The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Douglas E. Bowers
Executive Editor

For this issue:
Rick Reeder
Issue Editor
Samuel D. Calhoun
Graphic Assistance

Lindsay Mann
Brenda Powell
Managing Editors

Sharon Lee
Editorial Aide

Cover photo:
Jack Harrison, USDA/ERS

Rural Conditions and Trends is published three times a year by USDA's Economic Research Service (ERS). For subscription information, call ERS-NASS at 1-800-999-6779.

Rural Conditions and Trends welcomes letters to the editor as well as ideas for articles. Address editorial correspondence and inquiries to Editor, *Rural Conditions and Trends*, Room 324, 1301 New York Avenue, NW, Washington, DC 20005-4788 (telephone 202-219-0484).

The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of the Department.

Contents of this journal may be reprinted without permission, but the editors would appreciate acknowledgment of such use and an advance copy of the material to be reprinted. Use of commercial and trade names does not imply approval or constitute endorsement by USDA.

The United States Department of Agriculture (USDA) prohibits discrimination in its programs on the basis of race, color, national origin, sex, religion, age, disability, political beliefs, and marital or familial status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (braille, large print, audiotape, etc.) should contact USDA's Target Center at 202-720-2600 (voice and TDD).

To file a complaint, write the Secretary of Agriculture, U.S. Department of Agriculture, Washington, DC, 20250, or call 1-800-245-6340 (voice) or 202-720-1127 (TDD). USDA is an equal employment opportunity employer.

Rural Conditions and Trends is printed on recycled paper using soy-based ink.

Rural Conditions and Trends

1997, Volume 8, No. 1

4 Overview
Welfare Reform, Regulatory Change, New Infrastructure Funding, and Government Reinvention Set the Stage for 1997

9 General Assistance
General Assistance Funding Remains Steady, While New Initiatives Direct Aid to Distressed Rural Areas

15 Infrastructure Assistance
More Funds Are Available for Many Infrastructure Programs

20 Business Assistance
Reinvented Business Assistance Programs Promise to Do More With Less

26 Housing Assistance
Federal Housing Assistance Emphasizes Loan Guarantees

32 Miscellaneous Programs
Funding Increases for Education, Training, Employment, Environment, and Natural Resources

38 Welfare Reform
Welfare Reform Legislation Poses Opportunities and Challenges for Rural America

48 Minimum Wage Legislation
Rural Workers Will Benefit More Than Urban Workers From Increase in Minimum Wage

53 Safe Drinking Water Act Amendments of 1996
New Law Significantly Affects Small Rural Water Systems

58 Tax Policy
Federal Tax Developments Affect Farms and Other Rural Businesses

61 Regulatory Policy
Many Significant Regulatory Changes Take Effect in 1997

66 Appendix A
Rural Share of Selected Programs

68 Appendix B
Data Sources and Definitions

73 Appendix C
Contents of Last Year's Federal Programs RCaT

Welfare Reform, Regulatory Change, New Infrastructure Funding, and Government Reinvention Set the Stage for 1997

The main change for 1997 is welfare reform, which is expected to have a more significant impact in rural than in urban areas. The increase in the minimum wage and earned income tax credit should boost incomes of the working poor. Funding has increased for infrastructure, including a new assistance program for drinking water systems. Many other core development programs have been reinvented and expect to provide more assistance, even though their funding has not grown. In addition, many regulatory changes will affect rural economies and the environment.

This is the second annual issue of *Rural Conditions and Trends (RCaT)* dedicated to describing Federal program and policy changes important for rural development. This issue examines budget, tax, and regulatory changes initiated in 1996 and taking effect in 1997 (the first issue looked at changes taking effect in 1996). We examine most of the larger core development programs that assist rural infrastructure, housing, businesses, and general development (including planning and technical assistance). We also examine major changes in tax and regulatory policy affecting rural areas. These are areas we intend to cover every year.

Our first Federal Programs issue (Vol. 7, No. 2, 1996) also looked at a broad range of programs not directly aimed at rural development but with important implications for development. These included agriculture, defense, health, education, training, environment and natural resources, and income support programs. This 1997 issue focuses more narrowly on core development programs. However, we also give special attention to major new legislation and regulations that are expected to have significant rural development implications. This year, we include special articles on welfare reform, the minimum wage increase, and the new safe drinking water provisions, all of which are expected to significantly affect rural development. We also include a different group of programs in our analysis of miscellaneous programs, which this year covers education, employment, training, environmental, and natural resources programs.

Like other issues of *RCaT*, our analysis is primarily descriptive. In many of our maps and figures, we use the Census Bureau's Consolidated Federal Funds Reports data (also known as Federal Funds data) to reveal where individual Federal program allocations went in fiscal year 1995 (the latest available data), on the assumption that these same places will be affected by current policy changes affecting these same programs. We use various State and county typologies so we can describe how policy changes might affect specific types of places, such as farm States or poverty counties. Data sources and typologies are discussed in appendix B.

Because of the large number of Federal programs that contribute to rural development, we are forced to focus primarily on the larger and more important programs in our analysis, particularly those that have been changed recently. Although we are limited in the number of maps and other figures we can provide for any one issue, over time we hope to present information on a wide variety of programs important to rural development.

New Format for This Issue

We have made several changes in format to improve the report. One change involves the way our tabular program funding information is presented. We have replaced the single large appendix table listing selected programs in each program area with more detailed tables presented along with the text in each program area article. This should be particularly helpful for those who obtain individual articles from the report (and not the appendix) electronically.

These new program area tables not only show changes in funding, but also indicate which types of rural places are most likely to be affected by the program. Where possible, we have used the 1995 Federal Funds data to indicate the places affected by each program. The reader should refer to appendix B for definitions of the State and county types and regions we used in these tables. This appendix also tells how to obtain our Federal Funds data, which provide funding information by individual county or State, and by the types of counties and States used in our report.

Our new appendix table 1 uses Federal Funds data for 1995 to estimate the rural percentage share of funding for selected programs in this report. Where accurate county level data exist, we present the percentage of funding in nonmetro counties. For other programs, we use State-level data to estimate the percentage of funding in rural States.

The reader may also refer to maps, charts, and tables from our previous Federal Programs issue for more insights into places affected by various Federal programs. Our new appendix C provides a list of the articles from the first Federal Programs issue, including a list of the maps, charts, and tables in each article. Referring to our first issue should be particularly useful for those interested in recent developments involving agriculture, defense, health, income support, natural resources and environment, trade, and Native American programs, which were covered in some detail in that issue but which receive little attention in this, our second, issue examining Federal programs. The first issue also provides more detail about core development programs, including their purposes and various types of assistance.

Welfare Reform Is the Biggest Change for Rural Development in 1997

Welfare reform requires that, within a set period of time, able-bodied people must move into the labor force or give up their welfare benefits. Welfare reform also includes reductions in Food Stamps, Medicaid, and some other important assistance programs, as well as increases in some other programs. It also involves the devolution of responsibility for Federal welfare assistance, from Federal to State government.

Much of the public debate surrounding welfare reform focused on conditions in the cities, including the common belief that many urban and suburban jobs are available for welfare recipients. However, as our article on welfare reform points out, many rural areas will be significantly affected by this legislation, particularly high-poverty areas in the South. Rural areas generally have higher unemployment rates than urban areas, meaning fewer job opportunities exist. Thus, adjusting to the new law could be a challenge for rural America.

Welfare reform did not occur in a vacuum; it was accompanied by changes in Federal program funding, regulations, and taxes to help affected individuals, firms, and communities adjust to the changes. Along with welfare reform came increased funding of education, training, child care, and employment programs that should help welfare recipients make the transition to gainful employment. Welfare reform also came along with an increase in the minimum wage, which should add to the earnings capability of many low-wage workers. The same legislation that raised the minimum wage provided new tax breaks for small businesses, which may help them adjust to possible higher wage costs associated with the minimum wage.

The minimum wage increase is another big story for 1997, particularly for rural workers. The prevalence of low-wage jobs in rural areas means that a larger share of rural than urban workers will benefit. The greatest benefits will be in the rural South, where low-wage industries and high poverty rates are most common. The minimum wage increase should complement welfare reform, by bolstering wage rates for unskilled workers. The recent increase in the earned income tax credit provides an even bigger boost to the incomes of low-wage rural workers. Together, the increased minimum wage and earned income tax credit may help many families rise above the poverty rate.

Another important tax change related to welfare reform is the work opportunity tax credit that goes to employers who hire from seven targeted groups and places, including people transitioning from welfare and young people in Empowerment Zones and Enterprise Communities. This is expected to help with the adjustment from welfare to work, giving employers tax savings that could be used for training or invested in job creation.

USDA Rural Development Reinvention Gets Boost From Farm Legislation

The Department of Agriculture (USDA), the lead Federal rural development agency, has been busy reinventing its development programs. For example, USDA is making major contributions to various innovative national initiatives, including the Northwest Economic Adjustment Initiative, Empowerment Zones and Enterprise Communities, Water 2000, and the Home Ownership Initiative. These initiatives tend to involve interagency coordination of funding targeted to specific needs or priorities. As such, they represent a reinvention designed to make the most of declining or stagnant development funding.

USDA's new development efforts have been accompanied by reorganization and downsizing. The three rural development services (Rural Business-Cooperative Service, Rural Housing Service, and Rural Utilities Service) have taken part in the agencywide effort to consolidate field offices. The resulting one-stop service centers are consolidating rural development offices with Farm Service Agency and Natural Resources and Conservation Service offices. Increased coordination with USDA's Cooperative Extension services is also planned. In the meantime, rural development staffing is being reduced as part of the downsizing effort. All three rural development agencies have reduced staff since 1993, and all are expected to see more of the same through 2002. In 1997, only the Rural Housing Service will see staff reductions.

The farm legislation, enacted on April 4, 1996, included several new provisions guiding USDA's reinvention of its rural development programs. This legislation created the Rural Community Advancement Program (RCAP) that gave USDA more flexibility to transfer funds among its major rural development programs (housing, infrastructure, and business assistance), enabling it to more efficiently use its funds. Although appropriations legislation for 1997 did not permit USDA to use all of its authorized flexibility (such as transferring money among its three main programs and awarding States with bonuses to encourage performance improvements), USDA is proceeding with improvements in program planning and implementation.

The farm legislation also authorized a new $300 million Fund for Rural America, which may commit $100 million per year beginning in 1997. The law requires that one-third be spent on USDA's existing rural development programs, one-third on rural development research, and one-third on either rural development programs or research. In its first year of operation (1997), USDA has decided to spend almost half of these funds, $47 million, on rural development activities (fig. 1). The largest part of this, $20 million, will support rural housing loans, partially offsetting projected declines in loan levels caused by greater-than-expected interest rates and other factors. About $46 million from the Fund for Rural America will go to research. The purpose of the research is to gain a better understanding of rural development needs and strategies, so that rural development programs can be made more effective. The remaining $7 million in 1997 funds goes to beginning farm loans and outreach for socially disadvantaged farmers.

Other Major Themes in 1997 Involve Regulatory Change, Increased Infrastructure Aid, and Reinvention of Core Development Programs

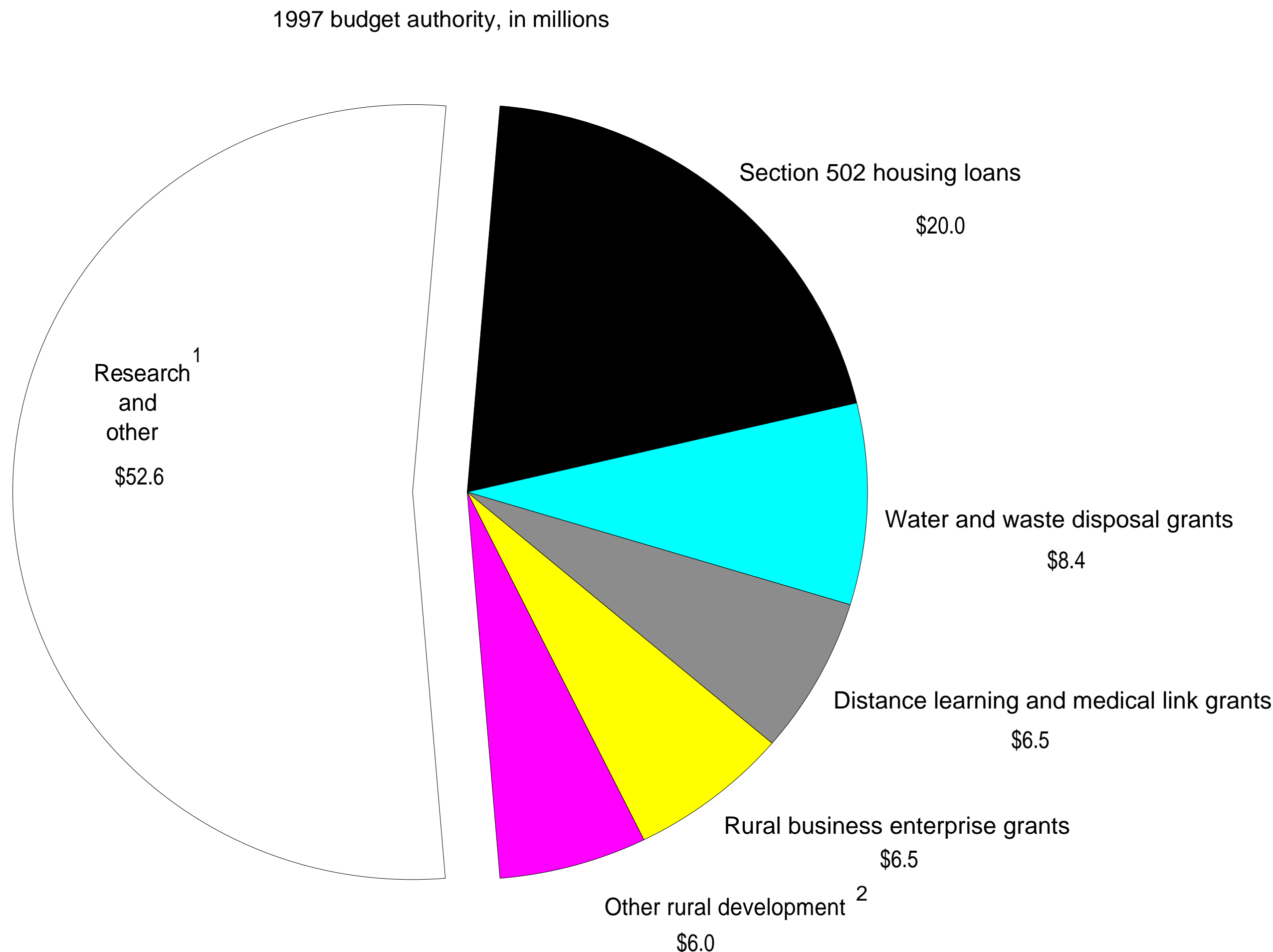
Regulatory legislation was the focus of much attention in the media in 1996 and will begin affecting rural development in 1997. New environmental regulations provide the Environmental Protection Agency (EPA) with more flexibility in formulating and enforcing its regulations covering drinking water and pesticides. They include a new financial assistance program to help communities (particularly disadvantaged rural communities) finance infrastructure improvements needed to comply with the new regulations. Small systems will be eligible for other forms of assistance, such as reimbursements for operator training and flexibility to use alternative means of complying with regulations.

Other important regulatory changes involve banking, housing, health insurance, wetlands, fisheries, parks, public lands, Social Security, immigration, and Native Americans. Several proposed regulations could also have significant nationwide effects on rural development. These include proposed regulations that would encourage telecommunica-

Figure 1

The Fund for Rural America, fiscal year 1997

Rural development activities account for 47 percent of the $100-million total budget authority of the Fund in 1997



[1]Includes research, extension and education grants, telecommunications infrastructure research, outreach for socially disadvantaged farmers, and beginning farmer loan programs.

[2]Includes water and waste disposal loans, farm labor housing grants and loans, alternative agricultural research and commercialization, cooperative development services, and Empowerment Zone/Enterprise Community technical assistance.

Source: Calculated by ERS using USDA 1998 Budget Summary.

tions companies to provide universal coverage of advanced communications capabilities to all rural places and EPA's proposed air quality standards, which are more stringent than earlier standards and could affect development in many rural areas.

Many core development programs received roughly the same amount of funding in 1997 as in 1996, but funding varied significantly by type of program. For example, many infrastructure programs received funding increases, particularly for environmental infrastructure. In addition to the new EPA fund for drinking water systems, with special provisions for small drinking water systems, EPA is also providing new hardship grants for wastewater systems to help small communities with low incomes and high unemployment. Rural communities will especially benefit from increased funding from USDA's infrastructure programs, including a 25-percent increase in water and waste disposal loans and grants, a 35-percent increase in telecommunications loans, and a large increase in distance learning loans and grants.

General Assistance Funding Remains Steady, While New Initiatives Direct Aid to Distressed Rural Areas

Steady funding characterizes most general assistance programs in 1997, though some programs will benefit temporarily from carryover of large unobligated prior-year funds. The Northwest Economic Adjustment Initiative has plateaued, while other major initiatives are just beginning to have significant impacts.

General assistance supplements or complements single-function programs like housing, infrastructure, and business assistance. It often targets distressed areas or regions and emphasizes planning and technical assistance. General assistance also helps rural communities design and implement comprehensive development strategies, while augmenting their capacity to achieve sustainable development in the future.

The largest rural general assistance programs include the Department of Agriculture's (USDA) extension activities, the Department of Commerce's economic adjustment program, the Department of Housing and Urban Development's (HUD) community development block grant program, Federal Emergency Management Agency's (FEMA) disaster assistance, and the Bureau of Indian Affairs (BIA) assistance programs. Smaller programs tend to focus on a particular region or type of place with special needs. Although some of these programs saw their budgets cut during the last 2 years, they appear to have survived with relatively stable funding in 1997 (references to years in this article refer to fiscal years), and some have been reinvented to operate more effectively.

The most important development in recent years has been the growing importance of new initiatives that provide the Administration with flexibility to direct various types of assistance to distressed areas. These include rural Empowerment Zones and Enterprise Communities (EZ/EC), Rural Economic Area Partnership (REAP) zones, the Northwest Economic Adjustment Initiative, and Community Development Financial Institutions (CDFI).

Main General Assistance Programs See Steady Funding in 1997

HUD's community development block grants (CDBG) provide the largest single source of general assistance funds, totaling $4.6 billion, of which about 30 percent ($1.3 billion) goes to States to fund housing, infrastructure, and business development in small cities and rural areas (including some portions of metro areas). CDBG's newly appropriated funds remain constant for this program in 1997 (table 1). However, the money available in 1997 will actually increase because of large unobligated balances carried over from the previous year (including unobligated CDBG disaster assistance). Thus, total CDBG obligations are projected to increase in 1997, from $4.4 to $5.3 billion. HUD's section 108 loan guarantee program, funded through the CDBG program, finances large-scale job generation through various projects, including housing, infrastructure, and business development. This program is projected to obligate $1.4 billion in loan guarantees in 1997, significantly more than in 1996. The section 108 program operates nationally on a first come/first serve basis. Although there is no rural set aside in the program, a portion of each year's loan guarantees are made in rural areas.

Commerce Department's Economic Development Administration (EDA) provides three forms of general assistance important to distressed rural areas: planning, technical, and adjustment assistance. Funding for these programs remains stable in 1997, with $24 million for planning grants, $9 million for technical assistance, and $120 million for adjustment grants (including $90 million for defense adjustment). Supplemental funding for communities adjusting to natural disasters is expected to increase from $16 to $39 million, with most of the increase associated with Hurricanes Fran and Hortense. EDA is also implementing significant reforms, including strategic planning, program evaluation, and streamlined regulations, which should improve program effectiveness.

FEMA's disaster relief grants provide general assistance to places recovering from natural disasters. Figure 1 shows how this program's obligations were allocated among the States in 1995. As in most years, FEMA disaster assistance was most important for

Table 1
Main general assistance programs
Except for FEMA, funding is steady for most general assistance programs

Program	Funding level by fiscal year[1] 1996 actual	1997 estimate	Change	Rural areas most affected by the program
	Billion dollars		Percent	
HUD State/small cities community development block grants	1.31	1.29	-1	Northeast and Midwest States
HUD Section 108 Loan Guarantees[2]	.43	1.38	320	Same as above
EDA adjustment assistance, includes economic and defense adjustment, planning and technical assistance	.15	.15	0	Farming and totally rural areas, and in Midwest
FEMA disaster relief	3.61	4.50	25	Earthquake- and flood-prone areas
USDA's extension activities	.43	.43	0	Urbanized, nonadjacent, government, and poverty counties[3]
BIA Native American assistance programs	1.65	1.61	-2	Indian reservations

[1]For FEMA and HUD Section 108, total new obligations are used for the funding level. Budget authority is used for the other programs.
[2]The funding given for this program includes both urban and rural areas.
[3]These are the counties where extension offices are located; extension services provided by these offices actually benefit a wider array of counties.
Source: Budget of the United States, fiscal year 1998.

coastal and river States prone to flooding and hurricanes and in the western earthquake areas. More recently, Hurricanes Hortense and Fran have resulted in high FEMA funding levels. In 1996, FEMA's disaster relief required $3.4 billion. Although additional funding for 1997 is expected to decline to $1.3 billion, outlays and obligations will rise (reflecting lags in funding and spending).

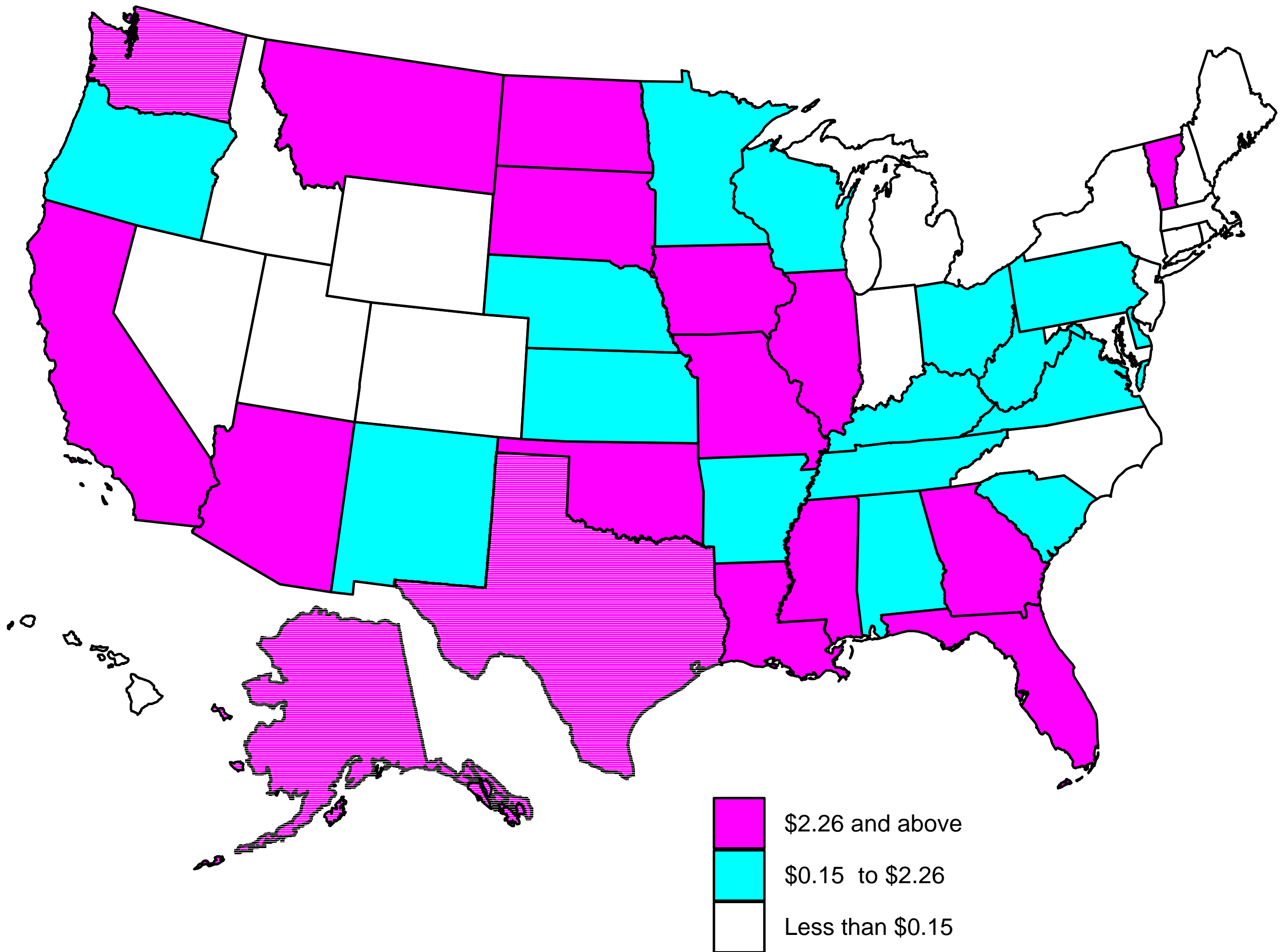
USDA's extension activities, funded by the Cooperative State Research, Education, and Extension Service, and performed at land-grant universities and county extension offices, provide valuable, research-based technical assistance to many rural communities nationwide that otherwise lack the trained staff to formulate complex development strategies. Extension activities include agricultural as well as nonagricultural development. Federal funding for extension activities remains roughly constant at $426 million in 1997 (an equivalent amount is provided for research related to these activities).

The Interior Department's Bureau of Indian Affairs (BIA) provides most of the general assistance to Native American tribes. Funding for BIA declines slightly in 1997, from $1.65 to $1.61 billion. Native Americans also will receive $87 million in HUD community development block grants in 1997.

Figure 1

Per capita FEMA disaster assistance, by State, fiscal year 1995

Aid concentrates in coastal States affected by storms and earthquakes, and in States affected by flooding



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

Funding Remains Flat for Most Small General Assistance Programs

Funding for smaller general assistance programs, which tend to focus on specific regions or places experiencing long-term economic challenges, has also been fairly steady. For example, Interior Department payments in lieu of taxes help finance local government services in areas that must forego local taxes on Federal lands within their jurisdiction. Funding for this program, which primarily benefits the western jurisdictions with substantial Federal land holdings, remains unchanged at $114 million.

The Appalachian Regional Commission's (ARC) area development program will get the same amount in new funding as last year, $57 million; however, program activity levels will increase markedly. Because of substantial unobligated balances from the previous year, obligations for this program are expected to increase from $67 million to $105 million in 1997. Funding for ARC's larger highway program was cut by $9 million, falling to $100

million in 1997. However, because of unobligated balances, its obligations are expected to stay roughly constant at about $141 million.

USDA has several relatively small general assistance programs that are important for rural development. The Forest Service helps distressed timber-dependent and persistent-poverty communities diversify their economies and build development capacity through its economic recovery and rural development programs. Funding for these programs rises from $14.5 million to $17 million in 1997. The Resource Conservation and Development (RC&D) program, which provides assistance to over 270 designated RC&D areas to address local environmental, economic, and social needs, maintains steady funding at $29 million. USDA's rural economic development grants and loans, which cover project feasibility studies and startup costs, incubators, and other rural development activities, will see program funding rise in 1997: grants will rise from $7 to $29 million and loans will rise from $9 to $12 million. The new rural business opportunity grants, created by the 1996 farm legislation, begin in 1997 with $1 million; these funds are available for technical assistance, planning, training, and some other development-related activities.

New Initiatives Benefit Distressed Communities

The Empowerment Zone/Enterprise Community (EZ/EC) program empowers high-poverty communities to strategically plan for sustainable development and helps them obtain assistance from various Federal programs in order to implement those plans. USDA administers the program for 3 rural EZ's (which get access to $40 million each in Social Service Block Grants (SSBG), including substantial tax incentives) and 30 rural EC's (which get access to $2.95 million each in SSBG funds). The 33 rural EZ/EC's were designated in December 1994, and began receiving financial assistance in 1995 (fig. 2). By 1996, all 33 had begun to draw on the SSBG funds that automatically came with their designation, and by the end of the year, they had drawn down $34 million of their 10-year, $208.5 million in SSBG allocations. More is expected to be spent in 1997 and in future years. These communities are also receiving increasing amounts of other assistance. For example, the recently enacted work opportunity tax credit provides incentives for EZ/EC employers to hire zone residents (see article on tax changes). Several programs also have congressionally earmarked funds for EZ/EC's. Rural EZ/EC's got $54 million in earmarked USDA funds for infrastructure and business assistance in 1996, and $52 million in 1997. Many other Federal programs give EZ/EC's priority points in competing for funds. In the next few years (EZ/EC's designations last for 10 years), these communities are expected to apply for and receive increasing amounts of assistance, enabling them to implement their comprehensive development strategies.

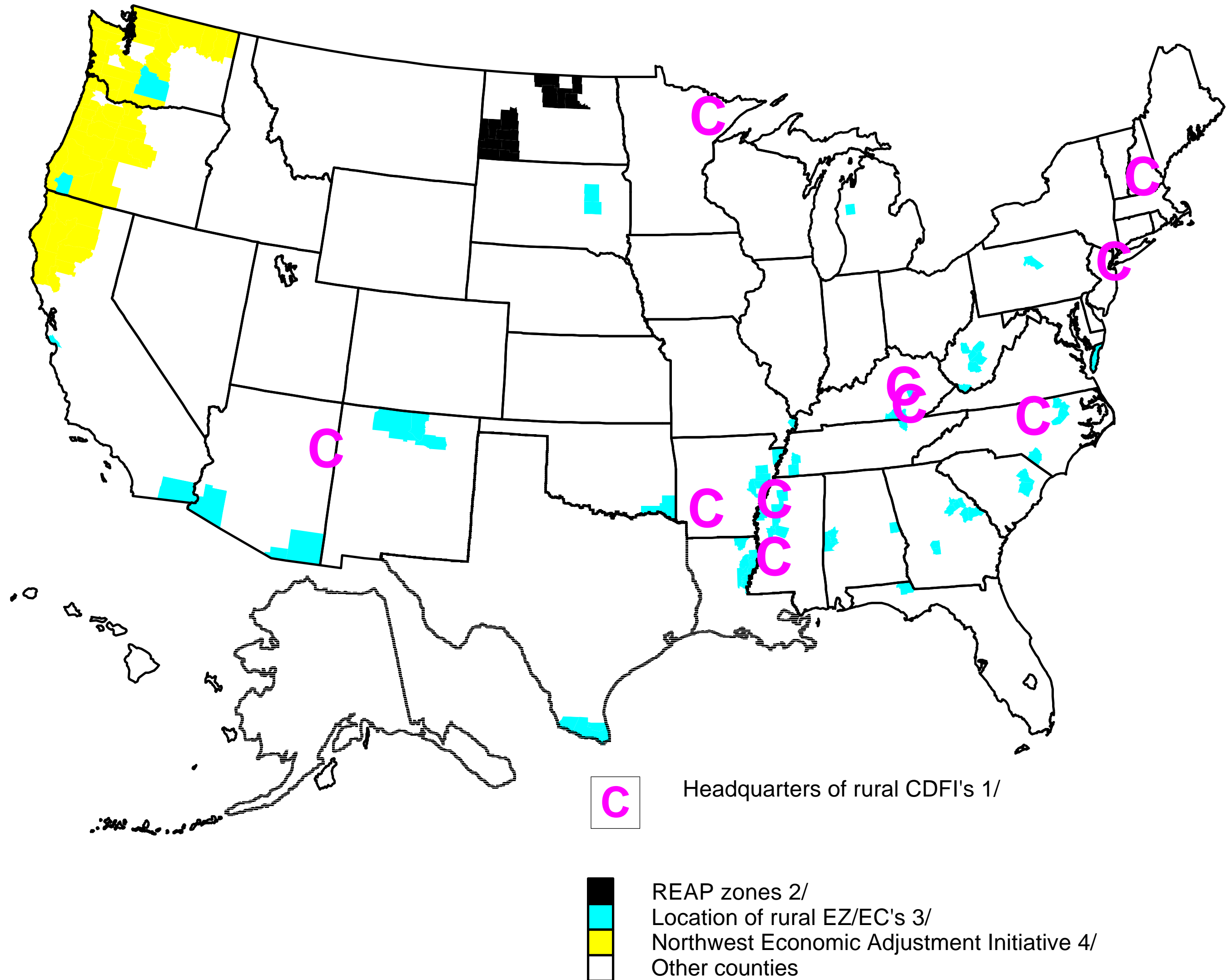
Similar to the EZ/EC program, the new Rural Economic Area Partnership (REAP) initiative assists rural places in the Northern Great Plains that are trying to diversify their economies to adjust to long-term outmigration and employment and population decline. Two multicounty REAP zones in North Dakota were designated by USDA (fig. 2). With USDA assistance, each developed a strategic plan in 1995, received $50,000 to implement a revolving loan fund, and has a USDA set-aside of $10 million in rural development program funding over the next 5 years to implement its plans.

The Northwest Economic Adjustment Initiative committed $1.2 billion over 5 years, beginning in 1994, to assist businesses, workers, tribes, and communities hurt by reduced Federal timber harvests in California, Oregon, and Washington (fig. 2). Rural areas are the primary beneficiaries: only a few metro counties in the affected region receive assistance. Financial and technical assistance comes from various Federal agencies (USDA, Labor, EDA, EPA, HUD, Interior), allowing a comprehensive approach to revitalization, coordinated with State and local efforts. Funding for the initiative began at $248 million in 1994, peaked at $268 million in 1995, dropped to $260 million in 1996, and is expected to decline slightly to $243 million in 1997. Much of this money comes from existing programs that are giving more priority to these places than before, such as the USDA Forest Service's $17 million in specially appropriated economic action funds in 1997.

Figure 2

Important new initatives providing general assistance

Community Development Financial Institutions and Empowerment Zones/Enterprise Communities often work together



1/ Community Development Financial Institutions serving predominantly rural areas.
2/ Rural Economic Area Partnership.
3/ Empowerment Zones and Enterprise Communities in rural areas.
4/ Josephine County in Oregon is both an EZ/EC and a Northwest Initiative recipient.
Source: Calculated by ERS using data from USDA and Treasury Department.

The Community Development Financial Institutions (CDFI) initiative revitalizes distressed communities by enhancing the ability of selected financial organizations to extend credit and provide technical assistance to promote community development. 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. In July 1996, the newly created Federal CDFI Fund selected 32 financial organizations from 268 applicants to receive $37 million in Federal CDFI assistance. Although their headquarters are often located in metro areas, their service areas may include rural areas and encompass multistate regions or the entire Nation. About one-quarter of these CDFI's serve predominantly rural

areas (their headquarters are shown in fig. 2), and another quarter serve a combination of rural and urban areas. They include nontraditional banks, credit unions, housing organizations, loan funds, and venture capital funds that specialize in community development. The CDFI Fund has also selected 38 traditional banks and thrifts to receive $13 million to extend more credit and services to distressed communities and to CDFI's. The budget for the CDFI initiative was $45 million in 1996 and $50 million in 1997. In the next several years, these funds are expected to leverage 3 to 4 times this amount in private capital, and much more capital over the long run.

Another initiative that provides general assistance is the National Rural Development Partnership. Beginning in 1990, this initiative was designed to strengthen the delivery of Federal support for rural development through the creation of State Rural Development Councils (SRDC's) in individual States. SRDC's represent a partnership of Federal, State, local, tribal, and private sectors. These councils meet periodically to help coordinate rural development strategies, develop new and innovative intergovernmental approaches, and resolve intergovernmental conflicts. As of 1996, 39 States had SRDC's. The National Rural Development Council, representing about 60 Federal agencies and representatives of public and private sector organizations, helps to coordinate participating Federal agencies and create teams of task forces to help focus Partnership efforts. Funding is difficult to project because it depends on contributions from various agencies. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

More Funds Are Available for Many Infrastructure Programs

Funding increased or remained unchanged in 1997 for most Federal infrastructure programs, including environmental, transportation, and other public works programs. The major new Federal infrastructure initiative is a 7-year program for financing drinking water systems.

Along with the passage of legislation clarifying environmental regulations and providing for increased regulatory enforcement, funding for most Federal environmental infrastructure programs has increased sharply for 1997. Of major significance was reauthorization of the Environmental Protection Agency's (EPA) Safe Drinking Water legislation (P.L. 104-182), which created an important new Federal aid program to help States finance new and improved local drinking water systems (see article on Safe Drinking Water Act). This measure makes available grants over 7 years to capitalize State Revolving Funds (SRF) that issue loans to help finance local improvements in drinking water facilities. In 1997, nearly $1.375 billion is available for the new Drinking Water SRF.

Also new in 1997 is EPA's $50-million Hardship Grants Program for Rural Communities, administered under the $625-million (1997) Clean Water SRF program, which finances the construction of wastewater treatment facilities. Under the Hardship Grants Program, small (fewer than 3,000 residents), disadvantaged (high unemployment, low income) rural communities are eligible for assistance in planning, designing, and constructing wastewater treatment facilities (fig. 1).

The U.S. Army Corps of Engineers received $4.5 billion in 1997 for new flood-control, navigation, and dredging projects (P.L. 104-303). The law provides $3.8 billion in Federal aid for 31 major water projects, plus nearly 60 smaller projects, benefiting areas such as the Florida Everglades and Cook Inlet, Alaska, and is supplemented by an additional $700 million in State and local government funds for these projects.

USDA's environmental infrastructure programs have received large funding increases. The largest USDA infrastructure program, the Water and Waste Disposal Program, provides loans and grants to small rural communities for financing wastewater systems. This program received $1.1 billion in 1997, nearly 25 percent above the 1996 level (table 1). This aid supports USDA's Water 2000 initiative, which aims to deliver safe, affordable drinking water by the year 2000 to the estimated 2.5 million rural residents with serious drinking water problems, including over 400,000 rural households that lack complete plumbing facilities. The highest levels of aid go to persistent-poverty counties in the South (fig. 2).

Most Transportation Programs Receive Increased Funding

The Department of Transportation's Highway Planning and Construction program, which provides grants for Federal-aid highways, is funded at $20.1 billion in 1997, just $163 million more than in 1996. This program is important in nonmetro counties, especially in the West where per capita allocations are highest. The Nonurbanized Area Formula Apportionments (section 5311) Program, which funds rural public transportation, received a 5-percent increase. This program is especially important in parts of the South.

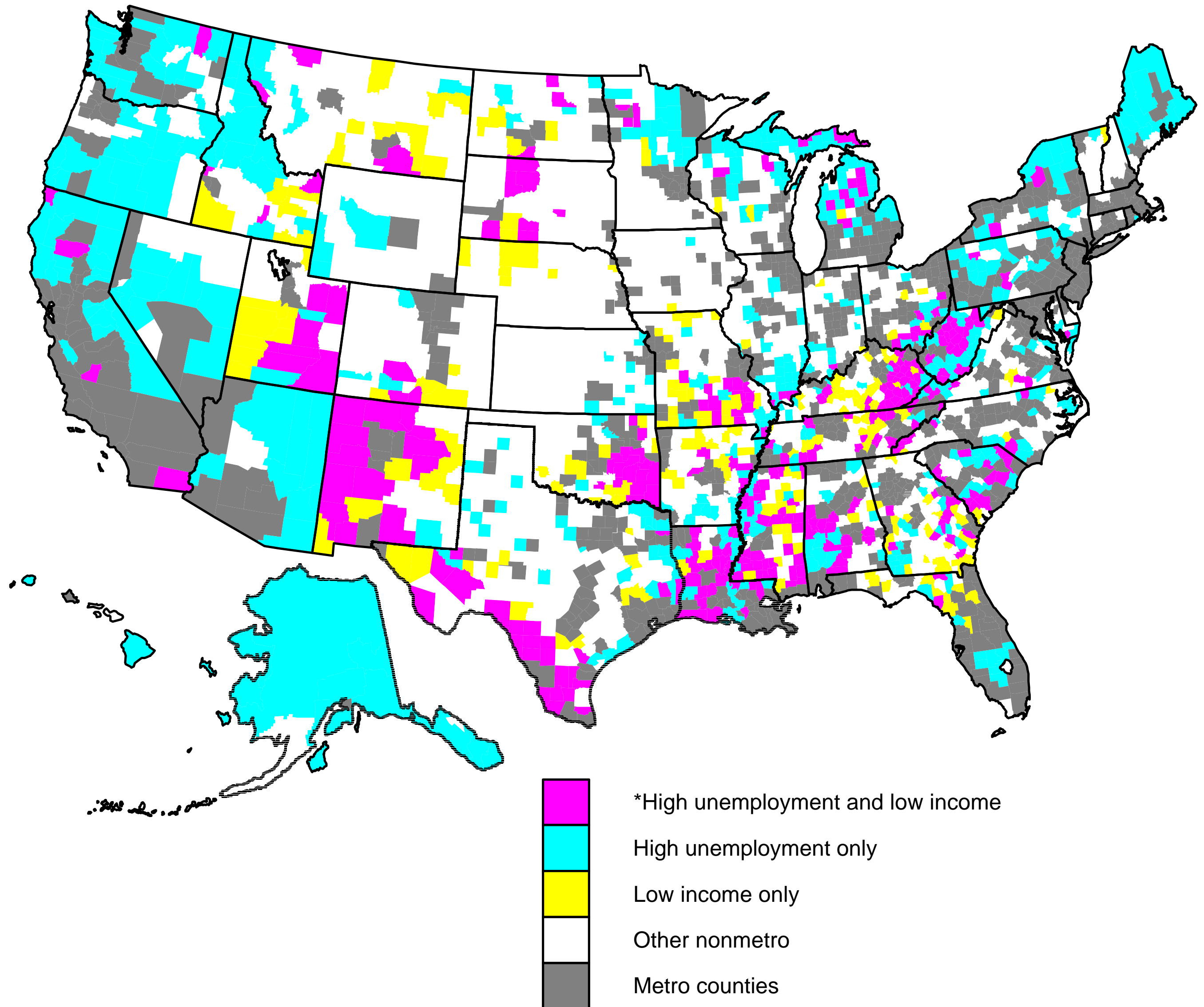
The Federal Aviation Administration (FAA) received an appropriation of $19.5 billion over 2 years and, in addition, will receive proceeds from the airline ticket tax (10 percent on domestic tickets), which was reimposed in 1997. Both measures allow for continued funding of the $1.46-billion Airport Improvement Program, which provides grants for rural airport capital projects, such as runway repaving, control tower improvements, and aviation safety projects. The $26-million (1997) Essential Air Services Program, which funds air service to small communities that lost service after deregulation, received a 15-percent increase for 1997, the largest percentage increase of any rural transportation program.

Passenger rail service received a 13-percent funding increase for 1997, with $844 million available for Amtrak in 1997. Even with the funding increase, Amtrak is operating under tight budgetary constraints (with funding down over 15 percent from 1995), after having been forced to cut back service on a number of rural routes in recent years. The Local

Figure 1

Overlap of high unemployment and low per capita income, 1994

Counties with both high unemployment and low income are concentrated in the South, New Mexico, Utah, Northern Plains, and parts of Texas along the Mexican border



* Counties have high unemployment (greater than 7.1 percent) and low per capita income (less than $14,700).
Source: Calculated by ERS using data from Bureau of Economic Analysis and Local Area Unemployment Statistics (LAUS), Bureau of Labor Statistics, Department of Labor.

Rail Freight Assistance Program, which provides money for maintenance of rail lines affected by freight carriers' abandonments or cutbacks, received no new funding, but it continues to operate on unspent funds.

Change in Other Infrastructure Programs

Some USDA infrastructure programs were cut. The Rural Housing Service's $194-million (1997) Community Facilities Loan Program, which provides essential community facilities in rural areas, was reduced more than 27 percent from the previous year in both the direct and guaranteed loan programs. The funding cut resulted partly because Congress

Table 1

Summary of selected rural infrastructure programs

Some USDA infrastructure programs had big funding increases in 1997

Program	Federal funding by fiscal year 1996	1997 projected	Change	Rural areas most affected by the program
	Billion dollars		Percent	
USDA Rural Water and Waste Disposal Grants and Loans	1.05	1.31	24.5	Persistent-poverty counties in the South
USDA Rural Electrification Loans	.82	.83	.2	Totally rural and persistent poverty counties
USDA Rural Telecommunication Loans	.37	.50	35.2	Totally rural counties in the South
USDA Community Facilities Loans	.27	.19	-27.5	Totally rural counties in the West and South
USDA Distance Learning Loans and Grants	.01	.16	1,862.5	Persistent-poverty counties in the Midwest and West
DOT Highway Planning and Construction Grants	19.97	20.13	.8	Counties in the West
DOT Airport Improvement Grants	1.45	1.46	.7	Services-dependent and Federal land counties
DOT Nonurban Public Transportation	.11	.12	4.5	Counties in the South
EPA Clean Water State Revolving Fund (SRF)	1.35	1.35	0	Counties in the Northeast and Midwest
EPA Drinking Water SRF	0	1.28	——	Information not yet available
EDA Public Works Grants	.17	.17	0	Manufacturing counties

Program level, unless otherwise indicated.
Amounts shown for the Clean Water SRF take into account a transfer of funds from the Drinking Water SRF.
Source: Budget of the United States Government, fiscal year 1998.

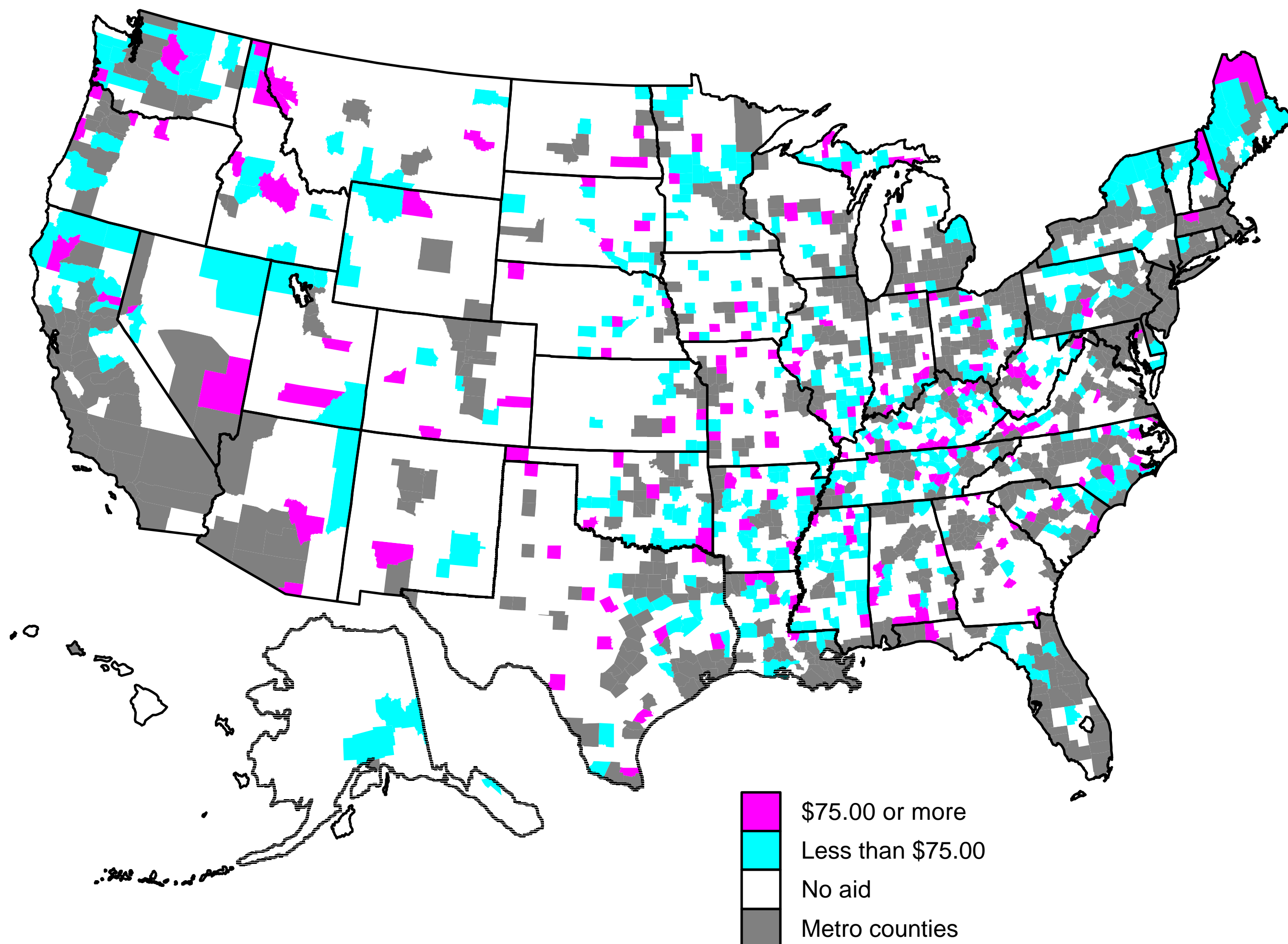
reduced budget authority for loan and grant programs included in the Rural Housing Assistance Program and partly due to other factors. Funds are allocated to each State proportionately based on its rural population, with the program mainly assisting rural areas in the South and the West in recent years. The Forest Service's $262-million (1997) Payments to States Program, which provides grants for public schools and roads on national forest lands, was also cut, modestly, by 2 percent.

In contrast, most telecommunications programs have more funding in 1997. USDA's $495-million (1997) Rural Telecommunications Program grew by 35 percent over 1996 levels, and the $176-million (1997) Rural Telephone Bank Program increased by nearly 40 percent. These programs, particularly important in the rural South, provide loans for upgrading and expanding telecommunications facilities that serve rural residents. USDA's $157-million Distance Learning and Medical Link Program, which provides loans and grants to serve rural education and health care facilities through telecommunications, was greatly expanded in 1997. Program funding increased nearly twentyfold over the previous

Figure 2

Per capita aid for USDA's Water and Wastewater Disposal Program, fiscal year 1995

Aid was highest for persistent-poverty counties, especially in the South



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

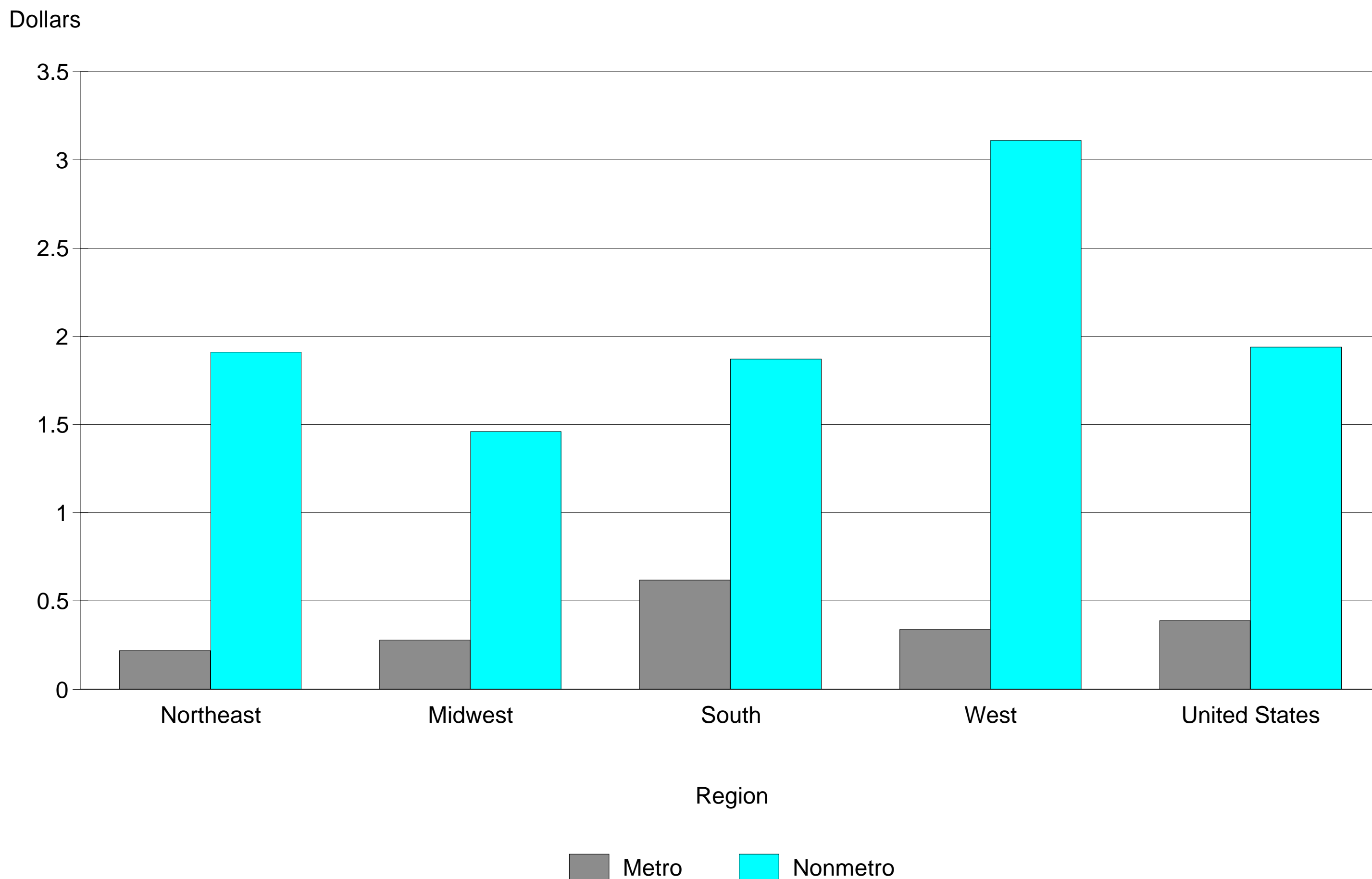
year to meet the huge demand for program funds. The Commerce Department's Information Infrastructure Grants Program, which promotes the widespread use of advanced telecommunications (the so-called Information Superhighway) throughout the Nation, had no funding change in 1997. This small, $21.5-million program (1997) benefits rural areas by using telecommunications to improve the quality and accessibility of various teleservices, such as health care and education.

Funding for USDA's $825-million (1997) Rural Electrification Program, which provides loans for upgrading and expanding electric services to rural residents, was unchanged in 1997. This aid supplements money available from private credit sources and was most important to rural residents in totally rural areas and persistent-poverty counties in 1995.

Economic Development Administration (EDA) public works grants help distressed communities create jobs by attracting new industries, promoting business expansion, and diversifying local economies. This program particularly benefited the rural West in 1995 (fig. 3). EDA funds have been used for a variety of public facilities such as water and sewer systems, industrial access roads, port and railroad facilities, schools, and business incubators. Funding for the EDA Public Works Grants Program remained unchanged at $165 million.

Figure 3
Per capita funding for EDA public works grants, fiscal year 1995

Nonmetro counties in the West received the most aid



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

Rural infrastructure will also benefit from the Fund for Rural America, which is providing $47 million for various rural development activities in 1997, including $8.4 million for Water and Waste Disposal grants. This fund is expected to provide additional infrastructure funding in 1998 and 1999. *[Dennis Brown, 202-219-0329, dennisb@econ.ag.gov]*

Housing, business, and general assistance program funding has remained fairly constant or decreased, but many of these programs are being reinvented to provide more assistance without receiving more funds. One common approach has involved shifting from subsidized direct loans to less expensive guaranteed loans, which involve other parties (banks, nonprofits, government-sponsored enterprises) in the lending process. This not only saves on the subsidies but achieves efficiencies by allowing others to take on responsibilities, enabling Federal agencies to downsize and reorganize for improved performance.

Many agencies are undergoing these efficiency-minded changes, but the most notable such changes involve business assistance programs, including USDA's Business and Industry Program. It is still too early to tell how successful these efforts will be in making taxpayer dollars stretch, but the fate of these and other government programs may depend on successful reinvention.

This Report Covers a Wide Variety of Programs, Taxes, and Regulatory Changes

The first four articles cover the core rural development program areas: general assistance, infrastructure, business assistance, and housing. The fifth article discusses miscellaneous programs with increasing budgets in 1997, including education, employment, training, environment, and natural resources. The next three articles cover welfare reform, the minimum wage increase, and the Safe Drinking Water legislation (including the new program to help finance drinking water projects). The last two articles deal with tax and regulatory changes. These are followed by the three appendixes. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Reinvented Business Assistance Programs Promise To Do More With Less

Although appropriated funding has declined or remained constant for many of these programs, program activity levels are expected to increase for the main business credit programs that particularly benefit rural areas—small business loan guarantees and business and industry (B&I) loans and guarantees. To provide more assistance with less funding, Federal agencies have reinvented their programs, improving their efficiency. Many lending agencies are also streamlining their application processes and regulations, enabling more businesses to participate.

Rural businesses will be significantly affected by many legislative changes made in 1996, including changes in the minimum wage, new tax breaks for small businesses, new regulations covering insurance portability, and, most importantly, welfare reform. Increases in funding for education, training, and employment programs will ease the transition from welfare to work (these changes are discussed elsewhere in this report). However, funding did not generally increase for the business assistance programs that help create the new jobs that will make room for the new welfare workers. New budget authority has even declined for some of these programs, such as Small Business Loans and Guarantees.

Despite these declines in funding, the Federal agencies that provide business assistance are attempting to continue to expand the amount of credit available to rural (and urban) businesses, through various means. In some cases, they are making use of old funds by drawing down funds that were unobligated from last year. New funding sources, such as the Fund for Rural America, are supplying new funds for USDA's business and industry program.

These are short-term solutions. Potentially more important for the long run are the reinvention efforts these agencies are undergoing, aimed at improving efficiency and increasing program activity and performance. Among the new approaches being taken or proposed are (1) agency reorganizations and downsizing to reduce overhead costs and improve efficiency; (2) transferring some responsibilities and fees to private sector lenders in guaranteed loan programs; (3) streamlining regulations and application processes to attract new lenders and borrowers into the programs; (4) reducing the subsidies on direct loans to make appropriations go farther; (5) improving the selection process to better target assistance to firms and communities that need it most; and (6) increasing use of program evaluations and performance benchmarks to improve program performance.

We present the agency estimates of expanded program activity, as contained in the President's budget. Historically, these kinds of estimates have not always proven to be accurate, since they depend on many things, including the economy, which affects the demand for business loans and interest rate subsidy levels required on direct loans. More important, it remains to be seen whether Federal business assistance agencies can succeed in expanding program activity without receiving more funds, because the outcome from their reinvention efforts cannot be accurately predicted. If successful, however, rural businesses could benefit from these efforts for years to come.

Program Activity Expected To Increase in 1997

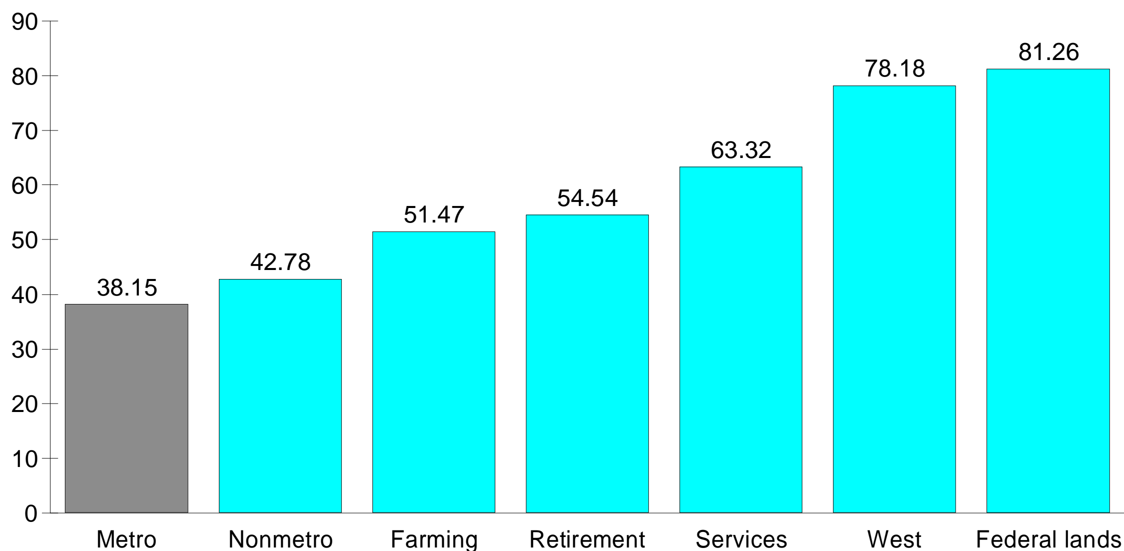
The Small Business Administration (SBA). SBA operates various programs that address different business needs. SBA's largest business loan program, the section 7(a) guaranteed loan program, is projected to increase its new obligations from $7.3 billion in 1996 to $7.8 billion in 1997 (all references to years refer to fiscal years). In past years, this program has particularly benefited nonmetro areas, many of which rely almost exclusively on small businesses for their employment. For example, in 1995, nonmetro areas received more in per capita Small Business 7(a) guarantee assistance than did metro areas; the nonmetro areas that benefited most were those in the West and in counties specializing in services, retiree attraction, and farming (fig. 1).

The second largest SBA program, the section 504 Certified Development Loan Company program, is increasing its obligations from $2.4 billion to $2.6 billion in 1997. In 1995, its loan guarantees were allocated about equally, on a per capita basis, between metro and nonmetro areas; among nonmetro areas, western counties and counties emphasizing service industries benefited the most (table 1).

Figure 1

SBA small business loan guarantees, by type of county, fiscal year 1995[1]

Small business loan guarantees disproportionately benefit rural areas in the West and those specializing in services.



[1] 7(a) General Business Assistance Program, only.
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

SBA's main direct loan program provides disaster loans, including physical disaster loans and economic injury disaster loans. New obligations for SBA disaster loans are expected to decline from $867 to $747 million, but supplementary funding could add to this total in the event of major disasters in 1997. In 1995, metro areas in the West received the large majority of SBA's disaster loans, mainly in the form of physical disaster loans (by far the larger of the two direct loan programs). This was associated with the 1994 California Northridge earthquake. The smaller, economic emergency disaster loan program benefited nonmetro areas more than metro areas in 1995, with farming areas in the Midwest benefiting most.

USDA's Rural Business-Cooperative Service (RBS). RBS's main business assistance programs are the Business and Industry (B&I) program, the Intermediary Relending Program, and the Rural Business Enterprise Grants (RBEG) program. Smaller RBS programs include Rural Technology and Cooperative Development Grants ($2 million in 1997), Rural Business Opportunity Grants ($1 million), and Rural Economic Development Grants and Loans ($41 million). The latter two programs are covered in the article on general assistance.

The B&I program includes both guaranteed loans and direct loans. The larger guaranteed program is projected to provide $688 million in loan guarantees in 1997, up 8 percent from 1996. In 1995, B&I guarantees disproportionately benefited farming counties and Federal lands counties in the West. This program also is providing $50 million in direct loans in 1997; no such loans were provided in 1996. USDA's Intermediary Relending Program is projected to provide $37 million in loan guarantees in 1997, about the same as in 1996. The RBEG program grant level is $41 million in 1997, down 8 percent from 1996. This includes $6.5 million in grants from the Fund For Rural America in 1997.

Table 1
Selected business assistance programs
Most business loan guarantee programs are expected to increase their loan activity in 1997

Program	Program level by fiscal year[1] 1996 actual	1997 estimate	Change	Rural areas most affected by the program
	Billion dollars		Percent	
SBA 7(a) business loan guarantees	7.32	7.81	7	Services, farming, and retirement counties, in West
SBA Certified Development Loan Company guarantees (Section 504)	2.44	2.65	9	Services counties, in West
SBA disaster loans	.87	.75	-14	Places experiencing disasters
RBS Business and Industry loan guarantees (B&I)	.64	.69	8	Farming and Federal lands counties, in West
RBS Intermediary Relending Program guarantees	.04	.04	0	Services, farming, nonadjacent and poverty counties, in West and Midwest
RBS Rural Business Enterprise Grants (RBEG)	.05	.05	0	Totally rural, farming, and poverty counties, in West
EDA Economic Adjustment[2] Grants	.03	.03	0	Farming and totally rural counties, in West

[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]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 amount of loans will result than is indicated by this budget authority amount.
Source: Budget of the United States, fiscal year 1998.

Commerce Department's Economic Development Administration (EDA). EDA operates another important program benefiting rural businesses, the Economic Adjustment Program. Some of the funding from this grant program is used to capitalize revolving loan funds that make loans to businesses in economically distressed areas. The budget for the Economic Adjustment Program remains steady at about $31 million in 1997.

Many other programs provide business assistance to rural areas (see *Rural Conditions and Trends*, Vol. 7., No. 2, for a list). One of the newest is the Community Development Financial Institution (CDFI) initiative, which helps finance businesses, housing, and other activities in distressed communities. This program is discussed in more detail in the article on general assistance.

Reinvented Business Assistance Programs

Government reinvention efforts arising, in part, from compliance with the Government Performance and Results Act (GPRA) are expected to improve program efficiency. Many agencies are counting on these efficiency gains to result in greater program benefits despite constant or reduced program appropriations. Some of these new initiatives are improving efficiency by shifting program activities to the private sector. Some are aimed at opening up the programs to new lenders and borrowers. Most involve streamlining regulations and application processes, reducing paperwork burdens on applicants. Priorities given to applicants in the selection process have been revised to match up loans better with deserving businesses and distressed communities. Many agencies have downsized and consolidated activities and instituted strategic planning with performance standards to monitor and guide future policy. Some agencies have moved toward more extensive program evaluation.

New B&I Guaranteed Loan Program Regulations. RBS has streamlined its regulations and paperwork requirements, making it easier for businesses to apply for assistance. RBS's new B&I regulations also pass some of the responsibility for loan documentation and analysis to lenders, thereby achieving new efficiencies.

The new regulations for the B&I program, announced in February 1996, were motivated in part by a Senate report on the fiscal year 1995 appropriations act, which contained a directive for streamlining the B&I regulations and application procedures. An internal review also found that many small borrowers avoided program participation because of costly program requirements and suggested some program costs could be reduced by shifting activities to the private sector.

The new regulations are streamlined and less paperwork must be provided to the agency, making it easier for borrowers and lenders to participate. New rules also increase the potential pool of lenders by allowing the agency to approve additional lenders with sufficient legal authority, lending expertise, and financial strength to act as lenders in the program. Agency operation costs are cut by reducing the amount of material that must be reviewed by the agency before approval of the guarantee, and responsibilities for credit analysis and application processing are being shifted from the agency's national office to field offices and to lenders where feasible.

A standard guarantee fee of 2 percent will be paid to the agency by the lender and is nonrefundable. The fee can be passed on to the borrower. The new rule allows for the guarantee fee to be reduced to 1 percent if the agency determines that the business is a high-impact business located in a community that is experiencing long-term population decline and job deterioration or located in a rural community that has remained persistently poor over the last 60 years. Each year, a limit will be established specifying the maximum portion of guarantee authority that will be available to guarantee loans at the 1-percent fee rate.

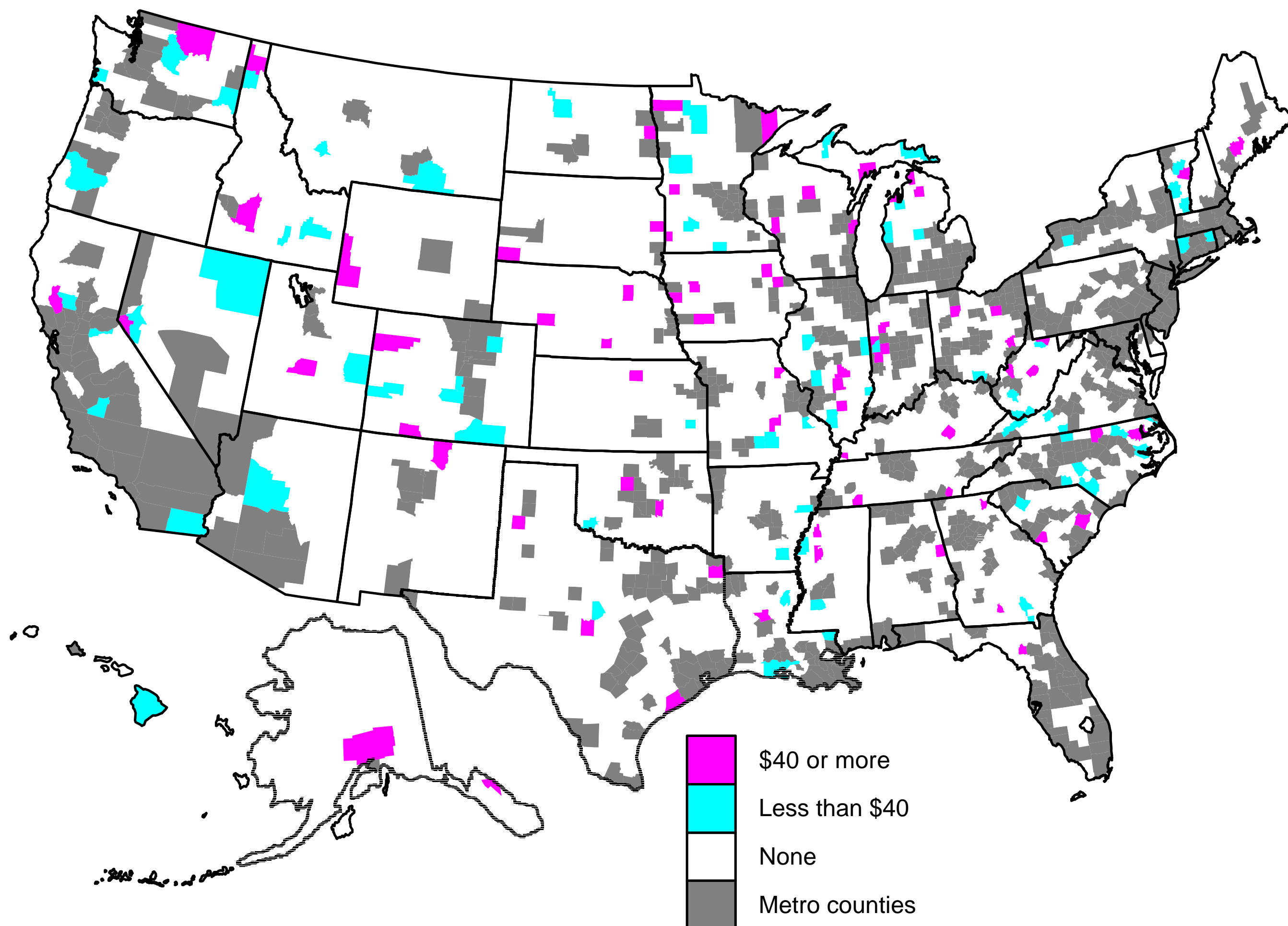
RBS loan priority is now given to nonmetro unincorporated areas and cities with less than 25,000 population, communities that have experienced long-term population decline, and rural areas that have remained persistently poor over the last 60 years. Empowerment zones will also receive preferential treatment. This may result in B&I guarantees being concentrated in certain regions more than in the recent past, when they were more scattered across the country (fig. 2).

A regulatory change mandated by the 1996 farm legislation authorizes the B&I program to issue guarantees for family farmers who sell their products to a cooperative. These loans to agricultural producers are only available when producers are not eligible for Farm Service Agency program assistance, and will be allowed only if the production is part of an integrated business involved in the processing of agricultural products. Examples include an apple orchard or poultry operation whose sales are tied to a particular food processing business.

Figure 2

Per capita business and industrial loan guarantees, fiscal year 1995

Assistance benefits many rural counties throughout the country



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

EDA Reinvention Efforts. EDA has made much progress in reinventing its programs, including streamlining its regulations and applications process, reorganizing and downsizing its staff, and making greater use of program evaluations and performance measures. Beginning in the early 1990's, EDA discovered that the application process was extremely costly for applicants and the review process took so long that, in some cases, timely responses to community distress were not possible. EDA's response has been to streamline its regulations, including its grant application and pre-application forms. Beginning in 1996, EDA introduced a single application form for all applicants for EDA grants. This is expected to open up the program to businesses and other customers that might otherwise have avoided it. Applicants also benefit from reduced paperwork and quicker EDA reviews (within 60 days).

Following a review by Price Waterhouse and a reduction in funding by Congress, EDA has recently reorganized for greater efficiency and downsized its operations. Functions were consolidated, staff was cross-trained, and decisionmaking was decentralized, giving grant approval authority to six regional offices. Since 1995, EDA staff has fallen from 355 to 255 and its headquarters staff has been cut by 35 percent.

In October 1996, EDA began a series of evaluations of its major programs. These evaluations and new core program performance measures are already beginning to yield significant information that can be used to improve program performance.

SBA Proposals. In recent years, SBA has been developing performance measures to improve program efficiency. These efforts have already brought about some improvements in program performance, and further improvements are expected if SBA's current proposals can be implemented.

One proposal is to continue increasing its reliance on private sector partners. Three initiatives would allow SBA to complete its transition from physically servicing and liquidating its $36-billion loan portfolio to overseeing its private sector partners. First, section 7(a) general business lenders will be required to service and liquidate all loans approved after fiscal year 1997. Second, SBA will sell its $10-billion portfolio of defaulted guarantees and direct loans beginning in fiscal year 1998. Third, SBA wants to improve its portfolio-monitoring capabilities.

To stretch taxpayer dollars, SBA plans to have (1) the Small Business Development Companies charge counseling fees to make up for reduced Federal grants, and (2) disaster loan borrowers pay a higher interest rate, equal to the rate on Treasury securities of comparable maturity. Another SBA proposal would put additional resources into programs that give disadvantaged small businesses access to capital, education, and training.

A Pattern Is Emerging for the Future of Business Assistance Programs

The impact of these new performance measures and regulations is largely unknown. However, a pattern is emerging for the future of business assistance programs. Participating private sector partners will be shouldering a greater burden, verifying that borrowers meet program guidelines and seeing that program requirements are met. In return, private sector partners are supposed to receive a streamlined and less costly set of guidelines and paperwork. Program agencies will continue to downsize and reorganize to reduce costs, but they appear to be weathering these changes so far without sacrificing too much in program delivery. Program agencies maintain considerable control over how funds are distributed, and they seem to be more selective in targeting assistance to fit program objectives, such as assisting distressed communities. Program agencies also still have control over conditions that must be met before a loan can be classified as being in default, thus providing some control over default losses that the agency guarantees. *[George Wallace, 202-501-6751, gwallace@econ.ag.gov, and Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Federal Housing Assistance Emphasizes Loan Guarantees

Continuing the trend of recent years, the volume of home mortgage loan guarantees by Federal agencies is rising while direct lending is falling. Loan guarantees are outdistancing direct loans in USDA's main housing program (Section 502), which assists in the purchase of single-family homes.

Federal housing programs continue down the path of greater economy by reducing the size of many of the more heavily subsidized programs and lowering the subsidies provided to each program participant. While these direct lending programs continue to shrink, the much less costly mortgage guarantee and insurance programs are growing. Such programs charge insurance fees, which cover a substantial portion of loan losses and operating costs. Direct lending programs are usually targeted to lower income borrowers than are loan insurance programs. While housing is a tool for economic and community development, the net impact on rural economies of shifting the program focus from direct to insured loans is unclear. In addition to the activities of Federal agencies discussed below, two government-sponsored enterprises (GSE's)—the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)—are major players in home mortgage financing. Both GSE's have initiatives to increase their purchases of rural mortgages.

Home Ownership Grows and the Housing Sector Is Healthy

The majority of American families (65.4 percent) own their homes. Home ownership is highest in rural America, where the nonmetro home ownership rate averaged 73.5 percent for 1996, compared with a similar 72.7 percent for metro suburbs and 49.7 percent in central cities. Home ownership for each of these areas is at its highest level in over a decade, with both nonmetro and suburban levels rising at least 0.7 percent in both 1995 and 1996.

The housing sector was fairly robust in 1996, whether measured by home sales, housing starts, or building permits. Nationally, there were record sales of existing homes (4,086,000) and all homes (4,842,000), despite some downturn in the fourth quarter. Permits for the construction of 234,100 housing units in nonmetro places during 1996 was 8.5 percent above the 1995 level, while the metro level of 1,196,800 was up 7.2 percent.

Mobile homes are a significant source of rural housing. In 1993, 47 percent of the 5.655 million mobile homes used as residences were in nonmetro areas. Nearly 13 percent of nonmetro households live in mobile homes compared with 4 percent of metro households. Mobile home sales of 311,000 for 1996 were at their highest level since 1974. Fifty-eight percent of these homes were in the South, which continues to receive over half of all mobile home shipments. The average price of a new mobile home in 1996 was $36,300, up 8.4 percent from 1995.

While a substantial minority of both rural and urban households benefit from Federal housing programs, these programs reach a smaller share of rural households. The 1993 American Housing Survey found that 17 percent of nonmetro and 26 percent of metro home mortgages were either from, or insured by, a Federal Government agency (fig. 1).

The Department of Housing and Urban Development's (HUD's) Federal Housing Administration (FHA) is primarily responsible for housing assistance and consequently provides the largest amount of home mortgage assistance, both in urban and rural areas. However, USDA's Section 502 direct and guaranteed program, administered by the Rural Housing Service (RHS), plays an important role, accounting for almost one-fourth of all Federal mortgage assistance to nonmetro households (fig. 1).

Section 502 loan guarantees are taking on an increasing importance in rural areas as the current emphasis of home ownership programs is to use guaranteed/insured loans from private lenders rather than direct loans. Since its start in fiscal year 1992, the volume of loan guarantees has increased each year, a trend that is expected to continue in fiscal year 1997. Over this same period, the amount of Section 502 direct lending has been

declining. As a result, Section 502 guarantees are approaching four times the dollar amount of direct loans (table 1). It should be noted that the 1997 decline in direct lending is caused by increased market interest rates that in turn raised the amount of subsidy associated with each direct loan. Thus, the funding provided for interest subsidies could not support the lending levels anticipated when the budget was passed.

The subsidy to the typical government home mortgage program borrower has dropped with the declining number of direct loans, which usually employ such subsidy tools as reduced transaction costs, below-market interest rates, and relaxed lending standards, including smaller downpayment requirements. Additionally, the subsidy cost associated with each direct loan is less because borrowers are often charged higher interest rates, and a portion of prior subsidies may be recaptured.

While on a per capita basis urban areas receive more Federal funds for rental housing than do rural areas, the difference is much less than that for home owner programs. In fiscal year 1995, the largest programs for rental housing provided about $99 per capita in urban and $67 per capita in rural areas. By comparison, the major home ownership programs provided per capita amounts of $224 in urban and $67 in rural areas. While owner programs have a clientele base that includes many moderate income families, renter programs are almost exclusively focused on the low-income population. Renter programs operate either by subsidizing rents for those unable to afford adequate housing, or by promoting an increased supply of low-cost rental housing. Both approaches can be found in a single program, such as the RHS Section 515 program where financing costs are subsi-

Table 1

Summary of largest housing programs

Projected levels of Federal housing loan programs in 1997 are up from 1996 levels for guaranteed and insured loans, but down for direct loans

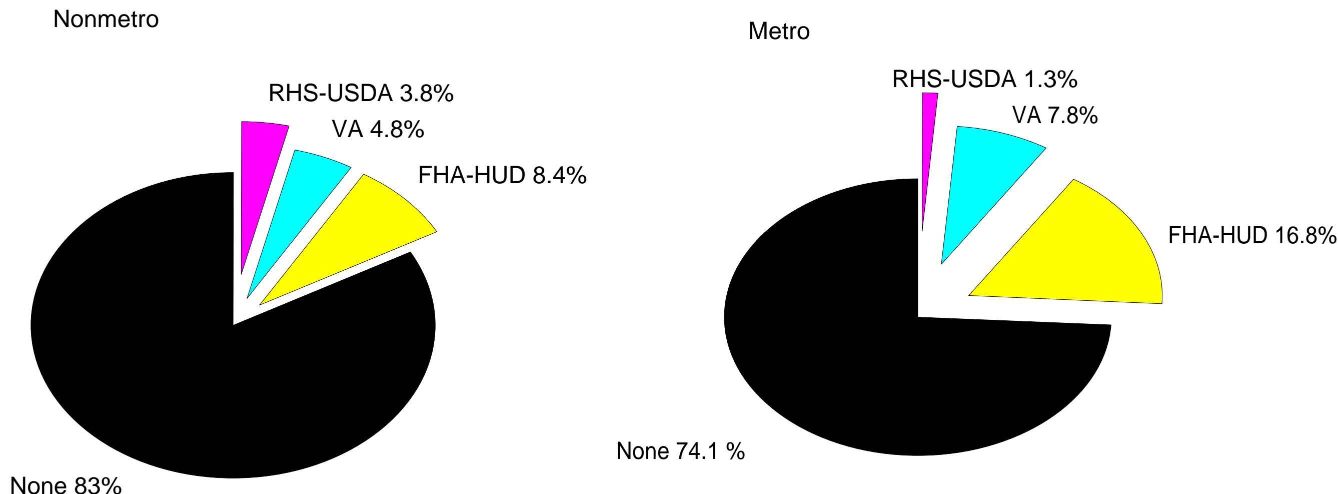
Program	Program level by fiscal year: 1996 actual	1997 projected	Change	Rural areas most affected by the program
	Billion dollars		Percent	
USDA/RHS				
Single Family Housing (Sec. 502)				
Direct Loans[1]	1.02	0.73	-28.5	(All Sec. 502) large metro fringe, Midwest & West, retirement counties.
Guarantees	1.70	2.70	58.8	Same as above.
Multifamily (Sec. 515)	0.15	0.15	1.3	Totally rural & nonadjacent, Northeast, West, commuting counties.
Rental Assistance	0.54	0.52	-3.0	Same as above.
VA				
Loan Guarantees	28.68	30.23	5.4	Urban nonmetro & adjacent, West (***not*** Midwest), retirement counties.
HUD				
FHA Single-Family Mortgage Insurance	65.77	71.15	8.2	Urban nonmetro, West.

[1]Includes $141 million in loans, paid for by $20 million from the Fund for Rural America.
Source: ERS calculations based on the Budget and Census's Federal Funds data.

Figure 1

Federal agencies and home mortgage lending, 1993

Smaller share of rural lending is federally insured or direct



Source: ERS tabulations from American Housing Survey for the United States, 1993.

dized in return for an agreement that units be rented to program participants at reduced rates. HUD is replacing housing subsidies that are tied to particular rental units for a long period of time with more flexible tenant assistance, which gives greater attention to housing vouchers, local control, and home ownership options. While HUD Section 8 vouchers play a larger role in urban programs, they are also used in rural areas. Although HUD operates the only voucher program, some voucher recipients are tenants in RHS projects.

Department of Agriculture (USDA) Loan Guarantees Are Increasing

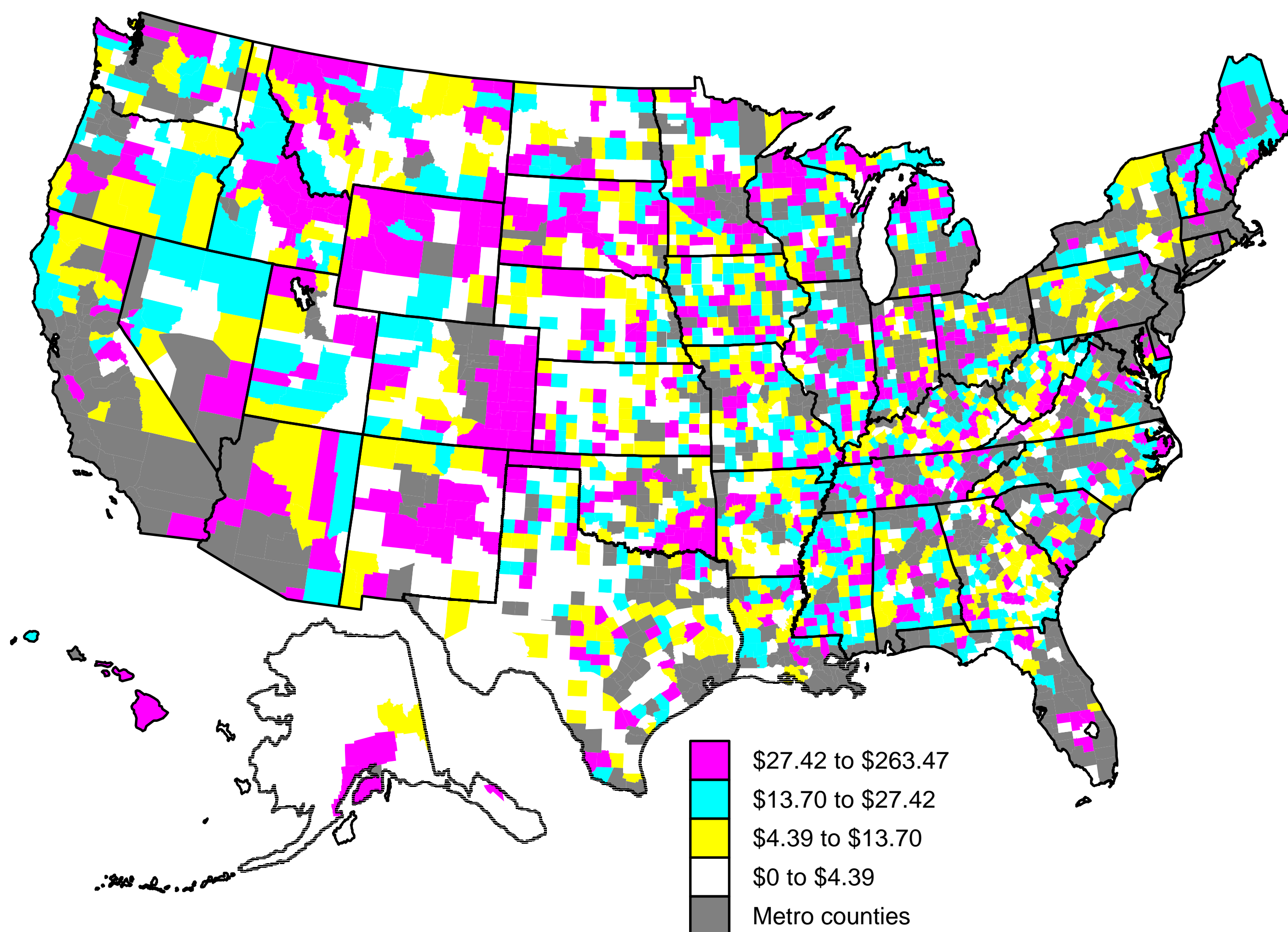
USDA's housing programs are administered by the Rural Housing Service (RHS), which was created out of the Farmers Home Administration (FmHA) in a 1994 departmental reorganization. RHS housing programs provide assistance in rural portions of both nonmetro and metro counties. The largest RHS housing program is Section 502 single-family housing, which constitutes over three-fourths of the agency's housing loan activity. New RHS lending in fiscal year 1995 split about equally between nonmetro (47 percent) and metro (53 percent) areas. Nonmetro counties with higher per capita levels of these loans were concentrated in upper New England, parts of the Mountain West, and scattered across the Midwest and Southeast (fig. 2).

The Section 502 program has changed considerably in the last 3 years. As discussed earlier, the direct lending share is falling, because most of this program's new activity comes from loan guarantees. In turn, since only direct loans carry a significant subsidy, per borrower program costs have fallen. Subsidy expenses on new loans have also been lowered by changes in program regulations that increased the effective interest rate on most direct loans. Subsidies on direct loans also rise and fall in tandem with movements in market interest rates. This is because the effective interest rates on most new direct loans are set without consideration of market interest rates. A major change planned for fiscal year 1998 aims to provide further cost savings to the Government mostly through lowering administrative expenses.

Figure 2

Per capita USDA nonmetro single-family housing loans, fiscal year 1995

The distribution is fairly even except for low levels in the Plains



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

RHS is using loan leveraging programs to reach more low-income borrowers with its limited funds for direct lending. In addition to such programs with Fannie Mae and Freddie Mac, RHS has entered loan-sharing agreements with various public, private, and nonprofit entities. Under these arrangements, RHS makes a second-trust reduced-interest loan for a portion of the total financed amount, paired with a companion loan for the remaining amount. Unless the companion loan also carries a greatly reduced interest rate, this program cannot reach RHS's lowest income clientele. When the companion loan is a conventional market-rate mortgage, total mortgage payments by the borrower will be below those on a conventional loan, but well above those on a RHS loan of the entire amount at their minimum interest rate of 1 percent. Because RHS takes essentially all of the risk exposure for the combined loan, RHS's future loss rate may be higher than if RHS were the sole lender, because they are involved in more loans.

The RHS administers other housing programs for the same rural areas eligible for the Section 502 program. The largest of these activities in 1995 provided rental assistance for low-income tenants in RHS-financed rental housing, which averaged under $8 per nonmetro person. Though smaller than the total amount of mortgages guaranteed by RHS, rental assistance payments are the agency's most expensive program because the

program involves only direct expenditures. In fact, the $524 million in estimated fiscal year 1997 budget authority is two-thirds of the total for all RHS loan and grant programs, exclusive of costs for salaries and expenses. Additionally RHS's Section 515 multifamily housing program provided financing of under $3 per nonmetro person for the construction, purchase, rehabilitation, or repair of low-income rental housing. The combined amount that nonmetro areas received from these two rental housing programs in fiscal year 1995 is about half of the $21 per capita of Section 502 loans. Although over two-thirds of such RHS rental housing assistance, both loan and grant, went to nonmetro areas, this was true for just under half of all Section 502 loans. Section 515 and rental assistance programs are expected to account for about 16 percent of RHS's total loan and grant activity for fiscal year 1997, while Section 502 lending will comprise 76 percent. Additional RHS programs include such activities as very-low-income home repair, self-help housing, and farm-labor housing. The largest increase in RHS programs was for mutual self help housing grants, with a fiscal year 1997 budget of $26 million, which doubled the previous year's level.

FHA Insurance Expands Dominant Role in HUD Housing Programs

HUD's main housing activity is FHA's single-family home mortgage insurance program, which provided $65.8 billion of mortgage insurance in fiscal year 1996, and is projected to top $71 billion in 1997. Only 6 percent of the amount insured in fiscal year 1995 was in nonmetro areas. These nonmetro loans were concentrated in the West and in counties that were more urbanized or had large numbers of retired persons (fig. 3). Loan levels were much lower in the more rural counties. Totally rural counties that were not adjacent to a metro area had only $19 of such loans per capita, compared with a nonmetro average of $48 and a metro average of $182. The nonmetro geographies of FHA and RHS Section 502 programs contrast sharply. For instance, there is much greater variation in the per capita level of FHA lending by various county classifications, and the Midwest had the lowest per capita levels for FHA and the highest for RHS. The largest housing program financed by direct outlays or grants was HUD's $18.1-billion Section 8 low-income housing assistance program, of which nonmetro areas received 13 percent. This multifamily housing program is undergoing substantial change as HUD's housing strategy moves away from long-term financing commitments for low-income rental housing.

The most important low-income housing issue is how to deal with the impending expiration of rental assistance contracts on approximately 1.8 million housing units that provide housing for 4.4 million persons. This issue has been building to a crescendo because of a late 1970's spike in the construction and rehabilitation of Section 8 housing under 15-year to 20-year contracts. Since 1995, expiring contracts have been renewed for a year at a time, meaning that each year a growing number of expiring 1-year contracts are added to expiring longer term commitments.

The future of HUD and its programs is still being debated, but major changes have already been made and others are in the works. Future HUD programs seem destined to be far fewer in number and much more flexible in how they are used. State and local governments will have much more control over what will likely be a reduced level of funding. There is a strong commitment to expanding the opportunity for home ownership to a wider audience and to reducing the role of large-scale low-income housing projects.

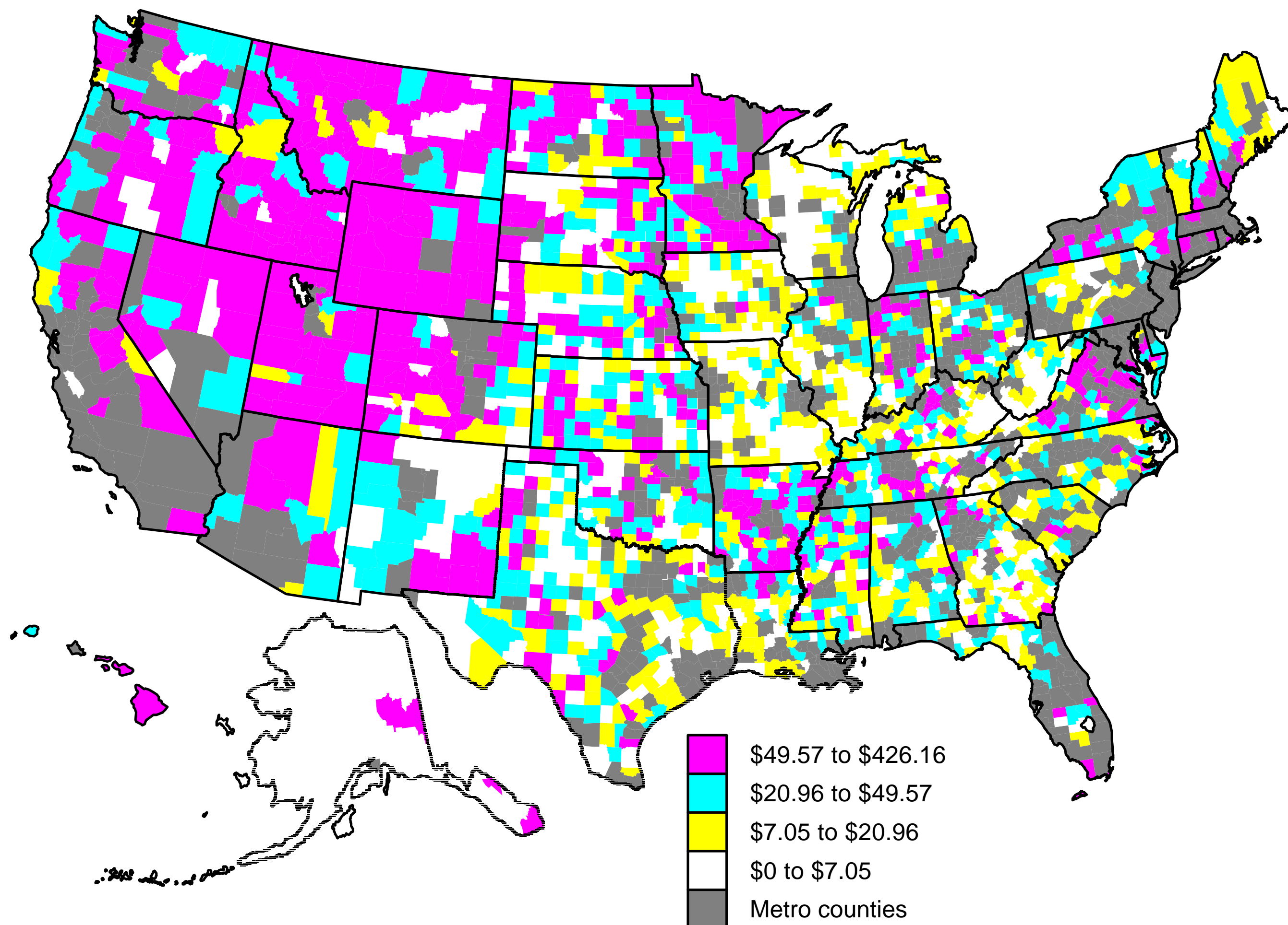
Department of Veterans Affairs (VA) Mortgage Insurance Concentrates in Urban Areas

VA housing loans are expected to total about $30 billion in fiscal year 1997, a 5-percent increase from 1996. About 11 percent of VA's housing program activity is in nonmetro areas. Nearly all of that is in the form of guaranteed loans. In 1995, rural areas received less than $18 per capita of such VA loans, half of that received by urban areas. VA nonmetro loan levels were highest in the most urban and adjacent counties ($20) and lowest in the most rural and nonadjacent counties ($9). By region, nonmetro lending was highest in the West ($31) and lowest in the Midwest ($12). VA guarantees cover loan losses

Figure 3

Per capita FHA mortgage insurance, fiscal year 1995

There is a heavy concentration in the nonmetro West



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

that may be as much as 50 percent, but not more than $36,000 for loans up to $144,000. For larger loans, the guarantee amount can be somewhat higher.

At one time, the typical VA loan was available with no fee to the borrower, but now borrowers usually pay a fee that is a percentage of the loan amount. Fees are higher for certain loans, including those with smaller downpayments. Some special borrowers can receive the loan guarantee at no cost. In the past, the VA targeted direct loans to "rural areas where availability of private mortgage funds was limited." This is no longer true. Direct loans are now restricted to financing specially adapted housing assistance for certain disabled veterans. *[Jim Mikesell 202-219-0098, mikesell@econ.ag.gov]*

Funding Increases for Education, Training, Employment, Environment, and Natural Resources

Many funding increases this year are associated with regulatory changes. Increased funding for education, training, and employment programs will help rural areas adjust to welfare reform; increased funding for environment and natural resources will help in adjusting to new environmental standards and concerns.

Education programs received the largest funding increases in this group for 1997 (all references to years in this article are to fiscal years). The greatest increases, in total dollars, went to the largest programs, including college student financial assistance (such as Pell grants), direct student loans, special education aid for the disabled, Head Start for low-income preschoolers, and title 1 elementary and secondary school aid for disadvantaged students (table 1). Except for student loans, which tend to be most important in farming areas and in the Midwest, most of these programs benefit low-income students and, hence, rural poverty areas may benefit the most from these changes. The program receiving the largest increase in funding, title 1 aid for disadvantaged students, is one of the most highly targeted programs to distressed rural areas, particularly benefiting poverty, mining, and totally rural areas (fig. 1).

Some smaller education programs increased rapidly in percentage terms. Education technology aid more than tripled (289-percent increase), while funding for the new Goals

Table 1

Selected education programs

Most education programs experience double-digit funding growth

Program	Funding level by fiscal year[1] 1996 actual	1997 estimate	Increase	Rural areas most affected by the program
	Billion dollars		Percent	
Head Start	4.80	5.40	13	Poverty counties, in West and South.
Title 1 elementary and secondary school aid for disadvantaged students	5.90	7.69	30	Poverty, mining, totally rural areas, in West and South.
Special education for the disabled	3.24	4.04	24	Poverty States, Midwest States.
Student financial assistance (Pell grants)	6.26	7.56	21	Government and poverty counties, in West and Northeast.
Direct student loans	8.36	9.93	19	Farming States and Midwest States.
Guaranteed student loans	16.71	16.97	2	Farming, Midwest, and Northeast States.

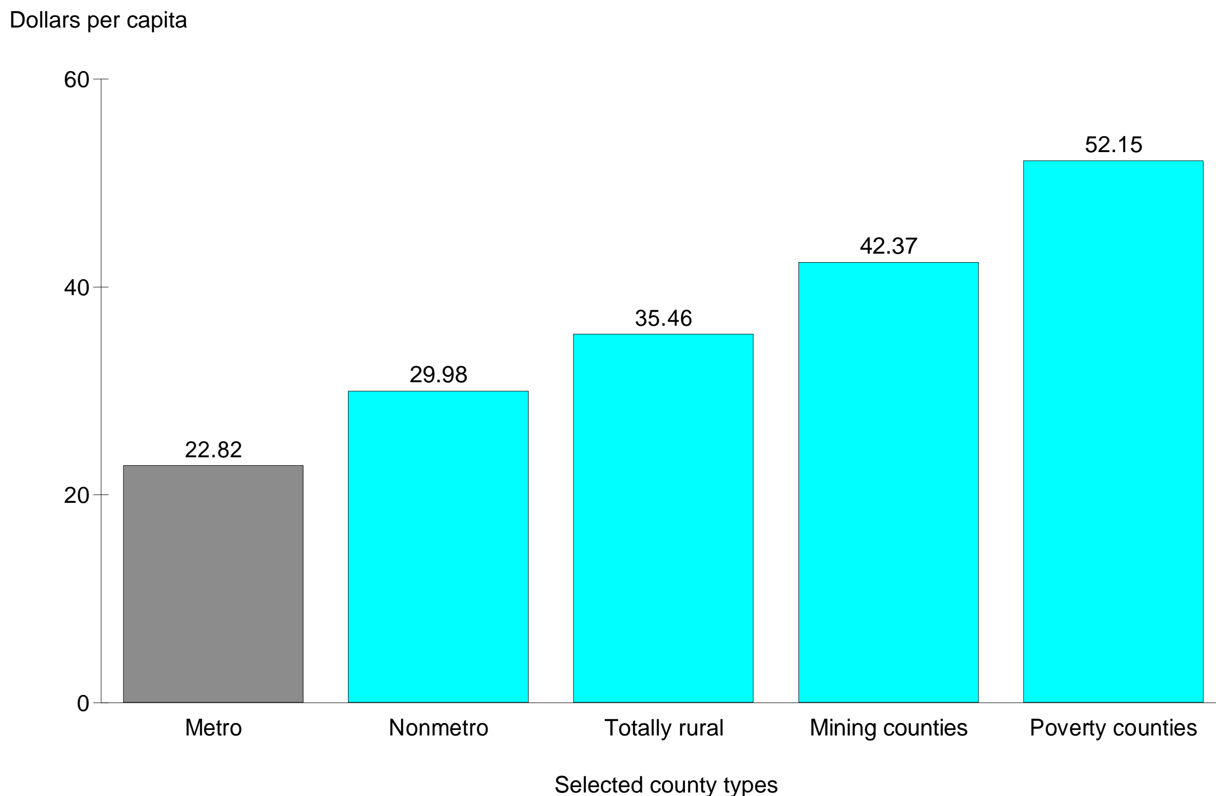
[1]Budget authority is used for all programs except the loan programs, which use projected loan levels (program level).

Source: Budget of the United States, fiscal year 1998.

Figure 1

Per capita Title I education aid for disadvantaged students, fiscal year 1995

Rapidly growing program disproportionally benefits poverty, mining, and totally rural counties



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

2000 program (which helps schools evaluate performance based on national goals) and the bilingual education programs increased by about 40 percent. These, and most other education programs, are not particularly targeted to distressed populations, so all rural (and urban) areas get increased education funding.

Some Training and Employment Programs Get Significant Funding Increases

Funding for training and employment programs is also increasing substantially in 1997, largely in response to the perceived need for help in adjusting to welfare reform. Much of the increase is for training and employment services authorized by the Job Training Partnership Act (JTPA), which receive a total of $0.5 billion in new funds in 1997, a 14-percent increase from 1996 (table 2). The largest JTPA programs are summer youth employment and training, adult training, the Job Corps (which helps train disadvantaged young students), and dislocated worker assistance. Of these, the summer youth program, which helps find jobs for severely disadvantaged youths, receives the most significant increase in funding, up 39 percent from 1996. These programs, administered by the Department of Labor, are targeted to places with high levels of unemployment and poverty.

The community service job program for older Americans (targeted to low-income unemployed elderly) is another large Labor Department program getting a rapid increase in funding, up 24 percent. The Federal-State Employment Service's funding has increased

Table 2

Selected training and employment programs

Many training and education programs benefit from substantial funding growth

Program	Funding level by fiscal year[1] 1996 actual	1997 estimate	Increase	Rural areas most affected by the program
	Billion dollars		Percent	
Total training and employment services (JTPA)[2]	4.15	4.65	14	Places with high unemployment and poverty.
Summer youth	.63	.87	39	Same as above.
Adult training	.85	.90	5	Same as above.
Job Corps	1.11	1.14	3	Same as above.
Dislocated worker	1.12	1.25	12	Places with high unemployment.
Federal-State employment service	1.19	1.25	5	Farming and Western States.
Older Americans employment	.37	.46	24	Predominately urban States.
Adult education	.26	.35	36	Poverty and Southern States.
Vocational education	1.09	1.14	5	Poverty and farming States.
Rehabilitation service	2.46	2.51	2	Poverty, farming, Southern, and Midwest States.

[1]Budget authority is used, except for individual JTPA programs, whose funding levels are expressed in obligations.

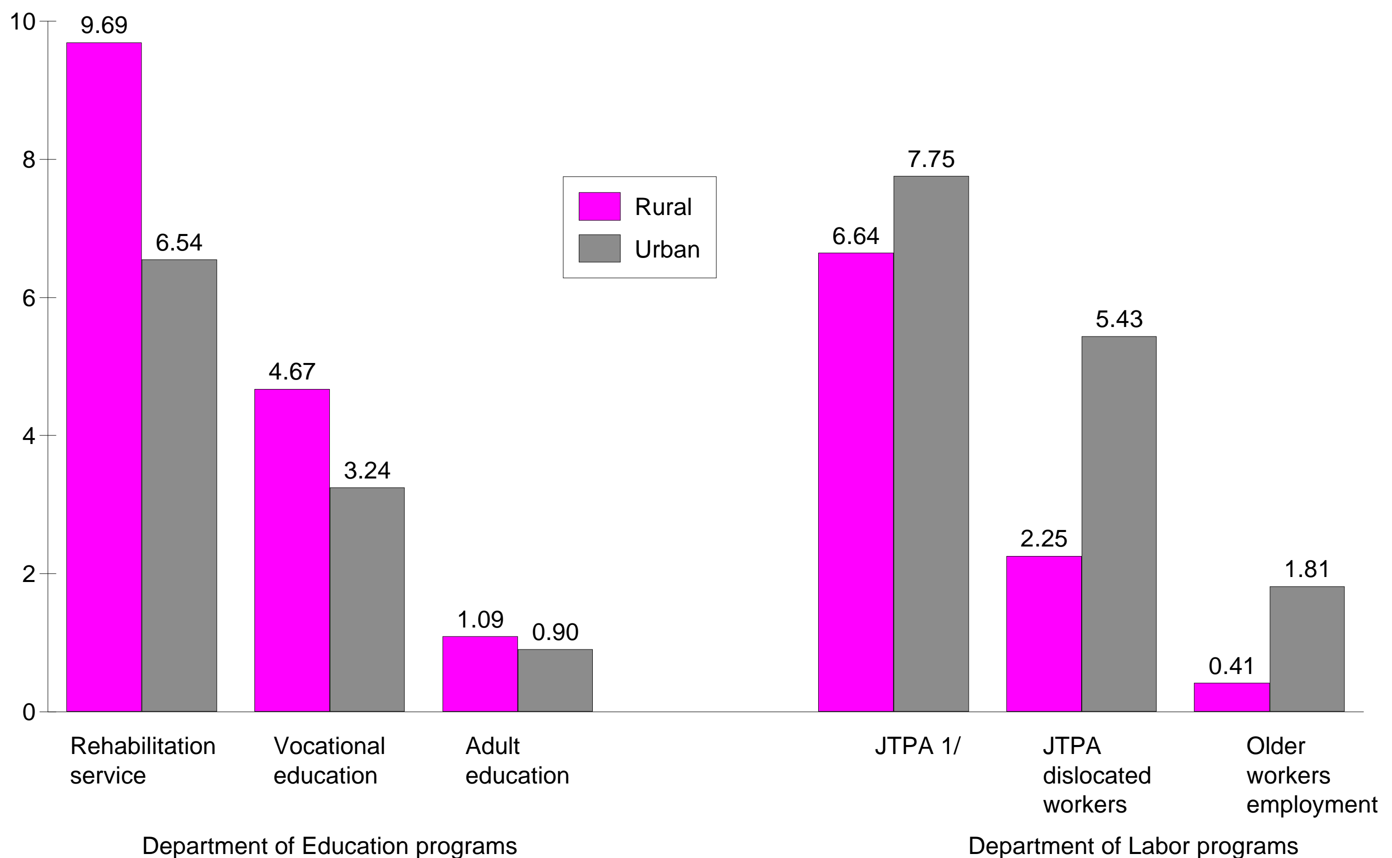
[2]Job Training Partnership Act programs include summer youth, adult training, Job Corps, dislocated worker, and other programs.

Source: Budget of the United States, fiscal year 1998.

only marginally, but it will be enhanced through the development of a labor market information system and an expanded job bank.

Although the Labor Department's training and employment programs should help both urban and rural areas, urban States tend to benefit more from these programs than rural States (fig. 2). In contrast, rural States tend to benefit more from the Education Department's training programs, which include adult education, vocational education, and the rehabilitation service. Adult education funding, particularly important for poor rural areas in the South, will grow by 36 percent in 1997. Vocational education and rehabilitation aid, more important for farming areas in the South and Midwest, is growing more slowly.

Figure 2
Per capita employment and training programs, fiscal year 1995
Education's programs favor rural States, while Labor's programs favor urban States



1/ Job Training Partnership Program (excluding Dislocated Worker Program).
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

Most Environmental Protection and Natural Resource Programs Increased

The Environmental Protection Agency (EPA) is getting 13 percent more money in 1997 for its operating programs that pay for research and enforcement (table 3). This significant increase in funding should help EPA improve its regulations (see article on regulatory changes) and provide more support to States and localities in their efforts to monitor the environment and develop solutions to problems. Funding for EPA's State, local, and tribal grants, which help fund State and local environmental activities, has also increased, but by a lesser amount.

EPA's Superfund program is also increasing in 1997. This program, which includes the Hazardous Substance Response Trust Fund activities and Superfund grants to States, cleans up toxic waste sites left from industrial activities. Many of these waste sites are in rural areas in the Southwest and the northern Rockies and West Virginia, where mining and energy industries are located, and in the Midwest and Eastern States with river or coastal industrial sites requiring attention (fig. 3).

Table 3

Selected environmental protection and natural resource programs

Funding increases modestly for most of these programs

Program	Funding level by fiscal year[1]			Rural areas most affected by the program
	1996 actual	1997 estimate	Increase	
	Billion dollars		Percent	
EPA Operating Program	2.74	3.11	13	Environmentally vulnerable places.
EPA State, Local and Tribal Grants	.64	.67	4	Same as above.
EPA Superfund Toxic Waste Cleanup[2]	1.31	1.39	6	Mining and energy areas along coasts or rivers.
DOI National Park Service Operating Program	1.08	1.15	7	Rural areas near National Parks.
DOI Bureau of Land Management Operating Program	.56	.57	1	Rural areas near Federal lands.
DOI Fish and Wildlife Operating Program	.51	.53	3	Recreation areas.
USDA Forest Service National Forest System	1.28	1.27	0[3]	Recreation and timber-dependent areas.
USDA Conservation Reserve Program	1.73	1.86	8	Agricultural areas.

[1]Budget authority is used, except for the superfund program, which uses obligations.
[2]Includes Hazardous Substance Response Trust Fund and Superfund grants to States.
[3]Declined less than 0.5 percent.
Source: Budget of the United States, fiscal year 1998.

Rural areas may particularly benefit from natural resource conservation and management programs, which are particularly important for tourism, recreation, timber, mining, and other natural resource-related industries. These programs get mostly modest funding increases in 1997. Included are the Department of the Interior's operating programs for the Park Service, the Bureau of Land Management, and the Fish and Wildlife Service, which manage and maintain much of the Federal land. USDA's National Forest System funds remained steady.

USDA's Conservation Reserve Program (CRP) received a moderate, 8-percent funding increase. This program contracts with agricultural producers to retire land from production for 10 to 15 years in order to reduce erosion, protect water quality, and enhance wildlife habitat. As contracts expire on more than 21 million CRP acres, new program rules allow USDA to replace expiring contracts with new contracts on more environmentally sensitive acres in early spring 1997. However, the geographic impact of the program is not expected to change significantly. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Figure 3

Per capita Superfund cleanup aid, fiscal year 1995

Superfund cleanup aid has been most important in the Rocky Mountains, New England, and Mississippi River States

$0.68 and above

$0.47 to $0.68

Less than $0.47

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

Welfare Reform Legislation Poses Opportunities and Challenges for Rural America

Welfare reform legislation enacted in 1996 devolves responsibility for providing assistance to needy families and children from Federal to State governments through Federal block grants. It shifts the fundamental intent of public welfare away from providing cash assistance to moving families from welfare to work. The new legislation may foster more productive communities as families leave welfare for work. It also presents some rural States and communities with formidable challenges.

The Personal Responsibility and Work Opportunity Reconciliation Act (PL104-193), signed into law in August 1996, dramatically overhauls the national system of public welfare in operation since the 1930's. Enactment of the new law follows years of national debate and many past welfare reform efforts; recent actions, according to the Institute for Research on Poverty, include 6 major House bills, 11 major Senate bills, 13 minor bills, 2 Presidential vetoes, and 43 State waivers.

With welfare reform, responsibility for providing assistance to needy families and children devolves from Federal to State governments through a system of individually tailored State programs funded by Federal block grants. At the same time, the new law shifts the fundamental intent of public aid away from providing cash assistance to helping families transition from welfare to work. How different States and local communities respond to the challenges and opportunities presented by the welfare reform law depends on many factors, including past programmatic experiences, the characteristics of their low-income populations, and prevailing economic conditions in the State and Nation. For example, States dominated by rural areas and large rural populations or communities face different challenges than States dominated by large urban centers.

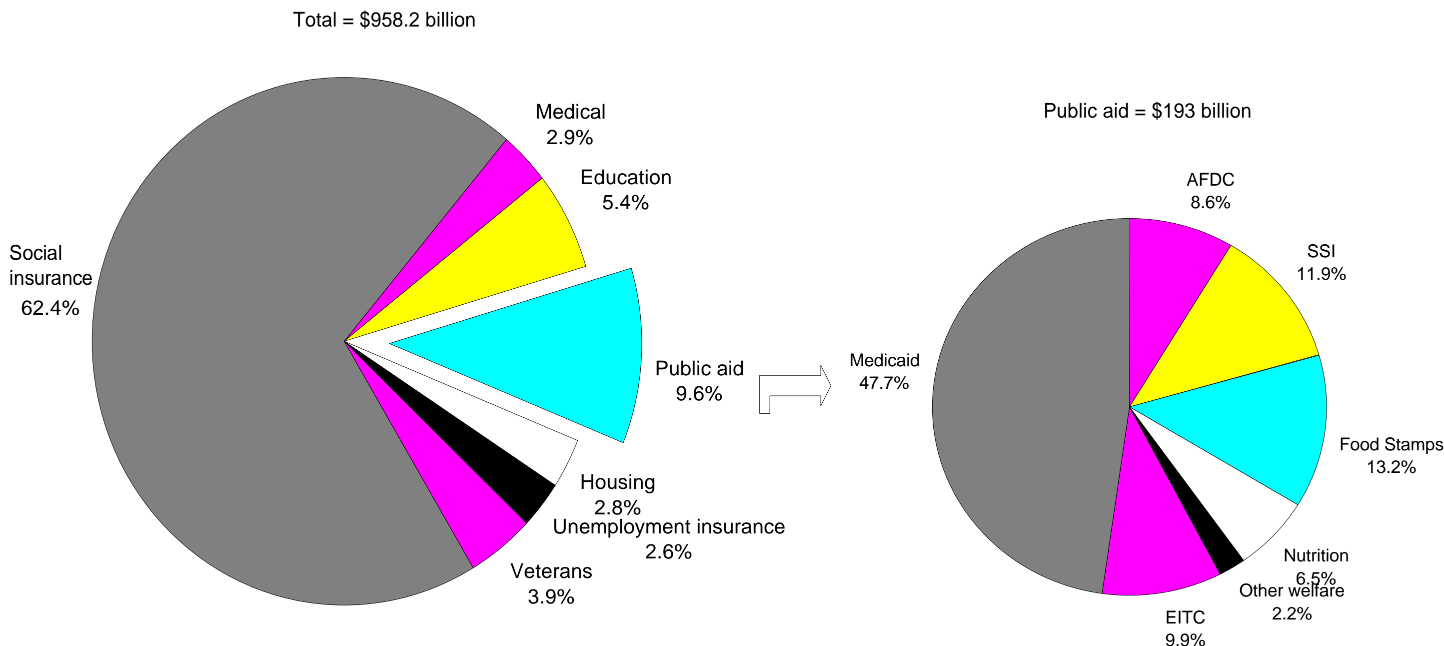
Provisions Affect Several Low-Income Programs

PL104-193 makes important changes in several major low-income programs and lesser changes in other programs. Programs affected most by the law accounted for over $190 billion of Federal outlays in 1996—about one-tenth of Federal welfare expenditures (fig. 1).

One of the most important of the act's many complex provisions replaces the 61-year-old Federal welfare program, Aid to Families with Dependent Children (AFDC), with Temporary Assistance for Needy Families (TANF), a system of State-controlled low-income assistance programs funded by Federal block grants capped at mid-1994 funding levels through 2002 (see box). While giving States considerable flexibility and autonomy for designing and operating their own State plans, TANF provisions limit the total lifetime maximum for receiving Federal welfare benefits to 60 months, with hardship exemptions, and specify parental work requirements. State plans must indicate how States intend to meet the requirement that able-bodied parents must engage in work activities after receiving benefits for a maximum of 24 months. To avoid reductions in their Federal block grants, States must act to increase the percentage of their family caseloads participating in approved work activities from minimum rates of 25 percent for all families and 75 percent for two-parent families in 1997, rising to 50 percent (all families) and 90 percent (two-parent families) by 2002. Other provisions provide additional funds for child care and health insurance and call for State actions to reduce teen and out-of-wedlock births.

The act also substantially reforms other low-income programs. Provisions tightening eligibility criteria for the Supplemental Security Income (SSI) disability program restrict many formerly eligible children under age 18 from receiving benefits. Provisions affecting the Food Stamp Program limit benefits for childless able-bodied adults unless they are working. Other changes altering the criteria for determining Food Stamp benefits will result in an overall reduction in benefits in the future. Provisions involving aliens restrict most legal aliens (with a few special exceptions) from receiving SSI and Food Stamp benefits until they have either worked for 10 years or become citizens. States have the option whether or not to provide TANF and Medicaid benefits to legal aliens already in the country. New legal aliens are ineligible for TANF and Medicaid Federal benefits until they have been in the country for 5 years, although States may use State funds to provide such benefits. Additional provisions pertain to child nutrition programs, Medicaid, foster care, social sup-

Figure 1
Federal spending for social welfare programs, 1996
Programs mainly affected by PL104-193 accounted for about one-tenth of Federal social welfare spending



Source: Calculated by ERS using data from the Budget of the United States Government, fiscal year 1998.

port services, earned income tax credit (EITC), and Social Security benefits for prison inmates.

Beginning in 1997, States must maintain State spending levels for TANF benefits and administration, emergency assistance, JOBS, and selected child care programs at 80 percent of their 1994 levels or risk dollar-for-dollar shortfall reductions in the following year. States with high unemployment rates and/or large increases in Food Stamp caseloads may qualify for supplemental payments worth up to 20 percent of their block grant allocations. Beginning in 1998, more modest Federal supplements will be available to qualifying States with rapid population growth and a history of low AFDC spending levels, States with high-performing TANF programs, and the top five States with the largest declines in out-of-wedlock births.

SSI and Food Assistance Programs Account for More Than 80 Percent of Federal Public Welfare Spending Reductions

Estimated budgetary impacts of the new law on Federal public welfare spending indicate a decline of about $54 billion over the 6-year period, 1997-2002 (table 1). Because the core Federal funding for TANF is a sum fixed at mid-1994 funding levels through fiscal year 2002 (about $16.5 billion annually), projected overall Federal savings realized from the new cash assistance programs are negligible. According to a recently released report by the Urban Institute, annual projected spending on non-Medicaid public welfare between 1998 and 2002 amounts to less than 2 percent of Gross Domestic Product (GDP). New child-care block grants, coupled with additional spending for child support enforcement, total $13.2 billion, a $3.9-billion increase over the amount that would have been spent under the old law. The bulk (over 80 percent) of the spending reductions derives from reductions in SSI ($22.7 billion) and Food Stamp programs ($23.3 billion). Of these reductions, restrictions involving alien benefits make up $13.2 billion and $3.7 billion of SSI and Food Stamps savings, respectively, plus an additional $4.1-billion savings in projected Medicaid benefits.

Key Provisions: The Personal Responsibility and Work Opportunity Reconciliation Act

Establishes Temporary Assistance for Needy Families (TANF) that:

—Replaces former entitlement programs with Federal block grants

—Devolves authority and responsibility for welfare programs from Federal to State government

—Emphasizes moving from welfare to work through time limits and work requirements

Changes eligibility standards for Supplemental Security Income (SSI) child disability benefits

—Restricts certain formerly eligible children from receiving benefits

—Changes eligibility rules for new applicants and eligibility redetermination

Requires States to enforce a strong child support program for collection of child support payments

Restricts aliens' eligibility for welfare and other public benefits

—Denies illegal aliens most public benefits, except emergency medical services

—Restricts most legal aliens from receiving Food Stamps and SSI benefits until they become citizens or work for at least 10 years

—Allows States the option of providing Federal cash assistance to legal aliens already in the country

—Restricts most new legal aliens from receiving Federal cash assistance for 5 years

—Allows States the option of using State funds to provide cash assistance to nonqualifying aliens

Provides resources for foster care data systems and national child welfare study

Establishes a block grant to States to provide child care for working parents

Alters eligibility criteria and benefits for child nutrition programs

—Modifies reimbursement rates

—Makes families (including aliens) that are eligible for free public education also eligible for school meal benefits

Tightens national standards for Food Stamps and Commodity Distribution

—Institutes an across-the-board reduction in benefits

—Caps standard deduction at fiscal year 1995 level

—Limits receipt of benefits to 3 months in every 3 years by childless able-bodied adults age 18-50 unless working or in training

It is too soon to tell how much of the projected Federal savings will actually materialize. As of this writing, media sources report that 40 States have requested or received 1-year exemptions from the provision scheduled to begin this spring that cuts off Food Stamp benefits to unemployed able-bodied childless adults who live in high-unemployment areas. If many such exemptions are granted, the projected savings from the Food Stamp program will be less than estimated.

Recent Drops in Caseloads Create Favorable Funding Picture in Some States

The immediate goal facing all States is the development and submission of a State TANF plan for certification from the Department of Health and Human Services by no later than July 1, 1997. Certification triggers the release of Federal funds under the new block grant program. Until then, States will continue to operate under the old AFDC funding rules. As of February 24, 1997, 41 States had submitted TANF proposals, of which 38 had been certified by HHS and 3 were pending certification.

The number of States that have already submitted plans clearly suggests that many States and communities are hopeful that welfare reform, along with a possible increase in funds, will help speed up the transition from welfare to work and result in more productive communities with rising tax bases, better public services, and industrial growth. While this may prove to be the case in traditionally high welfare-benefit States, where the welfare population is distributed among communities with stable economies, strong local tax bases, and well-developed social service delivery systems, it may prove to be less true for many predominantly rural States and rural areas in other States.

According to HHS, estimated block grants for fiscal year 1997 will vary from $3.7 billion in California to $21.8 million in Wyoming. Under the previous AFDC law, a State's Federal funds were determined by a matching formula based on State spending. State funds were matched 50 cents on the dollar for more affluent States, while less affluent States received an even higher match. Under TANF, Federal block grants to States are tied to the Federal share of State funding levels in either 1994, 1995, or the 1992-94 average (whichever is higher). Furthermore, States choosing to divert State funds toward benefits to groups not covered by the law, such as nonqualifying aliens, will receive no additional Federal funds.

Table 1

Estimated Federal budget effects of PL 104-193, 1997-2002

Food Stamp Program and SSI account for over 80 percent of savings over 6 years

Program	Pre-law projected spending	Post-law projected spending	Change	Percent change
	Billion dollars			Percent
Family support	112.5	112.4	-0.1	-0.1
Child care	9.3	13.2	+3.9	+41.9
Food Stamps	190.5	167.2	-23.3[1]	-12.2
SSI	203.5	180.8	-22.7[1]	-11.2
Medicaid	803.0	798.9	-4.1[1]	-.5
Child nutrition[2]	61.9	59.0	-2.9	-4.7
OASDI	2,484.4	2,484.3	-.1	-0.0
Other[3]	182.6	177.7	-4.9	-2.7
Total	4,047.7	3,993.5	-54.2	-1.3

[1]Includes $23.7 billion of projected savings from restricting benefits to aliens.
[2]Child nutrition includes programs authorized under National School Lunch and Child Nutrition Acts.
[3]Other includes social services, foster care, maternal and child care, and Earned Income Tax Credit.
Source: Compiled by ERS from Congressional Budget Office report to OMB, August 9, 1996.

The upside for States is that recipient caseloads have undergone a substantial decline in the last 3 years, partly influenced by the operation of State waiver demonstration projects in many States and a strong national economy. Since 1994, national welfare rolls have dropped by 3 million people. All States, except Hawaii, experienced at least a 5-percent drop in welfare recipients from 1994 to 1996, and 20 States realized a 25- to 41-percent decline (fig. 2). Thus, former high-benefit States, including some with well-developed waiver demonstrations already in place, will reap large windfalls because they have to cover fewer recipients with their block grants. These gains, coupled with a potential 25-percent savings on State funds, give States the option of using the surplus resources to fund other programs or to provide tax relief.

The downside to block grants is that some traditionally low-benefit States with disproportionately large rural and/or minority populations and historically high poverty rates will

Figure 2

Change in AFDC recipiency by State, 1994-96

Number of recipients declined by at least 5 percent in every State but Hawaii

Source: Prepared by ERS using data from the Department of Health and Human Services.

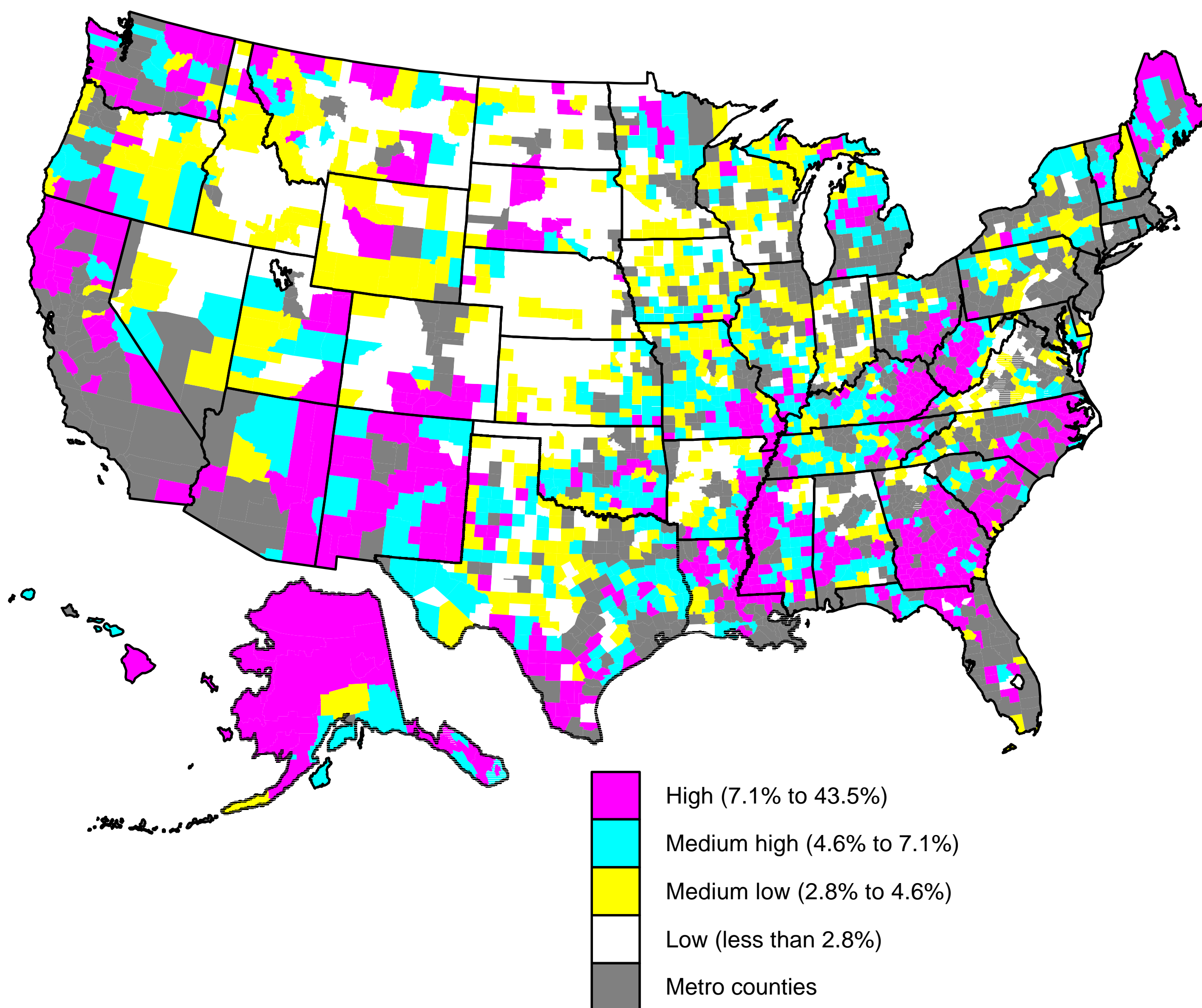
receive fewer Federal dollars than other States to deal with unusually high welfare dependency rates. As of 1993, 18 mostly Southern States paying average monthly benefits of less than $300 per family accounted for 50 percent of the rural population and 60 percent of the rural poor. Fortunately, some of these States may qualify eventually for supplemental funds under the new law.

Rural counties with high rates of family welfare dependency often have high concentrations of minorities (Native Americans, Hispanics, African Americans) and/or historically high-poverty populations (fig. 3). These counties are disproportionately located in Southern States, including the Carolinas, Georgia, the northern Florida panhandle, parts of Alabama, Mississippi, Louisiana, and Arkansas, much of Appalachia, and areas of the

Figure 3

Family dependency on AFDC for rural counties, 1994*

Three out of every five high welfare-dependency counties are persistent-poverty counties



* Percent of families receiving AFDC benefits.
Source: Estimated by ERS using data from 1990 Census, Bureau of Economic Analysis, and Social Security Administration.

Missouri Ozarks as well as in the Southwest, Northwest, the Dakotas, New England and the Great Lakes region. Of the 775 counties classified as high dependency in 1994, 586 are nonmetro (rural) counties. Nearly 60 percent of these rural high-dependency counties have had poverty rates in excess of 20 percent spanning several decades, and 56 percent are remote counties located away from urban centers.

Rural Leaders Face Unique Challenges in Moving Families From Welfare to Work

A review of State plans for 16 predominantly rural States indicates that several will require welfare parents to enter the labor market sooner than required by Federal guidelines (see box). In a few States, parents will be required to work in community service jobs after 2 months of receiving benefits. Yet, rural county jurisdictions within these States have disproportionately high rates of welfare dependency, poverty, and unemployment, and are remotely located from urban centers (table 2).

Rural State and local leaders face many challenges in implementing State TANF plans that will effectively move families from welfare to work in their States. These challenges (elaborated below) include (1) creating enough new full-time jobs in the local labor market to absorb new unemployed and involuntary part-time welfare entrants without displacing nonwelfare workers; (2) providing job training and education that rural welfare parents need to obtain and retain jobs; (3) helping welfare families find jobs that provide a livable income; and (4) providing transportation to jobs in places that lack public transportation and sufficient access to safe and affordable child care.

Finding available jobs for increasing proportions of a State's welfare parents in the next few years without displacing nonwelfare workers may be the greatest challenge that rural States face, because of the limited capacity of rural labor markets to absorb large numbers of new workers into entry-level jobs commensurate with the education and work experience of many welfare parents. This is especially true for rural communities with high welfare dependency, and unemployment and poverty rates. In 1994, 60 percent of the 586 rural counties that were classified as highly welfare-dependent were also high-unemployment counties (fig. 4). Many of these same highly welfare-dependent counties have had poverty rates in excess of 20 percent over several decades. Thus, welfare job seekers will often have to compete with unemployed workers not on welfare for available jobs. However, some rural States with unusually high unemployment rates may apply for supplemental funds up to 20 percent of their annual block grants. Furthermore, some States providing cash subsidies to employers who hire welfare recipients have built safe-

State Plans Have Been Submitted by 16 of 22 Predominantly Rural States

To date, TANF State plans have been submitted and certified for 16 of 22 predominantly rural States. These States either have large rural populations and/or have a considerable share of county jurisdictions that are classified as rural nonadjacent (see table 2 for list and definition). Proposals have not been submitted by the remaining six States. The estimated amounts of Federal TANF block grants for fiscal year 1997 vary from $775.4 million in Michigan to $21.8 million in Wyoming. This translates to annual amounts per 1994 family ranging from a high of $5,000 in Alaska to a low of $1,559 in Mississippi (table 2).

Eleven of the 16 State plans indicate that they will continue to work under waiver demonstration projects already in effect, and 2 will require welfare parents to work in community service activities after 2 months of receiving benefits. All but one of the States will offer eligible interstate migrants the same benefits as instate recipients. Three States will use State funds to provide benefits for nonqualifying aliens. The maximum lifetime limits for receiving cash assistance fall below the Federal guideline of 60 months in seven States; three of these will provide benefits for only 24 months out of every 60 months. Five States have set work requirements more stringent than the Federal guidelines. Only two States plan to implement TANF uniformly across all jurisdictions.

Table 2
Selected characteristics of predominantly rural States[1]
All but three States have more than one-half of their counties located in remote areas

State	AFDC monthly benefit, 1993[2]	Estimated 1997 block grant in millions	Annual 1994 family benefit, 1997	Rural counties: Mean welfare dependency rate, 1994	Rural counties: Mean unemployment rate, 1994	Rural counties: Persistent poverty, 1990[3]	Rural counties: Nonadjacent counties, 1994
	--------------------Dollars--------------------			--------------------------Percent--------------------------			
Alaska	High	63.6	5,000	12.91	9.51	23.0	91.7
Arkansas	Low	56.7	2,205	4.38	6.36	48.4	54.7
Idaho	Medium	31.9	3,635	2.76	6.65	2.4	79.5
Iowa*	Medium	130.1	3,292	3.85	4.00	0.0	54.5
Kansas*	Medium	101.9	3,418	2.87	4.44	0.0	73.3
Kentucky*	Low	181.3	2,291	8.96	6.84	55.1	52.5
Maine*	High	78.1	3,447	6.66	8.37	0.0	31.3
Michigan*	High	775.4	3,525	5.93	9.18	1.7	50.6
Minnesota	High	266.4	4,323	3.61	5.70	2.9	50.6
Mississippi*	Low	86.8	1,559	9.31	8.29	82.7	68.3
Missouri*	Low	214.6	2,329	5.91	6.03	30.0	51.3
Montana*	Medium	45.5	3,840	4.27	5.10	5.6	78.6
Nebraska*	Medium	58.0	3,704	1.70	2.84	2.3	80.6
New Hampshire*	High	38.5	3,359	3.86	4.17	0.0	30.0
New Mexico	Medium	126.1	3,696	8.94	8.47	48.2	57.6
North Carolina*	Low	302.2	2,314	7.80	6.26	29.2	26.0
North Dakota	Medium	25.9	4,551	2.65	4.29	14.3	71.7
Oregon*	Medium	167.9	4,036	4.35	7.45	0.0	52.8
South Dakota*	Low	21.9	3,223	4.71	4.39	27.0	83.3
Vermont*	High	47.4	4,799	6.69	5.53	0.0	50.0
West Virginia*	Low	110.2	2,728	8.51	11.34	25.6	52.7
Wyoming*	Medium	21.8	3,855	3.54	5.15	0.0	87.0
U.S. total	----------	16,389.0	3,256	5.62	6.54	23.5	56.8

[1]Predominantly rural States have less than 45 percent of 1995 population residing in urban portions of metro areas and/or other States (nonurban) with at least one-half of counties classified as nonmetro nonadjacent counties (see appendix A). States indicated with an * have TANF State Plans certified as of February 24, 1997.
[2]Low-benefit States have benefits less than $300, medium-benefit States have benefits between $300 and $400, and high-benefit States have benefits over $400.
[3]See appendix A.
Sources: Calculated by ERS using data from the Bureau of Economic Analysis, Bureau of the Census, Bureau of Labor Statistics, Social Security Administration, and Department of Health and Human Services.

guards in their State plans to ensure that welfare workers will not displace workers already on the job.

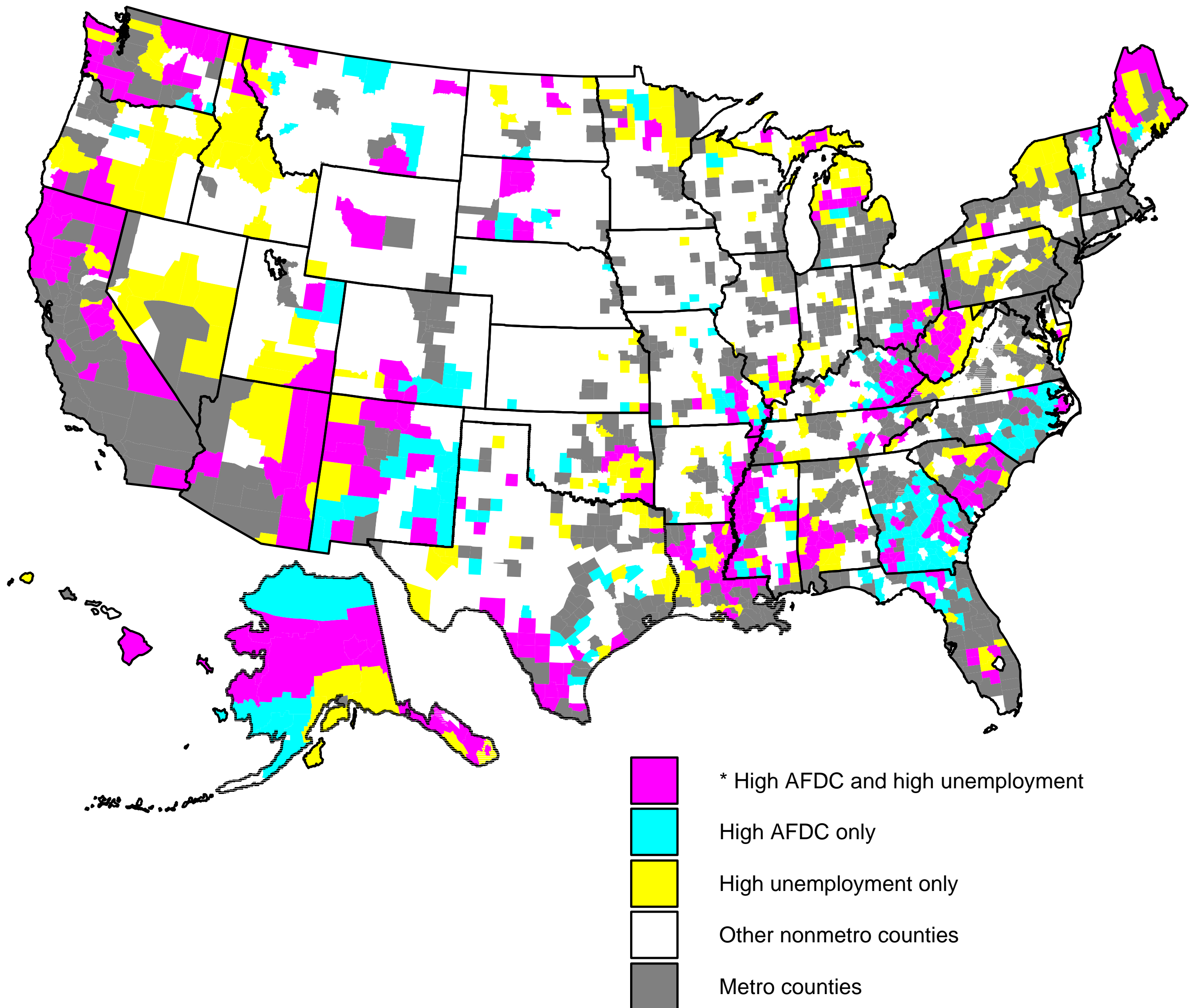
Even if rural States find innovative ways to create more jobs, these jobs may not be accessible to many welfare parents with low education levels and little work experience without remedial education and training. In 1996, 35 percent of rural welfare parents lacked a high school education. Furthermore, preparing many welfare parents to enter and remain in the work world requires developing the appropriate life skills and workplace habits needed to sustain employment. Such training is expensive and time-consuming, and may not be available in many rural communities. Most welfare recipients face another hurdle. Well over 80 percent of welfare parents are single mothers who will have to cope simultaneously with the demands of being a parent and a breadwinner.

The gains of promoting work among welfare recipients will be best realized if work lifts families out of poverty. Declining real wages over the past 15 years have left many rural families poor or nearly poor. In 1995, nearly 60 percent of rural poor families had either a

Figure 4

Overlap of rural counties by AFDC dependency and unemployment rates, 1994

Over 60 percent of high welfare-dependent counties have high unemployment rates



* High equals top 25 percent of U.S. counties.
Source: Estimated by ERS using data from 1990 Census, Bureau of Labor Statistics, Bureau of Economic Analysis, and Social Security Administration.

head or spouse that worked some during the year, and 24 percent of rural poor families had either a head or spouse that worked full-time year-round. Although the metro/nonmetro poverty gap has narrowed greatly in recent years, 39 percent of rural families had near-poverty incomes (under 200 percent of the poverty line) in 1995, compared with 29 percent of urban families. The end goal of achieving self-sufficiency requires helping welfare parents find and retain jobs that pay decent wages as well as increasing the share of children who live in two-parent worker families.

Community leaders must also find ways to overcome the lack of public transportation from home to work in most rural communities. Public transportation is important because

Rural Workers Will Benefit More than Urban Workers From Increase in Minimum Wage

The minimum wage increased to $4.75 in October 1996 and will rise to $5.15 in September 1997. A larger share of rural than urban workers will benefit from this increase. The greatest impact will be in the South, where poverty rates are high and industries are characterized by low wages.

In August 1996, President Clinton signed into law the Small Business Job Protection Act, which increased the minimum wage for many low-wage workers. On October 1, 1996, the minimum wage for most workers increased from $4.25 to $4.75 an hour and will increase again to $5.15 an hour on September 1, 1997. This legislation is an effort to improve the incomes of low- and lower middle-income workers whose wages have failed to keep pace with the cost of living. The prevalence of low-wage jobs in rural areas ensures that a larger share of rural than urban workers will be affected by this legislation.

Since its introduction in 1938, the minimum wage has been increased 18 times to keep pace with inflation. This recent increase marks the first rise in the minimum wage since April 1991. The U.S. Department of Labor estimates that over 80 million nonsupervisory employees in the private and government sectors are subject to minimum wage provisions under the Fair Labor Standards Act (FLSA), accounting for about 90 percent of the employed workforce. The minimum wage law excludes some groups from coverage, such as executive, administrative, and professional employees, employees of seasonal amusement and recreation establishments, and hired farmworkers employed on smaller farms. Also, establishments whose annual gross volume of sales is less than $500,000 are not required to pay the minimum wage to their employees.

The legislation provides special provisions for workers who receive tips. Their employers are required to pay a minimum wage of $2.13 an hour (one half of the previous $4.25 an hour minimum wage) and must provide more if the employees do not collect enough tips to earn the new minimum wage rate. Also, the law's "training wage" provisions hold the hourly rate at $4.25 for teenagers during the first 90 days of the job. In addition, the law provides tax breaks worth $5 billion over 10 years for small businesses to help ease the burden of paying the higher minimum wage.

Who Benefits From an Increased Minimum Wage?

According to the most recent data from the Current Population Survey (CPS) earnings file, an average of 2 million nonmetro workers, or 10.8 percent of the nonmetro wage and salary workforce 16 years and older, earned $4.25-$5.14 per hour between the fourth quarter of 1995 and the third quarter of 1996. These workers form the group most likely to be affected by the increase in the minimum wage. In contrast, less than 7 percent of metro workers fell within this earnings category. These data may overstate the number of both metro and nonmetro workers who will actually receive the minimum wage increase. In 1995, for example, over 800,000 workers received less than the Federal minimum wage. Some of these workers were in exempt jobs, while others were being paid less than the minimum wage in violation of the law. Also, as earnings levels continue to rise and the first increment of the minimum wage goes into effect, the number of workers benefiting from the minimum wage increase will likely fall until September 1997 when the last increase in the minimum wage becomes effective.

Some analysts have questioned the usefulness of increasing the minimum wage as an antipoverty mechanism, arguing that a large share of the workers who will receive the increase are part-time and teenage workers living in nonpoor families who have a weak attachment to the labor force. Our analysis suggests that the minimum wage increase in rural areas will primarily affect adults and single women. Most of the likely beneficiaries are women (64 percent), White (84 percent), over the age of 20 years (71 percent), and are widowed, divorced, separated, or never married (63 percent). However, Blacks, Hispanics, and teenagers are disproportionately represented among those likely to benefit. Also, a substantial portion of rural workers likely to be affected by the increase show strong attachment to the labor market. About half are full-time workers and an additional third work 20-35 hours per week. Poverty measures are not available from the CPS earn-

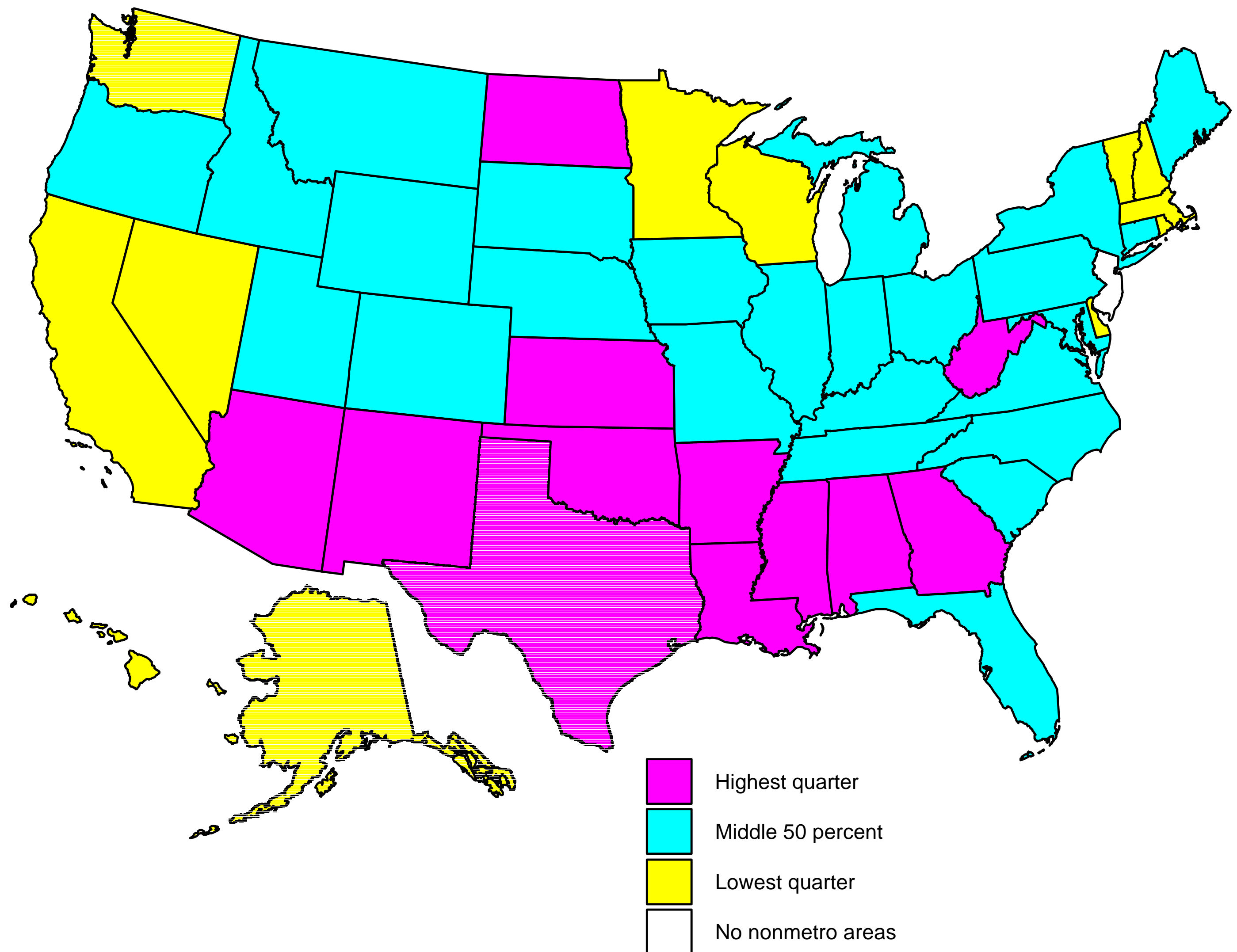
ings file, but family income and size data suggest that a large portion of those who will benefit from the minimum-wage increase have low incomes. About 35 percent of minimum-wage workers live in families with incomes below $15,000.

The greatest impact of the minimum wage on rural workers will likely be felt in the South and Southwest (fig. 1). Louisiana (18 percent), New Mexico (17.4 percent), Arkansas (17.1 percent), and Mississippi (16.7 percent) had the highest proportion of nonmetro workers earning between $4.25 and $5.14 per hour. These States are generally characterized by high concentrations of lower paying jobs and relatively high poverty rates. In contrast, States least likely to be affected are concentrated in the West and Northeast. Alaska (3.6 percent), California (4.5 percent), Nevada (4.3 percent), and New Hampshire (5.1 percent) have the lowest proportion of workers likely to be affected by the new legislation. Several of the States with a low percentage of affected workers have State mini-

Figure 1

States with rural workers most likely to be affected by increase in minimum wage

The South has the highest proportion of rural workers earning $4.25-$5.14



Source: Calculated by ERS from CPS earnings file.

mum wages set higher than the Federal minimum wage and most have higher concentrations of better paying jobs.

Who Loses From the Increased Minimum Wage?

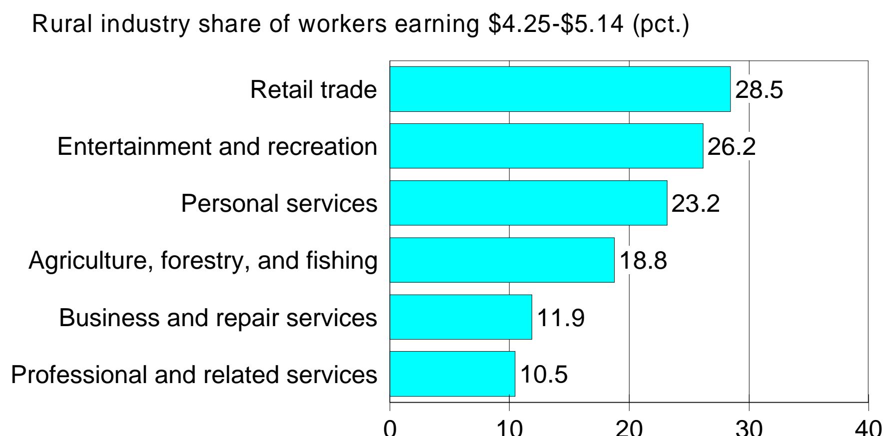
Economic theory suggests that a higher minimum wage will reduce employment opportunities for lower skilled workers and new labor force entrants as employers cut back jobs in response to higher labor costs. A number of recent studies have suggested that when the minimum wage is at especially low levels as it is today, the employment effects of a moderate increase are likely to be minimal. However, rural areas may experience more employment displacement than urban areas since the increased minimum wage affects a larger share of rural than of urban workers and typically would raise their wages by a larger amount. The increase in the minimum wage would affect rural employers in some industries more than others. Large shares of nonmetro workers in entertainment and recreational services (28 percent), retail trade (26 percent), personal services (23 percent), and agriculture, forestry, and fisheries (19 percent) earned between $4.25 and $5.14 an hour in 1995 (fig. 2). Labor costs in rural industries facing stiff global competition could be especially sensitive to increases in the minimum wage, and some job loss could occur.

The new legislation allows tax breaks aimed at small businesses to help ease the burden of paying the higher minimum wage, but the effectiveness of these measures remains to be seen. Also, while much of the minimum wage debate is about jobs, the larger effect on workers may be through a cut in hours. While a reduction in hours would lessen the economic benefits from the legislation, affected workers might still be better off with higher wages and fewer hours. About half of those nonmetro workers most likely to be affected by the increase were employed part-time.

Purchasing Power of the 1970's Will Not Be Restored

Even with the recent increase, the purchasing power of the minimum wage has not kept pace with inflation and has fallen considerably over time (fig. 3). To restore the average purchasing power of the 1970's would require an increase to $5.75 an hour; restoration to the highest (1968) level would require an increase to $6.45 per hour. Also, changes in the minimum wage have not kept pace with changes in the wages of other workers in the economy. During the 1960's and 1970's, the minimum wage averaged between 45 and

Figure 2
Industry share of workers earning $4.25-$5.14
Some rural industries are more likely to be affected than others



Source: Calculated by ERS from CPS earnings file.

50 percent of the average hourly earnings of production or nonsupervisory workers in private nonfarm industries. By 1995, the minimum wage had declined to about 37 percent of the hourly average wage. With this new increase, the minimum wage will rise to 42 percent of our projected average nonsupervisory hourly wage in 1997, still below the traditional 45-50 percent share.

Minimum Wage Increase and the Earned Income Tax Credit Together Can Help Reduce Rural Poverty

A primary goal of minimum wage legislation is to guarantee that individuals making a major commitment to paid employment are able to provide their families with an adequate standard of living. During the 1960's and 1970's, the earnings of a person working full-time at the minimum wage for the entire year typically were enough to lift a family of three out of poverty without considering other sources of income. But, in 1997, a person working 40 hours per week for 52 weeks at the new minimum wage of $5.25 would earn $10,700 annually, about $2,000 per year short of the estimated poverty line for a three-person family. The minimum wage increase alone is likely to have little effect on reducing poverty. However, when combined with the earned income tax credit (EITC), the after-tax incomes of many minimum-wage workers rise above the poverty level (fig. 4). For example, a full-time, full-year minimum wage worker with two children could receive as much as a $3,600 tax refund through EITC, raising income for a family of three above the estimated poverty level for 1997 (for more information on EITC see the Tax Policy article in this issue).

Figure 3

The minimum wage, 1950-97

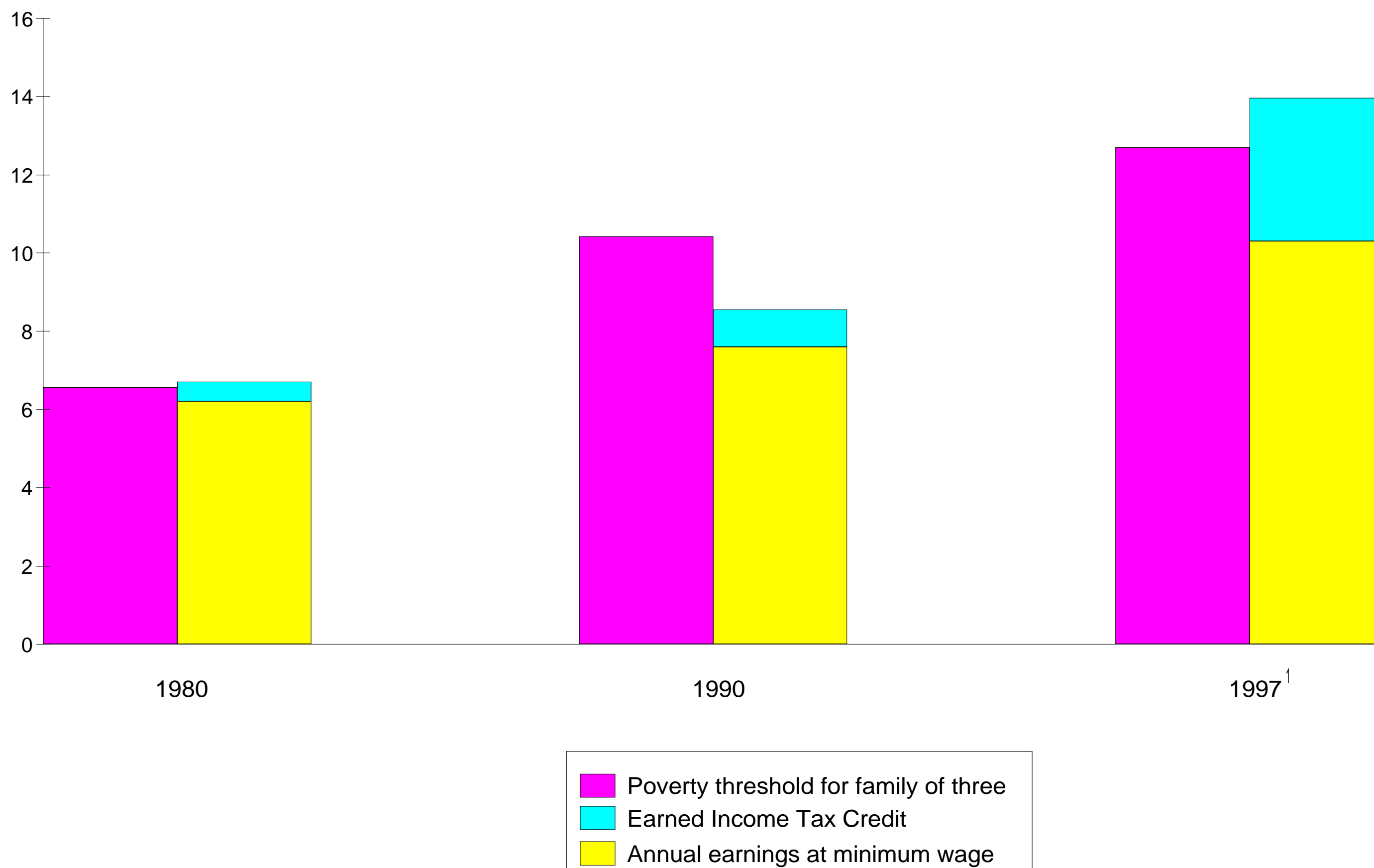
The minimum wage has not kept pace with inflation

Note: Real wage rates in 1995 dollars adjusted with Consumer Price Index(U); 1996 and 1997 data projected.
Source: Calculated by ERS using CPS earnings file.

Figure 4

Earned Income Tax Credit (EITC) and the minimum wage

EITC in combination with earnings of a full-time minimum wage worker can lift a family of three out of poverty



[1]Data for 1997 are projected.

Source: Calculated by ERS from Bureau of Labor Statistics and Internal Revenue Service data.

It is clear that the minimum wage has not kept pace with inflation and the new increase will not completely restore the purchasing power of the minimum wage realized in the 1970's. Although the minimum wage alone will have little effect on reducing poverty in either metro or nonmetro areas, when combined with the EITC, it holds promise for lifting many minimum-wage workers and their families out of poverty. The minimum wage is not a tightly targeted anti-poverty measure, but the recent increase in wage rate is likely to benefit many low-income rural workers. *[Timothy S. Parker, 202-219-0541, tparker@econ.ag.gov, and Leslie A. Whitener, 202-219-0935, whitener@econ.ag.gov]*

rural welfare families do not generally own cars and often live in remote locations far from work opportunities. (Some States have prohibited welfare recipients from owning cars in the past.)

Another major rural concern is helping parents gain access to adequate child care. Almost two-thirds of rural welfare families had at least one child under age 6 in 1996. Yet, the availability of day-care centers in many small rural communities is limited, or nonexistent, causing welfare parents to rely on families, friends, and neighbors for child care.

A final challenge for all States is to incorporate ways to address the unique needs of rural areas and rural people (especially in very remote locations) into their State plans. If State plans do not reflect rural concerns, there is a real chance that rural areas will be overlooked, especially in States that do not intend to implement all aspects of welfare reform uniformly across jurisdictions. *[Peggy J. Cook, 202-219-0095, pross@econ.ag.gov, and Elizabeth M. Dagata, 202-219-0536, edagata@econ.ag.gov]*

New Law Significantly Affects Small Rural Water Systems

The Safe Drinking Water Act Amendments of 1996 provide funds to the States through the newly created Drinking Water State Revolving Fund and give States greater control and flexibility to allocate funds to bring water systems into compliance with the regulations. These changes could help many rural communities, especially water systems in small towns in highly rural areas, particularly those that States define as disadvantaged.

Many rural communities lack the information and expertise needed to identify and address their environmental problems. The per household or per capita cost of complying with environmental regulations can be extremely high in small rural communities, in some cases leading to poor compliance with environmental regulations and even endangering the health of residents. Drinking water regulations are particularly costly to water systems serving 3,300 or fewer residents, which are unable to take advantage of economies of scale in management, monitoring, and treatment. Compliance costs are also problematic for some larger rural communities with low incomes and tax bases and for places with particularly costly environmental conditions.

The 1996 amendments to the Safe Drinking Water Act (SDWA) in PL 104-182 provide new funding to improve the safety of drinking water, including a new State Revolving Fund (SRF) to finance drinking water system improvements, with special consideration for small and disadvantaged communities. This legislation also makes EPA's regulatory procedures more flexible so that resources can be used effectively to combat the most serious environmental problems facing each community. Special "small system" regulatory provisions could help many rural communities deal with the special problems they face because of high costs and low tax bases. However, it is up to the States to enable their communities to take advantage of most of these provisions.

Major Provisions Include Prevention Programs, Consumer Information, Regulatory Improvements, and New Federal Funds

New and Stronger Prevention Approaches. The source-water protection provisions require States to identify watershed boundaries of drinking water sources, such as rivers, lakes, reservoirs, and tributaries. States then must determine which regulated contaminants are present in the watershed. Community-based partnerships may now petition States for funding to protect water sources from contamination. Prevention programs are cost-effective means for avoiding expensive water treatment, and they can also prevent the cost of compliance with regulations from spiraling out of control.

The capacity development provisions help build the ability to manage, operate, and finance water systems. States may set aside funds in the new SRF to finance capacity development (including managerial, technical, and financial capacity) and implementation efforts. Particularly important is the provision for operator certification, which is a key to keeping costs down while increasing water safety. Because the cost of training operators can be a burden on small rural communities, water systems serving 3,300 or fewer people now may be reimbursed by EPA for operator training costs.

Better Consumer Information. Large water systems are required to provide annual reports directly to their customers on water contaminants and related health effects. State Governors have the discretion to wave this requirement and allow small systems to report indirectly through local papers or give public notice that reports are available to consumers upon request. EPA is required to consult closely with the community, risk communication experts, and environmental and public interest groups in developing any new regulations. These consultations should ensure that the reports inform the public, as well as encourage an informed public to work for securing safe drinking water.

Persons served by a public water system must be notified within 24 hours of any regulatory violations that could seriously harm human health as a result of short-term exposure. A State must send an annual report to the EPA Administrator on violations of national drinking water regulations by public water systems in the State and must make such report available to the public.

Regulatory Improvements. The requirement that EPA develop standards for 25 new contaminants every 3 years has been eliminated. EPA now has the flexibility to decide whether or not to regulate a new contaminant after completing a required review of at least five new contaminants every 5 years. EPA must meet three conditions before it regulates a new contaminant: (1) the contaminant harms human health, (2) it is known or highly likely to be present in public water systems at a high enough frequency and concentration to cause risk to public health, and (3) regulation can reasonably reduce risk to public health. In addition, EPA must publish a nonbinding analysis assessing both the costs and benefits of any proposed regulation.

The 1996 amendments cover several specific contaminants, including a program for testing tap water for estrogen-like substances or other chemicals that have potential hormonal effects. The law incorporates the provisions of the regulatory negotiation on disinfection byproducts like chlorine. And EPA must reserve $10 million annually for health studies that give priority to effects of the deadly micro-organism Cryptosporidium and possible cancer-causing byproducts of tap water disinfectants like chlorine.

Drinking Water State Revolving Fund. The new State-administered safe Drinking Water State Revolving Fund (DWSRF) was authorized through fiscal year 2003. For fiscal year 1997, Congress appropriated $1.275 billion for this program. Starting in FY 1998, the actual level of DWSRF funding allocated to individual States, above a minimum of 1 percent will be based on a needs survey completed and released by EPA in January 1997. One and one-half percent of the Federal funds appropriated for the DWSRF can be used for grants to Indian Tribes and Alaska Native villages to make drinking water infrastructure improvements. States must match Federal funds with their own funds to the amount of 20 percent of their Federal DWSRF capitalization grant.

States may use DWSRF funds to provide loans to public water systems to make improvements in the drinking water infrastructure. States must provide at least 15 percent of the loans from the DWSRF to small communities with fewer than 10,000 people. States may spend up to 30 percent of the loan funds to provide loan subsidies and loan forgiveness to disadvantaged communities, with States setting their own criteria for disadvantaged communities. DWSRF loan subsidies and forgiveness may be made available only to disadvantaged communities.

States also have the option of setting aside funds from the capitalization grants to provide assistance to State programs. States can set aside up to 10 percent of their DWSRF capitalization grant for programs protecting source water, capacity development, and operator certification. States can also use up to 15 percent (but no more than 10 percent for any single purpose) of their funds for water system pollution prevention projects, including source-water protection loans, technical and financial aid for source-water assessment, wellhead protection, and capacity development. In addition, State Governors may transfer up to one-third of DWSRF funding into the Clean Water SRF or an equivalent dollar amount from the Clean Water SRF to the DWSRF.

Rural Areas Expected To Benefit From Small-System Provisions

This act gives States the financial resources and wide flexibility to solve problems faced by small water systems. The major components of solution to these problems are capacity development, operator certification, source water protection, consumer awareness, SRF, and regulatory flexibility.

Small water systems (serving populations under 10,000) experience many problems associated with the lack of economies of scale. Many of the costs associated with these systems are “fixed costs” that are invariant with respect to size of population served. Consequently, small systems, particularly those serving less than 3,300 residents, can find it difficult, if not impossible, to pay for such things as full-time operators, operator training, and technologically intensive methods of monitoring and correcting for some contaminants. They also have difficulty in affording technology as traditionally described by EPA. Many small systems have historically underpriced their drinking water and underin-

vested in basic system maintenance, resulting in a large backlog of deferred maintenance.

The new small-system provisions of the Drinking Water legislation are meant to alleviate these problems (see box). They call for EPA to designate new affordable compliance technologies or variance technologies for small systems, make exceptions from monitoring for contaminants not likely to be present in the water supply, offer less costly ways of consumer reporting and disclosure, reimburse the expense of operator training, and reserve funding from the new DWSRF for planning and for building and improving their systems.

States have the option to set up a disadvantaged community program. The disadvantaged community program is important because it allows States to provide financial assistance in the form of loan subsidies and forgiveness, which can make the difference between affordable and nonaffordable systems for disadvantaged communities. This form of assistance is not generally available to all communities. The law defines "disadvantaged community" as the service area of a public water system that meets affordability criteria set by the State. States can spend up to 30 percent of their DWSRF on this disadvantaged community program.

It is up to the States to operate such a program and to identify which water systems and communities will benefit from small system provisions and from the disadvantaged com-

Special Provisions for Small Water Systems

Special Provisions	Serving population under 500	Serving population 500-3,300	Serving population 3,300-10,000
EPA must identify affordable treatment technologies	Eligible	Eligible	Eligible
Affordability-based variances in treatment techniques	Eligible	Eligible	Eligible, with EPA approval
Exemption from monitoring for contaminants unlikely to be present	May be eligible	May be eligible	May be eligible
Reimbursement of training costs for operator certification	Eligible	Eligible	Not eligible
Consumer Confidence Reports (CCR): Governors may excuse some communities from direct distribution of CCR to every consumer	Eligible	Eligible	Eligible
Financial Assistance: 15 percent of the State's DWSRF loan fund is set aside for small communities.	Eligible	Eligible	Eligible
Up to 30 percent of State's annual DWSRF available for loan subsidies, forgiveness of principal to disadvantaged communities	Eligible	Eligible	Eligible[1]

[1] States develop their own criteria for disadvantaged communities and may allow larger systems and communities to benefit from this form of assistance. However, small communities may benefit most due to their high costs and low tax bases.

Federal Tax Developments Affect Farms and Other Rural Businesses

The inability to reach an agreement to balance the Federal budget prevented the enactment of the most significant tax proposals in 1996. However, important changes that will reduce the cost of capital investment, health insurance, and medical expenses for farms and other rural businesses were enacted. In addition, newly enacted targeting provisions will make many farmers ineligible for the earned income tax credit, while a new work opportunity tax credit will provide employers an incentive to hire certain disadvantaged individuals.

Despite the introduction of a number of new tax initiatives during the year, including proposals calling for the complete restructuring of the Federal tax code, the inability to reach agreement on a plan to balance the Federal budget precluded the enactment of major tax legislation during 1996. However, three bills were enacted that contain tax provisions of importance to farmers and rural America. These include the Small Business Job Protection Act, the Health Insurance Portability and Accountability Act, and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The changes contained in these Acts will primarily benefit farmers and other small rural business owners and include increased capital expensing, an expanded deduction for self-employed health insurance costs, the introduction of medical savings accounts, and the simplification of retirement plans available to the self-employed. Significant developments also occurred with regard to the earned income tax credit and a new work opportunity tax credit.

The Earned Income Tax Credit

The earned income tax credit is a refundable tax credit available to low-income workers who satisfy certain income and eligibility criteria. Most recipients receive the credit in a lump sum at the end of the year by claiming it on their Federal income tax return. Since the credit is refundable, any amount in excess of Federal income and other tax liabilities is used to help the taxpayer offset Social Security taxes. This refundable portion of the credit is considered a program outlay, while that part used to offset Federal income taxes is considered a tax expenditure. In recent years, as the earned income credit has been expanded, the refundable portion has increased. In fiscal year 1995, about 80 percent of the total credit was refunded to taxpayers. Based on Federal funds data, the refundable portion of the credit was $16.8 billion. The total value of the credit was about $21.3 billion.

Efforts to more precisely target the credit continued in 1996. Legislation lowering the income threshold for the disqualifying income test from $2,350 to $2,200 and adding net capital gain to the type of income considered under the test was enacted. As a result, an otherwise qualifying individual will not be eligible for the earned income tax credit if the taxpayer has interest, dividend, net rent or royalty income or capital gain net income in excess of $2,200. The primary purpose of this test is to improve the targeting of benefits by denying eligibility to those individuals who may have a relatively low level of earned income but a significant amount of unearned income suggesting some wealth. Overall, only a small percentage of all recipients will be ineligible for the credit as a result of this change. However, a substantial number of farmers, especially dairy and livestock farmers, currently receiving the credit will be disqualified primarily because sales of certain farm assets are treated as capital gains.

The earned income tax credit is phased out if earned income or adjusted gross income, whichever is greater, exceeds a specific phaseout level. However, adjusted gross income does not include a variety of tax-exempt income sources and may be reduced by a variety of losses. In an effort to further improve targeting, the definition of adjusted gross income for purposes of phasing out the earned income tax credit was modified by disregarding certain losses. The losses that were disregarded include net capital losses, net losses from trusts or estates, net losses from nonbusiness rents and royalties, and half of the net losses from businesses computed separately for nonfarm sole proprietorships, sole proprietorships in farming, and other businesses. Again, farmers would be disproportionately affected because nearly half of all farmers receiving the credit in 1993 reported farm losses, with the average loss of about $10,500.

Because the credit is targeted to low-income workers, many of whom are below or near the poverty level, benefits are the largest in those States identified as persistent-poverty States (fig. 1). Residents of such States received a per capita program benefit of $85.00 in 1995. When added to the benefit provided in the form of income or other tax offsets, the per capita benefit exceeded $100. The total value of the credit increased by about one-third between fiscal years 1994 and 1995, while the refundable portion increased by about 40 percent. An estimated 4.7 million rural workers and their families, or about 1 out of every 5 rural residents, received benefits from the credit in fiscal year 1995. The total fiscal year 1995 rural share of the credit is estimated at $5.3 billion.

As the credit continues to expand under the phase-in schedule enacted in 1993, its importance relative to other programs targeted to low-income individuals continues to increase. For fiscal year 1997, the credit is expected to provide low-income workers and their families over $25 billion in benefits, with the rural share estimated at about $6.2 billion.

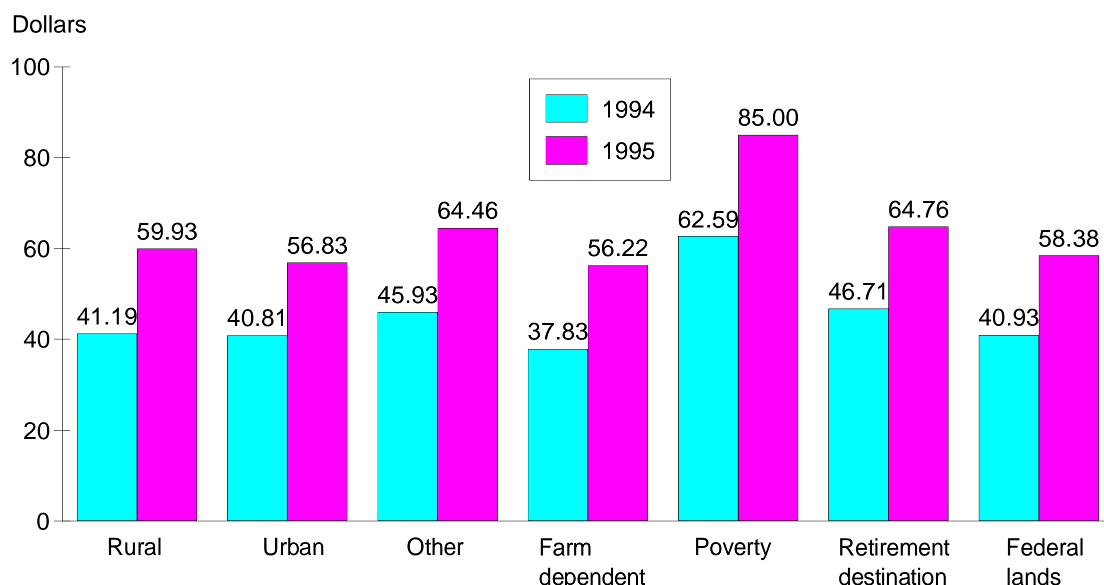
The Work Opportunity Tax Credit

The Small Business Job Protection Act of 1996 replaced the targeted jobs credit with a work opportunity credit based on a percentage of qualified wages paid to employees who begin work after September 30, 1996, and before October 1, 1997. The credit is equal to 35 percent of qualified first-year wages compared with 40 percent for the old targeted jobs tax credit. The amount of qualified wages is limited to $6,000 for each employee ($3,000 for qualified summer youth employees) during the first year of employment. Thus, the maximum credit for each employee is $2,100, except for summer youth employees, for whom the maximum credit is $1,050. To qualify for the credit, an employee must satisfy a minimum employment period test. Under the test, the employee must either be employed by the employer for at least 180 days or must perform at least 400 hours (120

Figure 1

Per capita earned income tax credit benefits by type of State, fiscal year 1994-95 1/

Benefits in 1995 increased significantly compared with those in 1994 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.

hours for qualified summer youth employees) of service for the employer. The credit is not refundable and is thus subject to the annual tax liability limitation on the general business credit.

The credit is available to employers who hire individuals from one or more of seven targeted groups. Membership in a targeted group for the credit must be certified by the local State employment security agency. The seven targeted groups include: (1) members of a family receiving assistance under Aid to Families with Dependent Children (AFDC) or a successor program, (2) a veteran who is a member of a family either receiving AFDC assistance or assistance under a Food Stamp program, (3) an individual convicted of a felony who is hired within 1 year after conviction or release from prison and who is a member of a family whose income is 70 percent or less than the Bureau of Labor Statistics lower living standard, (4) an individual between the ages of 18 and 25 who lives within an Empowerment Zone or Enterprise Community, (5) an individual who is 16 or 17 years old who performs services for the employer between May 1 and September 15 and lives in an Empowerment Zone or Enterprise Community, (6) an individual who has a physical or mental disability that is a substantial handicap to employment, and (7) an individual between the ages of 18 and 25 who is a member of a family receiving assistance under a food stamp program.

The credit is expected to provide about $300 million in assistance to employers to hire the targeted individuals. The rural share of this amount is not clear. However, the credit will provide a substantial incentive for rural employers to hire the targeted economically disadvantaged individuals due to the nearly one-third reduction in payroll costs.

The fiscal year 1998 budget proposes to extend the credit for 1 year and to add a new targeted group for individuals 18 to 50 years old who are subject to the time limits for receipt of Food Stamps. In addition, a new welfare-to-work tax credit is proposed that would provide a 50-percent credit on the first $10,000 of wages paid to long-term recipients of assistance under AFDC or a successor program for the first and second year of employment. Thus, an employer could receive a maximum credit of $10,000 over the 2-year period.

Significant Tax Legislation Expected in 1997

Improved prospects for agreement on a plan to balance the Federal budget that would include tax cuts suggests that significant tax legislation may be enacted in 1997. While there is considerable disagreement regarding the size of the cuts, both the Administration and Congress have proposed significant tax relief, including a child tax credit, a reduction in capital gains taxes, education and savings incentives, and Federal estate and gift tax relief. While none of these changes are specifically targeted to rural areas, they would significantly benefit farmers and other rural residents. *[Ron L. Durst, 202-219-0896, rdurst@econ.ag.gov]*

Many Significant Regulatory Changes Take Effect in 1997

The ultimate, long-term effects of recent regulatory changes are hard to predict, but they could prove to be important for many rural areas. Rural development could be significantly affected by regulatory changes linked to telecommunications, environmental protection, natural resources and land management, health insurance, social security, immigration reform, banking, and Native American programs.

Last year was a "watershed" year for regulatory change, and most of these changes take effect in 1997. In addition to revisions that reinvent government, reform the welfare system, raise the minimum wage, and revise drinking water regulations, all discussed elsewhere in this report, many other regulatory changes deserve attention. Here, we discuss those affecting telecommunications, the environment, public lands, health, social security, immigration, banking, and Native Americans.

Telecommunications Act's Universal Service Rules Are Crucial to Rural Areas

One of the provisions of the Telecommunications Act of 1996 mandated that the Federal Communications Commission (FCC) write regulations aimed at achieving universal service. By law, universal service requires that quality telecommunications service (including access to advanced telecommunication and information services) should be available everywhere in the country at equitable rates, and that priority be given to primary and secondary schools, health care providers, and libraries. Because telecommunication links to providers of education, health, and business services (to name just a few) are increasingly important, rural interest in the FCC's regulations centers on such questions as which services will be included in universal service, who will pay for these services, which rural places and institutions will receive support, and how much support will they receive?

The FCC issued proposed universal service regulations in May 1997 following the recommendations of the Federal-State Joint Board. In November 1996, the Joint Board recommended that a full range of telephone services be provided, that special programs aiding low-income consumers be supported, and that States set rates based on affordability criteria. The Board also made recommendations concerning how to administer the universal service support mechanism, which local phone services, schools, libraries, and health care providers would be eligible for assistance, and how much financial support they would receive.

The school, library, and health care recommendations go to the core of rural concerns. The Board recommended that a large number of public institutions be eligible for assistance. For example, the Board estimates that 9,600 health care providers will be eligible to receive telecommunication services supported by the universal service mechanism. These include teaching hospitals, medical schools, health centers, and health departments. The Board recommended that eligible schools and libraries be able to buy at discount any telecommunication service, including Internet. The proposed discounts range from 20 to 90 percent of the provider's rate, based on need and "high cost" factors. Funding for universal support for schools and libraries is capped at $2.25 billion per year. Unspent funds, though, can be carried forward to subsequent years. *[Peter Stenberg, (202)219-0543, stenberg@econ.ag.gov]*

Pesticides Rules Revised and More Stringent Air Quality Rules Proposed

The new legislation establishing rules for pesticides in raw and processed foods was a compromise between consumers and industry, allowing pesticide use to continue while limiting the cancerous residue allowed. This legislation replaced the Delaney clause requiring "zero tolerance" of cancer-causing additives with a provision requiring "reasonable certainty" of no harm (generally interpreted as having no more than one-in-a-million lifetime chance of causing cancer). This legislation also limits the States' ability to impose stricter restrictions, has special rules protecting children, provides better disclosure of information to consumers, and expedites government approval of new pesticides. Farming areas, particularly places that grow fruits and vegetables, should benefit from this change because recent court decisions based on the Delaney clause had instructed

EPA to prohibit the use of some common pesticides. The law now allows EPA to focus its attention on more dangerous threats to public health.

EPA's proposal for more restrictive air quality standards covering airborne particles and ground-level ozone may have more far-reaching consequences for rural areas. This could impose significant new costs on polluting industries, such as oil refineries and coal power plants and could require reductions in auto and truck emissions. If industry cannot accommodate these changes, some local areas may have to restrict pollution-generating growth and development to avoid penalties, such as reduced Federal infrastructure aid. This could benefit rural development for several reasons. First, it could redirect development from large urban and suburban areas that suffer from high levels of air pollution to less polluted rural areas. Second, reduced pollution from coal power plants could improve conditions in rural recreation areas currently suffering from acid rain. However, development could be negatively affected in some polluted rural areas, such as industrial or congested places in confined areas like mountain valleys, and employment could decline in some rural coal producing areas. These rules were proposed in November 1996 and are scheduled to become final in June 1997.

New Regulations Affect Wetlands, Fisheries, and Public Lands

In December 1996, the Army Corps of Engineers acted to preserve wetlands when it stopped allowing easy and quick approval (nationwide permit 26) for private property owners who want to drain small amounts of wetlands of up to 3 acres (pre-conversion notification not required when less than 1/3 acre is drained). This permit, which was applicable only to isolated, upland wetlands, is being replaced by activity-based permits that will give general approval for specific types of activities that will take place on the wetlands. This change, which will take effect in 18 months, should give the Corps more control over how converted wetlands are used. This could benefit rural areas that rely on tourism attraction based on wildlife and scenic attributes of wetlands. However, it could slow residential and industrial development in places with little developable land and reduce land values of property owners in some of these places. Affected areas, such as the Prairie Pothole lands in North Dakota, tend to be away from lakes, rivers, swamps, and coastal areas, and are concentrated in the Northern Plains, Midwest, and Mississippi Delta (fig.1). Other recent changes that may have even greater benefits in preserving and restoring wetlands include the recent reauthorization of USDA's Wetland Reserve programs and rule changes making wetlands eligible for USDA's Conservation Reserve Program (CRP), including making the Prairie Potholes a national conservation priority area for CRP. These programs pay agricultural landholders to protect lands that support wildlife (CRP is discussed in the miscellaneous programs article in this report.)

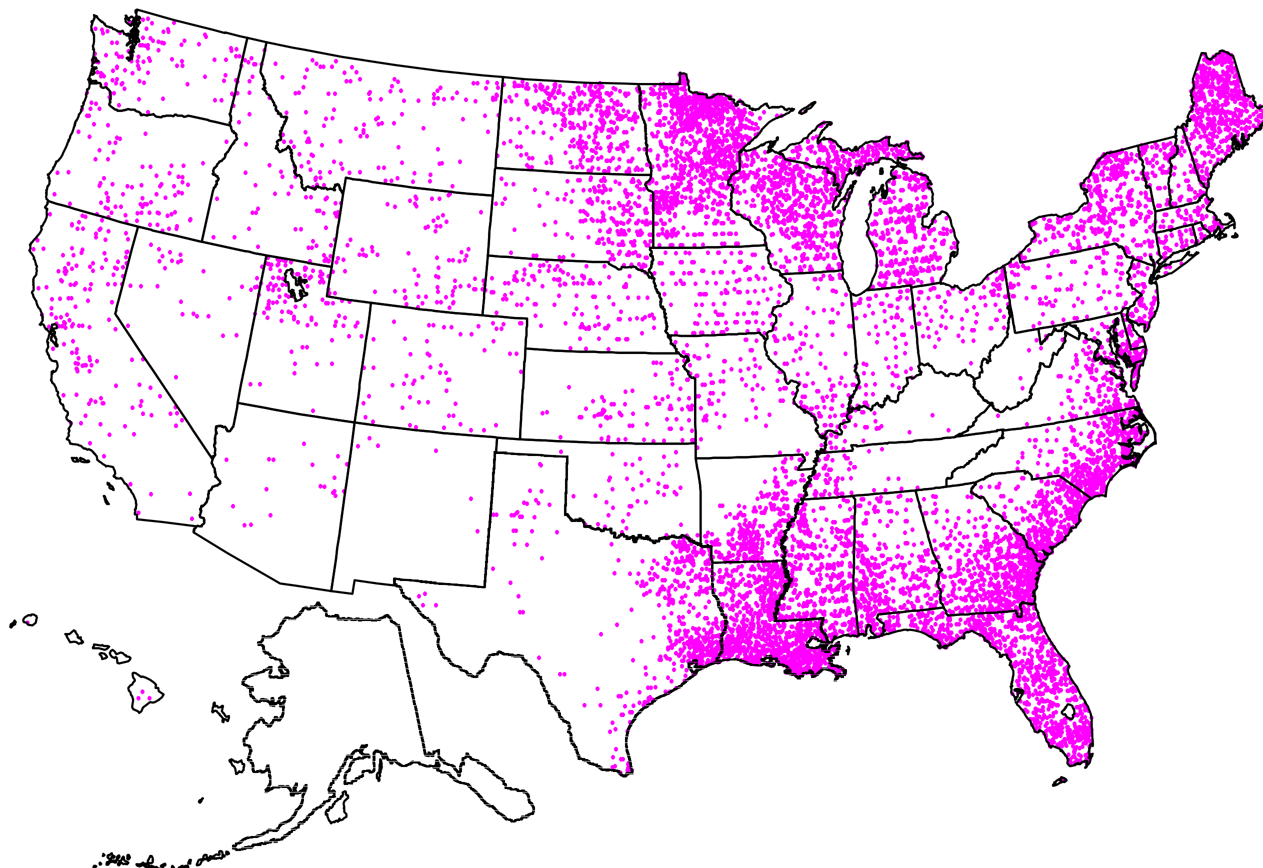
Landowners would also benefit from new guidelines associated with the Endangered Species Act that allow the creation of habitat conservation areas with the cooperation of private landowners, and provisions in the parks legislation that relaxed restrictions on development in some barrier islands in Florida. In addition, the new legislation covering the management of the fisheries, popular with both environmentalists and the fishing industry, should help protect overfished waters, hence benefiting rural coastal areas.

Meanwhile, various measures were taken to improve and preserve Federal parks and other public lands. The parks legislation authorized and provided funds to create or improve 120 parks, trails, rivers, and historical sites in 41 States. User fees were increased in national parks to help pay for park improvements and upkeep. The parks legislation also enabled the President to call for reduced Federal timber cutting in Alaska's Tongass National Forest. Funding from the water projects legislation will help restore the Everglades in south Florida. The President also used authority under the 1906 Antiquities Act to preserve 1.7 million acres of public lands as a national monument in southern Utah.

Figure 1

Location of rural wetland on non-Federal land 1/

Rural wetlands concentrate along rivers, lakes, and coastal areas



1/ Data were missing for parts of the country, including Alaska, west Texas, central New Mexico, eastern Colorado, and West Virginia.
Source: ERS calculations based on 1992 Natural Resources Inventory.

Health Insurance and Social Security Benefit Rules Changed

In an effort to fill some of the holes in the health insurance safety net, the Health Insurance Portability Act of 1996 guarantees that individuals have access to private health insurance coverage when they lose jobs. The legislation guarantees access to the more expensive individual coverage plan; the less expensive group coverage would be available only after a person is re-employed. Such coverage, however, could still be denied for up to 12 months after a person changes jobs. Nevertheless, this provides some needed security to workers in an era of global and technological changes that prevent people from maintaining the same jobs over their lifetime. It might particularly help rural places experiencing layoffs, such as in the Pacific Northwest, and high-poverty areas heavily affected by welfare reform, where large numbers of people entering the labor force may make finding a job harder for recently laid-off employees.

Other recent changes may be even more important to rural areas than the portability provisions. For example, the increase in the tax deductibility of health insurance, which rises to 80 percent deductible by the year 2006, may be the most important benefit for rural areas, particularly agricultural areas where many farmers are self-employed. Another change prevents insurance companies from canceling coverage of small firms—less than

Appendix table 1—Rural share of selected programs, fiscal year 1995

Agency[1] and Program	Nonmetro counties	Rural States
	Percent	
Exhibit: share of 1995 U.S. population	20.4	11.4
General assistance:		
HUD State/Small Cities Community Development Block Grants (CDBG)	—	25.5
EDA adjustment assistance:		
Planning Support	59.3	2.6
Technical Assistance	26.7	18.7
Special Economic Development and Adjustment Assistance[2]	25.5	9.7
FEMA disaster relief	—	6.3
USDA/CSREES extension activities[3]	30.1	27.6
BIA Native American assistance programs	—	42.5
Infrastructure assistance:		
USDA/RUS Rural Water and Waste Disposal Grants	64.9	26.6
USDA/RUS Rural Water and Waste Disposal Loans	80.6	26.3
USDA/RUS Rural Electrification Loans and Loan Guarantees[3]	50.8	25.0
USDA/RUS Rural Telecommunication Loans and Loan Guarantees[3]	67.5	24.3
USDA/RHS Rural Community Facilities Direct Loans	79.2	23.3
USDA/RHS Rural Community Facilities Loan Guarantees	72.5	16.8
USDA/RUS Distance Learning and Medical Link Grants	84.8	35.1
DOT Highway Planning and Construction Grants	—	16.5
DOT Airport Improvement Grants	12.8	19.5
DOT Nonurban Public Transportation	—	22.6
EPA Capitalization Grants—Clean Water State Revolving Fund	—	16.5
EDA Public Works Grants	55.9	26.4
Business assistance:		
SBA Small Business Loan Guarantees—7(a)	22.3	14.8
SBA Certified Development Loan Company guarantees (Section 504)	17.8	12.7
SBA disaster loans		
Economic Injury Disaster Loans	30.5	10.5
Physical Disaster Loans	3.2	0.7
RBS Business and Industry Loan Guarantees	62.0	27.2
RBS Intermediary Relending Program Loan Guarantees	67.6	37.2
RBS Rural Business Enterprise Grants (RBEG)	66.0	34.4
EDA Special Economic Development and Adjustment Assistance[4]	25.5	9.7
Housing assistance:		
USDA/RHS Single Family Housing (Section 502) Direct Loans and Guarantees	46.8	21.4
USDA/RHS Multifamily Housing (Section 515)	70.2	29.8
VA Guaranteed and Insured Housing Loans	11.4	13.0
HUD/FHA Single-Family Mortgage Insurance	6.3	8.5
HUD mortgage insurance for low/moderate income families	14.8	13.0

See notes at end of table.

Continued—

Appendix table 1—Rural share of selected programs, fiscal year 1995—Continued

Agency[1] and Program	Nonmetro counties	Rural States
	Percent	
Exhibit: share of 1995 U.S. population	20.4	11.4
Education assistance:		
HHS Head Start	24.9	14.1
EDU Title 1 elementary & secondary school aid for disadvantaged	25.1	11.9
EDU special education for the disabled—State grants	—	11.6
EDU student financial assistance (Pell grants)	19.4	12.2
EDU direct student loans (Perkins loans)	16.9	14.3
EDU guaranteed student loans	—	10.6
Training and employment assistance:		
DOL training and employment services (JTPA)[5]	—	10.2
DOL Dislocated Worker Program	—	7.3
DOL Federal-State employment service	—	14.7
DOL Older Americans Employment	1.7	3.2
EDU adult education—State Administered Program	—	13.3
EDU vocational education—basic grants to States	—	14.8
EDU rehabilitation service-basic support	—	14.5
Environmental protection and natural resource programs:		
EPA Superfund Toxic Waste Cleanup		
Hazardous waste management—financial assistance to States	—	11.5
Hazardous substance response trust fund	—	8.3
USDA Conservation Reserve Program	88.9	38.8

[1]Agency abbreviations in table are: HUD=Department of Housing and Urban Development; EDA=Economic Development Administration (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 Service; RUS=Rural Utilities Service; RHS=Rural Housing Service; BIA=Bureau of Indian Affairs (Department of Commerce) DOT=Department of Transportation; EPA=Environmental Protection Agency; SBA=Small Business Administration; FHA=Federal Housing Administration; VA=Veterans Affairs; EDU=Department of Education; HHS=Department of Health and Human Services; DOL=Department of Labor.

[2]Includes economic and defense adjustment.

[3]Federal Funds data covering CSREES extension activities (includes research) and RUS electric and telephone loans only track funds to the county where central offices are located. The services provided by these programs often cover multi-county areas, hence these data may understate the extent to which nonmetro counties benefit from the programs.

[4]The percentages reported here refer to the entire Special Economic Developent and Adjustment Assistance program, which includes both economic adjustment and defense adjustment (this program was also reported earlier under general business assistance).

[5]Federal Funds data covering training and employment services under the Job Training Partnership Act (JTPA) include the summer youth, adult training, Job Corps, and some other programs. JTPA's Dislocated Worker Program reported seperately.

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

50 people—which are more common in rural than in urban areas. Before this legislation, insurance companies were allowed to cancel coverage when one or two employees developed costly illnesses that raised insurance company costs.

Changes in Social Security coverage rules include an increase in the earnings allowed before benefit reductions. This earnings limit was raised from $11,520 per year in 1996, gradually increasing to $30,000 by the year 2002, and indexed for inflation thereafter. This should boost incomes in rural areas with large numbers of retirees, such as retirement destination areas. However, the impact will not be great, since the raised earnings limit only affects retirees who work and are in the 65-69 age bracket, which accounts for only 2 percent of the rural population over 65 years. Other Social Security changes eliminate coverage for alcoholics and drug addicts and reduce payments for stepchildren who have other means of support.

Immigration Reform Could Reduce Some Pressures on Border Areas

Included as part of the Omnibus Spending Act of 1996, immigration reform provisions increase penalties for alien smuggling and document fraud, and make it easier to detain illegal immigrants at the border and deport them. The same legislation included funding for improving the border fence in California and for increasing enforcement efforts of the Immigration and Naturalization Service. To the extent that these provisions can reduce illegal immigration, the demands illegal aliens place on public sector infrastructure and services (roads, water systems, police, education, health) will be lessened and unemployment rates may decline and wages rise, reflecting a reduced immigrant labor supply. The reverse side to this supply/demand equation is that companies that employ illegal immigrants may see their labor costs rise.

New Changes Reduce Regulatory Burden and Potential Competition for Small Banks

Legislation in 1996 imposed fees on banks and thrift institutions to shore up the thrift deposit insurance fund. This legislation (part of the September 1996 Omnibus Fiscal 1997 Appropriations Act) contained various provisions affecting financial services, including several that are particularly important to rural or small banks. Several changes were made that effectively reduced the frequency that regulators may examine small banks—from once every 12 months to once every 18 months. These changes, and other generally deregulatory provisions, should benefit small banks like those in many rural areas, but they may also result in less public accountability for these banks. Another provision of this legislation protects small banks serving Farm Credit System (FCS) borrowers from potential competition from credit unions. This provision responded to a controversial charter given by the State of Wisconsin to a credit union to serve FCS borrowers.

Earlier in 1996, the Farm Credit System Reform Act (discussed in detail in the 1996 *RCaT*) reduced the regulatory burden for FCS institutions. The Farm Credit Administration (FCA), which regulates FCS, proposed additional changes to remove regulatory restrictions on FCS lending not found directly in the statute. These restrictions were modified after facing strong opposition from commercial banks that objected to the prospect of subsidized FCS competition. FCA also proposed new regulations to strengthen capital requirements of FCS institutions to cover the system during future economic downturns. Both proposals became effective on March 11, 1997. However, FCA faces a lawsuit regarding regulations that effectively broaden FCS lending authority.

Recent Decisions Important for Native American Tribes

Following the March 1996 Supreme Court decision that limited tribal rights to sue States over whether Indian gaming operations could be initiated (see 1996 *RCaT* for more details), the Pueblo and Apache tribes experienced a setback when a U.S. District Court ruled in August 1996 that some tribal-State compacts were invalid in New Mexico because they had been approved by the Governor but not by the State legislature. This decision has been appealed. If the casinos are forced to close, the tribes could have diffi-

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. Census collects these data annually from each Federal department or agency. We aggregated the latest available data (fiscal year 1995) to the county, State, region, and national level 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 1995 covered 1,214 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 screen, which separates out those programs that allocate 25 percent or more of their funds to State capitals. We ended up with 744 programs that we believe are fairly accurate to the county level for 1995. 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 A 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. Money going to USDA's 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, multi-county 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 on CD-Rom, at a cost to be announced later, as one of ERS's Standard Data Products. *(Faqir Singh Bagi, 202-219-0546, fsbagi@econ.ag.gov; Samuel Calhoun, 202-219-0584, scalhoun@econ.ag.gov; and Rick Reeder, 202-219-0551, 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 1995 to 1996, from various sources, including *Congressional Quarterly Weekly Report*, the President's Fiscal Year 1998 Budget, the 1998 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 1995 county population estimates from the Bureau of the Census.

Minimum Wage Data: The data used in the minimum wage analysis are from the 1995 and 1996 Current Population Survey (CPS) earnings files. The data covered a 12-month period from October 1995 to September 1996. Beginning October 1996, the minimum wage was increased from $4.25 to $4.75 per hour. The earnings file is an extract of basic labor force items from the monthly CPS survey. In addition to the monthly labor force questions, in their fourth and eighth months of the sample rotation, respondents are asked additional questions about their job earnings. These include items such as usual hours worked last week, usual earnings per week, and the hourly rate of pay.

Total hourly earnings was computed by dividing usual weekly earnings by usual weekly hours. By using total hourly compensation, we took into account remunerations such as tips, overtime, and commissions that are not otherwise included in a straight hourly wage. Also it gave us estimates for salaried and other nonhourly workers that do not have an hourly wage rate reported. Many of these nonhourly workers have low earnings because of low salaries, or very high weekly earnings, or both. However, this measure of compensation presents other problems. In some cases, this measure of hourly compensation is more imprecise. According to research from the Bureau of Labor Statistics, respondents are more likely to under report total weekly earnings than hours, so the computed hourly earnings for some workers may be lower than the actual earnings.

Definitions

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 the year 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 1987-1989.

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.

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 government's accounting period. It begins October 1 and ends September 30, and is designated by the calendar year in which it ends.

culty compensating for the estimated 3,000 lost jobs and $150 million in lost annual revenue. Native Americans are expected to benefit, though, from settlement of claims on the Bureau of Indian Affairs, in which the Government could end up paying as much as $575 million to various tribes.

Miscellaneous Regulatory Changes Affect Rural Areas

Many miscellaneous changes have gone relatively unnoticed but will nonetheless have some important effects in rural areas. For example, last May, the President signed two executive orders of note. One creates the President's Empowerment Contracting program, which supplements existing Federal procurement rules encouraging Federal agencies to contract with businesses in distressed communities. Businesses that hire significant numbers of residents from low-income areas or invest a lot in such areas can participate in the program. This should benefit rural areas, which tend to have low incomes. The second executive order encourages Federal agencies to locate in the historic districts of central cities.

Another notable change involves the decision by the U.S. Postal Service to reduce the number of small rural post offices and increase post office box fees (smalltown post offices not only offer important communications for residents and businesses, but are viewed as key social institutions in rural America). The Department of Housing and Urban Development revised its regulations for the Community Development Block Grant program, allowing States to contract with regional development organizations to operate Section 108 revolving loan funds. This could benefit rural areas because the regional development organizations in some States are more actively involved in rural development than State agencies. In addition, the Federal Agriculture Improvement and Reform Act of 1996 revised the definition of eligible "rural areas" for USDA's Community Facilities loan program to include any city, town, or unincorporated area with a population of 50,000 or less excluding urbanized areas immediately adjacent to a city, town, or unincorporated area with a population exceeding 50,000. This legislative change broadens eligibility for the program at a time when program funding has declined. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

The reader may wish to use last year's Federal Programs issue to look back 1 year to review what happened to these programs in 1996. In that, our very first Federal Programs issue, we provided more detail about the purpose and activities of core development programs. We also covered a broader array of programs, including agriculture, defense, income support, health, education and training, and natural resources and environment programs. The miscellaneous programs article in that issue covered social services, trade, and Native American programs.

Another reason for referring to last year's Federal Programs issue is that it has maps and tables that provide useful information about individual programs. In this year's issue, we have deliberately avoided duplicating maps shown in the previous year, because most funding patterns do not change that much from year to year. By referring to maps and figures from this year's and last year's issues together, a more complete picture is revealed about the distribution of development funding in rural America.

A list of the contents of the 1996 Federal Programs *RCAT*, together with the figures and tables, is provided to aid the reader in identifying articles and figures of interest.

Contents of *Rural Conditions and Trends*, Vol. 7, No. 2, 1996

Overview

1996 Has Been a Year of Federal Program Reductions, Disruptions, and Reforms

General Development Assistance

General Assistance Aids Comprehensive Development Strategies

Figure 1: Counties receiving general development assistance from three EDA programs, 1994 (map)

Figure 2: Per capita funding from the State/small cities program in 1994 (map)

Figure 3: State/small cities program funding per nonmetro person in 1994 (map)—See ERRATA at the end of this appendix

Infrastructure Assistance

Some Infrastructure Programs Cut

Figure 1: Per capita grants for Airport Improvement Program, 1994 (chart)

Figure 2: USDA rural infrastructure programs, 1994 (map)

Business Assistance

Federal Business Assistance Declines Modestly

Figure 1: Per capita Federal nonmetro business assistance, 1994 (map)

Figure 2: Per capita business assistance by county type, 1994 (chart)

Box: List of Federal Business Assistance programs

Housing Assistance

Federal Assistance for Rural Housing Shifts Toward Loan Guarantees

Figure 1: Federal agencies and home mortgage lending, 1993 (chart)

Figure 2: Per capita USDA nonmetro single-family housing loans, 1994 (map)

Figure 3: Per capita funding for nonmetro public housing, 1994 (map)

Natural Resources and Environment

Natural Resource and Environmental Programs Undergo Historic Changes

Figure 1: Federal budget authority, natural resources and environment, 1996 (chart)

Figure 2: Federal outlays for grants to State and local governments, natural resources and environment programs (chart)

Figure 3: Federal outlays for grants to State and local governments, natural resources programs, 1994 (chart)

Figure 4: Federal grants to States for natural resource programs, dollars per capita, 1994 (map)

Figure 5: Environmental Protection Agency funding set at $6.5 billion for 1996 (chart)

Figure 6: Environmental protection per capita, 1994 (map)

Education and Training

Uncertainties in Federal Funding Situation Cause Problems for Rural Education and Training Programs

Figure 1: Nonmetro title I spending per student, 1994 (map)

Figure 2: Nonmetro impact aid spending per student, 1994 (map)

Figure 3: Federal spending for training and employment programs, 1965-95 (chart)

Figure 4: Federal spending for Job Corps, 1975-95 (chart)

Health

Proposals to Slow Growth of Federal Health Spending Focus on Medicare and Medicaid

Figure 1: Growth of Federal health spending, 1990-95 (chart)

Figure 2: Nonmetro counties with a high proportion of Medicare beneficiaries, 1991 (map)

Figure 3: Regional variations in Medicaid coverage of the nonmetro poor, 1993 (map)

Table 1: Medicare Program: How Characteristics differ, Metro vs Nonmetro

Table 2: Medicaid Program: How Characteristics differ, Metro vs Nonmetro

Income Support

Income and Nutrition Support Programs Are Important Resources for Rural Communities

Figure 1: Percent of rural population groups in households receiving selected program benefits, 1993 (chart)

Figure 2: Per capita Social Security payments, 1994 (map)

Figure 3: Food stamps, 1994, and poverty levels, 1989 (map)

Table 1: Summary of largest income support and nutrition programs

Defense

Funding Continues to Drop in Defense Programs

Figure 1: Active duty, National Guard, and reserves in the 50 States, 1993 (map)

Figure 2: Defense investment in basic and applied scientific research, 1994 (map)

Table 1: Nonmetro counties receiving military base reuse assistance (list with amounts)

Table 2: Nonmetro counties receiving community planning assistance for defense industry adjustments (list with amounts)

Agriculture

1996 Agricultural Legislation Cuts Link Between Income Support Payments and Farm Prices

Figure 1: Direct government payments to farmers in nonmetro counties, 1994 (map)

Figure 2: Projected direct farm payments (chart)

Figure 3: Direct government payments, by sales class, 1994 (chart)

Figure 4: Conservation Reserve Program payments in nonmetro counties, 1994 (map)

Figure 5: Post-contract availability of Conservation Reserve Program land, 1994 (chart)

Miscellaneous Programs

Social Services, Trade, and Native American Programs Have Sustained Budget Cuts

Figure 1: Social service program funding, per capita, 1994 (chart)

Tax Policy

Federal Tax Developments Limited to the Earned Income Tax Credit

Figure 1: Per capita earned income tax credit benefits by type of State, 1994 (chart)

Regulatory Policy

Some Regulatory Changes Underway; Others Still to Be Enacted

Figure 1: New maximum daytime speed limits, by State, as of May 7, 1996 (map)

Figure 2: Nonmetro counties with one or more federally recognized Indian Tribes and their gaming status, as of December 1995 (map)

Appendix A

Data Sources and Definitions

Figure 1: Urban-rural typology, 1993 (map)

Figure 2: Farming States, 1991-93 (map)

Figure 3: Retirement States, 1980-90 (map)

Figure 4: Poverty States, 1960-90 (map)

Figure 5: Federal lands States, 1987 (map)

Appendix B

Funding Levels for Selected Programs

Appendix Table 1: Budget Changes for selected programs, fiscal years 1995 to 1996

ERRATA

In our 1996 *RCaT* article on General Development Assistance, the map (fig. 3) showing State funding amounts per nonmetro person for the State/Small Cities Community Development Block Grant (CDBG) program, and the text associated with this program, were misleading. Our underlying assumption in making this map was that the State/Small Cities program provided funding mainly to nonmetropolitan areas, hence dividing funding by nonmetro population would show the degree of assistance given to nonmetro areas within each State. This was an incorrect assumption.

According to the Department of Housing and Urban Development (HUD), which administers these programs, significant portions of metropolitan areas, including metro places that are not a part of large urban cities or heavily populated urban counties, receive their CDBG assistance through the State/Small Cities program. In 1994, about 102 million people were eligible for this program, almost double the 53 million nonmetro population. In some States, such as in the Northeast (New Jersey, Rhode Island, Massachusetts, Connecticut, Pennsylvania, New York, and Maryland), the Midwest (Ohio, Indiana, Michigan), the South (South Carolina, Louisiana, Florida, and Texas), and the West (California), the eligible metro population for these programs exceeds the nonmetro population by ratios greater than 2:1.

Thus, while most of the grantees of these programs may still be considered rural, our map overstated the extent that nonmetro populations benefited from the program and was misleading in suggesting that nonmetro residents in the Northeast and Midwest benefited disproportionately.

HUD also noted that the per capita State amounts shown in fig. 2 were in some cases less than the funds allocated to these States. This discrepancy may reflect the different accounting bases used by Census (the data we used in the maps) and HUD's data on funding allocations. Nevertheless, the overall geographic pattern we showed in fig. 2, should still hold, indicating that rural States tend to benefit more than other States from this program.