to have a larger number of eligible homeowners, businesses, and communities, other things being equal.<sup>6</sup>

<sup>5</sup>All Federal funds data reported here are for fiscal year 2005.

<sup>6</sup>The per capita amounts reported are averages for all of the counties included in a particular group of counties. These averages are computed by dividing the total amount of funding received by the group of counties by the total population residing in the group of counties, which means that the averages give more weight to the more populous counties in a group than to the less populous counties. However, this approach has an important advantage over using a simple mean of the individual counties’ per capita amounts in that it does not allow excessively large per capita amounts of some lightly populated individual counties to dominate the county group average. To get around these implicit statistical biases associated with averages, in this report, we present correlation coefficients for the relationships between individual county per capita receipts and individual county distress measures (such as percentage of population that is rural or poor). Similar correlation analyses using earlier Federal funds data were published in Reeder (1990) and Reeder, Calhoun, and Bagi (2001).

The ERS focus on county-level analysis typically requires the exclusion of programs that cannot be tracked to the county level by using CFFR data. Most of the excluded funding is for State-administered block grant programs, such as the State-administered portion of Community Development Block Grants. While such exclusions can affect the findings, they account for only about 10 percent of total Federal funds; hence, our analysis in table 1 covers the large majority of Federal funding.<sup>7</sup>

None of USDA's rural development programs are excluded from our database (see appendix B for the list of USDA programs covered). However, the CFFR data have some limitations when it comes to describing these programs. For example, the program levels of funding reported in the data (obligations) do not identify important loan characteristics, such as whether the loans are made at subsidized rates or market rates, whether the interest rate is variable or fixed, duration of loan, and loan fees. Program levels for loans, measured as the total volume of loans obligated in a given year (or, in the case of guaranteed loans, the total amount of contingent liability taken on by the Federal Government in a given year), are not meant to be taken as estimates of the cost to the Federal Government. In addition, the accuracy of the data as a measure of where program funding goes varies from program to program; it is weakest for programs that fund entities that provide services over a multicounty area, such as rural electric cooperatives, because funding is often reported only to the county that contains the headquarters of these entities.<sup>8</sup>

Our analysis pertains only to fiscal year 2005. Funding patterns can vary from year to year, depending on available funding, local needs, and agency priorities. Our findings would therefore be expected to vary somewhat from year to year. A more comprehensive analysis might include multiple years, although the further back in time, the more likely it is that the data might reflect conditions that are out of date, such as economic conditions or program characteristics.

Note that, when we refer to "targeting," we are not referring to an explicit attempt by policymakers to affect the geographic distribution of funds. The extent of targeting is determined by numerous factors, including the statutory legislation that establishes eligibility criteria and funding allocations among States. Targeting may also reflect USDA priorities and initiatives, and the efforts of State and local governments, nonprofits, and individuals who seek and apply for funding. Federal, State, local, and nonprofit partners also contribute to the funding of projects, affecting which projects receive USDA assistance. With guaranteed loans, financial institutions also play a role in this process. Thus, our research examines the final outcome of a process that involves multiple actors, with no single actor responsible for the outcome.

<sup>7</sup>For more information about ERS Federal funds data and research, see the Rural Development Strategies briefing room chapter on Federal funds: <http://www.ers.usda.gov/Briefing/RuralDevelopment/FederalFunds.htm>

<sup>8</sup>A recent Government Accountability Office report (2006) goes into considerable detail about the ways Federal reporting agencies report data to the Federal Award Data System (FAADS), which is then used as an input into the CFFR database. Several of the programs covered in this study were examined for potential reporting problems, and most were deemed to have met Census Bureau reporting standards. The exceptions (most were rural telecommunications programs) provided missing or corrected data for 2004; presumably, such corrections would be carried over into the 2005 data covered in this report. Another good reference on CFFR data and their limitations is the Census Bureau's annual report on CFFR (U.S. Department of Commerce, 2009).

## Findings From the Analysis of Federal Funds Data

This section presents the results of our analysis of the geographic distribution of assistance by Federal programs in general, geographic distribution of assistance by USDA's rural development programs, and the differences in the targeting of assistance by some of the largest rural development programs. The section also presents the results of correlation analysis of Federal funding receipts and distress measures at the county level, to indicate the degree of targeting used in the programs.

### Total Federal Funding Varies by Assistance and County Type

To begin, we examine how total Federal funding was allocated between metro and nonmetro areas. In 2005, urban (metropolitan) and rural (nonmetropolitan) counties received roughly the same amount of Federal funding per capita on average (table 1).<sup>9</sup> However, total Federal funding per capita lumps together different types of assistance, such as loans and grants, salaries and wages, procurement, and direct payments. Because some types of assistance are more useful for rural development than are others, we examine how Federal funding varies by type of assistance, particularly the variation between grants, direct loans, and guaranteed loans. Nonmetro areas received relatively higher funding levels per capita in the form of grants and direct loans, whereas metro areas received higher funding levels from guaranteed loans (fig. 1).<sup>10</sup> One would expect the higher amounts received by nonmetro areas from grants and direct loans because these forms of assistance tend to provide more subsidies that are usually targeted to the more needy or distressed areas, which tend to be nonmetro (rural).

<sup>9</sup>This analysis reports per capita (per resident) amounts to indicate the level of program spending that is comparable across places with different population sizes.

<sup>10</sup>To see how funding varies by ERS county type, see tables 2 and 3 in the Federal funds chapter of the Rural Development Strategies briefing room, <http://www.ers.usda.gov/Briefing/RuralDevelopment/FederalFunds.htm>

Table 1

#### Total Federal funds, by type of funding and county, 2005

County type	Total Federal funding <sup>1</sup>	Grants	Direct loans	Guaranteed loans
	<i>Dollars per capita</i>			
U.S. total	7,405	1,233	96	327
Metro	7,391	1,187	85	394
Nonmetro	7,473	1,462	151	293
Nonmetro:				
County types—				
Totally rural	8,731	1,919	132	303
Persistent-poverty	8,873	2,586	448	197
Low-employment	8,535	2,159	328	201
Population-loss	8,764	1,822	171	290

Note: Metropolitan (metro) and nonmetropolitan (nonmetro) areas are defined as of 2003. County types are from the 2004 ERS County Typology: Totally rural counties had less than 2,500 urban population in 2000; persistent-poverty counties had high poverty rates for the last 4 census years dating back to 1970; low-employment counties had relatively low employment levels relative to their working-age populations in 2000; population-loss counties experienced population loss both in the 1980s and in the 1990s.

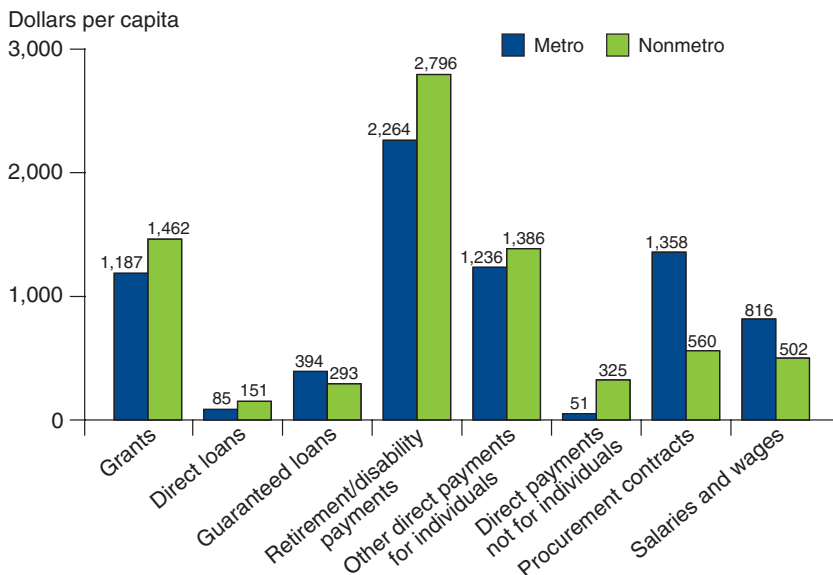
<sup>1</sup>In addition to grants and loans, total includes direct payments to individuals and others, plus Federal procurement and salaries and wages.

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

To get a sense of how highly targeted these three types of assistance are, we computed funding totals for totally rural areas, as well as for three types of rural counties that might be viewed as distressed. These distressed county types are persistent-poverty, low-employment, and population-loss counties.<sup>11</sup> Per capita funding levels in these distressed counties can then be compared with funding levels in rural counties in general. Regardless of how one measures distress, we find that distressed nonmetro counties received more Federal grants per capita than nonmetro counties in general, with the highest average grant level, \$2,586, in poverty counties (fig. 2). Totally rural counties also received more grants than nonmetro counties in general did. A similar pattern is observed for direct loans, except that totally rural counties received slightly less in per capita direct loans than did all nonmetro counties (nonmetro counties in general).

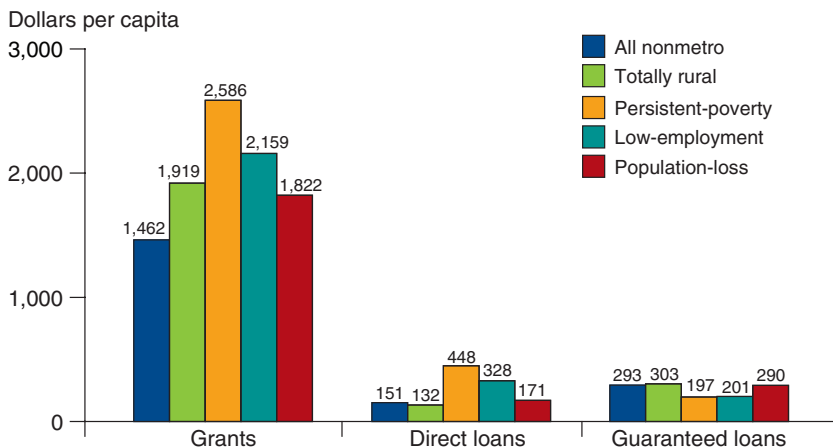
<sup>11</sup>Totally rural counties had less than 2,500 in urban population in 2000; persistent-poverty counties had high poverty rates for the last 4 census years dating back to 1970; low-employment counties had relatively low employment levels relative to their working-age populations in 2000; population-loss counties experienced population loss both in the 1980s and in the 1990s. For more on these definitions, see the Measuring Rurality briefing room chapter on the 2004 ERS county typologies, <http://www.ers.usda.gov/Briefing/Rurality/Typology/>. The totally rural county type employs the Completely Rural categories from Urban/Rural Continuum Codes chapter in the same briefing room. See also appendix A of this report.

Figure 1  
**Per capita Federal funds by type of payment, 2005**



Source: Calculated by ERS using Federal funds data from the U.S. Census Bureau.

Figure 2  
**Total Federal funding by assistance and county type, 2005**



Source: Calculated by ERS using Federal funds data from the U.S. Census Bureau.

Federal loan guarantees reimburse loaning institutions for some or all losses when guaranteed loans are not fully repaid by the borrower. Because these loans are usually not fully guaranteed and because they tend to require fees paid to the Federal Government, this type of assistance generally carries little or no subsidy in the form of lower interest costs to borrowers. Thus, it is not surprising that distressed counties tend to get less in guaranteed loans than nonmetro counties in general. In contrast, totally rural counties received slightly higher-than-average amounts of guaranteed loans. Population-loss counties received almost as much guaranteed loan volume as nonmetro areas in general. These higher-than-average guaranteed loan categories may be due to the heavy presence of farming programs in these counties.<sup>12</sup>

## USDA Rural Development Funding Varies by Assistance and County Type

USDA's Rural Development mission area oversees a wide variety of programs. This report focuses on the USDA programs that cover housing, infrastructure, economic development, and regional and community development, which we refer to as rural development programs, while excluding some programs that are more farm or energy specific.<sup>13</sup>

Nonmetro areas received most of the funding from these rural development programs, metro counties received only \$29 per capita compared with \$145 for nonmetro counties (table 2). One would expect a higher amount for nonmetro counties because one of the purposes of USDA's rural development programs is to foster development in rural areas. However, some metro counties also are funded by USDA programs because these counties contain substantial rural populations eligible for USDA assistance.

<sup>12</sup>Farming counties (another ERS county typology) get relatively high amounts of funding for grants, direct loans, and guaranteed loans, including \$455 per capita for guaranteed loans.

<sup>13</sup>Among the excluded programs were value-added agricultural programs and energy-related programs, which are categorized in the ERS Federal Funds database as agricultural assistance and energy function categories, respectively. Consequently, these programs are excluded from tables 2-4. For a list of all of the programs included in table 2, see appendix B.

Table 2  
**USDA's Rural Development funding, by assistance and county type, 2005<sup>1</sup>**

County type	Total funding	Grants	Direct loans	Guaranteed loans	Direct payments to individuals <sup>2</sup>
<i>Dollars per capita</i>					
U.S. total	48	3	13	31	2
Metro	29	1	6	21	1
Nonmetro	145	10	46	81	8
Nonmetro:					
County types—					
Totally rural	221	21	80	107	13
Persistent-poverty	151	16	54	68	13
Low-employment	148	16	52	68	12
Population-loss	179	13	55	103	7

Note: Metropolitan (metro) and nonmetropolitan (nonmetro) areas are defined as of 2003. County types are from the 2004 ERS County Typology: Totally rural counties had less than 2,500 urban population in 2000; persistent-poverty counties had high poverty rates for the last 4 census years dating back to 1970; low-employment counties had relatively low employment levels relative to their working-age populations in 2000; population-loss counties experienced population loss both in the 1980s and in the 1990s.

<sup>1</sup>The programs included in this table are listed in appendix B.

<sup>2</sup>Consists of USDA rental assistance payments.

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

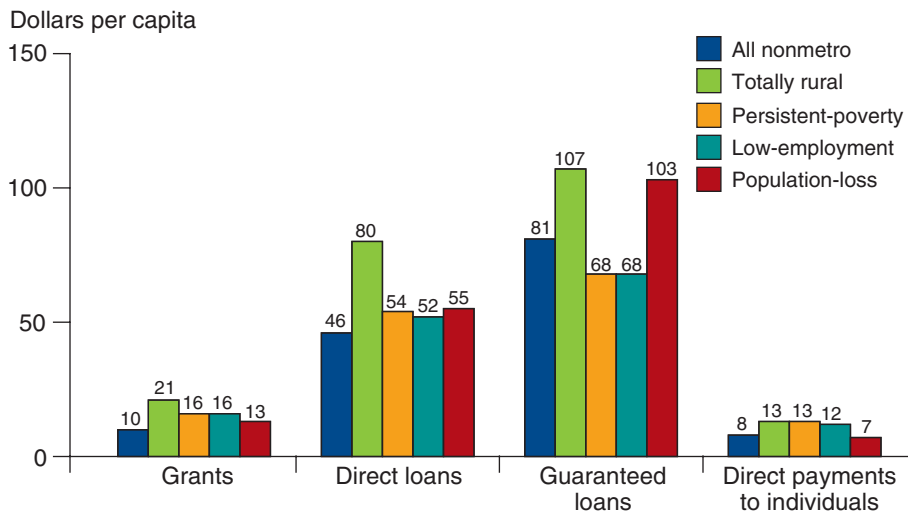
We found that totally rural counties and all three of the distressed nonmetro county types received more funding per capita than did nonmetro counties in general. However, the totally rural and the population-loss counties received much more funding from these programs than nonmetro counties in general did, whereas the funding for poverty and low-employment counties exceeded the funding of nonmetro counties in general by a smaller amount, per capita.

Simply adding up loans, grants, and other types of assistance to get the total amount per capita ignores the difference in value of these types of assistance to recipients; grants are generally more valuable than loans, and direct loans are generally more valuable than guaranteed loans. Separating USDA rural development funding by type of assistance shows that most USDA assistance to nonmetro areas is in the form of guaranteed loans at \$81 per capita, followed by direct loans at \$46, grants at \$10, and direct payments to individuals at \$8 (table 2, fig. 3).

Because grants are often reserved for the most distressed places, it is not surprising that the value of USDA’s rural development grants was found to be higher for all three of the rural distressed county categories than the nonmetro average. The same was true of direct loans, but to a lesser extent. Direct payments to individuals (rural rental assistance) were also targeted to counties in the distress categories, although the amount of targeting appeared to be small for population-loss counties. In contrast, guaranteed loans appeared to be targeted to only one of the distress categories (population-loss), while poverty and low-employment counties received less than the nonmetro average amount from these programs.

Compared with the distressed county categories, totally rural areas were favored by USDA programs, regardless of the type of assistance. Among the distress categories, population-loss counties received relatively large amounts of guaranteed loans, whereas they received the least amount from grants. Poverty and low-employment counties received the least from guaranteed loans, and were somewhere in the middle with grants.

Figure 3  
**Rural Development funding by assistance and county type, 2005**



Source: Calculated by ERS using Federal funds data from the U.S. Census Bureau.



## Funding of Largest Rural Development Programs Varies by Assistance and County Type

USDA's Rural Development mission area administers about 40 programs. The largest seven programs account for most of the funding. Each of these programs had obligations in excess of a half billion dollars in 2005 (as measured by the Census Federal funds data).<sup>14</sup> To understand more about how USDA's funding is targeted, we examine these large programs individually.

### Housing Programs

Two of the largest rural development programs are for housing: the low-income housing loan program (Section 502) and the rural rental assistance program. In 2005, the low-income housing loan program offered two kinds of assistance to potential home buyers: direct loans and guaranteed loans, with the latter being the larger of the two in terms of volume of loans issued (table 3). The direct loan program did not vary much among the various types of nonmetro counties, with funding 10-20 percent more in low-employment and poverty counties than in the average nonmetro county, and 20 percent less than average in population-loss

<sup>14</sup>The amounts presented here may differ from those available directly from administering agencies, due to different methods for counting and reporting the funding. For example, in USDA's rural development chapter in the 2007 Farm Bill Theme Papers (U.S. Department of Agriculture, 2006), the Rural Development mission area indicated that the B&I program provided \$675 million in assistance in fiscal year 2005, whereas Census data for this program reported \$870 million for that fiscal year.

Table 3

**USDA's main Rural Development programs, by type of funding and county, 2005**

Program/funding type	Total funding \$ Millions	Type of county					
		Metro	Nonmetro	Totally rural	Persistent-poverty	Low-employment	Population-loss
		-----Dollars per capita-----					
Low-income housing:							
Direct loans	1,139	3	10	10	12	11	8
Guaranteed loans	2,962	5	36	27	21	19	31
Rural rental assistance:							
Payments to individuals	571	1	7	9	11	11	7
Water/waste facilities: <sup>1</sup>							
Grants	448	1	6	12	7	10	7
Direct loans	940	1	12	22	10	15	12
Community facilities:							
Grants	51	0*	1	2	2	2	1
Direct loans	812	1	12	20	22	15	8
Guaranteed loans	194	0*	2	2	5	5	2
Rural electrification: <sup>2</sup>							
Guaranteed loans	3,652	12	12	17	24	17	14
Rural telephone:							
Guaranteed loans	1,238	2	17	49	11	13	49
Business and industry:							
Guaranteed loans	870	1	11	10	6	12	5

Notes: Metropolitan (metro) and nonmetropolitan (nonmetro) areas are defined as of 2003. County types are from the 2004 ERS County Typology: Totally rural counties had less than 2,500 urban population in 2000; persistent-poverty counties had high poverty rates for the last 4 census years dating back to 1970; low-employment counties had relatively low employment levels relative to their working-age populations in 2000; population-loss counties experienced population loss both in the 1980s and in the 1990s. \*Positive amount, rounded to zero.

<sup>1</sup>A small amount of guaranteed loans was excluded from this table because per capita amounts all rounded to zero.

<sup>2</sup>Funding for this program is tracked to headquarters of multicounty systems, reducing the usefulness of the data to examine geographic targeting.

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

counties. Guaranteed housing loans, in contrast, were funded at lower per capita amounts in all four of the distressed county areas compared with nonmetro areas in general. The largest funding gaps among the distressed counties were for low-employment and poverty counties, which received \$19 and \$21 per capita compared with \$36 for nonmetro counties in general. Population-loss counties were closer to the average nonmetro county, receiving \$31 per capita.

The rural rental assistance program, which compensates housing providers in order to reduce the rents paid by needy tenants, spent more than average in three of the four distress categories, with the highest per capita amounts going to poverty and low-employment counties. Population-loss counties, however, received only about the same amount per capita as the nonmetro average.

### **Infrastructure Programs**

Four large USDA programs provide infrastructure and other community facilities: the water and wastewater facilities program, the community facilities program, the electrification program, and the telephone program. The water and wastewater program provided \$448 million in grants and \$940 million in direct loans in 2005.<sup>15</sup> More grants per capita from this program went to distressed counties than to nonmetro counties in general, with totally rural counties getting twice the average amount. At the other extreme, poverty and population-loss counties got only slightly above average from these grants. Direct loans from the water program were also highest in totally rural counties, which received more than twice the per capita amount than poverty counties, which received less than the nonmetro average in direct loans per capita.

USDA's community facilities program, which covers a wide range of facilities, such as libraries, hospitals, airports, and fire stations, provided three types of funding in 2005: grants, direct loans, and guaranteed loans. The grants were generally targeted to distressed counties, although population-loss counties received less per capita than the others. Direct loans, which were by far the largest of the three types of assistance for this program, also tended to exceed the nonmetro county average in distressed counties. However population-loss counties received about a third less than the average rural county in per capita direct loans. Poverty counties and totally rural counties received the most in direct loans from the community facilities program. Guaranteed loans from this program particularly benefited poverty and low-employment counties but did not appear to be targeted to the other two distressed-county groups.

Both the electric and telephone programs were available only in the form of guaranteed loans. These programs typically fund cooperatives that provide services to multicounty areas. However, Census data usually track the funding only to the county containing the cooperative's headquarters, which makes the data less useful for identifying who benefits from the programs. Nevertheless, we include these programs because they guaranteed a large amount of loans and because there have been questions about how the program has been targeted since rural eligibility has been grandfathered over time, allowing some urban places that were once rural to remain eligible for funding.

Perhaps reflecting this decision to grandfather eligibility, the electrification program provided metro and nonmetro counties with the same amount of funding per capita.<sup>16</sup> This program still provided significant funding to distressed

<sup>15</sup>This program also provided a small (\$3 million) amount in the form of guaranteed loans.

<sup>16</sup>The amounts received by urban areas for this program are probably overstated because of the potential inaccuracy involved in allocating funding to places where cooperatives are headquartered, as discussed in the text above.

counties, with each of the distress categories receiving above-average per capita amounts of electrification loan guarantees. Persistent-poverty counties particularly benefited, getting twice the average nonmetro county amount.

The rural telephone program appeared to be more highly targeted to nonmetro areas, particularly to totally rural areas and population-loss counties. In contrast, poverty and low-employment counties got relatively small amounts from this program.

### **Business Assistance Programs**

The largest USDA business assistance program is the Business and Industry (B&I) program, which in 2005, provided \$870 million in guaranteed loans to finance rural business starts and expansions. The B&I program appeared highly targeted to nonmetro areas, but not particularly targeted to distressed areas. Only low-employment counties received more than the nonmetro average from this program in 2005. Persistent-poverty and population-loss counties received only about half the U.S. average.<sup>17</sup>

### **Correlation Analysis**

Conclusions about targeting based on average amounts received by different types of counties can be misleading if the averages are overly affected by a small number of large grants or loans going to a handful of places. To verify our descriptive findings related to the targeting of the large rural development programs identified in table 3, we examined each of these programs' 2005 per capita funding to see if we could identify significant statistical correlations with various rural and distress measures in nonmetro counties across the country. Correlations were computed for one measure of rurality (percentage of county population that is rural, using the Census definition of rural from the 2000 Census), which corresponds with the "totally rural" county category used in tables 1-3. In addition, correlations were computed for three county distress measures chosen to match fairly closely the county distress typologies used in the other tables:

- Percentage of residents who were poor (in 2000).<sup>18</sup>
- Percentage of working-age population who were employed (in 2000).
- Percentage change in population from 1980 to 2000.

The correlation findings in table 4 generally conform to our descriptive findings in table 3. The grant programs and the direct payments (rental assistance) program tended to be directly correlated with the level of distress (i.e., positively correlated with percentage poor, negatively correlated with percentage employed and percentage change in population). Direct loans also followed this pattern, except direct low-income housing loans were positively correlated with percentage population change. The largest and most significant of these correlations were in relation to poverty rate for community facilities grants (correlation coefficient = 0.225) and for rural rental assistance payments (0.180).<sup>19</sup>

The correlations for guaranteed loan programs also tend to conform to the descriptive findings in that they tended to be inversely correlated with measures of distress (i.e., distressed counties get less assistance). Four of the five guaranteed loan programs we examined were negatively correlated with percentage poor; the exception was for community facilities, which had a

<sup>17</sup>By 2005, the B&I program was available only in the form of guaranteed loans. However, in 2001, the program still provided direct loans as well as guaranteed loans. ERS analysis of 2001 Federal funds data, published in the 2007 Farm Bill Theme Papers on rural development, indicated that persistently poor counties received about 50 percent more in direct loans per capita than did nonmetro counties in general (U.S. Department of Agriculture, 2006, p. 64).

<sup>18</sup>In the correlation analysis, we used the 2000 poverty rate as a proxy to represent the persistent-poverty typology used in the descriptive analysis, partly to simplify the analysis and partly because it fits better in that persistent poverty is not generally used to target Government programs, including rural development programs.

<sup>19</sup>Correlation coefficients range from -1.0 to 1.0. These two extremes represent the strongest correlations. No correlation is represented by a coefficient of 0. As the table suggests, none of the correlations are very strong, which is to be expected, given that multiple factors are considered in allocating aid geographically, so no one factor would be expected to dominate. In addition, many of these programs, such as business or infrastructure programs, may provide funding only occasionally to any particular place, so a distressed place may get no funding in one year but get significant funding in the next year, which results in lower correlation coefficients for such programs.

very small (0.003), statistically insignificant, positive correlation coefficient. All five guaranteed loan programs were positively associated with percentage employed. In contrast, most of the guaranteed loan programs were targeted to counties experiencing low or negative rates of population growth, as all but one of the programs were negatively associated with population change. The exception was the B&I loan program, which was positively (and significantly) associated with population change, meaning growing places received more than declining places. The strongest correlations with distress measures among guaranteed programs were the correlations of guaranteed low-income housing loans with poverty and employment measures, -0.260 and 0.267, respectively, indicating that this guaranteed program does relatively little for places experiencing poverty and employment problems.

Table 4

**Correlation of Rural Development program funding with rural and distress measures**

Program/funding type	Measures <sup>1</sup>			
	Percent rural	Percent poor	Percent employed	Percent change in population
	<i>Correlation coefficient<sup>2</sup></i>			
Low-income housing:				
Direct loans	-0.016	0.034	-0.021	0.029
Guaranteed loans	-0.125*	-0.260*	0.267*	-0.006
Rural rental assistance:				
Payments to individuals	0.038#	0.180*	-0.124*	0.012
Water/waste facilities: <sup>3</sup>				
Grants	0.054*	0.023	-0.033	-0.023
Direct loans	0.055*	0.007	-0.007	-0.031
Community facilities:				
Grants	0.103*	0.225*	-0.130*	-0.043*
Direct loans	0.034	0.038#	-0.033	-0.011
Guaranteed loans	0.005	0.003	0.017	-0.024
Rural electrification: <sup>4</sup>				
Guaranteed loans	0.018	-0.005	0.036#	-0.014
Rural telephone:				
Guaranteed loans	0.044*	-0.018	0.083*	-0.074*
Business and industry:				
Guaranteed loans	-0.006	-0.028	-0.009	0.064*

Note: County area funding receipts used in correlation analysis were for fiscal year 2005 and expressed in dollars per capita. Only nonmetro counties were included in the correlations.

<sup>1</sup>See text for description of measures used in correlations.

<sup>2</sup>Statistical significance: \* = Only a 5-percent (or less) chance of no correlation;

# = A 5- to 10-percent chance of no correlation.

<sup>3</sup>A small amount of guaranteed loans for this program was excluded from this table.

<sup>4</sup>Funding for this program is tracked to headquarters of multicounty systems, reducing the usefulness of the data to examine geographic targeting.

Source: Calculated by ERS using Federal funds data and other data from the U.S. Census Bureau.

Except for low-income housing and B&I programs, all of these major rural development programs were positively correlated with degree of rurality (percentage rural). However, the extent of these correlations vary widely, with the largest and most positive correlations found for community facilities grants, water and waste facilities grants and direct loans, and rural telephone loan guarantees. The weakest correlations with rurality were found for community facility guarantees and business and industry guaranteed loans.

## Implications for Various Policy Options

The preceding analysis has shown that the geographic distribution of rural development funding varies by type of assistance and program. It therefore follows that any shift in funding from one form of assistance to another might have different effects for different types of places and that these effects might vary by program.

### Tradeoffs With Hypothetical Increase in Guaranteed Loans

In this section, we look specifically at several hypothetical scenarios aimed at increasing guaranteed loans at the expense of reducing funding available for other forms of rural development assistance. We examined these hypothetical scenarios because they might be considered as a way to constrain Federal Government costs in a time of growing Federal debt.

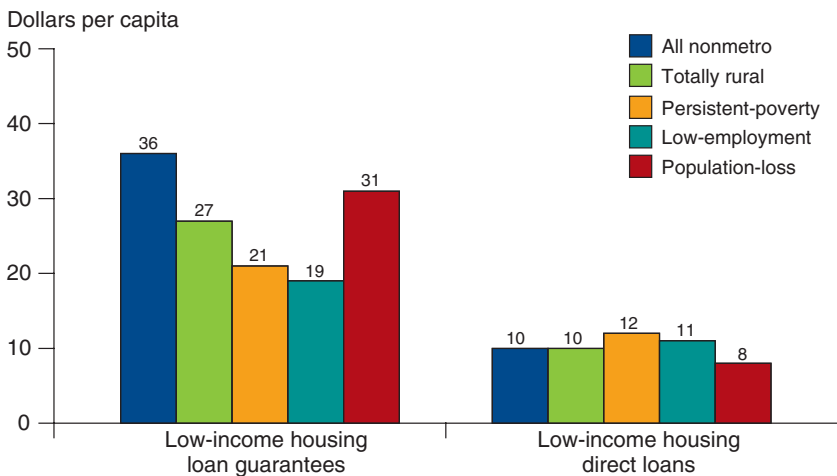
When demand for guarantees exceeds available supply, it may be possible to reduce funding for grants or direct loan subsidies in order to free up money to finance additional guaranteed loans.<sup>20</sup> Funding may be reduced either by Congress passing appropriations legislation to change the funding or by discretionary agency actions that are allowed under current law. The implications of such policies can be better understood by examining the following hypothetical cases.

**Case 1:** If guaranteed low-income housing loans were increased by taking funds from direct low-income housing loans, then poverty and low-employment counties, which receive relatively low amounts of guaranteed loans and slightly higher amounts of direct loans than do other nonmetro counties, might not fare as well as other nonmetro counties from this hypothetical change, as implied by the funding levels indicated in table 3 (fig. 4).<sup>21</sup> The correlation analysis found no significant relationship between these distress measures and USDA’s direct home loans, so it is hard to conclude that these places would experience a disproportionate share of funding cuts in direct housing loans. Nevertheless, some rural people and communities that

<sup>20</sup>If demand does not exceed supply, then Federal agencies would have to consider policies that enhance demand for guaranteed loans in order to increase their use. Such policies might include increased marketing efforts to familiarize financial institutions and rural communities with the advantages and availability of the loan guarantees. Alternatively, regulations might be changed to expand eligibility for assistance or to make it easier for borrowers to apply. However, such approaches could alter the geographic distribution of funding.

<sup>21</sup>A similar outcome would result from a shift from rural rental assistance (direct payments to individuals) to guaranteed low-housing loans.

Figure 4  
Federal funding by housing loan program and county type, 2005



Source: Calculated by ERS using Federal funds data from the U.S. Census Bureau.

have relatively low incomes and more need for the program could experience reductions in this program. And unlike rural communities in general, distressed counties do not particularly benefit from the increase in guaranteed loans, so they may have little to show for the problems they encounter related to the reduced direct loans.

**Case 2:** If low-income housing guarantees were increased by taking funds from rural rental assistance, which provides substantially more money to poverty and low-employment counties than to other nonmetro areas, distressed places might fare worse from this change than nonmetro areas in general (table 3, fig. 5). The statistically significant correlations of both guaranteed home loans and rural rental assistance to poverty and employment distress measures lend credence to this conclusion.

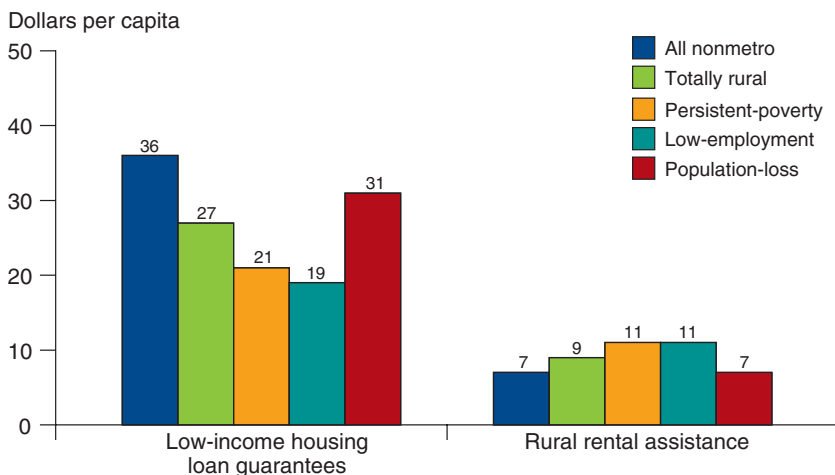
The above cases involve shifts in funding within a single program function: housing. Other scenarios might involve instances in which funding is reduced in one function to pay for increases in another, as the following case illustrates.

**Case 3:** What if funding for B&I loan guarantees were to increase by reducing community facilities grants? The Federal funds data suggest that all three of the distressed county categories might not fare as well from this change as nonmetro counties in general, because of their higher-than-average community facility grant levels (table 3, fig. 6) and because of the statistically significant correlations between these grants and all three distress measures (table 4). Persistent-poverty counties might be particularly vulnerable because of their relatively high receipt of community facilities grants and relatively low receipt of B&I guarantees.

Many other possible combinations exist for taking funds from one program to fund increased loan guarantees in another program—too many to cover here in detail. The point of this discussion is merely to show that one or more distressed county groups might not fare as well as nonmetro areas in general from these kinds of shifts in funding type, although the outcome depends on which program’s grants or direct loans are being cut and which program’s guaranteed loans are being increased.<sup>22</sup>

<sup>22</sup>The correlation analysis suggests that most other potential shifts from grants (or direct payments) to guaranteed loans might provide less funds to some people or communities within one or more of our distressed county categories; the only exception involves the potential shift from water/waste facilities grants to rural electrification guaranteed loans because neither is significantly correlated with distress measures.

Figure 5  
**Funding by selected housing programs and county type, 2005**



Source: Calculated by ERS using Federal funds data from the U.S. Census Bureau.

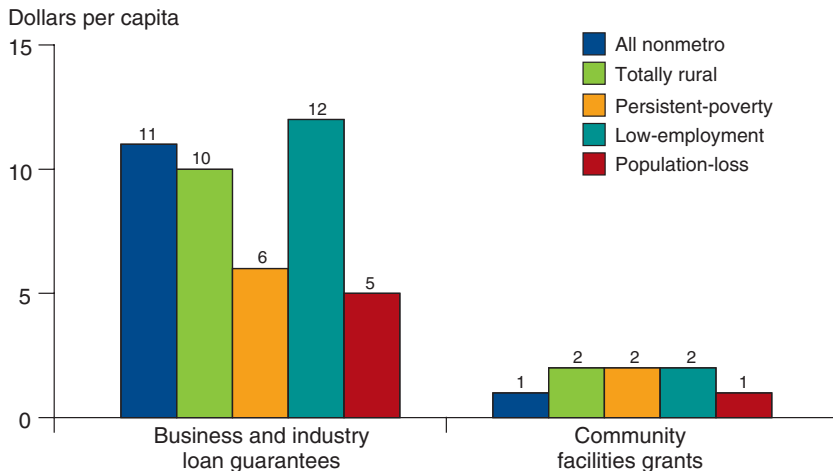
No attempt was made in the above examples to calculate a net change in Federal funds, such as additional guaranteed loans minus reduction in grants, direct loans, or rental assistance payments.<sup>23</sup> To compute such a net amount would presume that guarantees and the other, more subsidized, forms of assistance are equivalent, which they are not. The different forms of assistance are designed to meet the needs of applicants (people or communities) with different types of problems; thus, increasing one form of assistance while reducing another would benefit one group of applicants at the cost of another. The less needy or less distressed would benefit most from increases in guaranteed loans, while the more needy or more distressed, who rely more on grants and other subsidized assistance, would lose funding. All that really can be said in using Federal funds data is that some places will benefit more than others by the guaranteed loan increases, while other places will lose more funding than others by the reduction in grants and direct loans.

This analysis also makes no assumptions about indirect effects these programs have in leveraging other forms of assistance. For example, grants are often critical in leveraging the other forms of assistance, so that grant reductions might lead to reduced loans as well as other development funding.<sup>24</sup> In addition, loan guarantees are sometimes praised for freeing up the limited capital available to some rural banks so they can make more loans for other projects that benefit rural development. Because of this complex array of direct and indirect effects, it is hard to say anything about the net effects of these changes on local economies.

### Other Factors To Consider Regarding Potential Changes in Type of Assistance

Guaranteed loans have their advantages to distressed areas, such as increasing the ability of the areas to finance more projects at a given cost to the Government and involving market forces in the local decisionmaking process. However, guaranteed loans are different from other types of assistance in terms of what they provide to the borrower, which may make them poor substitutes for grants and direct loans, depending on the project being financed.<sup>25</sup>

Figure 6  
Funding by selected programs and county type, 2005



Source: Calculated by ERS using Federal funds data from the U.S. Census Bureau.

<sup>23</sup>The above analysis also says nothing about the relative magnitudes of the funding increases and decreases. To do so would require incorporating into the analysis the estimated subsidy costs involved in operating the guaranteed loan programs and other programs, so that a dollar decrease in grants could be translated into a dollar increase in guaranteed loans.

<sup>24</sup>USDA has also used direct loans (such as direct housing loans) to leverage financing from other sources, such as financial institutions, State authorities, and nonprofits.

<sup>25</sup>Grants may, in some cases, “crowd out” private investment, in the sense that an applicant may be able to borrow money but will choose not to do so if eligible for grants.



If the Government wishes to encourage localities to provide more of certain types of services or help certain groups of disadvantaged residents, it may be required to provide incentives to local governments in order to offset the higher costs of such projects. Grants, which do not need to be repaid and which involve no interest payments, can provide such incentives and may be particularly important in making projects affordable in poor communities that cannot raise much in local finances and in small communities that may face high costs due to diseconomies associated with their small scale. In addition, grants can be justified to help plan and initiate projects—loans typically do not pay for such upfront activity. Grants may also be justified to help pay for regulatory costs, which tend to be higher with Government-financed projects.

Direct loans also have some advantages over guaranteed loans for the recipient. If the Federal Government decides that a certain amount of subsidy is required to assure that some projects are affordable, it can set the rate of subsidy for the interest rates on direct loans to lower the cost to the recipient. However, the Government does not typically set the subsidy rate with guaranteed loans because markets determine those interest rates.<sup>26</sup> In addition, guaranteed loans often come with variable rates (rates that vary over time with the market) rather than the fixed rates typical of direct loans. As the recent history with private-sector subprime mortgages demonstrates, variable rates can be problematic for borrowers with income or revenue streams that are not expected to vary with interest rates. In addition, banks typically provide loans for relatively short periods, such as 10 years or less, whereas direct Government loans can be for 30 or 40 years, a major advantage for expensive projects that cannot be easily repaid in a shorter period.<sup>27</sup>

Another issue that can make a difference, both to individuals and to communities, concerns the distribution of program receipts within a local county. Some programs, such as low-income housing direct loans and rental assistance, go mainly to people and communities with the lowest incomes. If funding is reduced for such programs, the effects will be particularly felt by these segments of the local population. Therefore, even if the county receives significant offsetting increases in low-income home loan guarantees, which tend to go to people and places with incomes closer to the average in the area, the net result can be to increase the disparities among people and places within the county. This increase in disparities can create problems, not only to these people and places receiving the reductions in programs, but for the county as a whole.

More generally, many Government projects involve more than one form of assistance. USDA officials recognize the value of having a “highly flexible portfolio” of funding instruments for addressing diverse rural development challenges. This recognition implies that USDA grants and direct loans may be expected to continue to play an important role in rural development, even though USDA may continue its efforts to increase the use of the less expensive guaranteed loans.

<sup>26</sup>In theory, the rate that a bank establishes for a guaranteed loan will typically involve a subsidy for the borrower because the Government guarantee provides value to the bank in the form of reduced risk of loss in the event of default, and some of this value is thought to be passed on to the borrower in the form of a lower interest rate. In some situations, the subsidy for the borrower may be larger if the bank benefits in other ways from the project, such as when the loan helps the bank meet Federal Community Reinvestment Act (CRA) requirements for being a community-based project or if the project provides the bank with favorable publicity in the community, thereby helping the bank to attract more local business.

<sup>27</sup>In theory, it might be possible to set up a guaranteed loan program that would provide loans similar to direct loan programs, having a specified subsidy and fixed, long period for repayment, but this is not the way these programs usually operate. The problem is that fewer lenders will participate if the program requires them to move out of their comfort zone—particularly small rural banks that cannot afford the expertise needed.

## Caveats and Conclusions

This report has shown that shifting funds from rural development grants, direct loans, and other direct payment programs to guaranteed loans could have different effects on different types of counties. More specifically, distressed rural areas, such as persistently poor, low-employment, and population-decline areas might not fare as well from such shifts as nonmetro areas in general. How these places might be affected depends on the following:

- The individual program and how targeted it is to distressed communities.
- Factors affecting the cost of providing guaranteed loans relative to the cost of grants, direct loans, and other direct payments.
- Factors affecting the demand for the guaranteed loan.
- The method chosen to finance the increase in guaranteed loans (such as reductions in grants, direct loans, and other forms of rural development assistance).

Only an indepth case study that examines a specific policy proposal could examine all of these factors in sufficient detail to make a comprehensive assessment about the effects on distressed places. Because of the broad focus of this study, case studies of this sort were beyond the scope of the study.

To simplify things, we used county areas as the unit of analysis, which facilitated the use of Federal funds data and established ERS county distress typologies. Although this approach was useful in pointing to the types of counties that might be affected most from the proposed changes, it tells us nothing about how the programs act at the subcounty level—how some segments of the population and some communities might be affected differently than others. For example, poor people and places might be expected to rely more on grants and direct loans than not-so-poor people and places in the same county. Consequently, policy shifts of this sort might result in some cases in growing disparities within the affected counties. Such within-county disparities can make significant rural development more difficult. This consideration is just one of several that we acknowledge as important but which were beyond the scope of our analysis.

Another caveat concerns our assumption that geographic patterns of program disbursement would not be affected by changes in the level of funding. For example, if funding levels increase by shifting from grants and direct loans to guaranteed loans, some distressed places that previously received grants and direct loans might be able to make the transition to guaranteed loans. However, changing regulations to expand demand for guaranteed loans may enable a larger number of less-distressed places to qualify. In either case, the geographic distribution of the guaranteed loan program would be expected to change.

Nevertheless, this study should be helpful in identifying the various factors that policymakers might consider before embarking on such shifts in the form of assistance. The program-specific tables, which show how funding is distributed among the different kinds of rural counties and include totally rural and distressed counties, point to the places that might fare the worst under such policies, as well as to places that might benefit the most. This

study may also help inform the debate about the extent of targeting of USDA's rural programs, both to rural (versus urban) and distressed areas.

This analysis makes no explicit claims about the desirability of specific rural development programs to the Nation as a whole or to communities and individuals. This is beyond the study's scope. The findings about effects implicitly assume that the programs benefit both the local area and the recipients.

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## Appendix A: County Types Used in This Report

### Rural Types

This report employs two county types that focus on rurality: nonmetro counties and totally rural counties. Funding levels in nonmetro counties are compared with metro counties as one indication of how targeted the programs are to rural areas. Then, to assess how targeted funding is to the more rural areas among nonmetro counties, funding in totally rural nonmetro counties is compared with funding in nonmetro counties in general.

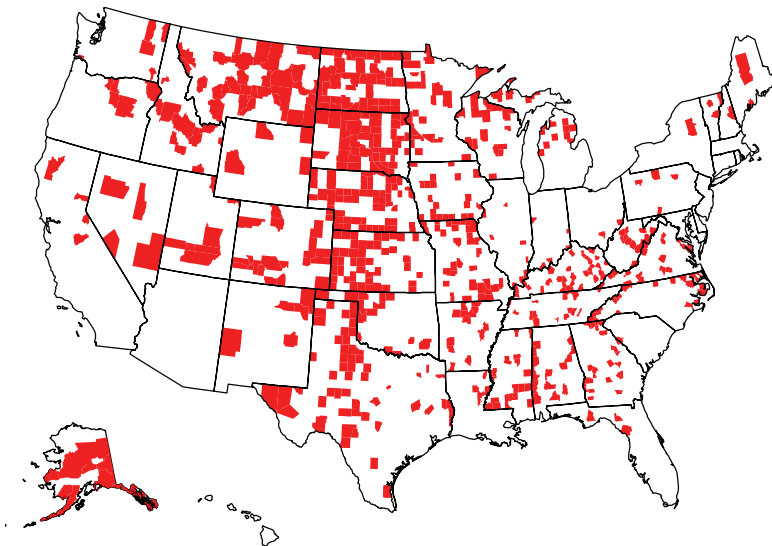
These two rural county types are defined as follows:

- Metro and nonmetro areas are defined by the Office of Management and Budget (OMB). In 2003, OMB defined metro areas as (1) central counties with one or more urbanized areas (the Census Bureau defines an urbanized area wherever it finds an urban nucleus of 50,000 or more people) and (2) outlying counties that are economically tied to the core counties as measured by work commuting. Outlying counties are included if 25 percent of workers living in the county commute to the central counties, or if 25 percent of the employment in the county consists of workers coming out from the central counties—the so-called “reverse” commuting pattern. Nonmetro counties are those found outside the boundaries of metro areas.
- Totally rural counties are nonmetro counties with an ERS-defined urban-rural continuum code of either 8 or 9 (app. fig. 1). Such counties are either completely rural (have no Census-defined urban population) or have a Census-defined urban population of less than 2,500.

Other possible rural concepts could have been used in the study, including Rural-Urban Commuting Area Codes (RUCA), which use subcounty along with county areas to define urban and rural places (see ERS’s Measuring Rurality Briefing Room for more discussion of alternative urban and rural

Appendix figure 1

#### Totally rural counties



Source: USDA, Economic Research Service.

measures <http://www.ers.usda.gov/Briefing/Rurality/>). The RUCA approach can be appealing to researchers, particularly in identifying rural areas in regions such as in the West where counties can be so large as to make county-based definitions overly simplistic.

The argument in favor of using the nonmetro-county-based approach is as follows: Using RUCA is more complicated and harder to explain to the reader. In addition, the current ERS Federal Funds database is not screened for accuracy at the subcounty level, and such screening would be required to use RUCA codes in this analysis. Also, the nonmetro-county-based approach allows the use of established ERS county typologies in the tables comparing funding levels among different types of counties, such as distressed counties. To do similar comparisons using RUCA codes would require reconstructing these county typologies around a different geographic unit. For these reasons, this study employs nonmetro counties and other county-based definitions.

In recognition that a great deal of variation exists among nonmetro counties in terms of the extent of rurality, the totally rural county type is used to distinguish between highly rural and not-so-rural nonmetro areas. The totally rural county concept is particularly useful in this study because some rural development programs are designed to overcome diseconomies of small population size and density. Such diseconomies can make it difficult to finance projects like water systems, hospitals, and schools. Hence, targeting some kinds of rural development assistance to this type of county can be seen as appropriate.

## Distress Types

To indicate the extent of targeting to places experiencing socioeconomic difficulty, this study uses three of the ERS 2004 county types: persistent-poverty counties, low-employment counties, and population-decline counties.<sup>28</sup> These types are defined by ERS as follows:

- Persistent-poverty: nonmetro counties with 20 percent or more of residents who were poor in each of the last four decennial censuses (1970, 1980, 1990, 2000) (app. fig. 2).
- Low-employment: nonmetro counties with less than 65 percent of residents 21-64 years old who were employed in 2000 (app. fig. 3).
- Population-loss: nonmetro counties with a decrease in the number of residents, both in the 1980s and in the 1990s (app. fig. 4).

Although these three types clearly cannot capture all of the different kinds of socioeconomic difficulty that exist in rural America, they cover some of the most important development objectives that rural development programs aim to achieve, including social, economic, and demographic dimensions.

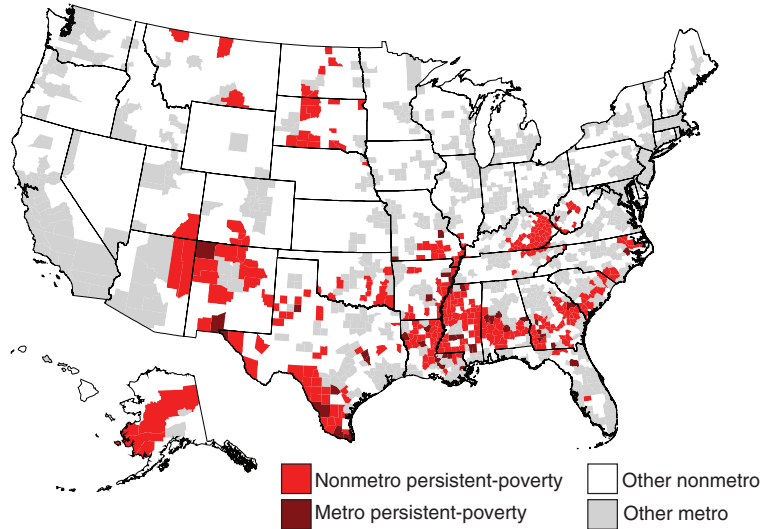
It is important to recognize that these ERS county typologies are not mutually exclusive. Some significant overlaps exist among them (appendix table). The most significant overlap is between persistent-poverty and low-employment counties, accounting for 68 percent of persistent-poverty counties and 59 percent of low-employment counties. The next most important overlap concerns population-loss and totally rural counties, accounting for 39 percent of totally rural counties and 49 percent of population-loss counties.

<sup>28</sup>For more information about these county types, see the ERS Briefing Room: Measuring Rurality, 2004 County Typology Codes; <http://www.ers.usda.gov/Briefing/Rurality/Typology/>

These overlaps and their regional components are apparent when one compares the maps of each of these county types. In particular, much of the overlap between totally rural and population-loss counties is in the Great Plains. In contrast, the overlap between persistent-poverty and low-employment counties is more nationwide in scope, with the main exceptions being in the West and Great Lakes regions, where there was almost no persistent poverty, and in Central Appalachia, the Southeastern Crescent, and in parts of the Great Plains, where persistent poverty is more common than is low employment.

Appendix figure 2

**Persistent-poverty counties, 1970-2000**

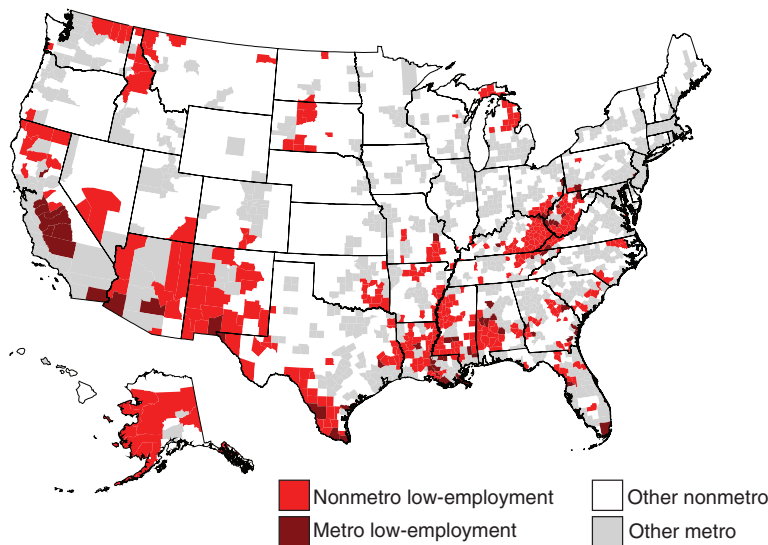


Note: Persistent-poverty counties—20 percent or more residents were poor as measured by each of the last four censuses, 1970, 1980, 1990, and 2000.

Source: USDA, Economic Research Service.

Appendix figure 3

**Low-employment counties, 2000**

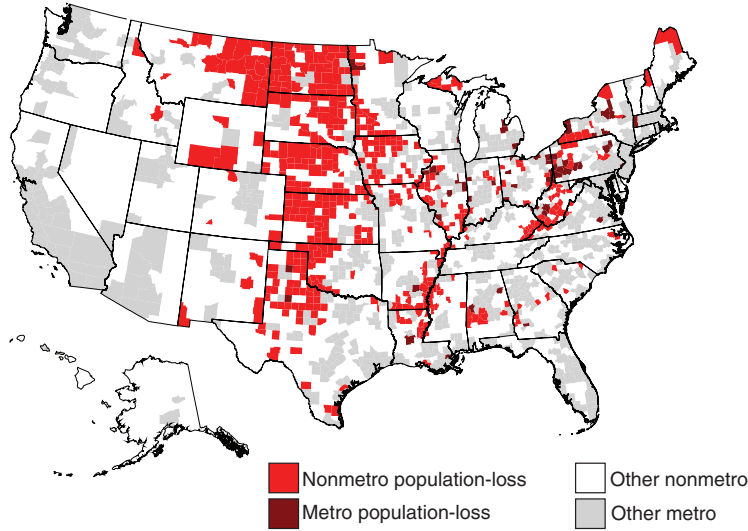


Note: Low-employment counties—less than 65 percent of residents 21-64 years old were employed in 2000.

Source: USDA, Economic Research Service.

Appendix figure 4

**Population-loss counties, 1980-1990 and 1990-2000**



Note: Population-loss counties—number of residents declined both between 1980 and 1990 and between 1990 and 2000.

Source: USDA, Economic Research Service.

Appendix table

**Number of nonmetro counties having multiple county types**

Nonmetro county type	Total counties in type	Overlap with:			
		Totally rural	Persistent-poverty	Low-employment	Population-loss
		<i>Number</i>			
All nonmetro	2,052	670	340	396	532
Totally rural	670	—	125	152	263
Persistent-poverty	340	125	—	232	85
Low-employment	396	152	232	—	85
Population-loss	532	263	85	85	—

— = Not applicable.

Source: Economic Research Service, USDA.



**Appendix B: USDA Rural Development Programs Covered in This Report**

Programs	Types of assistance <sup>1</sup>
Small Business Innovation Research	GG
Intermediary Relending Program	DL
Business and Industry Loans	GL
Rural Business Enterprise Grants	GG
Rural Business Opportunity Grants	GG
Rural Economic Development Loans and Grants	GG, DL
Schools and Roads Grants to Counties	GG
Water and Waste Disposal Systems	GG, DL, GL
Water and Waste Disposal (Section 306C)	GG
Technical Assistance and Training Grants	GG
Solid Waste Management Grants	GG
Emergency Community Water Assistance Grants	GG
Community Facilities Loans and Grants	GG, DL, GL
Rural Electrification Loan Guarantees	GL
Rural Telephone Loans and Guarantees	GL
Rural Telephone Bank Loans	DL
National Forest-Dependent Rural Communities	GG
Empowerment Zones Program	GG
Farm Labor Housing Loans and Grants	GG, DL
Very Low to Moderate Income Housing Loans	GG, DL
Rural Housing Site Loans and Self-Help	
Housing Land Development	DL
Rural Rental Housing Loans	DL
Very Low-Income Housing Repair Loans and Grants	GG, DL
Rural Self-Help Housing Technical Assistance	GG
Rural Rental Assistance Payments	DO
Rural Housing Preservation Grants	GG
Section 538 Rural Rental Housing Guaranteed Loans	GL
Housing Application Packaging Grants	GG
Direct Housing-Natural Disaster Loans and Grants	GG, DL

<sup>1</sup>GG = Grants, DL = Direct Loans, GL = Guaranteed Loans, DO = Direct Payments to Individuals.