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STAFF PAPER



The President's Budget
For Fiscal Year 1977 And Its Implications
For Rural Development

BY
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PREFACE

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(This paper resulted from the discussions and concerns expressed at the Farmers Home Administration (FmHA) oversight hearings, conducted jointly by the Senate and House Agriculture Committees, on February 4-5, 1976. At the hearings, Congressional concern was expressed regarding the President's proposed budget for FY 1977 and how it would affect the goals and intent of the Rural Development Act of 1972.

General, budget-related issues concerning Congress (including the definition of "rural") are discussed in the first section of the paper, followed by a discussion of the proposed FY 1977 budget for rural development.

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BUDGET-RELATED ISSUES

Definitional Problems

The Rural Development Act of 1972 aims at attaining a "balance" between urban and rural America in such areas as income, housing, and community services. "Rural" or "rural area" is defined in the Act as a city or town with a population not exceeding 10,000 inhabitants. This definition applies to all programs with the exception of business and industry. For rural industrialization and business loan and grant eligibility purposes, "rural" includes communities with populations up to 50,000 unless they are adjacent to urbanized and urbanizing suburbs of cities larger than 50,000 or which have a population density of more than one hundred persons per square mile. In making such loans and grants, the Act requires that special consideration be given to communities with less than 25,000 inhabitants.

The primary agency funded under the Rural Development Act is the Farmers Home Administration within the U.S. Department of Agriculture. Other agencies provide funding and assistance to the same sections of the country--e.g., the Department of Housing and Urban Development, Environmental Protection Agency, Economic Development Agency, and the Appalachian Regional Commission. The definitions of community size, however, may not be the same as that used by the Rural Development Act (and the Farmers Home Administration). For example, the HUD Community Development Block Grants provide funds to "nonmetropolitan" areas. The term "nonmetropolitan," as defined by the Housing and Community Development Act of 1974 (the authorizing legislation for the Community Development Block Grants), refers to an area other than a Standard Metropolitan Statistical Area; i.e., an area having a population of less than 50,000. 42

Funding by the Environmental Protection Agency, Economic Development Administration, and Appalachian Regional Commission is not tied to specific community size.

FmHA Budget Authority

The primary funding agency under the Rural Development Act is the Farmers Home Administration (FmHA). The President's Budget requests that the budget authority for FmHA be decreased from \$906.3 million in FY 1975 to \$664.0 million in FY 1977, a 26.7 percent decrease over the two-year period. Furthermore, the FmHA budget indicates that funding for grants and loans are decreasing at even a greater rate, when salaries and expenses for the agency are excluded from the totals -- a decrease of \$272.5 million (or 35.2 percent) over the two-year

period, as shown in the following table. (It should be noted that if the effects of inflation are considered, the decrease would be even greater).

(in millions of dollars)			
FmHA Budget Authority			
	FY 1975	FY 1976	FY 1977
	<u>Actual</u>	<u>Estimated</u>	<u>Proposed</u>
Grants	\$ 57.2	\$281.9	\$ --
Public Enterprise Funds*	717.1	437.2	501.8
Subtotal	<u>774.3</u>	<u>719.1</u>	<u>501.8</u>
Salaries and Expenses	<u>132.0</u>	<u>155.1</u>	<u>162.2</u>
Total	<u>\$906.3</u>	<u>\$874.2</u>	<u>\$664.0</u>

*Budget authority does not always coincide with program level trends. For similar trends in loan levels, refer to pages 6 and 8.

Funding for Water and Sewer

USDA representatives indicated at the FmHA oversight hearings of February 4 and 5, 1976, that the HUD Community Development Block Grants and EPA funds for the construction of waste treatment and sewer lines would provide adequate levels of funding to rural communities for water and sewer facilities, in spite of a lack of FmHA grants.

It should be pointed out that HUD block grants leave the use of the funds to the discretion of the local governments. Communities may or may not use the funds for projects deemed to be of highest priority by Federal leaders, as was the case under the categorical grant program. The communities may, for example, use the funds for developing parks rather than water and sewer projects, as the HUD and FmHA categorical grants would have specified. Providing this discretion and flexibility was, of course, one of the stated objectives for the Community Development Block Grant legislation.

EPA also provides funds to States for construction of water treatment and sewer lines; the States in turn fund local communities. Of the \$8 billion awarded as of February 1976, EPA records showed that communities with populations up to 10,000 received 15 percent of the funds covering 68 percent of all the projects funded.

PROPOSED FY 1977 FUNDING FOR RURAL DEVELOPMENT

The Budget of the United States Government is organized by functions of the Federal Government. This paper discusses the various divisions of the Budget as it affects rural development funding.

In deciding which items, or functions, affect rural development, this analysis focuses on all funding authorized by the Rural Development Act and all funding for the Farmers Home Administration. In addition, it includes a discussion of the funding for the agencies and programs mentioned by the Department of Agriculture at the February 4-5, 1976, FmHA hearings as contributing to the development of rural communities.

In discussing rural and/or nonmetropolitan areas, this paper uses "rural" to refer to communities of 10,000 or less and "nonmetropolitan" to communities having populations less than 50,000 (unless otherwise noted).

Community Development (Subfunction 451)

The Department of Housing and Urban Development is the agency budgeted to provide the largest amount of community development funding in FY 1977, as shown in the following table.

	(in millions of dollars)					
	Budget Authority			Outlays		
	FY 1975 Actual	FY 1976 Estimated	FY 1977 Proposed	FY 1975 Actual	FY 1976 Estimated	FY 1977 Proposed
HUD:						
Block Grants: Total	(\$2432.2)	(\$1838.0)	(\$3248.0)	(\$38.1)	(\$750.0)	(\$1600.0)
Nonmetropolitan Share*	476.7	360.2	636.6	7.5	147.0	313.6
FmHA:						
Water and Waste Disposal Grants	30.0	250.0	—	35.1	71.8	115.4

*Based on the formula stated below; FY 1975 is likewise estimated.

Sections 101(c) and 101(d) of the Housing and Community Development Act of 1974 (PL 93-383) state that "the primary objective of this title [Title I] is the development of viable urban communities...." and "...to further the development of a national urban growth policy by consolidating a number of complex and overlapping programs of financial assistance to communities of varying sizes and needs into a consistent system of Federal aid..." The seven HUD categorical grant programs consolidated into the Community Development Block Grants program were urban renewal, model cities, water and sewer, open space land, neighborhood facilities, rehabilitation loans, and public facilities loans. After excluding

2% from the total for a discretionary fund, "nonmetropolitan" areas receive twenty percent of the funds, distributed on the basis of a formula using population, the extent of poverty (counted twice), and the extent of housing overcrowding (section 106(f)). Since the monies may be spent for various types of projects, according to the priorities determined by the community leaders, water and waste disposal facilities may not be the projects chosen.

For FY 1977, the President's Budget requests that no budget authority be provided to USDA for water and waste disposal grants to "rural" areas due to "substantial funding provided in 1976, an amount sufficient to finance the program for two years." The budget documents reveal that the full amount provided in FY 1976 is planned to be obligated in 1976. Thus, while construction activity may continue in FY 1977, it does not appear in the Budget that any new grants would be awarded in 1977.

Environmental Protection Agency (Subfunction 304)

Construction grants for waste treatment and sewer lines are included in the Natural Resources, Environment, and Energy function of the Budget. According to the FY 1977 Budget: "Approximately \$10 billion of the \$18 billion allotted to the States for the construction of waste-water treatment plants currently remains unobligated and \$6 billion will be unobligated at the beginning of 1977."

As previously noted, the "rural" or "nonmetropolitan" share of future funding is difficult to ascertain since the Federal Water Pollution Control Act does not specify community size. EPA has collected the following data, however, showing the distribution of awards as of February 10, 1976, by population grouping.

<u>Community Size</u>	<u>Projects</u>		<u>Funds (\$ in millions)</u>	
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Up to 10,000	3,633	68%	\$1193.1	15%
10,001 - 25,000	649	12	1013.9	13
25,001 - 50,000	319	6	898.8	11
50,001 and Above	718	14	4904.4	61
Total	5,319	100%	\$8010.2	100%

This table shows that although 86 percent of the projects go to nonmetropolitan areas, these communities receive 39 percent of the funds.

Assuming a continuation of the same trend in future years -- 15 percent to rural communities (population of 10,000 or less) and 39 percent to nonmetropolitan areas (population of 50,000 or less) -- the budget authority and outlays for FY 1975 through 1977 would be as follows:

	(in millions of dollars)					
	Budget Authority			Outlays		
	FY 1975	FY 1976	FY 1977	FY 1975	FY 1976	FY 1977
Construction Grants: Total	\$7666.2	\$--	\$--	\$1937.6	\$2350.0	\$3770.0
Estimated Rural	1149.9	--	--	290.6	352.5	565.5
Estimated Nonmetropolitan*	2989.8	--	--	755.7	916.5	1470.3

Includes communities with populations of 50,000.

Area and Regional Development (Subfunction 452)

The Area and Regional Development portion of the Budget covers a major segment of rural development funding. In terms of Federal outlays, funding for Area and Regional Development (452) as a percent of the total Community and Regional Development function of the Budget (450) has increased only slightly over the years -- it was 21.8 percent in FY 1967 as compared to the proposed 24.1 percent in FY 1977.

The funding levels for FmHA and the Rural Development Service are indicated in the following table, as well as the Economic Development Administration and Appalachian Regional Commission budgets that USDA representatives said are likely to benefit nonmetropolitan sections of the country.

	(in millions of dollars)					
	Budget Authority			Outlays		
	FY 1975 Actual	FY 1976 Estimated	FY 1977 Proposed	FY 1975 Actual	FY 1976 Estimated	FY 1977 Proposed
Farmers Home Administration:						
Rural Development Grants	\$ 13.8	\$ 11.9	\$ --	\$ 4.2	\$ 10.2	\$ 11.0
Fire Protection Grants	3.5	3.5	--	1.6	4.7	.9
Rural Development Insurance Fund	106.2	144.5	184.0	-168.4	42.4	47.8
Community Services Loan Fund	--	--	--	- 3.0	- 1.5	- .1
Salaries and Expenses	132.0	155.1	162.2	134.3	154.4	161.4
Rural Development Service:	1.0	1.3	1.4	.8	1.3	1.4
Economic Development Administration:						
Public Works and Business Development (Total)	173.1	207.5	140.1	182.3	168.8	142.5
Appalachian Regional Commission:						
Area Development (Total)	125.0	117.5	104.5	121.0	140.0	134.0

Department of Agriculture (FmHA) grants for rural development and fire protection would be terminated in FY 1977. The loan levels for the Rural Development Insurance Fund in FY 1977 would remain the same as in the previous two years, although the number of loans would decrease, as shown below.

	(dollars in millions)					
	FY 1975 Actual		FY 1976 Estimated		FY 1977 Proposed	
	Number	Loan Levels	Number	Loan Levels	Number	Loan Levels
Water & Waste Disposal Systems	1,451	\$469.9	1,343	\$470.0	1,250	\$470.0
Community Facilities	359	199.9	332	200.0	307	200.0
Industrial Development	538	349.9	498	350.0	467	350.0
Total	2,348	\$1019.7	2,173	\$1020.0	2,024	\$1020.0

Distribution of EDA funds is not presently tied to community size. According to USDA representatives, virtually all of the funds for Public Works and Business Development goes to nonmetropolitan areas. Historical EDA data, however, shows that approximately 76 percent of the funds in FY 1975 was spent in communities with populations under 50,000. This percentage decreased over the years 1973 to 1975 -- from 83 percent in FY 1973, to 81 percent in FY 1974, and to 76 percent in FY 1975.

Assuming the level of funding proposed in the President's Budget for EDA's Public Works and Business Development Program (Titles I, II, and IV), and a constant 76 percent factor, the "nonmetropolitan" share would be as follows:

	(in millions of dollars)					
	Budget Authority			Outlays		
	FY 1975	FY 1976	FY 1977	FY 1975	FY 1976	FY 1977
Public Works & Business Development:	\$173.1	\$207.5	\$104.1	\$182.3	\$168.8	\$142.5
Total						
Estimated Non-metropolitan	131.1	157.5	106.5	138.5	128.3	108.3

Likewise, according to USDA representatives, virtually all the Area Development (non-highway) funds of the Appalachian Regional Commission are distributed to nonmetropolitan or rural areas; though for a selected section of the country. However, a report of the Congressional Research Service in 1973 (A Selective Evaluation of the Appalachian Regional Commission, 73-68E) reported that a growth center strategy is employed by the Commission -- "the rationale behind the growth center concept is that investments by government and private groups in these places [centers] will produce more jobs and income per dollar than investments in small isolated towns and cities." By using this strategy, 76.7 percent of the investments of non-highway funds over the years of this study (1965 through 1970) were distributed to metropolitan communities, as shown below:

<u>Population Size</u>		<u>Percent of Investment</u> <u>(1965 - 1970)</u>
Under	10,000	.9%
10,000 -	24,999	11.0
25,000 -	49,999	11.4
50,000 -	99,999	19.8
100,000 -	249,999	28.5
250,000 -	499,999	16.2
500,000 -	749,999	9.2
Over	750,000	3.0

Using the above percent distribution of funds -- .9% and 23.3% to communities of less than 10,000 and communities of less than 50,000, respectively (assuming no change from 1965-70) -- FY 1975 to 1977 funding is then estimated as follows:

	(in millions of dollars)					
	<u>Budget Authority</u>			<u>Outlays</u>		
	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>
Area Development:						
Total	\$125.0	\$117.5	\$104.5	\$121.0	\$140.0	\$134.0
Estimated Rural	1.1	1.1	.9	1.1	1.3	1.2
Estimated Nonmetropolitan	29.1	27.4	24.3	28.2	32.6	31.2

Other functions of the budget in compliance with the Rural Development Act (Subfunctions 302, 351, 352)

In support of the Rural Development Act, some funding activity is provided within the Agriculture function of the Budget. The major portion of these funds would support the loan programs of FmHA--e.g., farm ownership loans, operating loans, emergency loans, etc.

The various items of funding for FY 1975 to 1977 are as follows:

	(in millions of dollars)					
	<u>Budget Authority</u>			<u>Outlays</u>		
	<u>FY 1975</u> <u>Actual</u>	<u>FY 1976</u> <u>Estimated</u>	<u>FY 1977</u> <u>Proposed</u>	<u>FY 1975</u> <u>Actual</u>	<u>FY 1976</u> <u>Estimated</u>	<u>FY 1977</u> <u>Proposed</u>
Farmers Home Administration (351):						
Agricultural Credit Insurance Fund	\$485.3	\$169.2	\$141.2	-\$132.8	\$192.1	-\$344.4
Soil Conservation Service (302):						
Land Inventory & Monitoring	--	--	2.5	--	--	2.4
Extension Service (352):						
Rural Development Extension and Federal Administration	1.5	1.5	--	1.4	2.0	.4
Cooperative State Research Service (352):						
Rural Development Research	1.5	1.5	--	1.6	2.6	--

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The number of loans and loan levels for the FmHA Agricultural Credit Insurance Fund are projected to decrease over the years 1975 to 1977. Excluding emergency loans, which can be adjusted in the event of a natural disaster, the primary proposed change is a reduction in the number of farm ownership and operating loans from the year 1976 to 1977. The number of loans and loan levels for the fund are as follows:

	(dollars in millions)					
	FY 1975 Actual		FY 1976 Estimated		FY 1977 Proposed	
	<u>Number</u>	<u>Loan Levels</u>	<u>Number</u>	<u>Loan Levels</u>	<u>Number</u>	<u>Loan Levels</u>
Agricultural Credit Insurance Fund (351):*						
Farm Ownership Loans	10,598	\$ 351.6	12,400	\$ 450.0	8,900	\$ 350.0
Soil & Water Loans to Individuals	358	3.1	5,640	53.0	300	3.0
Recreation Loans to Individuals	20	.7	50	2.0	46	2.0
Irrigation/Drainage Loans to Assoc.	14	.9	15	1.0	14	1.0
Grazing Loans to Associations	18	3.8	17	4.0	16	4.0
Rec. Facilities Loans to Assoc.	7	.2	—	—	—	—
Indian Tribe Land Acquisition Loans	11	9.7	11	10.0	10	10.0
Operating Loans	49,254	550.8	49,900	625.0	44,500	625.0
Emergency Loans	43,675	735.0	22,000	400.0	5,100	100.0
Watershed Protection & Flood Prev.	25	20.2	29	23.4	27	23.4
Resource Conservation & Development	25	1.9	43	3.6	40	3.6
Total	104,005	\$1677.9	90,105	\$1572.0	58,953	\$1122.0

* Excludes Emergency Livestock loans which are funded by legislation other than the Rural Development Act.

Funding of Farmers Home Administration
other than the Rural Development Act

In addition to the above, FmHA also provides funds under legislation other than the Rural Development Act. These include: emergency livestock loans under the Emergency Livestock Credit Act of 1974 (Subfunction 351) and funds for housing under the Housing Act of 1949 (Subfunction 401). The loans and loan levels for FY 1975 through FY 1977 are as follows:

	(dollars in millions)					
	FY 1975 Actual		FY 1976 Estimated		FY 1977 Proposed	
	<u>Number</u>	<u>Loan Levels</u>	<u>Number</u>	<u>Loan Levels</u>	<u>Number</u>	<u>Loan Levels</u>
Emergency Livestock	3,021	\$ 352.9	5,940	\$ 750.0	2,190	\$ 298.0
Housing	118,576	2234.2	137,600	2706.0	125,925	2716.0

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SUMMARY OF FUNDING

The information discussed above is summarized in the following table, by agency. The figures should not be totaled since they denote different definitions (such as "rural" versus "nonmetropolitan" with respect to community size) and different functions or objectives of the Budget. Although some of the funding included in this paper encompasses an area larger than that targeted by the Rural Development Act, other programs that impact on rural communities (e.g., food stamps) have been omitted. We have included funding for only those agencies and programs mentioned by USDA at the February 1976 oversight hearings as contributing to the development of rural communities.

(in millions of dollars)

	Budget Authority			Outlays		
	FY 1975 Actual	FY 1976 Estimated	FY 1977 Proposed	FY 1975 Actual	FY 1976 Estimated	FY 1977 Proposed
Department of Agriculture: ^{a/40}						
Farmers Home Administration (Total) ³⁵¹	\$906.3	\$874.2	\$664.0	-51,020.9	\$754.3	-\$449.3
Rural Development Services ^{b/}	1.0	1.3	1.4	.8	1.3	1.4
Soil Conservation Services ^{b/}	—	—	2.5	—	—	2.4
Cooperative State Research Service ^{b/}	1.5	1.5	—	1.6	2.6	—
Extension Service ^{b/}	1.5	1.5	—	1.4	2.0	.4
Economic Development Administration ^{c/ 371}						
Total	(173.1)	(207.5)	(140.1)	(182.3)	(168.8)	(142.5)
Estimated Nonmetropolitan	131.6*	157.7	106.5	138.5*	128.3	108.3
Appalachian Regional Commission ^{c/ 1-7}						
Total	(125.0)	(117.5)	(104.5)	(121.0)	(140.0)	(134.0)
Estimated Rural	1.1*	1.1	.8	1.1*	1.3	1.2
Estimated Nonmetropolitan	23.1*	27.4	24.3	28.2*	32.6	31.2
HUD Community Development Block Grants ^{d/ 23}						
Total	(2,432.2)	(1,838.0)	(3,248.0)	(38.1)	(750.0)	(1,600.0)
Nonmetropolitan Share ^{e/}	476.7*	360.2	636.6	7.5*	147.0	313.6
EPA Water & Sewer Construction Grants ^{f/ 24}						
Total	(7,666.2)	—	—	(1,937.6)	(2,350.0)	(3,770.0)
Estimated Rural	1,149.9*	—	—	290.6*	352.5	565.5
Estimated Nonmetropolitan	2,989.8*	—	—	755.7*	926.5	1,470.3

*Estimated rather than actual.

- a/ Includes all funding for Farmers Home Administration and agency funding authorized by the Rural Development Act. Excludes the Rural Electrification Administration since it doesn't fall within the definition used above.
- b/ Funds authorized by the Rural Development Act.
- c/ Funding for Public Works and Business Development.
- d/ Area Development funding.
- e/ Assuming 20% of the total, less the 2% for the discretionary fund, are distributed to "nonmetropolitan" areas.
- f/ For construction of waste treatment and sewer lines.

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