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REPORT TO THE CONGRESS



National Rural Development
Efforts And The Impact Of
Federal Programs On
A 12-County Rural Area
In South Dakota

Department of Agriculture
and other Federal agencies

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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21 To the President of the Senate and the
Speaker of the House of Representatives

This is our report on national rural development efforts and the impact of Federal programs on a 12-county rural area in South Dakota. The report covers activities of the Department of Agriculture and other Federal agencies.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretaries of Agriculture; Commerce; Health, Education, and Welfare; Housing and Urban Development; Labor; and Transportation; the Administrator, Small Business Administration; the Governor of South Dakota; and the Director of South Dakota's Planning and Development District III.

James P. Aberts

Comptroller General
of the United States

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C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
2 RURAL DEVELOPMENT--A NEED FOR NATIONAL GOALS, PLANNING, AND COORDINATION	3
Statutory commitment is impressive	3
Statutory commitment not fully supported by Government actions	4
Conclusions	12
Recommendations to the Secretary of Agriculture	13
Agency comments and our evaluation	13
3 DISTRICT III--ITS CHARACTERISTICS AND PROBLEMS ARE TYPICAL OF MANY RURAL AREAS	17
District III	17
Primary goals and concerns of district residents	25
4 AGRICULTURE--THE DOMINANT SECTOR OF THE DISTRICT'S ECONOMY	26
Agriculture is dominant in district's economy	26
Farms have become larger while farm employment and population have decreased	28
Federal assistance to agriculture sector has been substantial	31
Conclusions	36
Recommendations to the Secretary of Agriculture	36
Agency and State comments and our evaluation	37
5 THE NONAGRICULTURAL ECONOMY--KEY TO DISTRICT DEVELOPMENT BUT GROWTH MAY BE DIFFICULT	39
Job creation is the key to district's development but there are problems	39

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CHAPTER		<u>Page</u>
5	Federal assistance to district's non-agricultural economic development has been limited	53
	Conclusions	56
	Recommendation to the Secretary of Agriculture	57
	Agency and State comments and our evaluation	57
6	HEALTH SERVICES AND FACILITIES--PHYSICIAN AND DENTIST SHORTAGES EXIST AND HOSPITALS NEED MODERNIZING	62
	Some residents' concerns were well founded; others were not	62
	Impact of Federal and State health programs has varied	66
	Conclusions	73
	Recommendation to the Secretary of HEW	74
	Agency and State comments and our evaluation	74
7	HOUSING--THERE'S ENOUGH BUT MUCH IS OLD AND SUBSTANDARD	75
	Some residents' concerns appeared warranted	75
	Federal programs have helped but total housing needs have not been identified	78
	State actions	81
	Conclusions	82
	Recommendation to the Secretaries of HUD and Agriculture	82
	Agency and State comments and our evaluation	83
8	CAPITAL BETTERMENTS--THERE ARE SOME WATER AND SEWER NEEDS	87
	Residents cited capital betterments as goals but not problems	87
	Some water and sewer needs exist	87
	Recreation areas and facilities appear adequate	92

BEST DOCUMENT AVAILABLE

CHAPTER		<u>Page</u>
8	Roads and streets were generally adequate	92
	Conclusions	93
	Agency and State comments and our evaluation	93
9	ADDITIONAL USER COMMENTS AND OUR EVALUATION	95
10	SCOPE OF REVIEW	99
 APPENDIX		
I	Potential rural development goals of the Department of Agriculture	101
II	Federal outlays in District III by agency, fiscal years 1968-72	103
III	Federal outlays in District III by function, fiscal years 1968-72	104
IV	Population of District III categorized by age for census years 1950, 1960, and 1970	105
V	Results of poll to determine the reasons people leave District III	106
VI	Selected medical personnel and facilities in District III as of March 1973	110
VII	Location of physicians, dentists, and hospitals in District III, March 1973	111
VIII	Letter dated September 3, 1974, from the Department of Agriculture	112
IX	Letter dated July 1, 1974, from the Department of Commerce	114
X	Letter dated June 5, 1974, from the Department of Health, Education, and Welfare	116

BEST DOCUMENT AVAILABLE

		<u>Page</u>
XI	Letter dated July 17, 1974, from the Department of Housing and Urban Development	118
XII	Letter dated June 19, 1974, from the Department of Labor	123
XIII	Letters dated June 18 and July 9, 1974, from the Small Business Administration	125
XIV	Letter dated June 27, 1974, from the Department of Transportation	128
XV	Letter dated June 7, 1974, from the State of South Dakota	131
XVI	Principal Department of Agriculture officials responsible for the rural development activities discussed in this report	137

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ABBREVIATIONS

DOT Department of Transportation
EDA Economic Development Administration
FmHA Farmers Home Administration
GAO General Accounting Office
HEW Department of Health, Education, and Welfare
HUD Department of Housing and Urban Development
IDEA Industrial Development Expansion Agency
OEO Office of Economic Opportunity
OJT on-the-job training
SBA Small Business Administration
SCS Soil Conservation Service
SMSA Standard Metropolitan Statistical Area
USDA U.S. Department of Agriculture

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GAO REPORT NO. 75-288
RURAL DEVELOPMENT

NATIONAL RURAL DEVELOPMENT
EFFORTS AND THE IMPACT OF
FEDERAL PROGRAMS ON
A 12-COUNTY RURAL AREA
IN SOUTH DAKOTA
Department of Agriculture and
other Federal agencies

D I G E S T

Background

The Federal Government has, for many years, carried out programs designed to make rural America a better place to live and work. Recent legislation, particularly the Rural Development Act of 1972, committed the Nation to revitalizing and developing rural areas as a means of achieving a balanced national growth.

GAO made this review to determine how the 1972 act was being carried out and to evaluate the impact of Federal assistance on one's concerns regarding residents of a specific rural area--South Dakota's Planning and Development District III.

Why District III?

District III, comprising 12 counties with a 1970 population totaling about 37,400, was selected by GAO in cooperation with the U.S. Department of Agriculture (USDA's) Economic Research Service because its agricultural economic base, low family income, and high outmigration are typical of many areas of the Northern Great Plains. (See p. 17.) Federal outlays in the 12 counties totaled about \$415 million during fiscal years 1966-72. (See apps. II and III.)

GAO believes its findings and conclusions regarding the district are applicable to other Great Plains areas, with similar characteristics.

Administrative and Financial

National rural development efforts

The statutory commitment to rural development is impressive but it has not been fully supported by Government actions.

The 1972 act, first comprehensive legislation dealing with rural development, provides the Secretary of Agriculture with many new or expanded responsibilities and authorities.

Some of the act's features, mostly those of an administrative nature and those not requiring new regulations, were put into effect shortly after the act was passed. Implementation of certain of the major new programs and provisions, however, were delayed until regulations were finalized and appropriations were received.

About 16 months were required to put key business and industrial assistance programs into operation and to issue potential rural development goals.

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Within a few months after the act was passed, several established programs providing assistance to rural areas to meet their health, housing, and sewer and water systems needs were suspended and/or terminated and funds were impounded. Most of these programs have since been reinstated.

USDA needs to quantify the employment, income, population, housing, and community services and facilities goals called for by the act, on both a national and a regional basis, so that progress toward their attainment can be measured and reported on.

Quantified goals also are needed for effective planning of the Nation's rural development effort and for guiding commitment of Federal resources. (See p. 3.)

The 1972 act directs the Secretary of Agriculture to provide leadership and coordination within the executive branch for a nationwide rural development program. The act also requires the Secretary to provide for

- locating all Federal field units concerned with rural development in USDA offices covering the same geographical areas and
- interchanging personnel and facilities in each such office to achieve their most efficient use.

Although USDA initiated a program to consolidate its field offices in November 1973, the program was restructured in April 1974 because of controversies about which offices to consolidate. The restructured program calls for establishing pilot service centers.

A USDA official told GAO in September 1974 that the Department had met with other agencies regarding collocation of offices and personnel interchange but that no implementing actions had been initiated. (See p. 11.)

Also the Department of Health, Education, and Welfare (HEW) established a rural development office under supervision of the Assistant Secretary for Human Development to help achieve coordination required by the act. USDA officials told GAO that establishment of such offices by other Federal agencies would help coordination effort.. (See pp. 7 and 8.)

Development of District III:

About 75 percent of the 223 district officials and residents GAO questioned about problems in the district identified outmigration as a major problem. Other major problems identified by district residents were in the following areas.

- economic development--nonagriculture
- housing
- health services and facilities
- job training

USDA directed its review to these concerns; to agriculture, which is central to the district's economy, and to capital betterments--water and sewer systems, streets and roads, and recreational facilities--the improvements of which were frequently cited as district goals. (See p. 25.)

Agriculture

Agriculture has been and will continue to be central to the district's economy; however, the district has experienced a consolidation of farms with resultant declines in the number of farms, farm employment, and farm population. This situation will likely continue. (See p. 26.)

Few district farms were sold because of financial difficulties; most were sold by retirees, inheritors, investors, and widows. The government can do little to affect such sales. (See p. 33.)

Increased technical assistance and training through State and local extension services, however, could help farm families who, despite low incomes, choose to remain on the farm. To help accomplish this, extension agents should increase their efforts to seek out and assist lower income farmers. (See p. 36.)

Nonagricultural economic development

Nonagricultural economic development is needed in the district to provide the jobs which will help stem outmigration and provide the means for a better quality of life. Of the 732 persons GAO questioned who left or planned to leave the district, 65 percent cited job-related factors as the main reason. (See app. V.)

Although there are barriers to the district's economic development, including limited investment capital, distance to markets, and limited raw materials, the district does have some potential

for growth with advantages including low labor costs, low business taxes, and adequate supplies of water and hydroelectric power. (See pp. 39 to 52.) Stimulating nonagricultural economic development is the real key to rural development in the district; however, the Government's past efforts in this area have been limited. (See p. 53.)

Rural development has been a USDA mission since the 1960s but, before the 1972 act, it had no major non-agricultural business and industrial assistance programs or personnel dealing expressly with this key issue. (See p. 53.)

USDA has emphasized to its staff the importance of insuring loan quality. Available Federal and State research capabilities could help USDA staff do this by determining which industries and firms have the most potential in various areas of the Nation. (See p. 57.)

The district did not have a large pool of skilled labor in the manufacturing trades; however, this did not appear to be an important hindrance to its industrial development. Federal and State job-training assistance was available and has been used to train employees of several firms that had located in the district. (See p. 45.)

Health services and facilities

The district's physician- and dentist-to-population ratios of 1 to 1,150 and 1 to 2,360, respectively, were nearly twice the national ratios of 1 to 610 and 1 to 1,950. Existing Federal and State programs had no impact on the district's shortages of

physicians and dentists. Unless a relatively new scholarship program proves successful, there is little hope of significant impact in the future.

HEW lacked uniform objective criteria for designating shortage areas under its various health personnel deployment programs. Although there was an adequate number of hospitals in the district, several needed to be modernized to conform to current Federal standards. (See pp. 62 to 74.)

Housing

The district's housing supply appeared ample and the cost was generally low but about 73 percent of its housing was built before 1940 and many housing units lacked complete plumbing.

According to the 1970 census data tabulated by the Department of Housing and Urban Development (HUD), about 33 percent of the district's families lived under inadequate conditions. (See p. 79.) Neither HUD nor USDA, which administers rural housing programs, had developed reliable estimates of specific housing needs in the district. (See pp. 75 to 80.)

Capital betterments

The district's road system appeared adequate, and recreation areas and facilities, particularly the outdoor type, were plentiful. Some district communities had water and sewer needs, but generally none were critical to the district's economic development. (See pp. 87 to 94.)

Rural Development Act

To help make the Nation's rural development effort more effective, the Secretary of Agriculture should

--establish quantified rural development goals for matters specified in the 1972 act, using available information, on both a national and a regional basis;

--develop a national rural development plan describing how and when established goals would be met and resources needed to meet them; and

--ascertain the desirability of having key Federal departments and agencies establish rural development offices. (See p. 13.)

In working toward the solution of the rural development problems noted in the district, the Secretary of Agriculture should

--encourage State and local extension agencies to (1) allocate a higher proportion of their extension efforts to lower income farmers and (2) have extension personnel increase their efforts to seek out and assist lower income farmers (see p. 36) and

--arrange for Federal and State research capabilities to be made available to assist USDA staff in determining which businesses and industries have the greatest potential in a certain region, State, or multicounty planning district so that they may be given high priority (see p. 57.).

In working toward solving rural health care delivery problems, the Secretary of HEW should initiate action, including development of necessary legislation, to establish

uniform objective criteria for designating health personnel shortage areas to be used for programs designed to deploy health personnel to such areas. (See p. 74.)

The Secretaries of HUD and USDA, in cooperation with State and local officials, should work together to determine specific housing needs and the types of assistance necessary to meet them. (See p. 82.)

AGENCY COMMENTS AND CONCURRENCE ISSUES

USDA; the Departments of Commerce, HEW, HUD, Labor, and Transportation; the Small Business Administration; South Dakota; and District III were requested to comment on all or part of the report.

Their comments are incorporated in pertinent sections of the report and, except for District III's letter which was furnished to the State, their letters are included as appendixes VIII through XV.

For the most part, general concurrence with GAO's report was indicated. USDA, however, disagreed about the timing and method for establishing quantified goals saying that it intended to quantify goals on the basis of State and local input. USDA officials told GAO that this process would require several years.

To provide overall direction to the Nation's rural development efforts, USDA should establish quantified goals on the basis of

available information with such goals being altered, as necessary, on the basis of State and local input. (See p. 13.)

USDA expressed reservations about GAO's use of the district to reach national findings and conclusions. GAO believes that, with the proper precautions, analysis of problems in a specific geographic area, such as District III, can be useful in developing national findings and conclusions relating to an agency's management over an activity, program, or function.

The most essential and obvious precaution is to appropriately follow up at the national level to substantiate existence of indicated management weaknesses. GAO did this at both USDA and other Federal agencies mentioned in the report. (See p. 95.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report does not contain any recommendations requiring legislative action by the Congress. However, it does recommend ways USDA and other Federal agencies could improve effectiveness of Federal programs in rural areas.

This information should be of assistance to those committees and Members of Congress having legislative responsibilities related to the revitalization of rural areas and effective implementation of Federal rural development programs.

	1	22
	2	74
	3	20
	4	23
	5	5
<u>Leaf Sheet</u>	6	29
	7	2

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CHAPTER 1

INTRODUCTION

Many rural areas of the United States are characterized by a continuing population loss, a diminishing number of farms, little industry other than agriculture, a low per capita income, a high incidence of substandard housing, and other social and economic problems. These situations exist even though the Federal Government has numerous programs designed to assist rural areas to solve such problems and to achieve rural development--to make rural areas better places in which to live and work.

The Congress expressed its commitment to a sound balance between rural and urban America in title IX of the Agricultural Act of 1970 (42 U.S.C. 3122(a)). The act states that this balance is so essential that the highest priority must be given to revitalizing and developing rural areas. The continued commitment of the Congress to rural development was demonstrated by its passage of the Rural Development Act of 1972 (7 U.S.C. 1921 note (supp. II)) which encourages increased economic growth and improvements in the quality of rural life.

We directed our review toward what was being done at the Federal level to implement the directives of the Rural Development Act. Also, to determine more precisely the nature of the rural development problems of a particular area; the impact of past Federal, State, and local efforts on the problems; and the possible solutions to achieve rural development in that area, we examined into some of the principal matters of concern to the residents of Planning and Development District III, a 12-county area in southeastern South Dakota.

We asked the Departments of Agriculture (USDA); Commerce; Health, Education, and Welfare (HEW); Housing and Urban Development (HUD); Labor; and Transportation (DOT) and the Small Business Administration (SBA) to comment on our report. We also asked South Dakota to comment on our report, except for chapter 2, and to consider District III's comments in preparing its comments.

The comments of these agencies and organizations are incorporated in pertinent sections of the report and, except for District III's letter which was furnished to the State, are included as appendixes VIII through XV.

CHAPTER 2

RURAL DEVELOPMENT--A NEED FOR NATIONAL GOALS, PLANNING, AND COORDINATION

The statutory commitment to rural development is impressive but this commitment has not been fully supported by Government actions. Shortly after the Rural Development Act of 1972 was passed, some of its features, generally those of an administrative nature and those not requiring new regulations or appropriations, were implemented. However, several established programs providing assistance to rural areas were suspended and/or terminated and appropriations were impounded. Also implementation of some of the act's major new programs and provisions were delayed until regulations were finalized and appropriations were received.

Quantified goals are needed for use in developing national rural development plans. To help guide rural development efforts toward the achievement of the Nation's growth, national policies concerning major aspects of the overall goal need to be formulated.

STATUTORY COMMITMENT IS IMPRESSIVE

As early as 1961 rural development was established as a national goal and was made a primary mission of USDA. Before this USDA had a small rural development program which was established in the 1950s. The Rural Development Act of 1972, however, is the first comprehensive legislation dealing with rural development and is an important step toward fulfilling the commitment to a sound balance between rural and urban America made by the Congress in the Agricultural Act of 1970.

The purpose of the Rural Development Act is to encourage and speed up economic growth in rural areas, to provide the jobs and income required to support better community facilities and services, and to improve the quality of rural life. Various provisions of the act were designed to fill major gaps in legislation for rural America.

The act provides the Secretary of Agriculture with many new or expanded responsibilities and authorities for rural development. Some of the most important include

- new responsibility to formulate national goals for rural development;
- new and expanded authority to finance the development, construction, or acquisition of community facilities and the expansion of industrial and business activity in rural areas;
- new leadership and coordination responsibilities for rural development activities for all Federal, State, and local government agencies; and
- new authority to encourage and expand research and extension activities.

The act also authorizes an additional Assistant Secretary to assist the Secretary with his new responsibilities and to provide added emphasis to rural development.

STATUTORY COMMITMENT NOT FULLY
SUPPORTED BY GOVERNMENT ACTIONS

The impressive statutory commitment to rural development in the Rural Development Act has not been fully supported by Government actions. Within a few months after its August 30, 1972, enactment, several established programs providing assistance to rural areas to meet their health, housing, and sewer and water systems needs were suspended and/or terminated and funds appropriated for these programs were impounded. Most of the suspended and/or terminated programs have since been reinstated. (See pp. 72, 80, and 91.)

Although some features of the act, generally those of an administrative nature and those not requiring new regulations or appropriations, were implemented shortly after the act was passed, the first major action was taken in January 1973 when USDA's rural development activities were reorganized and an Assistant Secretary for Rural Development was appointed.

Also in January 1973, the President's budget, which requested appropriations to carry out some of the major new programs, was sent to the Congress. In March 1973 the Chairman of the Subcommittee on Agriculture-Environmental and Consumer Protection, House Committee on Appropriations, told USDA officials that implementing regulations needed to be formulated before appropriation requests could be considered and approved.

In May 1973 an Assistant Secretary's Working Group was formed and met to appoint representatives from USDA and other Federal departments and agencies to coordinate and assist in implementing the act. USDA in June 1973 published proposed regulations on certain of the act's programs and provisions and in October 1973 final regulations were published and appropriations were made.

The business and industrial loan and grant programs and the community facility loan program were put into full operation in December 1973, and in January 1974 USDA issued potential rural development goals. However, the goals were too general to be useful in measuring progress toward their attainment. Some actions have been taken to implement other provisions of the act dealing with coordination and the colocation of field offices of Federal departments and agencies, but full implementation of these provisions and the interchange of personnel have not been accomplished.

In oversight hearings held in 1973 and 1974 by subcommittees¹ in both the Senate and the House to monitor and evaluate implementation of the Rural Development Act, concern was expressed about the slow progress in implementing certain of the major programs and provisions of the act.² Such concern was also expressed in the conference report on the bill providing for the Department's fiscal year 1974 appropriations.

Loan and grant programs

A major thrust of the act is the creation of jobs. To this end the act authorizes business and industrial loan and grant programs to provide assistance to public, private, and cooperative organizations and individuals in communities having fewer than 50,000 people and a community facility loan program to help provide the community facilities and services needed to support and encourage industrial development in communities having up to 10,000 people.

¹ Subcommittee on Rural Development of the Senate Committee on Agriculture and Forestry and Subcommittee on Family Farms and Rural Development of the House Committee on Agriculture.

²H.Rept. 93-520, 93d Cong., 1st sess., Sept. 20, 1973.

Proposed regulations to implement these programs were published in the Federal Register in June 1973, and final regulations were published in October 1973.¹ Funds were appropriated in October 1973 and allocations of program resources and the first loans under these programs were made in December 1973, about 16 months after enactment of the act. However, to expedite the initiation of the programs, USDA began accepting preapplications for assistance in July 1973. (See p. 55.)

USDA's June 1973 proposed regulations provided for (1) processing an application only after its approval by the State Governor or his designee and (2) barring any technical difficulties. USDA's approving applications on the basis of the order of priority determined by the Governor. USDA officials said that legislation² prohibiting loans and grants from being subject to the prior approval of any officer, employee, or agency of any State delayed issuance of the final regulations.

USDA officials also said that the final regulations were issued shortly after the Congress approved appropriations. As noted, however, the House Appropriations Subcommittee Chairman told USDA officials in March 1973 that implementing regulations needed to be formulated before appropriation requests could be considered and approved. Also the Congress limited industrial loan authorizations to \$200 million nationwide for fiscal year 1974 because, according to the conference report, USDA had not developed a plan for using the funds.

During the oversight hearings, USDA officials testified that implementing the programs and provisions of the act was a big complex job and they cited USDA's limited experience in making guaranteed business and industrial loans as a major obstacle to more timely action.

¹ Federal Register, Vol. 38, No. 201--Thursday, Oct. 18, 1973.

² Section 1(27) of the Agriculture and Consumer Protection Act of 1973 (Public Law 93-86, 87 Stat. 241) enacted on August 10, 1973.

Coordination

Section 603 of the act directs the Secretary of Agriculture to provide leadership and coordination within the executive branch and to assume responsibility for a nationwide rural development program using all executive branch departments and agencies in coordination with rural development programs of State and local governments. Regulations to implement this provision were published in the Federal Register in October 1973.

In July 1973 the President's Domestic Council established the Rural Development Committee, chaired by the Secretary, to be responsible for interdepartmental policy formulation and resolution of issues pertaining to section 603. A USDA official told us in October 1974 that the committee had not held any meetings but that the members had been provided with various documents, including a draft of the goals statement discussed on page 9, for their review and evaluation.

The Assistant Secretary's Working Group, established in May 1973 and chaired by USDA's Assistant Secretary for Rural Development, is to operate as a coordinating mechanism under the aegis of the Rural Development Committee. The group is to develop rural development policies, strategies, and cooperative procedures for the executive departments and agencies.

USDA officials told us that the group was established to open communication channels and that meetings of the full group would be held as necessary. Through September 1974 the group had held two meetings. According to USDA officials, the objectives of these meetings were to reach general agreements about the coordination of Federal resources to rural America. They said that these meetings were followed by staff-level contacts designed to work out cooperative procedures related to specific program activities.

USDA officials told us that they planned to enter into both formal and informal agreements with several Federal departments and agencies to help provide for coordination at the Washington level. They said that USDA officials had met with representatives of 26 other Federal departments and agencies (1) to identify program areas in which such

agreements are feasible to insure that Federal resources are extended to rural America and (2) to work on various other matters, such as standardizing preapplication forms and developing models for rural health care delivery.

Membership of the 10 Federal Regional Councils was expanded in July 1973 to include USDA representation. These Councils are made up of regional heads of Federal agencies. Their purpose is to develop closer working relationships between major Federal grant-making agencies and State and local governments and to better coordinate Federal categorical grant services to State and local governments.

A rural development committee or task force, chaired or headed by a USDA official, has been created for each of the 10 Councils. These groups will have primary responsibility to coordinate rural development efforts at the field level and to provide assistance to and liaison with the States. They will also have an oversight responsibility to assess the effectiveness of the implementation of the act in their regions.

USDA has also established a rural development leadership training program for local government officials and leaders. Through September 1974, three 1-week programs had been held with a total of about 330 participants.

HEW established a rural development office under the supervision of the Assistant Secretary for Human Development to achieve the coordination required by the act. USDA officials said that they were not aware of similar offices in other Federal departments and agencies but that they believed the establishment of such offices would help coordination efforts.

USDA officials told us that successful coordination depended on the cooperation of other Federal agencies and required a slow deliberate approach. They said also that the Rural Development Service, the USDA agency responsible for coordination, for establishing goals, and for implementing other provisions of section 603, did not have an adequate staff to address all the functions assigned to it but that staff expansion was planned during fiscal year 1975.

National goals and plans

Section 603 directs the Secretary, in carrying out his leadership and coordination responsibilities, to establish employment, income, population, housing, and quality of community services and facilities goals for rural development and to report annually to the Congress on progress toward their attainment. Although the act and its legislative history were not specific as to the terms in which the goals were to be stated, congressional desire was later expressed that the goals be stated in specific quantified terms, such as number of jobs to be created or number of houses to be built, so progress toward their attainment could be measured.

In January 1974 USDA published some goals (see app. I) in the initial report, entitled "Rural Development Goals," required by section 603. The goals, rather than being specific and quantified, however, were labeled "potential" and were stated in terms too general to be useful in fulfilling the act's requirement that progress made toward attaining them be reported on annually. For example, the employment goal was expressed as follows:

"* * * a satisfying employment opportunity should exist for all Americans entering the job market regardless of where they live."

USDA officials told us that they planned to establish more specific goals based on input from plans to be developed by States and multicounty planning districts but that it would be several years before the necessary input was obtained to quantify the goals. As of September 1974, USDA had not set a target date by which States and multicounty planning districts were to submit their plans nor provided the States and multicounty planning districts with policy and procedural guidelines to help them in developing their plans in a manner which would permit the timely establishment of more specific goals on a national and regional basis.

The timely establishment of more specific national and regional goals would permit an effective plan to be developed to guide both our Nation's rural development effort and the commitment of Federal resources. Also establishing quantified goals and developing plans on a national and regional

basis would permit the measurement of performance at these levels and could assist the State and local governments in developing their own goals and plans. The national and regional goals and plans could, of course, be changed as necessary on the basis of State and local input.

The Governor of North Dakota, in a September 1972 speech before a rural development conference in Sioux Falls, South Dakota, said that the Congress and the Administration should set a definite course for rural America through the development of national goals so that local governments "no longer drift into the unknown."

Goals and plans are needed also to help in achieving a balanced national growth. The President's Task Force on Rural Development in its March 1970 report entitled "A New Life for the Country" pointed out this need and suggested that the executive branch take the lead in establishing, in cooperation with the Congress, national policies to help guide the future economic and social development of the Nation. The Task Force said:

"The Nation needs to develop guiding policies in such areas as population distribution, industrial dispersion, land use, resource management, food and fiber production, adequate rural housing, relevant educational programs, full employment, national growth, and quality of life."

Also the National Planning Association's Agriculture Committee has suggested that the President establish a joint administration-congressional task force to formulate population location and distribution policy.¹ The Committee said that this policy should then guide legislative and administrative actions in urban development, rural development, and land policy.

Title VII of the Housing and Urban Development Act of 1970 (42 U.S.C. 4501) calls for the development of a national

¹National Planning Association, Report No. 134. Toward a Rural Development Policy, by James G. Maddox, September 1973.

urban growth policy incorporating social, economic, and other appropriate factors. The act requires that the Federal Government assume responsibility for the development of such a policy to serve as a guide in making decisions at the national level affecting the pattern of urban growth and to provide a framework for development of interstate, State, and local growth and stabilization policy.

In recognizing the interrelationship of urban and rural growth, the Congress declared in the act that the national urban growth policy should, among other things,

- foster the continued economic strength of all parts of the United States, including smaller communities and rural areas;
- help reverse trends of migration and physical growth which reinforce disparities among States, regions, and cities; and
- reat comprehensively the problems of poverty and employment associated with disorderly urbanization and rural decline.

The President's first biennial Report on National Growth required by the act was submitted to the Congress in February 1972. A second report had not been submitted to the Congress as of October 10, 1974. The February 1972 report and the need to develop a national growth policy were discussed in hearings held in June 1972 by the Subcommittee on Housing of the House Committee on Banking and Currency.

Colocation of Federal offices
and interchange of personnel

Section 603 also requires the Secretary to provide or arrange for (1) locating all Federal field units concerned with rural development in the appropriate USDA offices covering the geographical areas most similar to those covered by such field units and (2) interchanging personnel and facilities in each such office to the extent necessary or desirable to achieve their most efficient use and to provide the most effective assistance in the development of rural areas in accordance with State rural development plans.

USDA initiated a program to consolidate its own field offices in November 1973. The program was to involve about 7,800 of USDA's 15,000 field offices with the objectives of concentrating services in a single county office, eliminating marginally effective offices, and grouping offices where more efficient services to farmers and rural residents can be achieved. USDA officials said that this program was restructured in April 1974 because of certain controversies about which offices to consolidate into the one-stop-service centers.

The restructured program is to reflect a combination planning and implementation approach according to USDA officials. Rather than State administrative committees (composed of the State Directors of certain USDA agencies) submitting statewide plans for consolidating USDA field offices as originally planned, the committees will recommend establishing pilot service centers. A USDA official told us in July 1974 that 27 such centers had been approved. All of these involved intracity consolidations.

A USDA official told us in September 1974 that the Department had met with other Federal agencies regarding the colocation of offices and personnel interchange but that no implementing actions had been initiated.

CONCLUSIONS

Planning--establishing clearly defined goals and setting courses of action to achieve those goals--is a logical and indispensable initial step in the efficient and effective accomplishment of any program. Planning for carrying out the Nation's rural development efforts would assist in guiding decisionmaking by establishing guidelines for what and how much will be done and who will be responsible. It would also provide the framework for developing organizational strategies and should result in the establishment of priorities to allocate scarce resources among competing activities and to give effect to top-level decisions concerning the relative importance of rural areas' needs and the means available to meet the needs.

The employment, income, population, housing, and community services and facilities goals required by the act

need to be quantified in a more timely manner than USDA plans. USDA should establish goals on both a national and a regional basis, using the best available information and, if necessary, should change them from time to time on the basis of the input from States and local governments during the next several years.

Also, establishing rural development offices within key departments and agencies, as was done by HEW, could help insure that each department and agency is focused on the needs and problems of rural areas on a continuing basis and that adequate resources, in terms of both dollars and manpower, are allocated to meet these needs. Such offices would also assist USDA in coordinating the Federal rural development effort.

RECOMMENDATIONS TO
THE SECRETARY OF AGRICULTURE

We recommend that, to help make the Federal Government's rural development effort a more effective and orderly process, the Secretary should

- establish quantified rural development goals for those matters specified in the act, using available information, on both a national and a regional basis;
- develop a national rural development plan describing how and when established goals would be met and the resources needed to meet them; and
- ascertain the desirability of having key Federal departments and agencies establish rural development offices.

AGENCY COMMENTS AND OUR EVALUATION

In its comments (see app. VIII), USDA said that the Administration's and Department's position was that the basic initiatives for rural development were primarily State, local, or private responsibilities and that the Federal role

was one of responsiveness to such initiatives. USDA's policy, as expressed in Secretary's Memorandum 1667 dated November 7, 1969, was that:

"Most details of the development process should be left to local determination. The approach of the Department is to assist people to help themselves. For those activities in which the Department has expertise and responsibility, it will provide direct services to the communities and individuals. For activities beyond the Department's purview, the Department can serve as communicator and catalyst. However, development is the primary responsibility of the local people."

USDA said the program regulations for implementing the Rural Development Act were consistent with the earlier expression of departmental policy and that its general policy, as stated in the regulations, was that:

"Federal implementations of the Act will be consistent with the President's policy of decentralized decision-making and administrative responsibility which gives fullest possible consideration to State and local rural development goals and priorities * * * ."

USDA's view is that the Federal Government should not set arbitrary goals for rural citizens. It said that, instead, it was seeking to establish and, to the degree feasible, to quantify goals based on State and local data input.

Although USDA intends to quantify goals on the basis of inputs from State and local governments, it has failed to establish a reasonable target date by which the goals will be quantified or the input received. USDA officials told us that the process would require several years. Because of this uncertainty and the need to provide overall direction to the Nation's rural development efforts, USDA should establish quantified goals on the basis of available information. As stated earlier, such goals could be altered as necessary on the basis of State and local input.

USDA said that, although the Rural Development Act required the establishment of goals and an annual report on the

progress made in attaining such goals, there was no statutory requirement for regional goal setting. USDA acknowledged that national quantified goals were desirable but said that the best available data often was not adequate for developing quantified goals. USDA said that:

--In preparing the 1974 goals report, it was soliciting information and data from State governments and other agencies and organizations to establish a basis for a statement of quantified goals.

--Information from and analysis by regional groups and individuals would be included.

--Although it could identify regional differences and analyze regional data, it felt that the basic statement of goals should be made by those jurisdictions affected by such goals.

--Whether this was practical on a regional level had yet to be determined.

Although there is no statutory requirement for regional goal setting, we believe that regionalization of national quantified goals would recognize differences in the various regions' rural development needs, help in setting the courses of action for meeting those needs, and provide a basis for assessing progress in meeting such needs. Without regional goals, for example, a national goal established for housing production might be met nationally although there could be underproduction in one region and overproduction in another. Such a situation could indicate a need for changes in programs, in resource allocations, or in administrative procedures.

USDA agreed that there was a need for a long-term rural development strategy but said that there were no statutory requirements for either a national or a regional rural development plan. USDA said that it was considering the feasibility of submitting the goals report to appropriate executive departments and agencies and was requesting that selected programs in their fiscal-year operations be identified with corresponding goals expressed in the report.

Regarding the establishment of rural development offices in key Federal departments and agencies, USDA said it was considering this idea and was prepared to further explore this proposal. DOT (see app. XIV) said that it had not investigated the possibility of establishing a rural development office and had no position on the matter. It said it would, however, be willing to discuss establishing such an office with appropriate USDA officials. Other departments and agencies did not comment on this matter.

CHAPTER 3

DISTRICT III--ITS CHARACTERISTICS AND

PROBLEMS ARE TYPICAL OF MANY RURAL AREAS

Like many rural areas, the district is losing population; its per capita income is lower than that of the State or Nation; and its economy is heavily dependent on agriculture which provides fewer and fewer jobs. When asked to identify the district's major problems, residents most frequently cited problems in the areas of outmigration, nonagricultural economic development, housing, health services and facilities, and job training.

DISTRICT III

South Dakota's District III is a transitional area lying between the moderately intensive livestock-farming area to the east and grazing rangeland to the west. Most of the area, which incorporates the western fringe of the corn belt, lies in a broad, nearly level stretch of land, considered one of the richest agricultural regions of South Dakota. (See p. 19.)

District III, comprising 12 counties, is 1 of 6 multi-county planning and development districts in South Dakota. Federal assistance to help establish such districts throughout the Nation was authorized by the Housing Act of 1954, as amended (40 U.S.C. 461). The district organizations' principal responsibilities are to (1) carry out comprehensive and functional planning, including planning for the coordinated development of resources and services, (2) coordinate the planning of local governments and other organizations within the area, (3) provide technical assistance to local governments in planning and administration, and (4) review and coordinate certain federally assisted projects.

As of June 1974, 44 States had officially delineated State planning and development districts for all or most of their geographic areas. Of the 521 districts delineated, 448 had been organized and staffed. Of the 12 counties which became District III, 6 agreed to organize as a multicounty planning and development district in April 1973, after our

fieldwork had begun. A director of District III was hired in July 1973. The remainder of the staff, which as of March 1974 consisted of 11 persons, were hired by November 1973.

We selected the 12 counties--hereinafter referred to as the district or as District III--for review in cooperation with officials of USDA's Economic Research Service because they had problems which were considered representative of many rural areas in the Northern Great Plains. Federal outlays¹ in the district totaled about \$415 million during fiscal years 1968-72. (See apps. II and III.)

Review approach in District III

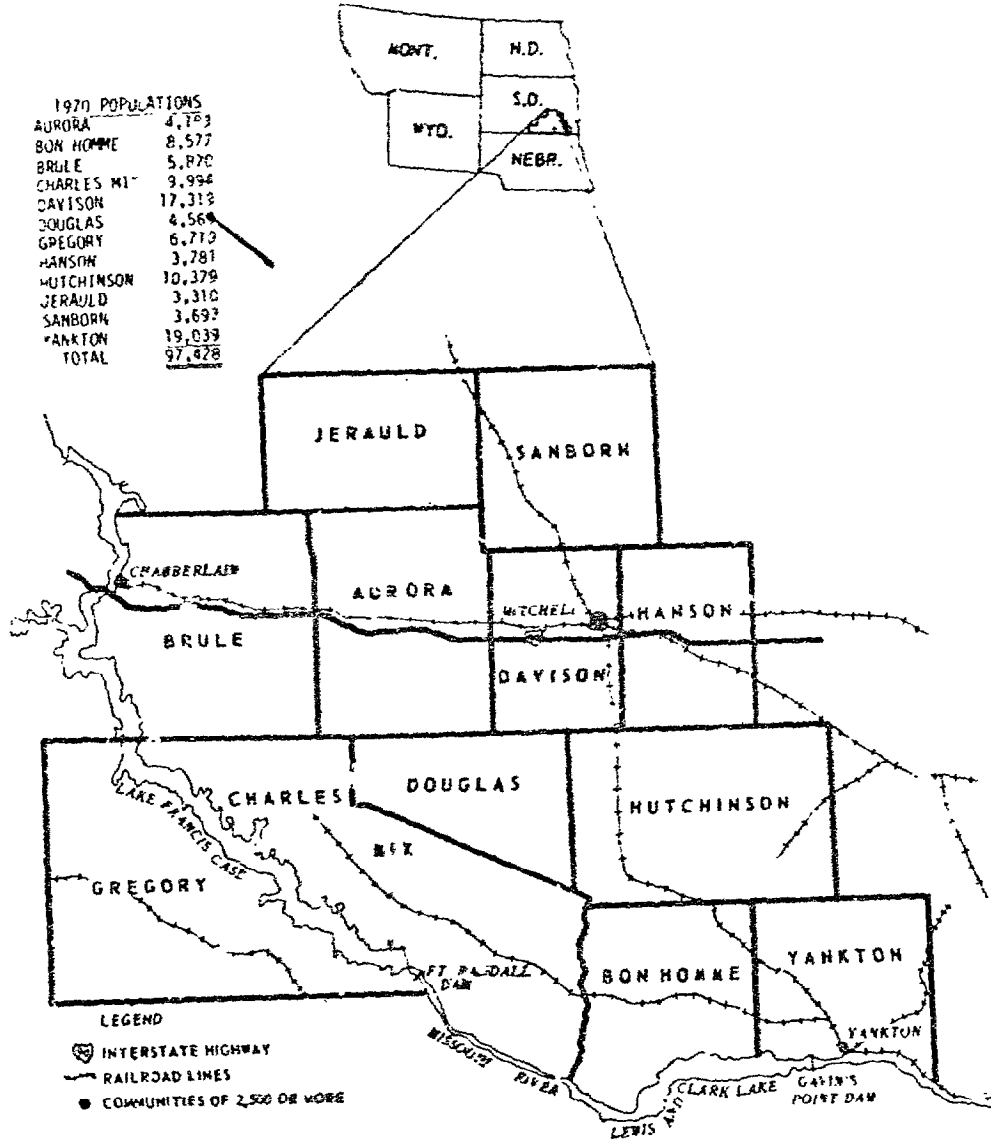
Our objective was to determine local rural development goals and the impact of Federal programs, and where appropriate State and local government programs, on the major problems impeding rural development in the district. Although the State had designated the 12 counties as a multi-county planning district, the counties had not agreed to organize as a district when we began our fieldwork. Also there were no district goals, plans, or comprehensive data on districtwide problems available. Therefore, to identify the goals and problems related to rural development in the 12 counties, we interviewed local government officials, community leaders, and other residents. We believed they were in the best position to perceive the goals and the problems that were of most concern to the residents. When possible, we obtained statistical and other information to confirm and better understand the principal areas of concern of the residents.

¹We obtained basic data on Federal outlays, which includes grants, loans, and loan guarantees, from the annual Federal outlays reports compiled and published by the Office of Economic Opportunity (OEO) for the Executive Office of the President. Where practicable, we adjusted such data on the basis of more precise information developed during our review.

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DISTRICT #1's RELATIONSHIP
TO THE NORTHERN GREAT PLAINS

1970 POPULATIONS	
AURORA	4,753
BON HOMME	8,577
BRULE	5,870
CHARLES MI	9,994
DAVISON	17,313
DOUGLAS	4,564
GREGORY	6,719
HANSON	3,781
HUTCHINSON	10,379
JERAULD	3,310
SANBORN	3,693
YANKTON	19,039
TOTAL	97,828



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During the review, we:

- Obtained and analyzed profile information on District III.
- Examined Federal outlays in the district during fiscal years 1968-72 and efforts made to coordinate Federal, State, and local rural development activities.
- Interviewed 133 district residents--60 county, city, or town officials and 73 community leaders and other district residents--to determine what they believed the rural development goals and problems in the district were.
- Asked 223 district residents, including the 133 interviewed, to identify, through the use of a questionnaire, those problems that they believed to be most important to the district.
- Asked 111 USDA employees and district residents serving on various USDA review committees--most of the committeemen were full-time farmers--to identify problems confronting district farmers.
- Obtained completed questionnaires from 24 of 32 business and industrial firms that we asked to identify, in priority order, the three main reasons they had not located in South Dakota after having expressed an interest in doing so.
- Obtained completed questionnaires from 1,163 persons--301 former residents who had left the district during the 2-year period ended March 1973, 750 recent college and high school graduates who had resided in or attended schools in the district, and 112 seniors at 3 district colleges--indicating why they had migrated from the district or why they intended to leave or stay in the district.

Population--many migrating out; those remaining getting older and moving off farms

Bureau of the Census statistics show that the population of District III decreased by 11.1 percent between 1950 and 1970 compared with a 2.1 percent increase for South Dakota and a 34.3 percent increase for the Nation as shown by the following table.

	<u>Population</u> <u>(rounded to nearest 100)</u>			<u>Percent of change</u>		
	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1950</u> <u>to</u> <u>1960</u>	<u>1960</u> <u>to</u> <u>1970</u>	<u>1950</u> <u>to</u> <u>1970</u>
District III	139,503	103,200	97,400	-5.8	-5.6	-11.1
South Dakota	652,703	680,500	666,300	4.3	-2.1	2.1
Nation	151,325,800	179,323,200	203,235,300	18.5	13.3	34.3

South Dakota was one of only three States in the Nation that experienced decreasing populations during the 1960s. District III's 1970 population included about 2,000 Indians and about 200 members of other minority groups.

In 1970, each county in District III had a higher percentage of population aged 65 or over than the percentages for the State and Nation, and each county had an aged dependency ratio (relationship of economically dependent to economically productive) above that of the State and Nation. In addition, the median age of residents in 11 of the district's 12 counties was increasing at a rate faster than that of the Nation. In the district the number of people in the 20- to 39-year age bracket decreased by almost 36 percent from 1950 to 1970 compared with a 58-percent increase of those aged 70 and over. (See app. IV for the changes in the age makeup of the district's population.)

The district's urban and rural population in 1970 is shown below.

	<u>Number of persons</u>	<u>Percent</u>
Urban (note a)	27,970	28.7
Rural nonfarm (note b)	37,021	38.0
Rural farm (note b)	<u>32,437</u>	<u>33.3</u>
Total	<u>97,428</u>	<u>100.0</u>

^aThese people resided in the three urban communities of Mitchell, Yankton, and Chamberlain, which had populations of 13,425, 11,919, and 2,626, respectively.

^bGAO estimate based on sample data of the Bureau of the Census.

The rural farm population percentage for the district (33.3 percent) was higher than that for the State (24.4 percent) and the Nation (4.1 percent). The district's 1970 urban population of 27,970 was up from 19,822 in 1950 and 24,432 in 1960. This increase was offset by a 3,181 decrease in the rural nonfarm population and 17,076 decrease in the rural farm population between 1950 and 1970.

Reasons for leaving or
staying in the district

Of the 1,163 former residents, college and high school graduates, and college seniors who responded to our questionnaire, 732, or about 63 percent, had left or said they planned to leave the district. Of these 732 respondents, about two-thirds cited a job-related reason as their major reason for leaving or planning to leave. A lack of jobs in the district, better salaries elsewhere, and the husband or wife employed outside the district were the most common specific reasons given. (See app. V.) Most of those who had left primarily for job-related reasons said that they would return if their main reason for leaving was resolved.

About 72 percent of the 310 respondents who stayed, or said they planned to stay, in the district gave as their main

reasons that their husbands or wives were employed in the district, they wanted to continue their education in the district, they liked small towns and rural areas, or they wanted to remain near relatives and friends.

The remaining 121 respondents did not indicate the reasons they left or stayed or planned to leave or stay in the district.

Income--rising, but still lower
than incomes in State and Nation

Bureau of the Census statistics showed that in 1969 the per capita personal income of district residents was \$2,174, compared with \$2,417 for the State and \$3,139 for the Nation. The district's position relative to the Nation was 74 percent in 1950, 58 percent¹ in 1959, and 69 percent in 1969.

The district's median family income in 1969, which by county ranged from \$5,323 to \$8,062, was \$6,544. This compared with \$7,494 for the State and \$9,590 for the Nation. Also 18.8 percent of district families had incomes below poverty levels² in 1969 compared with 14.8 percent for the State and 10.7 percent for the Nation.

Economy--heavily dependent on agriculture,
but agricultural employment declining

The district's economy is based on diversified agriculture with large amounts of both livestock and grain production. Department of Commerce statistics showed that from 1966 to 1970, agriculture accounted for about 30 percent of the district's total earnings compared with about 3 percent of the Nation's.

¹According to State officials, 1959 was a bad year for the agricultural sector.

²Poverty-income levels, as defined by the Social Security Administration and subsequently modified, are adjusted to consider such factors as family size and farm or nonfarm residence.

The following table summarizes, for selected sectors of the economy, Bureau of the Census data on the composition of the district's and Nation's civilian labor forces in 1960 and 1970.

Sector	District III					Nation		
	Number		Percent		Percent of change 1960-70	Percent		Percent of change 1960-70
	1960	1970	1960	1970		1960	1970	
Agriculture	15,635	10,318	42.4	29.1	-34.1	6.2	2.9	-53.2
Services	7,415	13,277	28.1	37.9	+34.5	21.2	24.5	+15.6
Wholesale and retail trade	4,619	7,724	17.9	21.2	+18.1	19.2	18.9	+3.8
Manufacturing	1,342	1,483	5.0	5.3	+43.5	27.3	24.4	-10.0
Other or not reported	1,203	1,112	4.6	4.7	+2.2	27.3	29.3	+7.3
Total	<u>37,054</u>	<u>37,924</u>	<u>100.0</u>	<u>100.0</u>		<u>100.0</u>	<u>100.0</u>	

As shown by the table, agricultural employment in the district decreased 34 percent between 1960 and 1970, but this loss was offset by increased employment in the services, wholesale and retail trade, and manufacturing sectors. Also compared with the Nation's percentages, much greater percentages of the district's civilian labor force were employed in agriculture in both 1960 and 1970 while much smaller percentages were employed in manufacturing.

Labor and State data on average annual unemployment showed that the district's rate was generally below that of the State and Nation for the years 1969 through 1972. (See p. 47 for a further discussion of these rates.)

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	Annual average unemployment percentage rate			
	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>
District III	3.5	3.2	2.9	2.9
South Dakota	3.6	3.5	3.3	2.8
Nation	5.6	5.9	4.9	3.5

PRIMARY GOALS AND CONCERNS OF
DISTRICT RESIDENTS

Improved and/or additional streets and roads, water and sewer systems, and recreational areas and facilities were the three most frequently mentioned goals of the 60 local officials we interviewed. Although several of the 73 community leaders and other residents we interviewed also mentioned these same goals, a much higher percentage of these individuals mentioned job creation, industrial development, and improved health services and facilities.

Outmigration was cited as one of the district's major problems by 95 percent of the 223 local officials, community leaders, and other residents we questioned. The other problems most frequently cited were in the following areas.

- Economic development--nonagriculture
- Housing
- Health services and facilities
- Job training

We directed our review in District III to these four areas; to agriculture, the dominant sector of the district's economy; and to the capital facilities which the local officials most frequently mentioned as community goals. These matters are discussed in the following chapters.

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CHAPTER 4

AGRICULTURE--THE DOMINANT SECTOR OF THE DISTRICT'S ECONOMY

Agriculture has been and will continue to be central to District III's economy. The district has experienced a consolidation of farms with resultant declines in the number of farms, farm employment, and farm population. The Government can do little to affect farm sales, but lower income farmers could be assisted through increased outreach by extension agencies.

AGRICULTURE IS DOMINANT IN DISTRICT'S ECONOMY

According to Department of Commerce data on the district's economy, which is summarized in the following table, personal earnings for the farm sector in 1970 were about 51 percent more than those of the wholesale and retail trade sector which depends greatly on sales to the farm sector.

<u>Economic sector</u>	<u>Personal earnings</u>		<u>Personal earnings as percent of total</u>	
	<u>1962</u>	<u>1970</u>	<u>1962</u>	<u>1970</u>
	(millions)			
Farm	\$44.2	60.4	32.7	28.8
Wholesale and retail trade	26.2	39.9	19.4	19.0
Government (Fed- eral, State, and local)	21.3	38.5	11.0	18.5
Services	17.5	32.6	13.0	15.6
All others	26.9	37.9	19.9	18.1
Total	<u>\$135.1</u>	<u>\$209.6</u>	<u>100.0</u>	<u>100.0</u>

Commerce data also showed that, as a percentage of total personal earnings, the farm sector was about 10 times more important to the district's economy in 1970 than it was to the Nation's economy; in 1962 it was only about 7 times more important.

According to agriculture censuses, average gross sales of district farms increased from \$8,009 in 1959 to \$11,399

in 1964 and to \$19,897 in 1969. About 23 percent of these farms had gross sales of \$10,000⁽¹⁾ or more in 1959, compared with about 38 percent in 1964 and about 60 percent in 1969. The increases in farm product prices since 1969 have likely increased still further the proportion of district farms grossing \$10,000 or more. The following table shows the increased number of district farms with higher sales.

Gross sales range	1959		1964		1969		Percent change 1959-69
	Number (note a)	Percent	Number (note a)	Percent	Number (note a)	Percent	
\$10,000 and above	134	1.2	292	2.5	809	6.7	+503.7
20,000 to 39,999	497	4.4	659	5.4	7,361	22.3	+318.5
10,000 to 19,999	1,938	17.3	2,730	23.1	2,716	22.2	+40.1
5,000 to 9,999	3,995	35.7	3,295	28.2	1,802	19.4	-54.9
2,500 to 4,999	2,755	24.6	1,835	15.7	925	9.9	-66.4
Under 2,500	<u>1,487</u>	<u>16.8</u>	<u>1,436</u>	<u>14.1</u>	<u>974</u>	<u>10.5</u>	-48.4
Total	<u>1,226</u>	<u>100.0</u>	<u>1,247</u>	<u>100.0</u>	<u>9,348</u>	<u>100.0</u>	-17.0

^aNumber based on farms reporting.

Source: Census of Agriculture for the years indicated.

Gross farm receipts in the district increased at a somewhat faster rate than production expenses between 1962 and 1970, 52 percent compared with 46 percent, respectively. Most of the gross receipts from district farms, as shown below, are from sales of livestock. Although large amounts of feed grain and hay are grown, much is used as feed rather than sold.

¹The South Dakota Cooperative Extension Service classifies farmers with annual sales of under \$10,000 as lower income farmers. (See p. 35.)

	<u>Gross farm receipts</u>				Percent of change 1962-70
	1962		1970		
	<u>Amount</u> (millions)	<u>Percent</u>	<u>Amount</u> (millions)	<u>Percent</u>	
Livestock	\$113.5	79	\$177.7	82	57
Crops	23.0	16	27.8	13	21
Government payments	<u>6.9</u>	<u>5</u>	<u>11.9</u>	<u>5</u>	72
Total	<u>\$143.4</u>	<u>100</u>	<u>\$217.4</u>	<u>100</u>	52

Source: South Dakota Crop and Livestock Reporting Service.

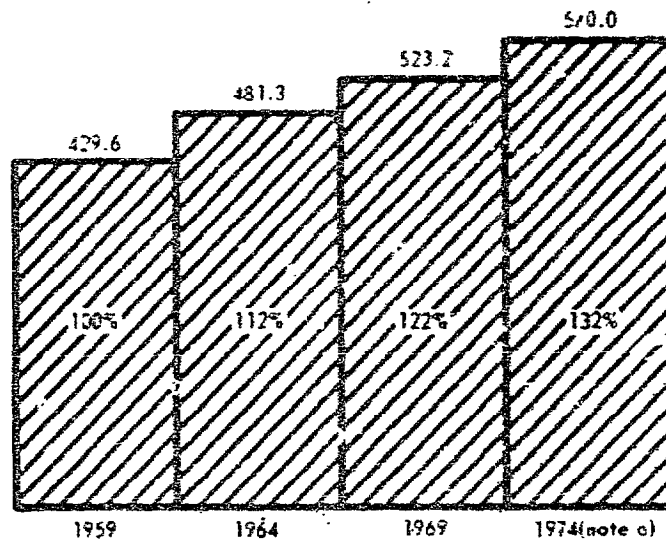
FARMS HAVE BECOME LARGER
WHILE FARM EMPLOYMENT AND
POPULATION HAVE DECREASED

The district has experienced a consolidation of farms with resultant decreases in the number of farms, farm employment, and farm population. Record high prices for farm products, however, may affect these trends.

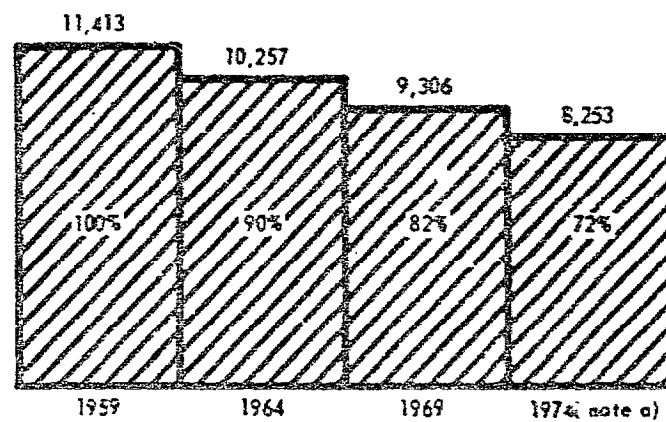
From 1959 to 1970, the total district farm land remained about the same while the number of farms decreased by 17 percent and their average size increased by 20 percent. According to local USDA officials, most farms sold in the district during the past several years were purchased by farmers expanding their operations. The farms eliminated by consolidating generally were smaller ones, from 50 to 499 acres. The changes in farm sizes and numbers are depicted in the graphs on page 29.

As shown in the table on page 24 the district's agricultural employment decreased from about 15,600 in 1960, when it made up 42 percent of the employed civilian labor force, to about 10,300 in 1970, when it made up 28 percent of the labor force--an average loss of 530 jobs a year. The district's farm population decreased from about 42,200 in 1960 to about 32,400 in 1970, a loss of 9,800 people, or 23 percent.

AVERAGE FARM SIZE IN ACRES



NUMBER OF FARMS



^c Projection to 1974 based on trends between 1959 and 1969, however, record-high prices for farm products may affect these projections.

Source: Census of Agriculture for the years indicated, except 1974.

The average age of district farmers increased from 46.8 in 1959 to 48 in 1964 and to 48.6 in 1969. From 1959 to 1969 the proportion of farmers 25 to 34 years old and 35 to 44 years old decreased by 41 percent and 26.6 percent, respectively, as shown below.

<u>District Farmers by Age Group</u>							
<u>Age group</u>	<u>1959</u>		<u>1964</u>		<u>1969</u>		<u>Percent of change 1959-69</u>
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	
Under 25	306	2.8	252	2.5	302	3.3	- 1.3
25 to 34	2,012	18.3	1,497	14.7	1,187	12.8	-41.0
35 to 44	2,742	24.9	2,542	24.9	2,012	21.7	-26.6
45 to 54	2,644	24.0	2,586	25.3	2,544	27.5	- 3.8
55 to 64	2,172	19.8	2,191	21.5	2,138	23.0	- 1.6
65 and over	<u>1,122</u>	<u>10.2</u>	<u>1,130</u>	<u>11.1</u>	<u>1,023</u>	<u>11.7</u>	- 3.5
Total	<u>10,998</u>	<u>100.0</u>	<u>10,236</u>	<u>100.0</u>	<u>9,216</u>	<u>100.0</u>	-11.7

Source: Census of Agriculture for the years indicated.

To determine whether farms were being sold because their owners could not survive financially, we obtained the following information on 240 farm sales made in the district in 1972. The information was obtained from county officials and corroborated by local USDA employees.

<u>Type of seller or reason for sale</u>	<u>Sales</u>	
	<u>Number</u>	<u>Percent</u>
Retirement	85	35
Nonfarmer (investor or inheritor)	57	24
Widow selling	30	13
Partial sale (remainder farmed)	23	10
Sale for financial reasons (forced sale)	13	5
Health	10	4
Estate or transfer of sale	8	3
Personal reasons	5	2
Unknown	<u>9</u>	<u>4</u>
Total	<u>240</u>	<u>100</u>

About 72 percent of the farms were sold by retirees, inheritors or investors, and widows. Only 5 percent were sold for financial reasons. Also acreage data available on 190 of the 240 sales showed that 170 sales were of farms of 50 to 330 acres.

As long as the principal sellers continue to be retirees, inheritors or investors, and widows, the Government can do little to affect most farm sales in the district. As long as most farms are sold to farmers expanding their operations, the trend toward fewer and bigger farms in the district will continue.

FEDERAL ASSISTANCE TO AGRICULTURE
SECTOR HAS BEEN SUBSTANTIAL

Federal assistance has included both (1) financial assistance to support and maintain farm incomes and to help farmers establish, expand, and operate their farms and (2) technical assistance and training to help farmers become better managers and to improve the quality of farm life. Changes in some Federal farm programs and continued high prices for farm products may result in reduced Federal financial assistance in the next several years.

Federal outlays in the district for agriculture and related programs during fiscal years 1968-72 totaled about \$109 million. These outlays, representing about 26 percent of all Federal outlays in the district during the 5-year

period, were provided under 25 programs. Five programs accounted for about 74 percent of the total agricultural outlays as shown below.

<u>Program</u>	<u>Federal outlays</u>	
	<u>Fiscal years</u> <u>1968-72</u>	<u>Fiscal year</u> <u>1972</u>
	(millions)	
Feed grain direct payments	\$40.7	\$ 7.7
Wheat direct payments	5.5	1.3
Commodity loans	16.1	5.0
Farm ownership loans	11.0	3.0
Farm operating loans	<u>8.0</u>	<u>2.4</u>
Total	<u>\$81.3</u>	<u>\$19.4</u>

Direct payment programs

Direct payments were made to grain producers who agreed to withhold cropland from production. The amount of these payments was generally determined on the basis of acreage and yield. Consequently, farms with more acreage received larger direct payments. For example, USDA statistics showed that during 1972 the top 20 percent of the district producers receiving direct payments under each of the feed grain and wheat programs received 54 and 73 percent, respectively, of the total payments. Data for the State and Nation in 1972 showed comparable relationships.

As summarized in the table on page 33, our analysis of direct payments made to 88 district farmers who participated in the feed grain, wheat, and other commodity programs during crop year 1972 showed generally that farmers with higher gross incomes received larger payments but that farmers with lower incomes received payments which made up a larger proportion of their incomes.

The Agriculture and Consumer Protection Act of 1973 (87 Stat. 221) revised the procedures to be used to make direct farm payments. Under the act, farmers normally are to receive their incomes from the marketplace and will receive Federal feed grain and wheat program payments only if prices fall below prescribed target prices. The market prices of feed grain and wheat during the first half of 1974

were much higher than the target prices prescribed for 1974 and 1975. Unless there are drastic reductions in market prices, the amount of direct Federal payments to district farmers under the feed grain and wheat programs will be reduced.

<u>Gross farm income range</u>	<u>Number of farms</u>	<u>Direct payments</u> <u>Average amount</u>	<u>Percent of gross income</u>	<u>Average farm size in acres (note a)</u>
\$40,000 and above	15	\$1,958	3.5	854
20,000 to 39,999	26	1,172	4.5	796
10,000 to 19,999	34	386	5.9	445
5,000 to 9,999	9	900	11.9	452
2,500 to 4,999	4	679	16.0	280

^aIncludes land owned and rented.

Commodity loan program

Under the commodity loan program, loans are made at established levels to eligible producers with the commodities, such as corn, oats, or wheat, serving as collateral. Commodity loans are usually nonrecourse which means that, when the loans come due, the producers may forfeit the pledged collateral to satisfy the loans. If market prices rise above the loan levels, however, the producers can pay off their loans and market their commodities.

During the 1971 crop year, about 3,900 district producers received commodity loans totaling about \$5 million. During the 1972 crop year, about 1,300 district producers received commodity loans totaling about \$3.2 million.

The Agriculture and Consumer Protection Act of 1973 authorized the commodity loan program to be continued through the 1977 crop year. The act increased loan levels but did not otherwise change the program.

Farm ownership and operating programs

According to the local USDA employees and committeemen we questioned, one of the concerns of district farmers was

the availability of credit. Although most farm credit comes from commercial sources, Federal programs are also an important source. We directed our review of this matter to the farm ownership and farm operating loan programs of USDA's Farmers Home Administration (FmHA), one of the primary Federal agencies providing farm credit in the district.

FmHA's farm ownership and operating loans are available to eligible farmers who are unable to obtain credit elsewhere at reasonable rates and terms. The ownership loans, limited to a total of \$100,000 a farm, may be used, among other purposes, to enlarge, improve, or buy family farms. Operating loans up to \$50,000 a farmer may be used for several purposes, including purchasing livestock or equipment and financing operating expenses. FmHA assistance in the district during fiscal year 1972 included farm ownership loans totaling about \$3 million to 122 recipients and farm-operating loans totaling about \$2.4 million to 264 recipients.

An FmHA official told us that about 11 percent of the district's farmers had FmHA ownership or operating loans in fiscal year 1972 compared with about 15 percent for the State. He said the reason fewer district farmers had FmHA loans might be because more commercial credit was available in the southeastern section of the State where the district is located. Although we did not review the State's entire farm credit structure, available information indicated that other credit sources were active and that rather large amounts had been loaned.

To determine whether FmHA's loan practices favored farmowners over farmers who had not previously owned a farm (new farmers), we analyzed 142 farm ownership loans made in the district from March 1972 through February 1973. Our analysis showed that about half the loans had been made to new farmers.

According to an FmHA headquarters official, FmHA attempts to make a certain percentage of its farm ownership loans to farmers under 34 years of age, many of whom may be new farmers. He said that FmHA's goal for fiscal year 1974 was to make 48 percent of its loans to this age group.

Farm management program

The local USDA employees and committeemen we questioned considered the lack of management expertise to be one of the most important problems facing farmers. Good management practices are as crucial to farming as they are to any business. They involve not only farm operating matters, such as decisions about planting, soil conservation, fertilization, and livestock care, but also general business matters, such as recordkeeping, money management, purchasing, and marketing.

USDA's Extension Service, cooperating with State and county extension agencies, operates educational programs designed to disseminate useful and practical information in the broad fields of agriculture and home economics so that the information can be put to practical use. This is accomplished through workshops, seminars, meetings, tours, and consultations at fairs as well as by letter and telephone.

The South Dakota Cooperative Extension Service's budget for fiscal year 1972 was \$3.4 million, of which the Federal Government provided 46 percent; the State Government, 42 percent; and the counties and private sources, 12 percent. About one-third of the budget was committed to programs designed specifically to assist in improving farm and ranch income, marketing distribution, and soil and water conservation.

The Service's records showed that in 1972 about 16 percent of its staff's contacts with district farmers involved lower income farmers--those grossing under \$10,000 annually. About 40 percent of the district farmers were in this category in 1969.

A Service official told us that in recent years the Service had attempted to direct more services toward lower income farmers who generally need more education services than higher income farmers. He said that one reason more lower income farmers were not assisted was that, because of a limited staff, the Service relied on the farmers needing assistance to come to them. In fiscal year 1972 the Service had 53 professional staff members at the State level, 140

field staff employees and 65 paraprofessionals in the field--a total of 258 employees, providing extension services in the State.

Recognizing the importance of management practices to small farms and the need to expand research on innovative approaches to small farm management and technology, the Rural Development Act of 1972 directs and authorizes USDA to conduct rural development extension programs; rural development research; and small farm extension, research, and development programs. The Administration, however, does not plan to carry out the small farm extension, research, and development programs because USDA has an affirmative action program directed at minorities and small farm operators which USDA officials believe will accomplish the intent of the programs authorized by the act.

CONCLUSIONS

Agriculture is and will likely continue to remain central to the district's economy for some time. Agricultural earnings are at high levels, and current Federal farm programs continue to protect farm income levels. The agricultural sector's relative importance in terms of the district's total personal earnings declined slightly during the 1960s (see p. 26), and there were fewer farmers to benefit from its growing prosperity.

The trend toward consolidating small farms, with resulting job losses, is likely to continue in the district. Nevertheless, some farm families, despite low incomes, may choose to remain on the farm to maintain that way of life. One way to help such farmers is through increased technical assistance and training, particularly extension programs aimed at maximizing income through better management practices. Although research directed at small farms may assist such farmers in the future, more active outreach programs now could help them take greater advantage of existing knowledge and expertise.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary encourage State and

local extension agencies to (1) allocate a higher proportion of their extension efforts to lower income farmers and (2) have extension personnel increase their efforts to seek out and assist lower income farmers.

AGENCY AND STATE COMMENTS
AND OUP EVALUATION:

USDA

According to USDA, serving lower income farmers better had been an Extension Service objective during the past several years. This objective was being met by using several methods and approaches, including seeking out and assisting lower income farmers individually.

Our review showed that one reason more lower income farmers were not assisted was that, because of a limited staff, the South Dakota Cooperative Extension Service relied on the farmers needing assistance to come to them. Our inquiries into the Extension Service's nationwide efforts to help the family farmer have indicated that similar circumstances exist in other States.

State

In its comments (see app. XV), the State said that our general review of the importance of the district's agriculture sector was good. It agreed with the need for increased extension efforts to reach lower income farmers but said that the reasons lower income farmers frequently participate less in extension programs than their higher income counterparts were not clearly identified. It suggested that, rather than lower income farmers lacking personal initiative, they may not participate because the extension materials are often presented--both in writing and orally--in too sophisticated a manner to be of practical use to these farmers. It said that, if this were true, the extension programs should be made more applicable to the lower income farmers' particular circumstances and levels of comprehension.

We did not interview lower income farmers to find out why they did not participate more; therefore, we could not determine whether the manner in which the extension material was presented was a factor.

The State also noted the likely detrimental effects that proposed cutbacks of USDA's Soil Conservation Service (SCS) personnel would have on land in the area. It was concerned that such cutbacks were serious because they were being proposed at a time when, due to high prices of farm products, State and district farmers were farming marginal lands which are highly susceptible to wind and water erosion and which were previously held in soil bank or used for grazing. It said that this seriously threatened the longrun productivity of the land, which is detrimental to rural development.

According to an SCS official, the number of SCS employees in South Dakota, which totaled 215 in July 1974, was to be reduced, through attrition, to 205. He also said that, nationwide, the number of SCS employees was being reduced.

According to another SCS official, SCS is concerned about the possible detrimental effects personnel cutbacks may have on farmland nationwide. SCS is attempting to maximize the efficiency of its staff as much as possible and is encouraging State and local governments to provide funding and staff resources to assist in conservation.

CHAPTER 5

THE NON-AGRICULTURAL ECONOMY--KEY TO DISTRICT

DEVELOPMENT BUT GROWTH MAY BE DIFFICULT

Stimulating the district's non-agricultural economic sector is the real key to promoting rural development and stemming outmigration. About 65 percent of the persons questioned who left or planned to leave the district cited job-related factors as the main reason. Although limited investment capital, distance to markets, and limited non-agricultural raw materials are barriers to economic growth, the district has attracted some industrial firms and has potential to attract others. Full implementation of the Rural Development Act could help provide the investment capital needed and help spur economic growth.

JOB CREATION IS THE KEY TO DISTRICT'S DEVELOPMENT BUT THERE ARE PROBLEMS

According to many Federal and State publications and other literature on rural development, the creation of job-producing enterprises in rural areas is the key to rural development and the stemming of outmigration. This point was also made during congressional hearings before enactment of the Rural Development Act. Of the 732 persons responding to our questionnaire who had left or planned to leave the district, 65 percent cited job-related factors as the main reason. (See app. V.) Job creation was the most frequently mentioned goal of the district residents we interviewed.

Job creation in an area depends on the expansion and growth of existing industrial and other business firms or the attraction of new ones. To attract new firms, an area must have or be able to provide services and facilities meeting the firms' needs. According to Commerce's Economic Development Administration (EDA), the location factors that industrial firms express greatest interest in are

--population and labor force;

--transportation and communications facilities;

- industrial power, fuel, and water;
- industrial sites and buildings, including warehousing;
- raw materials;
- public services:
- government and local finances;
- taxes;
- living conditions, such as housing, recreation, shopping, and medical facilities; and
- business climate.

Many of these same factors would be of interest to non-industrial business firms considering locating in an area and to firms considering expansion.

The problems hindering the economic development necessary to create jobs were perceived by 223 district officials, community leaders, and other residents to be the shortage and cost of credit, the lack of raw materials, the distance to markets, the availability and cost of rail freight transportation, high taxes, and shortages of skilled labor and buildings. Their concern about the availability of credit; the lack of raw materials; and the distance to markets, which has a direct bearing on freight costs, appeared justified. High taxes and shortages of skilled labor and buildings did not appear to be real hindrances to the district's development. The credit cost in the district was generally lower than in the urban areas of Sioux Falls and Denver.

Credit availability

Credit for economic development in rural areas, such as the district, depends largely on local banks. According to testimony presented before the Subcommittee on Rural

Development of the Senate Committee on Agriculture and Forestry in September 1971, many local banks are

- often small, with limited banking services, limited facilities, and limited expertise for advising businessmen;
- seldom aggressive competitors; and
- conservative in their lending practices, having small amounts of money in loans and high amounts in Government bonds.

Further, smalltown banks are limited by small reserves from making large loans and regulations under which they operate force them to loan money for short periods to those who represent no risks.

District banks had made only limited investment capital available for nonfarm businesses. This related to most banks' small deposits; investment policies; orientation toward and dependence on, agriculture; and general conservatism.

Of the 24 firms that identified the 3 main reasons they had not located in South Dakota after having expressed an interest in doing so (see p. 20), 3 ranked credit problems first and 2 ranked credit problems third.

As of December 1971, 22 of the district's 32 banks--26 State banks and 6 national banks--had total deposits of less than \$10 million each, a level considered by some observers to be the minimum necessary to economically perform normal bank functions. The 22 banks' investments in Government bonds, as a percentage of deposits, ranged from 31 to 76 percent, with 8 having more than 60 percent of their deposits invested in Government bonds. At the same time, these smaller banks generally had a lower proportion of their deposits in loans than did the larger banks, as shown below.

December 1971

Number of banks	Deposits (000 omitted)	Percent of deposits loaned	
		Range	Average
2	Under \$2,000	19 to 41	29
12	\$2,000 to 5,000	39 to 64	49
8	\$5,000 to 10,000	31 to 64	53
4	\$10,000 to 25,000	52 to 71	63
^a 6	\$25,000 and over	53 to 64	58

^aThree of these six banks are branches of banks headquartered outside the district. The deposits shown for these branches include those of the headquarters bank and all branches.

Most of the loans were personal or farm business loans. Of the 26 State banks in the district, for which information was readily available, loans to nonfarm businesses for 17 banks represented less than 5 percent of their December 1971 deposits.

An analysis of the 16 State banks' loans showed that the amount of loans made to farmers--about 76 percent of the total--was 4 times greater than the amount made to nonfarm businesses--about 14 percent of the total. The remaining 30 percent was in personal loans. No information was available on the demand for loans from the different sectors.

Some of the district banks had stringent loan limits which could create difficulties for larger firms that might consider locating in the district. For example, a district bank, with about \$8 million in deposits, had a loan limit of \$50,000; another, with about \$7 million in deposits, had a limit of \$100,000. One of the district's largest banks, with about \$27 million in deposits, had a limit of \$240,000.

Our analysis of about \$3.7 million in loans made or guaranteed by SBA to 23 industrial and commercial firms in the district during fiscal years 1970-71 showed that the larger loans provided the most benefits in the district in terms of jobs created per dollar of loan assistance. The seven loans over \$200,000 resulted in more jobs and payroll per dollar loaned than the 16 loans of \$50,000 to \$200,000. Difficulties in obtaining larger loans could hamper the district's attraction of larger firms.

SBA and bank officials with whom we discussed lending practices offered several reasons for the district's small banks limiting credit to nonfarm businesses. Among the reasons were:

--A bank's business loan volume may not be sufficient to warrant a full-time loan officer experienced in making and servicing all types of business loans.

--Fluctuations in farm income affect the level of bank deposits in rural areas; therefore, bankers are reluctant to invest a large portion of their banks' deposits in long-term loans.

--District bankers consider industrial development loans riskier than other business loans because they are generally long-term loans and involve low borrower equities.

--Should a business in a rural area fail, a bank might have difficulty in disposing of the properties serving as collateral.

Before January 1973 South Dakota had used about \$7 million in surplus State funds to purchase the guaranteed portions of SBA loans from banks. This practice provided the banks with additional capital which could be reinvested in new loans. With this assistance, for example, a bank could make an SBA-guaranteed loan of \$100,000 using only \$10,000 of its money with the remaining \$90,000 provided by the State.

In January 1973 the South Dakota Investment Council, formed to manage the State's surplus funds, suspended this practice. The council's professional adviser said that he was against investment of State money in SBA-guaranteed loans because higher rates of return were available on more liquid corporate and Federal Government securities. In July SBA said that this practice had been reinstated and that, since the latter part of 1973, the Investment Council had been a regular purchaser of the guaranteed portion of SBA-guaranteed loans.

Credit cost

Although district residents cited credit cost as a problem, SBA officials said interest rates on loans made in rural areas generally were lower than those in urban areas. Our comparison of interest rates charged on SBA-guaranteed and participation loans by district banks and by Sioux Falls and Denver banks confirmed this.

Distance to markets and transportation costs

A private consulting firm's 1968 study for the South Dakota Industrial Development Expansion Agency (IDEA)¹ identified the north central area of the Nation, specifically Chicago, Milwaukee, and Minneapolis-St. Paul, as a major market area for South Dakota. Mitchell, the district's largest city, is about 620 miles from Chicago, 570 miles from Milwaukee, and 300 miles from Minneapolis-St. Paul.

The distance to major markets, which generally would directly affect transportation costs, could be a barrier to the growth of both the district and the State. Of the 24 firms responding to our questionnaire, 9 said problems of distance or transportation were the main reason they had not located in South Dakota, 4 ranked these problems second, and 7 ranked them third.

In addition to the costs incurred in shipping finished products long distances to market, the district's lack of raw materials (see p. 48) could cause high transportation costs when shipping these raw materials into the district.

The South Dakota Public Utilities Commission's rate analyst said that South Dakota freight rates were generally low but that the State was disadvantaged because of the distance to markets. He said, however, that, because more tonnage and shipments leave than enter the State by rail with the reverse true for trucks, railroad companies were often willing to charge low rates for goods shipped into the State and truck companies were often willing to charge low rates for goods shipped out of the State.

¹Name later changed to Department of Economic and Tourism Development.

The district's freight rail service appeared adequate. At the time of our fieldwork the district had major east-west and north-south lines operating 5 and 6 days a week, respectively. Freight rail service was available in most population centers. Although one railroad company had abandoned two lines in the district in 1973, eliminating about 70 of the 480 miles then in existence, 11 of the district's 12 counties and 23 of its 27 communities with populations of 350 and over had rail service. The railroad company eliminated these lines because they paralleled other lines and were unneeded.

The district said that serious threats of heightened railroad abandonment were beginning to surface since the Interstate Commerce Commission's implementation of the 34-car rule. The Commission uses this rule as prima facie evidence that the public convenience and necessity does not require maintenance and/or continued operation of railroad lines or portions thereof, over which, on the average, fewer than 34 carloads of freight per mile are carried during a 1-year period.

The district said that continued railroad abandonment would seriously hinder industrial expansion and, at the same time, force the agriculture sector to rely on a single transportation option, the trucking industry. It said that branch line abandonment would result in millions of bushels of grain being hauled by truck and it doubted that the present road system was constructed to handle the increased traffic or the heavy loads.

Availability of skilled labor

Although the district did not have a large pool of skilled labor in the manufacturing trades--manufacturing industries employed about 1,900 district residents in 1970--the lack of such a pool would not appear to be an important hindrance to the district's industrial development. The needs of firms of the size which would normally be attracted to the area could most likely be met through the many available Federal and State job-training programs. Such assistance had been provided to train employees of several firms that had located in the district.

None of the 24 firms responding to our questionnaire cited the shortage of skilled labor as the main reason for not locating in South Dakota but two ranked it second.

South Dakota's generally lower wage rates, which we were told were comparable to those in the district, would be an attraction to firms. In manufacturing industries, for example, Labor data on wage rates for 1971 showed that South Dakota had a lower hourly wage rate than six nearby States--\$3.13 compared with a range of \$3.17 to \$4.00 in the other States.

Federal outlays for district manpower training programs for fiscal years 1968-72 totaled about \$5 million. These outlays were provided under nine programs administered by four Federal agencies--the Departments of Labor, HEW, and the Interior and OEO. The programs included both on-the-job training (OJT) and institutional-type training.

Because of a general lack of followup files on participants, we could not fully evaluate the programs' effectiveness. Further the agencies had not made any formal evaluations of the programs' impact in either the district or the State. An official in Labor's Regional Manpower Office said that insufficient funds and personnel prevented such evaluations.

Available information indicated that individuals completing OJT programs were more apt to remain in the district than those completing institutional-type training. Follow-up files available for one of the federally sponsored OJT programs, for example, showed that 25 of the 29 individuals completing the program during 1972 remained in the district. In contrast, 111, or 43 percent, of the 259 graduates from Mitchell's vocational school in 1972 remained in the district.

This difference appeared to be attributable to two factors. First, employers tended to retain those completing OJT programs who were already in job slots. Second, institutional training was generally for higher skilled trades than those provided by the OJT programs and the district's employment opportunities for higher skilled labor were limited.

The State's Comprehensive Manpower Plan recognized the lack of employment opportunities as a principal reason for outmigration and suggested that manpower programs be re-oriented toward expanding employment opportunities. The plan called for attacking unemployment among the disadvantaged by providing jobs rather than training and recommended

increased manpower funds for work training and work support. Also, several district manpower program directors said that, without more jobs, training could not contribute to rural development in the district because most of the persons trained had to leave the district for jobs.

The IDEA director said that the reason a pool of skilled labor was not available in the district was that the trainees left once they were trained. He said that out-of-State businesses hired graduates directly from the district's State vocational school for plants in other parts of the country.

The district's 1972 unemployment rate of 3.5 percent was relatively low compared with the Nation's 5.6 percent. Both rates, however, may be misleading. Labor defines persons as being unemployed if they actively sought work in the past 4 weeks, are currently available for work, and do not have a job at the same time. The discouraged unemployed --persons who are not actively seeking a job but who would work if suitable jobs could be found--are not included in that definition. Further, underemployed¹ individuals are classified as employed.

The State's Comprehensive Manpower Plan stated that unemployment statistics and occupational projections do not reflect the true situation. In an April 1972 letter transmitting the plan to Labor's Regional Manpower Administrator, South Dakota's Governor questioned the appropriateness of the methodology used in developing manpower statistics for rural areas and stated:

"The statistics which * * * provide estimates of target group size are useless; more than that, they are misleading. Effective manpower planning will not be possible in South Dakota until statistical reliability is accomplished."

The Comprehensive Employment and Training Act of 1973 (Public Law 93-203, 87 Stat. 839), enacted on December 28, 1973, authorizes the Secretary of Labor to provide financial

¹ According to Labor, underemployed individuals include those who are involuntarily working less than full time, working below their skill capacity, or working full time for less than poverty-level incomes.

assistance to States and other local program sponsors to carry out comprehensive manpower programs. Also the act requires that the Secretary of Labor (1) develop a comprehensive labor market information system and reliable methods of producing more statistically accurate data on unemployment, underemployment, and labor demand and (2) provide for the continuing evaluation of all programs and activities conducted pursuant to the act.

To help measure and compare the relative effectiveness of the authorized training programs, the act requires also that program sponsors submit to the Secretary periodic reports which would include employment information on program participants for at least 1 year following their termination from federally assisted programs.

The act, if properly implemented, should provide South Dakota with greater flexibility for funding the types of manpower programs it considers necessary and should help alleviate the district's problems--the lack of reliable manpower need estimates, formal program evaluations, and followup records.

Raw materials

Although the district has deposits of limestone, iron-manganese, sand and gravel, chalk, and surface quartzite, an Interior official said that these materials could not be profitably exploited primarily because deposits of better quality, greater quantity, and easier accessibility were available elsewhere and/or the shipping cost to processing points was too high in relation to their value.

Hay and feed grain, the district's principal crops, require little or no processing and therefore offer little potential for industrial development. Although wheat is grown there, the quantity grown would not be enough to supply South Dakota's one flour mill.

One resource which is plentiful in the district is water. There are 57 lakes along with the Missouri and James Rivers. The Gavins Point Dam and the Fort Randall Dam provide two large reservoirs on the Missouri River. Hydroelectric plants at these dams also provide power which is available for industrial use.

Of the 24 firms responding to our questionnaire, 1 said that raw material scarcity was the main reason for not locating in South Dakota; another ranked raw material scarcity third.

Although there is a scarcity of many raw materials in the district, the district's feed grain and livestock production appeared to offer some potential for economic growth through the development in the district of commercial feedlot operations and associated meat-processing plants. At the time of our fieldwork, there were no commercial feedlots in operation in the district although individual district farmers operated many small private feedlots.

The director of the South Dakota Crop and Livestock Reporting Service said that, although official estimates of the district's feed grain and livestock exports were not available, he believed that large proportions of its production of these items were being shipped out of the district. Also, according to the South Dakota Cooperative Extension Service's February 1973 newsletter, cattle-feeding expansion was one of the major opportunities for increasing income and employment in South Dakota and for promoting economic development in rural areas. The Service said that the potential existed to add \$100 million annually to the State's economy.

Although modern commercial feedlots are not labor-intensive operations, their development would provide the livestock needed for an expanded meat-processing industry which is labor intensive and which has one of the highest wage scales in the State. Because of the meat industry's changing conditions, however, FMHA should make a careful economic analysis before providing assistance for projects, such as feedlots or meat-processing plants.

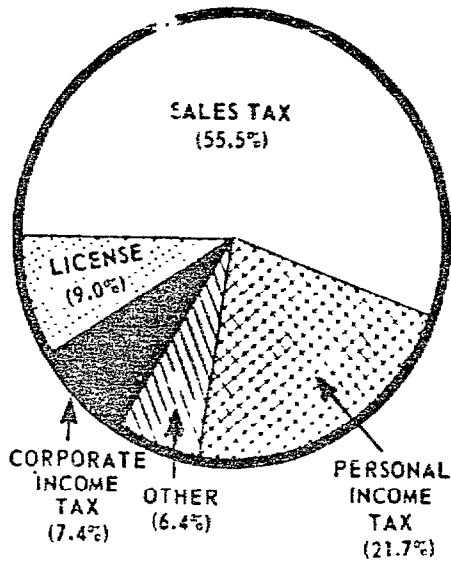
USDA pointed out that large-scale commercial cattle-feeding enterprises were currently experiencing difficulty apparently because they were very vulnerable to fluctuations in cattle prices and feed costs. They represented very high risk enterprises and FMHA loan officers had to note this risk carefully before committing Federal money or guarantees.

Business taxes

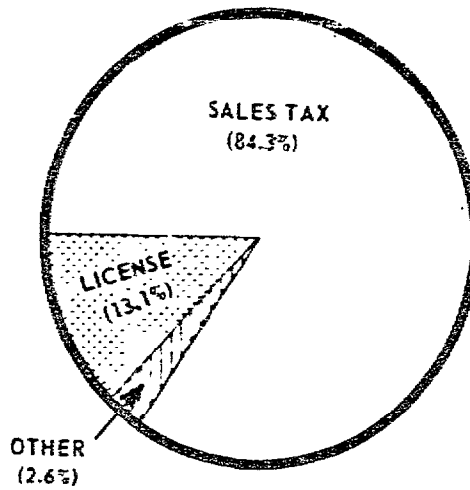
Business taxes, although considered a problem by some residents, did not appear to be an important hindrance to the district's development. On the State level, none of the 24 firms listed high taxes among the three primary reasons for not locating in South Dakota. Also the 1968 study made for IDEA concluded that:

"South Dakota's relative unique position as a pay-as-you-go state has resulted in an extremely attractive debt structure and a favorable tax climate for industry."

50 STATES



SOUTH DAKOTA



BEST DOCUMENT AVAILABLE

The State derives the bulk of its operating revenue from a sales and use tax; it has no personal or corporate income tax, other than a bank franchise tax. The graphs above show the sources of South Dakota's revenue for fiscal year 1971 compared with the revenues of all 50 States.

Although property taxes, which are levied at the local level, appeared to be high--South Dakota was the sixth highest ranked State in the Nation in the amount of property taxes paid on a per capita basis in fiscal year 1971--a State official said that State law permitted communities to reduce business firms' property taxes up to 3 years before July 1, 1974, and up to 5 years after that date.

Availability of industrial buildings

Although there was a general lack of industrial buildings available for occupancy in the district, this factor was not a major hindrance to the district's economic development. On the State level only 1 of the 24 firms cited the lack of available buildings as the main reason for not locating in South Dakota; another ranked it second.

IDEA's list of industrial buildings available for occupancy in the State showed that the district did not have an available building which met IDEA's recommended size criterion of 20,000 square feet. Of the 20 unoccupied buildings in the district which IDEA identified as available for industrial use, only 3 were more than half the recommended size.

IDEA officials said that most firms did not require buildings to be immediately available for occupancy but that communities which had buildings available had a competitive advantage over those that did not. If a building was not available, a community wishing to attract firms should at least have completed preliminary arrangements, such as financing and site selection, necessary for providing one.

Before enactment of the Rural Development Act, SBA and EDA were the primary Federal agencies providing assistance for industrial plants and facilities. SEA could make a business loan up to \$350,000 to a private concern and a

community development loan up to \$350,000 to a community development company. These loans could be used jointly to provide \$700,000 for a single project.

EDA could only operate in counties or Indian reservations designated as qualified areas for economic development assistance. The Yankton-Sioux Indian Reservation was designated for such assistance in January 1966 and six of the counties were designated in October 1971.

During fiscal years 1968-72, 18 new firms in the district provided an estimated 500 new jobs. Among the firms were a truck trailer manufacturer, a sporting goods equipment manufacturer, a cheese-processing plant, and a pork-processing plant. In addition, over 20 district firms expanded their operations during this period.

Of the 18 new firms, 2 received Federal assistance for plant and facilities. Each received an SBA loan of \$350,000; one, which located on the Yankton-Sioux Indian Reservation, was also indirectly assisted by an EDA industrial park grant. Some of the other firms received assistance from district communities. For example, one community raised construction funds through the issuance of industrial revenue bonds and another through sale to its residents of stock in an industrial development corporation.

Under the Rural Development Act's business and industrial assistance programs, loans can be provided to private firms and grants can be provided to public bodies to finance plant and facilities. Although there are no prescribed limits on the individual loan and grant amounts that USDA can provide a firm or a public body, the allocations of loan and grant authorizations for the State for fiscal year 1974 were only about \$1.5 million and \$90,000, respectively.

The district said the availability of industrial buildings was a greater problem than indicated. It said the shortage of capital coupled with the slowness of receiving assistance through the Rural Development Act and other Government programs made it difficult for a community to carry out the timely construction of a building even when a firm was interested in locating in the area.

FEDERAL ASSISTANCE TO DISTRICT'S
NONAGRICULTURAL ECONOMIC
DEVELOPMENT HAS BEEN LIMITED

During fiscal years 1968-72, Federal outlays for non-agricultural economic development programs and projects in the district amounted to about \$8.4 million. This compared with about \$109 million for agriculture and related programs and represented about 2 percent of the total Federal outlays during that period. The outlays, primarily in the form of loans and loan guarantees, were made by the following five Federal agencies.

<u>Agency</u>	<u>Federal outlays for fiscal years 1968-72</u>
SBA	\$7,692,000
EDA	501,000
Environmental Protection Agency	122,000
Department of the Interior	60,000
USDA	38,000
Total	<u>\$8,413,000</u>

Rural development has been one of USDA's missions since the 1960s but, before enactment of the Rural Development Act in August 1972, it had no major nonagricultural business and industrial assistance programs or personnel dealing expressly with this key issue. From 1964 to June 30, 1971, however, FmHA, under the relatively small Economic Opportunity Cooperative Loan Program, made loans to establish new cooperatives and finance existing cooperatives whose members were predominantly low-income rural residents.

In our report¹ to the Congress on this program's operation, we said that many of the cooperatives had encountered problems, such as weak management, inadequate operating capital, and economically infeasible operations, and therefore failed to stay in business or became delinquent on their loan repayments. We said that FmHA might have minimized

¹"Ways to Improve Effectiveness of Rural Business Loan Programs" (B-114873, May 2, 1973).

these problems and enhanced the likelihood of the cooperatives' success had it

- required feasibility studies before loan approval,
- required FmHA employees to encourage cooperatives to obtain competent managers,
- obtained needed training for cooperative management employees, and
- insured that the cooperatives had enough operating capital in their early stages.

Also we said that FmHA employees often lacked the time, training, or experience needed to give the cooperatives we reviewed effective supervision.

We recommended that, in implementing rural business loan programs authorized by the Rural Development Act, FmHA

- develop guidelines and instructions requiring that, before loans are approved, appropriate provision be made for project feasibility studies; marketing agreements, when practical; competent management and provision for necessary training; and enough funds for operating capital and
- take such action as is necessary to insure that it has a sufficient staff of experienced or trained employees to properly implement the guidelines and instructions and to properly supervise the activities of loan recipients.

The business and industrial loan program authorized by the Rural Development Act is a major effort to stimulate economic development. Under the program, FmHA may guarantee up to 90 percent of a loan against loss or, if it is determined that no lender is available who will make a guaranteed loan, make and insure loans to businesses in communities of fewer than 50,000 people.

FmHA's October 1973 regulations for the program require (1) an economic and technical feasibility project study

before loan approval and (2) a credit analysis, and statements from the lender and the applicant that all things necessary for success of an enterprise will be available at the start of operations.

FmHA established a new business and industrial loan division at the headquarters level, and, as of December 1973, business loan officers had been appointed in each of FmHA's 42 State offices to administer the program in the field. FmHA officials said that FmHA had added competent personnel, had carried out a training program for its business and industrial loan personnel, and was stressing quality of loans rather than quantity.

USDA told us in September 1974 that a July 1974 FmHA bulletin had emphasized the need for funding quality loans and that all FmHA personnel administering the business and industrial loan program and the community facility loan program were taking a financial analyst course to prepare them to select quality applications and to make quality loans.

Although the business and industrial loan program regulations were not finalized until October 1973 and FmHA did not allocate funds and begin approving loans under this program until December 1973, FmHA began accepting letters of intent to apply for loans (preapplications) in July 1973.

Under FmHA procedures preapplications are submitted to FmHA State offices to be reviewed, evaluated, and screened. The preapplications are then forwarded to FmHA headquarters for approval.

According to FmHA records, as of June 30, 1974, FmHA headquarters had received about 1,930 preapplications for about \$750 million in loans, including 10 preapplications for loans totaling about \$2.3 million from South Dakota firms. Two of these preapplications were from district firms: one for a loan of \$400,000 and another for \$23,875.

As of June 30, 1974, FmHA had agreed to guarantee or insure about 400 business and industrial loans amounting to about \$200 million nationwide of which four loans amounting to about \$1.8 million were in South Dakota, including a loan for \$400,000 to a district firm.

In discussing the limited resources allocated to South Dakota, a USDA official said that the amount allocated may not be enough to meet the current demand. A State Planning Board official said, however, that these programs were not being given a high priority at the State level because of the small amount of funding available.

CONCLUSIONS

Job creation through nonagricultural economic development is the key to rural development. Although agriculture is central to the district's economy and its prosperity must be maintained, employment in agriculture is decreasing and the development of the nonagricultural sector is necessary to provide the jobs which will help stem outmigration and provide the means for a better quality of life. The creation of jobs and the stemming of outmigration could have salutary effects on some of the other problems cited by district residents, which are discussed in chapters 6 through 8.

The chances of attracting large industries to the district do not appear good; however, the district has attracted some smaller manufacturing and processing plants and has potential to attract others. The Rural Development Act's business and industrial assistance programs, which hold the greatest promise for the district's development, could help provide some of the investment capital needed. Unless the loan levels authorized are increased, however, the program may not have a significant impact on the district in the near future.

Although problems of long distances to markets and lack of raw materials may hinder the district's economic development, they are not insurmountable. For example, the effects of these problems would be minimal on firms producing for smaller, nearby markets or on those producing small, high-value items for which transportation costs are a relatively small portion of total cost.

The district appears to have advantages for some of the other factors affecting a firm's decision to locate in an area: labor costs and business taxes are low; water is plentiful; and two hydroelectric plants on the Missouri River are located there.

The appointment of business loan officers in the FmHA State offices will enable USDA to focus attention on the total economic growth of rural areas, rather than on agriculture alone. FmHA has emphasized to its staff the importance of insuring the quality of business and industrial loans giving top priority to those for projects providing the most benefits in terms of jobs created or saved and income provided. Available Federal and State research capabilities could assist the FmHA staff by making analyses to determine which businesses and industries have the greatest potential, in terms of jobs and incomes, in various localities.

RECOMMENDATION TO
THE SECRETARY OF AGRICULTURE

We recommend that the Secretary arrange for Federal and State research capabilities to be made available to assist FmHA loan officers in determining which businesses and industries have the greatest potential in a certain region, State, or multicounty planning district so that they may be given high priority.

AGENCY AND STATE COMMENTS
AND OUR EVALUATION

USDA

USDA concurred in our recommendation and said that some of this could be done under the rural development research and extension programs authorized by title V of the Rural Development Act. These programs, administered through State land grant universities, are to include (1) research, investigations, and basic feasibility studies in support of rural development and (2) the collection, interpretation, and dissemination of useful information and knowledge, which may include feasibility studies and planning assistance, from research and other sources.

USDA said that, although credit for industrialization in the 12-county area may be a major problem because area banks are small and are conservative in making industrial loans, it did not necessarily follow that lack of local credit was a bottleneck to industrialization. USDA said that our

conclusion that the lack of investment capital was a major obstacle to rural development in the district might be correct but that additional insight on the extent to which firms desiring to move into the area could obtain adequate capital in regional and national money markets or from internally generated funds was needed.

USDA maintained that, because a large proportion of the U.S. manufacturing plants today are part of a multiplant regional, national, or international firm, a local source of capital may not be a critical factor affecting plant location.

We recognize that the capital needs of some firms could be provided through regional and national money markets or from their own internally generated funds. As USDA indicated, however, it would generally be the larger firms that would be able to meet their capital needs through these sources. Many of the firms that located or expanded in the district during fiscal years 1968-72 were small- or medium-sized firms that relied on local credit sources to meet their capital needs. Future development in the district may very well continue to be provided by the smaller firms in need of capital from local credit sources.

Labor

Labor (see app. XII) agreed that job creation through nonagricultural economic development was the key to rural development. It acknowledged that manpower training programs sponsored by OEO and Labor serve to increase outmigration from rural areas, particularly among the very best and brightest residents, resulting in the Government's finding itself in the embarrassing position of offering programs which in some areas are counterproductive.

Labor said that job creation through business and industrial development brings little benefit to farmworkers over age 40. Such persons do not easily enter the nonagricultural labor market, and even when they do their inability to cope with the differences between urban and rural living makes them early dropouts from the job market. Labor suggested that, for this group, a limited investment in agricultural ventures, such as feedlots and farming

cooperatives, would allow for the creation of jobs for which no further skill development was necessary.

In discussing the approaches to job creation, the growth and expansion of local businesses, or the attraction of new businesses, Labor said that it preferred expansion over the attraction of new businesses because the latter often results in relocating plants and jobs. It noted that very often businesses relocate to flee high taxes and labor costs. Small towns and counties may tax themselves heavily to build industrial parks to attract such businesses only to have the businesses move again when a more desirable location is found.

Labor said that, although the experiences of OEO and SBA have shown that new, nonagricultural businesses created in rural areas have an extremely high failure rate, this approach needs further examination given the limited possibilities for expanding existing businesses and the mixed blessing which results from encouraging an industry or business to move from one locale to another.

DOT

DOT (see app. XIV) said that, although the report noted no transportation problems other than the area's distance to markets, a more detailed survey of the area might reveal certain localized problems caused by rail branch-line abandonment or by deficient highway bridges and worn or under-designed pavements that would restrict truck service. We agree that these localized problems might exist. For example, as mentioned on page 92, there was evidence that road problems restricted the district's truck traffic during the spring when the ground thawed.

EDA

EDA said that, although the report focused primarily on the national aspects of rural development, there were a number of actions the district organization and staff might take which could produce advantageous results for its economic well-being.

It said that the first step must be mobilization of local leadership and a strong planning effort. EDA remarked that the report made no mention of these two crucial elements. The District III director told us in July 1974 that district-wide plans had been and were being developed.

EDA also expressed its opinion that, before goals for job creation and for ending outmigration can be quantified nationally, the district must decide exactly what kind of development it wants, what is standing in the way of that development, and what resources are available to help implement locally established goals.

Although we agree that the district must make these decisions, we do not believe that the quantification of national goals must or should await the development of local goals. According to USDA, this could take several years. During such time the Nation's rural development effort would be without overall direction and without standards by which to measure progress. (See p. 9 for a detailed discussion on the need to quantify goals.)

State

The State (see app. XV) commented favorably on our analysis of the potential development of the district's non-agricultural economy. It said that the report recognizes that stimulating the nonagriculture sector is very important in promoting rural development and stemming outmigration in the district. It added that the report's emphasis on providing easily accessible and low-cost investment capital to potential job-producing enterprises was most appropriate.

According to the State, however, it has traditionally received low priority by Federal agencies, particularly USDA, in allocating program funds. It said that, of the \$200 million authorized for the business and industrial loan program for fiscal year 1974, South Dakota was allocated \$1.6 million. The State suggested that information on USDA's and certain other Federal agencies' allocation criteria would assist the Congress in evaluating the adequacy and effectiveness of Federal programs in stimulating rural development.

USDA has informed the Congress of the formulas it uses to allocate rural development program funds, including the formula used to allocate the fiscal year 1974 business and industrial loan funds to the States. For this program USDA used a formula which considered the rural population and per capita income of the States. Our analysis showed that, under the formula used, South Dakota was allocated its proportionate share of the limited funds available.

CHAPTER 6

HEALTH SERVICES AND FACILITIES-- PHYSICIAN AND DENTIST SHORTAGES EXIST AND HOSPITALS NEED MODERNIZING

There are shortages of physicians and dentists, particularly in the district's rural areas, and the situation may worsen. The number of hospitals appears sufficient and they are well dispersed, but several need to be modernized to meet current Federal standards. Residents were concerned about personnel shortages of health services, but less than 1 percent of the persons questioned who left or planned to leave the district cited problems related to health services and facilities as the main reason.

SOME RESIDENTS' CONCERNS WERE WELL FOUNDED; OTHERS WERE NOT

The district residents who responded to our survey were most concerned in the health area about the shortage of medical personnel in the district and the cost of medical services. Generally, their concerns about personnel shortages were well founded; however, available data indicated that costs, particularly hospitalization costs, although considered high by the residents, were somewhat lower on the average in the district than in the State and Nation. Although the residents did not indicate much concern about hospitals or ambulance service, both needed improvement.

Medical personnel

As of March 1973, 83 physicians and 29 dentists practiced in the district. (See app. VI for breakdown by county.) This represented physician- and dentist-to-population ratios of 1 to 1,150 and 1 to 3,360, respectively--almost twice the national ratios of 1 to 610 and 1 to 1,960.¹

¹These ratios were based on 1970 population data, 1971 data for the number of physicians and dentists in the Nation, and March 1973 data for the number of physicians and dentists in the district.

The difference in ratios for the district's more rural areas was even greater because about 70 percent of the district's physicians and about 60 percent of its dentists practiced in the three urban communities which, according to the 1970 census, had about 29 percent of the district's population. Nevertheless, residents in about 80 percent of the district's area were within 15 miles of a district physician. (See app. VII.)

The district's physicians and dentists were older, on the average, than those in the Nation. As of February 1973, the district's physicians and dentists averaged 51 and 50 years of age, respectively; the national averages were 46 and 43 years. Further, three of the district's physicians and three of its dentists were over age 70. Unless physicians and dentists can be attracted to replace those who might retire, die, or move away, the district's ratios, assuming its population is stabilized, will become worse.

Between January 1968 and January 1973 the district had a net loss of seven dentists. Although the number of physicians who practiced in the district in 1973 was the same as the number in 1950, the rural areas and communities lost 12, or 34 percent, of their practicing physicians during that period while the 3 urban communities gained the same number.

As of March 1973 the district had 569 registered nurses and 187 licensed practical nurses, which State health officials considered ample to meet district needs. As of March 1974, 10 of the district's counties met the State's goal of 1 public health nurse per county. (See app. VI.)

Medical services

Data available at the State Public Welfare Department showed that the average physician charge for an office visit in the district as of March 1973 was \$5 compared with \$6 in the State. The Department did not have comparable data available for the Nation nor did it have any data available on costs for dental work. National survey data on physicians participating in the Medicare program showed the average fee allowed for an office visit was \$8.10 in 1970.

A South Dakota Hospital Association official estimated the average hospital cost--all costs charged to the patient--per patient-day in the district in March 1973 to be \$55. In comparison, an American Hospital Association survey in February 1973 showed that the average hospital cost per patient-day was \$65 for the State and \$92 for the Nation. The survey showed that South Dakota had the lowest average hospital cost of any State. The relationship of these average hospital costs to median family incomes for the district, State, and Nation is shown below.

	Average hospital cost per patient-day	Median family income in 1969	Average patient-day cost as a percent of median family income (1-2)	Relative hospital cost index (note b)
	(1)	(note a) (2)	(3)	(4)
District II	\$55.03	\$6,544	.84	88
South Dakota	64.56	7,494	.86	90
Nation	92.31	9,590	.96	100

^aMedian family income from the Bureau of the Census.

^bThe index was computed by dividing the national figure in column (3) into the district and State figures in the same column.

Hospitals

As of March 1973 the district had 14 hospitals with 719 State-licensed beds plus an Indian Health Service hospital with 26 beds. (See app. VI.) A State Health Department official told us that he considered the number of hospital beds in the district to be sufficient to meet the residents' needs. The district's hospital bed-to-population ratio was 1 to 136 in 1973, which was comparable to the national ratio of 1 to 128, and better than the State's ratio of 1 to 183.

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The hospitals were well distributed geographically. (See app. VII.) Nearly all district residents are within 25 miles of a hospital. The average daily use of the district's hospital beds in 1971 was about 66 percent.

Although the number of hospital beds in the district was considered adequate, State Health Department records showed that, in May 1973, over 300 of them did not conform to standards prescribed by HEW under its Hill-Burton health facilities assistance program. Such standards are generally used by the State in licensing hospitals. The eight district hospitals with nonconforming beds follow.

<u>Hospital</u>	<u>County</u>	<u>Number of beds</u>	
		<u>Total</u>	<u>Nonconforming</u>
Jerauld County Memorial	Jerauld	34	26
Gregory Community	Gregory	24	12
Community Bailey	Brule	44	4
Wagner Community Memorial	Charles Mix	20	20
Community Memorial	Gregory	25	25
Methodist (note a)	Davison	95	95
St. Joseph (note a)	Davison	156	123
St. Benedict	Hutchinson	<u>41</u>	<u>3</u>
Total		<u>439</u>	<u>310</u>

^aHospital was being modernized at the time of our fieldwork to conform to Hill-Burton standards.

Of the 310 nonconforming hospital beds, 250 were nonconforming because of the hospitals' general condition relating to fire safety and specific construction features, such as exits; the other beds were nonconforming for various reasons, such as patient room being too small or the hospital not having adequate surgical, X-ray, or dietary units.

In addition, the first five hospitals listed above, according to HEW, did not comply with Medicare and Medicaid standards. HEW had granted waivers to the first two but the other three risked becoming ineligible for Medicare and Medicaid payments. Such ineligibility would place a serious financial burden on the hospitals and the persons they serve.

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Ambulance service

The State goal is to have one quality ambulance service for each county. The State Health Department defines such a service as one that has personnel having 22 hours of emergency medical training and a vehicle meeting minimum height and length standards and containing such equipment as splints, backboards, litters, and oxygen.

As of March 1973, 6 of the 12 counties had ambulances meeting the State's standard and 3 counties had such ambulances on order. (See app. VI.) An official of the State Health Department said that the goal of obtaining desired ambulance service for all counties should be achieved by 1977.

IMPACT OF FEDERAL AND STATE HEALTH PROGRAMS HAS VARIED

Federal outlays for health programs in the district for fiscal years 1968-72 totaled about \$29 million.¹ About \$23 million was for Medicare and Medicaid benefits, about \$2 million for Indian Health programs, and about \$1.6 million for hospital construction and improvements. The remaining outlays were spread among 11 other programs.

Although there are Federal and State programs designed to impact on the shortage of medical personnel, they were not successful in providing the district with additional physicians or dentists. Some other programs, however, had been somewhat successful in providing the district and other rural areas in the State with better health services.

Programs designed to help alleviate personnel shortages.

HEW's National Health Service Corps Program, authorized in 1970, is designed to provide health manpower to areas

¹This amount did not include outlays for health portions of programs in other functional areas, such as education.

designated by the Secretary of HEW as having critical health personnel shortages. Under the program, health personnel join the Corps and practice in such areas, normally for 2 years. A Corps member may select the designated shortage area in which to serve.

Corps members are eligible for forgiveness of loan obligations incurred to pay the cost of their professional educations. Until the military draft was ended, another incentive to joining the Corps was that Corps service fulfilled an individual's military obligation.

The Secretary had not issued criteria for designating shortage areas under this program; instead applications were approved on a case-by-case basis. An HEW Denver regional office official said that shortage areas had not been designated for this program in South Dakota or other areas in the region because, with the lack of any objective criteria to use in designating areas, field surveys were necessary and the regional office did not have the personnel to make such surveys. An HEW headquarters official told us in January 1974 that criteria were being developed and would be published in the Federal Register.

Nationwide, as of February 1973, HEW had approved applications from 264 communities for 621 Corps personnel and had assigned or made commitments to assign 362 personnel--254 physicians, 40 dentists, and 68 nurses and other health personnel--to positions in 167 communities, including some in rural areas. HEW told its regional offices that the program's personnel ceiling for fiscal year 1974 would be set at the 362 positions then assigned or committed.

As of December 1973, four physicians had been assigned under the program to three South Dakota communities, none in the district. Two district communities had submitted applications for assistance. HEW had approved both applications by November 1973, but the positions remained unfilled as of December 1973. An HEW official told us that many persons joining the Corps consider South Dakota rural communities, such as those in the district, less desirable than those in other areas available for selection.

Another HEW program, the Health Professions Student Loan Program, administered through health profession schools,

provides long-term, low-interest loans up to \$3,500 per academic year to assist students pursuing a health professions degree.¹ To encourage these and other students to practice in designated shortage areas after graduation, the program provides also that the Government will forgive up to 65 percent² of such loans, or will pay up to 65 percent of other educational loans, in exchange for up to 3 years of practice in such areas.

HEW was in the process of designating shortage areas under this program at the time of our fieldwork. Of the 12 district counties, 8 had been tentatively designated as shortage areas for physicians and 6 for dentists. HEW had requested the State Health Department to review and evaluate these tentative designations before they were finalized. As of December 1973, the program had not resulted in any physician or dentist establishing a practice in the district.

HEW also has a Physician Shortage Area Scholarship Program, authorized in November 1971, whereby grants up to \$5,000 per academic year may be provided to individuals who agree to practice in physician-shortage areas. Under this program, first priority is given to those applicants who (1) are from low-income backgrounds, (2) reside in physician-shortage areas, and (3) agree to return to such areas to practice.

Generally the individual must serve 12 months in a shortage area for each academic year a scholarship grant is provided. Individuals failing to comply with the agreement are required to reimburse the Government over a 3-year period for the grants received, with allowance made for partial compliance, except where compliance is impossible or involves extreme hardship.

¹The professions covered by the program are: medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, and pharmacy.

²Thirty percent for each of the first 2 years and 25 percent for the third year, provided that a minimum of 2 years are served.

The program has not been in operation long enough to have any impact on physician-shortage areas, such as the district.

HEW also administers a program, called MEDEN, designed to train ex-military corpsmen as physician assistants to serve in shortage areas. No program graduates were serving in the district at the time of our review.

In addition, HEW administers other programs which require an area to be designated as a shortage area as a prerequisite to participation in the program. According to HEW officials, uniform objective criteria for designating shortage areas under the different assistance programs have not been developed because of variances in the programs' authorizing legislation.

HEW has a central program designed to identify and obtain information about health service scarcity areas throughout the Nation; however, an HEW official said that the identification program was not used to designate shortage areas under individual assistance programs. Identification of shortage areas under the central identification program is not made on the basis of uniform objective criteria. Instead HEW relies upon State and areawide comprehensive health planning agencies to determine the shortage areas within their jurisdictions.

The system does not appear to have worked for South Dakota. For example, although South Dakota, according to the American Medical Association, had the worst physician-to-population ratio of any State in the Nation in 1971, the State Comprehensive Health Planning Agency identified only five counties as scarcity areas as of September 1973. Further, the five counties did not include any district counties, although several had been tentatively designated as shortage areas under the Health Professions Student Loan Program.

According to the district, the State Comprehensive Health Planning Agency said that additional counties were not identified because (1) HEW had advised the agency that the identification program was an initiatory and study-oriented project and (2) the time and effort required to provide the requested information was prohibitive.

The State also has programs designed to help alleviate shortages of health personnel. It began a loan program, similar to HEW's, for State residents in 1969. During the 1972-73 school year, 110 loans averaging \$2,700 were made. Although no participant had established a practice in the district as of March 1973, three dental graduates had established practices in State rural communities outside the district.

The 1974 State legislature authorized and funded the State's first 4-year medical school. The State does not have a degree-granting dental school but is trying to meet its dental personnel needs by entering into a compact with a private university in a neighboring State to admit some South Dakota students.

The State enacted legislation in 1973 permitting certification and regulation of physician assistants under direct hire and supervision of private physicians. The legislation followed the State's testing of a physician assistant program in four doctorless communities, none in the district, where registered nurses were used to staff clinics. The legislation permits the physician assistants to make selected tentative diagnoses, begin treatment, make routine lab tests, prescribe medicine, give physical examinations, provide prenatal care, suture cuts, and handle emergencies. The State health director said that he felt there was sufficient interest in the medical community to make the program a success.

A Federal-State-local cooperative undertaking is the public health nurse program. As of March 1974, 17 district counties were participating in this program.

Programs designed to improve health care delivery

Federal agencies, such as HEW and IEO, have funded a number of pilot projects in specific geographical areas to test various approaches for improving rural health care delivery. At the time of our fieldwork, no such projects were operating in South Dakota.

The State had devised a comprehensive emergency health care plan called Communication, A balance, Training, and

Technical Assistance to Communities. The plan seeks the cooperative efforts of HEW, DOT, the Department of Defense, and State and local governments to

- upgrade ambulance vehicles, equipment, and personnel;
- improve emergency room capabilities;
- establish a communications network to link all hospital and emergency vehicles; and
- assign full-time National Guard personnel to assist in operating the system.

The State proposed the plan to HEW as a model emergency health care delivery system for rural America. At the time of our fieldwork, several aspects were being funded and others were being evaluated.

As of May 1973, DOT had paid or approved payments amounting to about \$15,000 under its Highway Safety Program for ambulances in nine district counties. Under this program, DOT pays up to 50 percent of vehicle cost and the entire cost of personnel training.

The State had also purchased a mobile dental unit to provide dental care in communities lacking this service. Because the funds appropriated were insufficient to attract a dentist, the State planned to staff this unit with a dental hygienist, offering preventive and referral services. At the time of our fieldwork the unit was not operational.

State officials said that recent Federal and State legislation¹ encouraging the establishment of health maintenance organizations may help improve the district's medical

¹The Federal legislation, entitled "The Health Maintenance Organization Act of 1973" (Public Law 93-222, 87 Stat. 914), was enacted on December 28, 1973.

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services. A health maintenance organization is a public or private organization which provides its enrolled members with health services, including at least hospital and physician services, on a prepaid basis, either directly or through arrangements with others. It also guarantees and is responsible for the quality and availability of all services provided.

Federal legislation provides that at least 20 percent of the funds appropriated for planning and developing or expanding health maintenance organizations be set aside for organizations primarily serving nonmetropolitan area residents.

Programs for Improving Hospitals

Grants made during fiscal years 1968-72 under HEW's Hill-Burton program, which also provides loan and loan guaranteed assistance, had been and were being used to help district hospitals finance the construction of facilities for 51 new beds, the modernization of facilities for 236 beds, and improvements to operating rooms, nurseries, and administrative areas. The Administration impounded funds for the Hill-Burton program during fiscal year 1973, and no funds were requested in the President's budget for fiscal year 1974. Nevertheless, Public Law 93-45 (87 Stat. 91) extended authorization for this program through fiscal year 1974.

In December 1973 the State of Florida contested¹ impoundment of the Hill-Burton program funds. The court ruled that the impoundment issue was mooted when the Administration, on February 6, 1974, released and allotted to the States the funds appropriated for fiscal years 1973 and 1974. The court also ruled that under section 602(d)(1) of the Public Health Service Act, as amended (42 U.S.C. 291(b)(c) 1)), funds allotted to the States during a fiscal year and remaining unobligated at the end of the fiscal year remain

¹The State of Florida v. Weinberger, 361 F. Supp. 1320 (D.D.C. 1973).

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available for the next 2 years. Accordingly, the funds unobligated as of June 30, 1974, totaling about \$372 million, remained available for obligation by the States through fiscal year 1976.

HUD has a mortgage insurance program to insure construction or rehabilitation loans of private, nonprofit hospitals. The program was not used in the district during fiscal years 1968-72, probably because Hill-Burton grant funds were available.

The State permits nonprofit institutions, such as hospitals, to issue tax-exempt bonds to finance modernization. One district hospital issued such bonds, on which some of the interest was subsidized with Hill-Burton funds.

The State also permits hospitals to establish districts, similar to school districts, which are empowered to levy taxes for constructing, operating, and upgrading hospitals. One such district had been established in the State; it was not in the 12-county area we reviewed.

CONCLUSIONS

The possibility of the district attracting the necessary number of physicians and dentists to put it on a par with the Nation in terms of the ratios of physicians and dentists to population is slight. The National Health Service Corps Program has impacted on some rural areas; however, given the program's limited scope, it is unlikely to have any significant impact in the district. The Physician Shortage Area Scholarship Program has not been in operation long enough to judge its effectiveness; however, it appears to have some potential.

As a first step toward helping to provide medical and other health personnel to areas needing them, shortage areas and their needs must be identified. To do this, uniform objective criteria should be developed for the various health personnel programs designed to impact on shortage areas to provide an integrated identification and designation system. Such a system would provide a basis for coordinating program efforts and for assigning priorities for assistance to areas depending on the severity of their

needs. If the development of uniform objective criteria requires changes in existing legislative language, HEW should develop the necessary legislative proposals.

The various Federal and State hospital assistance programs available should be adequate to permit the continued modernization of district hospitals.

RECOMMENDATION TO
THE SECRETARY OF HEW

We recommend that, in working toward the solution of rural health care delivery problems, the Secretary initiate action, including the development of necessary legislation, to establish uniform criteria for designating health personnel shortage areas to be used for all programs designed to deploy health personnel to such areas.

AGENCY AND STATE COMMENTS
AND OUR EVALUATION

HEW

HEW (see app. X) said that it concurred in our recommendation. An HEW official told us in November 1974 that proposed criteria for designating shortage areas under the National Health Service Corps Program were published in the Federal Register on October 23, 1974. He said that a task force was working on the development of uniform criteria for all health personnel deployment programs.

State

The State (see app. XV) said that, in general, our review of the health services and facilities in District III was sound and agreed that there was a need for developing uniform criteria for designating shortage areas.

The State recommended that we make a study on why health personnel are reluctant to locate in rural areas and what might be done to overcome this reluctance. Our recent report--"Congressional Objectives of Federal Loans and Scholarships to Health Professions Students Not Being Met" (B-164031(2), May 24, 1974)--includes information on factors influencing health personnel to locate in shortage areas.

CHAPTER 7

HOUSING--THERE'S ENOUGH BUT MUCH IS OLD AND SUBSTANDARD

With population diminishing, the housing supply appears ample and the cost is generally low; but many houses are old and substandard. Federal assistance programs have helped the housing situation in District III, but total housing needs have not been identified. Although residents were concerned about housing, less than 1 percent of the persons questioned who left or planned to leave the district cited housing problems as the main reason.

SOME RESIDENTS' CONCERNS APPEARED WARRANTED

The district's residents were concerned about housing availability and condition, housing costs, and high property taxes. Some of these concerns appeared to be warranted. An ample amount of housing was available, but substandard housing was a problem. Although the median rental rates and house values in the district were low compared with those in the State, nearby States, and the Nation, the percentages of personal income applied to housing were about the same.

The average construction cost of new housing in the district was about the same as that for the Nation and some cities in nearby States. Residential property taxes in the State were high in relation to national averages, but total per capita taxes were about average.

Housing availability and condition

Of about 33,000 year-round housing units in the district in 1970, about 24,000, or 73 percent, were in rural communities having fewer than 2,500 persons. The percentage of total units in the district available for sale or rent (3.2 percent) was the same as that for the Nation and was comparable to those for South Dakota and several nearby States.

The age and condition of the housing units appeared to be a problem. According to the 1970 census data, about 73 percent of the district's housing units were built before

1940, compared with 41 percent nationally. In addition, the census data, as follows, showed that many units lacked one or more plumbing fixtures--one measure used by HUD and others to judge whether a housing unit is in substandard condition.

	Percent of year-round housing units without		
	<u>Flush toilet</u>	<u>Tub or shower</u>	<u>Piped water</u>
District III	12.8	12.2	8.2
South Dakota	8.4	9.3	6.0
North Dakota	9.2	9.9	7.1
Minnesota	3.9	5.0	2.7
Nebraska	3.0	3.2	1.6
Colorado	2.3	2.5	1.4
Nation	3.9	4.5	2.4

Cost of housing

Overall, the cost of housing in the district was low compared with costs in South Dakota, nearby States, and the Nation, but the proportion of income spent by district residents for shelter was about average.

According to the 1970 census, median rental rates and house values in the district were lower than those in the State, nearby States, and the Nation.

<u>Location</u>	<u>Median monthly rental rate</u>	<u>Median value of houses</u>
District III	\$ 62	\$ 9,500
South Dakota	70	11,400
North Dakota	78	13,000
Nebraska	78	12,500
Colorado	97	17,400
Minnesota	102	18,100
Nation	89	17,100

The district's comparatively low rental rates and house values appeared to be due, in part, to the age and condition of the housing supply. The average cost of new housing construction in the district, excluding land costs, was slightly higher than the average costs in the Nation and two nearby

cities, Omaha and Denver, but it was the same as the average cost in Bismarck, North Dakota, and slightly lower than the average cost in Minneapolis.¹

The percentage of personal income that district residents applied to monthly housing expense was similar to the percentages for the State, nearby States, and the Nation.

<u>Location</u>	<u>Percent of personal income applied to rent (note a)</u>	<u>Percent of personal income applied to housing expense (notes a and b)</u>
District III	11.4	25.5
South Dakota	11.2	25.5
North Dakota	11.9	25.7
Nebraska	10.9	23.9
Colorado	12.2	24.9
Minnesota	12.3	26.2
Nation	11.1	26.0

^aPercentages computed using 1970 census data and housing expense data published by HUD.

^bIncludes mortgage payments, taxes, insurance, and maintenance and operating expenses. Total expenses were not reduced by income tax savings attributable to real estate tax and interest expense deductions.

Residential property taxes

According to a March 1973 report of the Education Commission of the States, data furnished by the U.S. Advisory Commission on Intergovernmental Relations showed that South Dakota ranked 11th of all the States in residential property tax collections as a percent of State personal income in 1970. Bureau of the Census data on Government finances, however, showed that, considering all taxes, South Dakota ranked 23d on a per capita basis in fiscal year 1971. Data was not readily available to make similar comparisons for the district.

¹Estimated residential building costs were obtained from publications of a private valuation service. Data for Sioux Falls was used to indicate building costs in the district.

Officials of several district communities told us that Federal general revenue-sharing funds would be used for local capital improvements and might help reduce the need for higher property taxes in the future.

FEDERAL PROGRAMS HAVE HELPED BUT TOTAL HOUSING NEEDS HAVE NOT BEEN IDENTIFIED

Federal outlays for housing in the district for fiscal years 1968-72 totaled about \$21 million; most was in the form of insured and guaranteed loans. These outlays, provided under 26 programs administered by four Federal agencies--HUD, USDA, the Veterans Administration, and the Department of the Interior's Bureau of Indian Affairs--helped to finance the construction, improvement, purchase, or rental of about 2,700 housing units. The programs included both subsidy programs, such as HUD's program for paying part of the interest costs of lower income home buyers, and non-subsidy programs, such as HUD's Federal Housing Administration's home mortgage insurance program.

Neither HUD nor USDA, whose programs accounted for about 90 percent of the Federal housing program outlays for the 5-year period, had developed reliable estimates of housing needs in the district; therefore, no information was available to determine what portion of the district's total housing needs had been met. Such need estimates are particularly important in distributing the limited resources generally available for housing subsidy programs, to help insure an equitable distribution to all communities.

We brought the need for such estimates nationwide to HUD's and USDA's attention in a report¹ to the Congress. In response to that report, HUD agreed that its field offices should take a more active role in determining what the needs are; USDA claimed it was distributing funds in accordance with need.

The need for such estimates has also been recognized in the Housing and Community Development Act of 1974 (Public Law 93-383, 88 Stat. 633) enacted on August 22, 1974. Title

¹"Opportunities to Improve Effectiveness and Reduce Costs of Homeownership Assistance Programs" (B-171630, Dec. 29, 1972).

I of the act consolidates the following HUD existing categorical programs for community development into a new single program of community development block grants: grant programs for model cities, basic water and sewer facilities, neighborhood facilities, open space, neighborhood development, and urban renewal and loan programs for public facilities and housing rehabilitation.

To secure a grant, the law requires a community to submit an annual application which is to include a housing assistance plan which accurately surveys the condition of its housing stock and assesses the housing assistance needs of lower income persons residing or expected to reside in the area. One of the factors to be included in the allocation formula provided by the act for grant assistance to cities, counties, and metropolitan and nonmetropolitan areas is the amount of housing overcrowding in such communities.

In addition, title II of the act provides that HUD, in allocating housing assistance funds, consider, insofar as practicable, the relative needs of communities reflected in data on population, poverty, housing overcrowding, housing vacancies, amount of substandard housing, or other objective criteria modified as necessary to fulfill approved local housing assistance plans. The act did not impose similar requirements on USDA.

According to the district, the lack of uniformity in the methods used by the different Federal and State housing agencies in determining needs would seem to make it impossible for these agencies to work together to implement housing programs that complement each other and to allocate resources efficiently.

HUD has developed some data indicating potential demand for its programs. It made, and sent to its regional offices in April 1973, special tabulations of 1970 census data showing the number of families living under inadequate conditions. The criteria used were:

1. Families occupying units lacking some or all plumbing.
2. Families with more than 1.25 persons per room.

3. Families paying more than 25 percent of their income for rent.
4. Families occupying houses owned by them that were more than 30 years old and valued by the owner at less than \$7,000.

HUD intends this data to be used as a base to estimate the number of families that might be expected to apply for various kinds of HUD housing assistance. A HUD official said that this data would be made available to other agencies.

HUD simulations of such data for the 11 district counties showed that about 33 percent of the district's households were living under inadequate conditions. This percentage was comparable to the fourth worst ranked State in the Nation: South Dakota was the seventh worst ranked State. HUD assumes that families living under inadequate housing conditions do so because they cannot afford adequate housing. On this basis, a large portion of the district's households are in need of some form of housing assistance.

The Administration suspended HUD and USDA housing subsidy programs in January 1973 and announced that a comprehensive analysis of all Federal housing assistance programs would be made. The analysis was completed, and the resultant report was published in October 1973. On the basis of the study, the Administration is considering substituting an experimental housing allowance program, a means of providing financial assistance directly to program recipients, as a substitute for the housing subsidy programs currently in the statutes.

In accordance with a court decision,² the USDA housing subsidy programs were reinstated in August 1973. HUD's instructions on implementing the Housing and Community

¹See our report to the Congress "Observations on Housing Allowances and the Experimental Housing Allowance Program" (B-171630, Mar. 28, 1974).

²*U.S. v. Department of Administration*, U.S. District Court, District of Columbia, Civil Action 144-73.

Development Act of 1974 state that the title insurance and rental assistance programs are to operate on a very limited basis.

The cities of Mitchell and Yreka, with populations over 10,000, do not qualify as rural areas under the definition prescribed for USDA housing programs. Title 4 of the Housing and Community Development Act of 1974, however, expanded the definition of a rural area for purposes of rural housing programs to include communities with populations in excess of 10,000 but less than 20,000 which are not within a Standard Metropolitan Statistical Area (SMSA) and which have a serious lack of sufficient credit facilities. The Secretaries of Agriculture and HUD. An FPMR official told us in October 1974 that USDA and HUD were developing criteria for determining cities that would qualify for USDA housing programs under the expanded definition of a rural area. Until such criteria are developed, Mitchell and Yreka remain ineligible for USDA's housing programs.

STATE ACTIONS

South Dakota has no rural housing programs of the type of our fieldwork. A 1971 State law, however, created the State Housing Development Authority to develop and carry out programs designed to satisfy the need for decent, safe, and sanitary residential housing for persons and families at low and moderate incomes. In comments received after our fieldwork, the State told us that one of the actions the Housing Development Authority had taken was to provide construction financing for about 1,100 housing units, many of which were in District III. (See app. IV.)

According to its annual report, the South Dakota Cooperative Extension Service spent about \$100,000 on housing matters during fiscal year 1973. The report did not show how much of this was spent in the district. USDA told us that low-range Extension Service objectives encompassed only a limited number of housing.

Generally speaking, a county or group of contiguous counties which contain at least one city of 10,000 persons or more is not eligible with a limited population of less than 10,000. Such FPMR criteria apply only to SMSA or SMSA equivalents.

BEST DOCUMENT AVAILABLE

CONCLUSIONS

The large proportion of district households living under inadequate conditions indicates that some form of financial assistance is necessary if they are to obtain decent, safe, and sanitary housing. The statutory commitment to Federal housing needs was impeded by the moratorium imposed on the HUD and USDA subsidized housing programs in January 1973. With the court-imposed reinstatement of USDA's subsidized housing programs, all district communities, except Mitchell and Yankton, are eligible for USDA assistance. These communities are important exceptions, however, because they are the district's primary growth centers.

To operate housing programs more effectively and equitably, HUD and USDA must first determine what and where the housing needs are that they are trying to meet. Without such information and cooperation, the agencies cannot equitably distribute resources that are now available or that may become available to meet these needs. Also they are unable to compare accomplishments with needs to determine at any time what remains to be done.

The need for such data was recognized by the Congress in the Housing and Community Development Act of 1974 which requires housing surveys by communities that apply for community development grants. To help insure that the housing surveys are made consistently so that the data developed is comparable and because all communities--particularly small rural communities--may not choose to participate in the community development grant program, HUD and USDA, in cooperation with State and local officials, should work together to determine specific housing needs in the communities they service and the types of assistance necessary to meet them.

RECOMMENDATION TO THE SECRETARIES OF HUD AND AGRICULTURE

We recommend that the Secretaries of HUD and USDA, in cooperation with State and local officials, work together to determine specific housing needs and the types of assistance necessary to meet them.

AGENCY AND REASE COMMENTS AND OUR EVALUATION

HUD

HUD (see app. XI) said that, although it had taken several steps to address housing requirements in rural areas, it would be unable to identify specific housing needs for every rural county in the Nation because of conceptual difficulties and because of limited manpower and other resources. A measurement of housing deficiency can be estimated, but such an estimation is a dynamic undertaking involving much more than a measurement of substandard housing. Trends in employment and migration, family formation, births and deaths, housing production, and depreciation activity, among other factors, must be considered.

HUD said that the new annual housing survey carried out by the Bureau of the Census on a sample basis with HUD funds would have a rural component in 1974 and should be of value in developing more accurate measurements of the characteristics of rural housing.

HUD said that the special tabulations of the 1970 census data were not meant to measure the number of families living in substandard housing but were intended as a basis for estimating the number of families who might be expected to apply for various kinds of housing assistance which might be made available. Thus, according to HUD, the tabulations suggest a propensity to apply for housing aid, rather than a measure of absolute housing needs or a measure of housing quality. On the basis of HUD's experience, only a few of these families would actually apply for housing assistance in any one year.

Although HUD said that the report repeatedly implied that the special tabulation data was meant to measure the number of families living in substandard housing, the report actually states, as HUD did in transmitting the data to its field offices, that the data showed the number of families living under inadequate conditions.

HUD said also that, although it had not attempted to develop a detailed assessment of rural housing needs on a county-by-county basis, it had developed a framework to help insure that Federal resources available for housing programs are distributed equitably to all communities. HUD had

aggregated from the special tabulations the gross number of renter households within each HUD field office jurisdiction whose housing circumstances might lead them to apply for subsidized housing assistance under HUD's revised section 23 Leasing Program. These estimates were developed as an aid for allocating fair-share percentages of the housing units available under this program. Some section 23 funds would be allocated to State housing agencies which, according to HUD, were expected to be better able than HUD to assess local housing needs.

We believe that sound administration of assistance programs, such as HUD and USDA housing programs, requires information on the universe of need to be served so that the agencies are aware of the needs they are attempting to meet and so that the limited resources can be distributed on an equitable basis on both a national and a local level. This requirement would not be diminished by the fact that a rural area is being served. It would not be necessary to make the same type of detailed market analysis for each rural county of the Nation that HUD makes for major population centers; rather, some less sophisticated and time-consuming approach could be used.

For example, the special tabulations developed by HUD which show, by county, the number of families living under inadequate conditions could help serve as "need" estimates if, as intended, they are used as a basis for estimating the number of families who might be expected to apply for the various kinds of housing assistance available. Because the propensity to apply for housing assistance would be affected by the income eligibility requirements of the assistance program and the type and amount of assistance offered, the data should be correlated with the income groups the programs are designed to serve. This information could also be supplemented with certain other readily available housing data, such as agency information on the number of housing units provided under its various assistance programs.

HUD considered it inappropriate to compare housing, employment, and other indicators for District III with figures for entire States and the Nation. It believed that comparisons should be with other rural areas to determine whether District III was better or worse off than, or typical of, other rural areas.

We believe that comparisons of housing and other indicators between District III and the States and the Nation are appropriate and that comparisons with other rural areas would be of limited value. As USDA reported in its Rural Development Goals Report, for example, the 1970 census showed that nearly two-thirds of all occupied housing units that lacked complete plumbing were in non-metropolitan areas, although these areas contained less than one-third of the Nation's housing. Therefore comparing District III housing indicators with those of other rural areas with housing deficiencies would not provide a meaningful indication of the district's situation. Further, with only one of its cities qualifying as a SMSA, South Dakota is a rural State by most definitions.

USDA

USDA did not comment specifically on our recommendation but discussed the term "substandard housing" and the significance of the data on the district's housing needs.

USDA suggested that substandard housing be defined. It defined "substandard housing" as that which was dilapidated or without complete plumbing. Although data was available on the number of housing units in the district that lacked one or more plumbing fixtures (see p. 76), data on units in a dilapidated condition was not available at the time of our fieldwork because the Bureau of the Census did not compile data on dilapidated housing in the 1970 census as it had in the past.

USDA contended that using the special tabulation of the 1970 census data for comparison purposes of the district with States (see p. 79) might tend to overstate housing needs in the district. It said that, under the most commonly used definition of substandard housing, 774 counties in the Nation had a larger proportion of inadequate houses than any county in District III in 1970. It said further that 11 percent of the occupied housing in the district was without complete plumbing and that, on the basis of State averages, an additional 1 or 2 percent of the housing would be substandard because of structural problems. USDA said that the low rents and low housing values in the district may be more indicative of net outmigration than of poor housing quality, emphasizing

that a house valued at \$7,500 in a rural area with low demand may be superior to a \$7,500 house in an urban area with high demand.

As stated in the report and as emphasized by HUD (see p. 11), the special tabulation of the 1970 census was not meant to measure the number of families living in substandard housing but rather the number living under inadequate housing conditions. This would include families living in overcrowded conditions and/or paying over 25 percent of their income for rent. Therefore we do not believe that HUD's tabulation of the percentage of the district's families living under inadequate conditions tends to overstate the district's housing needs.

State

The State (see app. XV) said that much of the housing data presented in the report was sound but that (1) a breakdown of housing costs by standard and substandard housing might show that the cost of standard housing in the district was not low relative to the rest of the State, (2) an analysis of housing costs relative to different income categories would strengthen the report, and (3) data on the average cost of a new home in the district would be of interest. Such data was not readily available at the time of our fieldwork.

The State's view was that the information provided on residential property taxes (see p. 77) did not seem to indicate whether, in fact, the citizens' concern about high property taxes was justified. The statewide tax data presented indicated to us, however, that the citizens' concern about residential property taxes was justified but that total per capita taxes were about average.

The State said that an additional problem was that FHHA was not adequately staffed with the result that delays were experienced in processing applications. We are presently reviewing FHHA staffing patterns and organizational structure.

The State said that, although specific housing needs must be identified, the process of doing this was not nearly as problematic as implementing programs which meet the housing needs of a basically rural population and which get money into housing in rural areas.

CHAPTER 1

CAPITAL BETTERMENTS--THEIR AREAS, VALUES AND SEWER NEEDS

Some district communities have water and sewer needs which may be met without community commitment and Federal assistance. The road system appears adequate and recreation areas and facilities, particularly the outdoor type, are plentiful. Residents wanted better capital facilities, but less than 1 percent of the persons questioned who left or planned to leave the district cited problems related to these factors as the main reason.

RESIDENTS CITED CAPITAL BETTERMENTS AS GOALS BUT NOT PROBLEMS

Improved and/or additional water and sewer systems, streets and roads, and recreational areas and facilities were the three most frequently mentioned goals of local public officials. Several community leaders and other residents also mentioned these matters as goals. However, these matters were generally not cited as major problem areas by district residents.

SOME WATER AND SEWER NEEDS EXIST

A high percentage of the households in district communities were connected to central water and sewer systems; however, some systems needed improvements. Also several smaller communities had no central water and/or sewer systems.

According to Bureau of the Census data, about 95 percent of 7,607 households in Mitchell and Yankton in 1970 were connected to central water and sewer systems. Officials of the two cities told us that their water systems were adequate but that their sewer systems needed some major improvements. Mitchell officials said the city's sewage treatment plant needed to be expanded and a new sewer line installed. They estimated the cost of these projects at \$300,000. Yankton officials said their city needed a major new sewerline costing an estimated \$1 million.

As a result of administrative hearings conducted in November 1973 by the State Department of Environmental Protection, Mitchell was ordered to improve its sewage treatment system so that effluent would meet State standards; it was awarded a grant by the Environmental Protection Agency for an engineering study.

Mitchell's water supply, Lake Mitchell, was being polluted by sewage from homes not connected to its central sewer system. The city received a grant of \$285,000 from HUD in March 1971 to correct this problem. In November 1973 a city official told us that certain problems had delayed the project but that they had been resolved and construction was progressing.

In 1969 EPA made a nationwide survey of water and sewer needs of communities with populations of 5,000 or less. The survey included 75 district communities having from 4 to 787 households. Of the 75 communities, 39 had central water systems and 37 had central sewer systems. Almost 93 percent of all households in the 75 communities were connected to central water systems and almost 85 percent were connected to central sewer systems.

For those communities with systems, needed improvements were estimated to cost about \$1.2 million for the water systems and about \$200,000 for the sewer systems. The estimated costs to provide central water and sewer systems for the communities without them were \$625,000 and \$980,000, respectively.

Following are selected examples of the needs in the district's rural communities, and the efforts made to meet them.

Tabor, a town of about 300 people, needed a new water tower. Because the structure of the existing tower, constructed in 1913, had deteriorated and was unsafe, a consulting engineer told the town not to fill the water tank completely.

USDA refused to approve the town's grant application for a new water tower because USDA considered the town's water rate too low. USDA

officials told us that Tabor's application "died a natural death" because the town, due to local conflict, did not agree to increase its water rate but that they were exploring alternatives to assist the town in solving its problem.

Dallas, a town of about 230 people, had no central sewer system. Problems had been experienced with the individual septic tanks because the soil would not absorb discharges readily and, at times, back-ups caused the discharges to run in open ditches. Also runoffs sometimes raised the water levels and flooded the septic tanks in the town's lower sections.

The town applied for a USDA grant early in 1972. USDA officials told the town that its application would be held in abeyance because, at the time, USDA did not have enough funds to meet all demands. Shortly thereafter, USDA's grant program for sewer systems was terminated.

Fulton, a town of about 100 people, had no central water or sewer system. In January 1972 the town held a special election to gain approval to issue revenue bonds for a sewer system; the issuance of revenue bonds for a water system was contingent upon the approval of the bonds for the sewer system. The proposal was defeated. Town officials told us that the proposal failed because most households had septic tanks and that elderly residents were satisfied with this situation. The town had no other plans for installing central water and sewer systems.

District received Federal assistance
but future form of assistance is uncertain

Federal outlays in the district for water and sewer systems during fiscal years 1968-72, as shown in the following table, totaled about \$4.8 million--\$3.8 million in grants and \$1 million in loans.

Agency and area of responsibility	Water	Sanitation	Total
USA water and sewer systems, collection, distribution, and treatment systems in communities having a population of 10,000 or less in 1960	10,000,000	10,000,000	20,000,000
USA water and sewer collection and distribution systems	10,000,000	10,000,000	20,000,000
Environmental Protection Agency waste treatment facilities and, since 1970, collection lines for some facilities of all sizes	10,000,000	10,000,000	20,000,000
Department of the Interior water and sewer systems in Indian reservations	10,000,000	10,000,000	20,000,000
Department of Commerce water and sewer systems in industrial areas in economically distressed areas	10,000,000	10,000,000	20,000,000
Total	40,000,000	40,000,000	80,000,000

*Before the Rural Development Act, USA would serve only communities having a population of 10,000 or less.

Of the Federal assistance provided in the district during fiscal years 1964-72, HUD and USDA grant programs accounted for about \$1.5 million. The Administration terminated these programs in January 1973 in accordance with its plans to replace categorical grant-in-aid programs with special revenue sharing. The Administration's proposed Better Communities Act (H.R. 7277 and S. 1743) was to replace several HUD categorical grant programs, including those for water and sewer systems.¹ USDA's grant program for water and sewer systems was reinstated on a limited basis in December 1973. The other Federal agencies' grant programs and all loan programs remained in effect.

The Housing and Community Development Act of 1974, as mentioned on page 78, consolidated several existing categorical programs, including HUD's program for water and sewer systems, into a new single program of community development block grants. The act provides that 20 percent of the grant funds, which will become available on January 1, 1975, be distributed to non-SMSAs on the basis of an objective formula considering population, amount of housing overcrowding, and extent of poverty. The funds provided under this act will be in addition to those available for capital betterments under the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1221 *et seq.*), commonly known as the Revenue Sharing Act.

Although the Administration considered HUD and USDA water and sewer grant programs terminated beginning in January 1973, legislative authority for the programs continued and for fiscal year 1974 the Congress appropriated \$150 million for the USDA grant programs. In December 1973 USDA announced that \$30 million in grants would be made available to those communities with water-and-sewer-related public health problems that had applied to USDA for grants before the program's January 1973 termination. In May 1974 the Administration announced the release of the remaining \$120 million. The Administration also budgeted \$20 million for these programs for fiscal year 1975.

¹The Senate version of H.R. 12931, the proposed Rural Development Act of 1972, included a special rural revenue-sharing program which was deleted by the House and Senate conferees.

RECREATION AREAS AND FACILITIES
APPEAR ADEQUATE

The district has many outdoor recreation areas and facilities providing opportunities for such activities as hunting, fishing, boating, and camping. There are 15 State parks, and major natural physical attractions include 57 lakes with a total of 16,000 surface acres and two large Missouri River reservoirs with a total of 153,000 surface acres available for recreation. The James River also runs through the district for 125 miles.

During fiscal years 1968-72, the Department of the Interior's Bureau of Outdoor Recreation provided district communities with \$700,000 in grants and FERA made loans of \$114,000 for recreation facilities. Assistance was provided to build such facilities as golf courses, tennis courts, swimming pools, baseball fields, and recreational parks.

ROADS AND STREETS WERE GENERALLY ADEQUATE

District III has about 10 percent of South Dakota's land area and 17 percent of its roads and streets (hereinafter referred to collectively as roads). There are about 13,000 miles of roads within the district, constructed and maintained by four levels of government--State, county, township, and city. About 61 percent of these roads (81,300 miles) are graveled or hard-surfaced roads.

Generally, the roads appear adequate in both quality and quantity. One problem occurs during the spring when load or speed restrictions are placed on some roads to minimize damage when the ground thaws. Several local public officials told us of problems with roads in their communities, including inadequate drainage.

DOT, through its Federal-Aid Highway Program, provides assistance to States for the interstate highway and certain designated Federal-aid primary and secondary highways. In South Dakota, the program also provides assistance to county governments for secondary highways. During fiscal years 1970-72, DOT provided Federal-aid highway funds of \$10.7 million for the construction and improvement of State roads within the district and \$1.8 million for county roads.

Other than assistance for access roads for economic development projects, including those to be assisted under the Rural Development Act, Federal assistance is generally not available for roads that are not part of the Federal-aid system.

CONCLUSIONS

District communities have some needs for water and sewer systems, but, with the exception of Mitchell, none are critical to the district's economic development. District parks and recreation areas and facilities appear adequate. Federal loans and grants have helped district communities meet some needs for water and sewer systems. The progress being made in meeting these needs was impeded by the Administration's terminating the water and sewer grant programs in January 1973. Although the primary growth centers of Mitchell and Yankton, in general, had adequate water facilities, they needed some sewer improvements. Some smaller communities had both water and sewer needs.

Some smaller communities' needs have gone unmet because of a lack of commitment on their part; the needs of others, willing to make commitments, may go unmet because they lack sufficient resources. The availability of both loans and grants appear necessary to help insure that these communities have the opportunity to meet their water and sewer needs.

Although general revenue-sharing funds are available for water and sewer needs, the amounts of such funds that smaller communities receive are generally limited. The reinstatement of USDA's water and sewer grant programs should help some communities meet their needs.

AGENCY AND STATE COMMENTS AND OUR EVALUATION

HUD

HUD (see app. XI) said that, although over \$1 million was provided to the district during fiscal years 1968-72 under its water and sewer program, it would expect that FPHA's water and sewer program would be of greater importance to the district than would HUD's discontinued program.

PHD water and sewer bills accounted for about 10 percent of the water and sewer bills available to District communities during the period. As to PHD bills were provided to Mitchell and Yonson, the District's chief water officers, with the information that more than 10,000 would not qualify for PHD water and sewer assistance.

102

PHD bills are, with few exceptions, the highest bills on the residential scale. The bills are caused by the lack of public sewer service. Although we did not analyze the adequacy of PHD sewer service in the District, this is generally acknowledged as a problem in rural areas, particularly, as we pointed out, among elderly residents.

103

The State (see app. 27) said that our overall review of the availability of capital facilities was basically sound but concluded that the report:

1. Lacked some indication as to future capital needs of the area and, should analysis show that facilities are likely to be inadequate in the future, data on the extent of replacement necessary, their cost and a timetable showing when the replacements will be necessary.
2. Address the adequacy of capital facilities from the standpoint of supporting an acceptable quality of life.

In regard to the first point, we believe that the development of the types of information requested would be more appropriate for the District, the State, and the Federal administering agencies to develop. PHD development of this data in 1974 for water and sewer needs of rural communities. (See p. 48.) For the second point, we agree that providing rural residents with a better quality of life is an important aspect of rural development. The discussion on pages 48 and 49 concerning the sewer and water needs of rural areas all stated some of the problems experienced in rural areas in 1974.

CHAPTER 2

ADDITIONAL USDA COMMENTS AND OUR EVALUATION

In commenting generally on our report, USDA (see app. III) said it was not revealed that the research on which the report is based provided adequate justification for all findings and conclusions. It said it would neither confirm nor negate the conclusions that the district problems discussed in the report were typical of the Northern Great Plains region, but it expressed the position that the Northern Great Plains and particularly the District are atypical of the Nation as a whole and that the District's problems should not be used to reach national findings and conclusions.

We selected District III in cooperation with USDA's Economic Research Service because it had characteristics considered typical of many areas of the Northern Great Plains. We agree that it cannot be considered typical of the Nation as a whole; we have not stated that it should be.

We believe that, with the proper precautions, the analysis of problems in a specific geographic area, such as District III, can be useful in developing national findings and conclusions relating to an agency's management over an activity, program, or function. The most essential and obvious precaution is to appropriately follow up at the national level to substantiate the existence of indicated management weaknesses. We did this at both USDA and other Federal agencies mentioned in the report. For example, our followup at HSW Headquarters on health personnel shortages revealed that uniform objective criteria for use in designating shortage areas nationwide, had not been developed. (See p. 69.)

Irrespective of our followup, however, we believe that the agencies concerned, which have primary responsibility to determine the manner in which their activities and operations are carried out, should appropriately analyze and follow up on the problems and management weaknesses discussed in our report to determine their full scope and significance.

USDA also said:

"In light of . . . [the policy of decentralized decision-making and administrative responsibility which gives the fullest possible consideration to State and local goals and priorities], the Department would be remiss if it failed to respond to needs expressed in programs and priorities developed by the planning district. However, the district under discussion is new, having been organized in April 1971, and the report indicates that it was not organized when GAO began its fieldwork. There were no district goals or comprehensive data on districtwide problems available and the report does not indicate what the counties and municipalities have done to date. To evaluate the Federal effort properly, some understanding of local effort is needed. Conclusions in the report are based on interviews with local officials, community leaders, and residents in lieu of local plans and objectives. Information relative to development initiatives and requests for assistance suggests that local efforts have not been strong."

We agree that USDA would be remiss if it failed to respond to needs expressed in programs and priorities developed by the district. Also it would have been helpful to have had district goals, comprehensive data on districtwide problems, and local plans and objectives available at the start of our review.

As USDA states, however, and as the report points out, the district was not organized when we began our fieldwork and there were no district goals or comprehensive data on districtwide problems then available. Accordingly, as stated earlier, we interviewed local officials, community leaders, and other residents in the 12 counties which eventually became District III to obtain their views on what local rural development goals should be and on problems that were of most concern to the counties' residents. Also, where possible, we obtained statistical and other information to confirm and better understand the principal areas of concern. USDA's apparent downgrading of our findings to the views of the local people seems somewhat at variance with its expressions of

Departmental policy on the role of local input and local people in the development process.

We agree with USDA's content that, to evaluate the Federal effort properly, some understanding of local effort is needed. As stated on page 18, part of our review objective was to determine the impact, where appropriate, of State and local government programs on the major problems involving rural development in the 12 counties. Our findings with respect to such programs are incorporated in pertinent sections of the report.

USDA indicates that the information relative to development initiatives and requests for assistance suggests that local efforts have not been strong. With the establishment and staffing of the multi-county planning and development district, however, an organization exists to carry out comprehensive and functional planning in the 12-county area, to coordinate the planning of local governments, and other organizations within the area, and to provide technical assistance to local governments in planning and administration. The district organization's success in accomplishing these functions and its impact on the district's development will not be evident for some time. The district had not been operational long enough at the close of our fieldwork for us to assess its impact.

USDA said the annual report prepared by the State USDA Rural Development Committee, comprising officials of various USDA agencies in South Dakota, indicated that the committee had been actively engaged in implementing programs of benefit to the residents of the State, including District III. USDA did not specify, however, which programs it was referring to or how the programs had benefited the district.

Our review of the committee's fiscal year 1974 annual report, which includes its plan of work, indicated that committee members were involved primarily in activities of a coordinative nature, such as attending meetings and conferences, staffing District USDA Rural Development Committees, and disseminating information. According to the annual report, the committee does not conduct major projects; instead, its main functions are to keep lines of communication

... invited USDA and State officials and to provide expert
advice, and let the relevant executive USDA agency
be the committee.

... hopes that the recommendations that USDA gave it has about
its report will cause it or others to disregard the report's
main message, the need for Government action to more fully
pursue the statutory commitment to rural development. There
has been a long delay in a somewhat uncertain start, in
the early 1960s, of the Rural Development Act of 1961. More prog-
ress should be made as USDA carries out its leadership and
coordination responsibilities for rural development activities
at the federal, state, and local government agencies.

CHAPTER 10

SCOPE OF REVIEW

We made our review at the Washington, D.C., headquarters of various Federal agencies; at the agencies' regional and other field offices responsible for carrying out Federal programs in South Dakota; at State offices in Pierre, South Dakota; and at various locations throughout South Dakota and District III.

We reviewed pertinent laws, regulations, policies, and procedures of the various agencies; examined agency records relating to various programs; interviewed officials at the Federal, regional, and State levels; and interviewed local government officials, community leaders, and other residents of District III. We also hired consultants, with rural development expertise, to assist us with our study.

We obtained information, through the use of questionnaires, from current and former residents of District III, and from business and industrial firms that had indicated an interest in locating in South Dakota but had not done so.

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APPENDIX I

POTENTIAL RURAL DEVELOPMENT GOALS OF THE DEPARTMENT OF AGRICULTURE

Broadly stated, the goals identified below consist of creating more and better job opportunities, increasing income, improved ability to retain and attract residents, improved housing, and higher quality community services for the people and communities of rural America. Attainment of these goals is expected to have such effects as:

- Widening employment options for all Americans--both metropolitan and non-metropolitan residents--those with relatively high, middle-level, or lower income, professional, skilled, and semiskilled workers; and experienced workers and novices.
- Widening life-style options for all Americans--options relating to ways of living and working productively and to types of communities in which one chooses to do this.

Pursuit of these broad goals presents some major challenges. For example, in rural areas, employment opportunities must grow faster than the rate at which they are now growing by an average of 170,000 new jobs each year from now through the year 2000--or rural to urban migration will continue. Moreover, the pattern of employment opportunity must be changed to ensure that effective rural purchasing power is more nearly on a par with purchasing power in urban areas if the problem of rural to urban migration is to be effectively addressed. Problems of comparable magnitude and complexity attend the attainment of goals associated with housing, facilities, and services.

Population

The right of free movement of our people is required by our Constitution and benefits this Nation. The pattern of such movement demonstrates, however, that rural America is characterized by net outmigration of young adults, especially those who are best trained. Such outmigration has generally resulted from the existence of more and better employment opportunities in urban than in rural areas.

As a general matter, we wish to adopt policies which will help rural Americans, especially those entering the national work force, to choose where they wish to live on the basis of equal opportunity throughout the land. This implies improving the conditions of rural America so that people have more effective choices among locations and between rural and urban areas.

A long-range population objective is to enable broad rural regions to absorb the equivalent of their natural increase. A short-range objective is simply to effect an annual reduction in the rate of outmigration from rural America. During the 1950's, the potential growth of males of labor force age in nonmetropolitan areas totaled 2.0 million. This compares with an actual growth of males in the labor force during this period of only 119,000. The projected growth of such males for the 1970's is 2.3 million. These data give some indication of the magnitude of outmigration from nonmetropolitan areas during the 1960's. Success in meeting other rural development objectives will contribute toward the accomplishment of the population goal.

APPENDIX I

Employment

As an enduring employment goal, a satisfying employment opportunity should exist for all Americans entering the job market, regardless of where they live. Such improvement would follow, in part, from more nonextractive industrial business employment, an upgraded mix of jobs, and higher labor force participation by women. Attainment of this goal will require a demonstrable annual increase in jobs per capita through private capital investment in rural areas over a period of many years.

Income

Metro-nonmetro income differences are documented in appendices to this report. Differences exist in income from wages and salaries, in transfer income, and in self-employment earnings. Our general income objective for rural America is to ensure that the rural worker receives for his labor an income adequate to sustain his and his family at a level of comfort and buying power that is not less than that enjoyed by the average American worker for the same type of work performed for the same period of time. However, the circumstances of some nonmetro families cannot be alleviated through improvement in employment incomes. For these families, usually dependent upon public assistance and other forms of transfer income, improvement of the equity and level of program benefits is the most direct means of raising their income.

Housing

Decent housing for all Americans continues to be the U.S. housing goal. Replacement of substandard rural housing with standard housing located where people want to live and work is one effort needed to achieve this goal. To do so will require primary reliance on the private market and to maintain esthetic characteristics is an important characteristic of such a goal.

Community Services and Facilities

The "package" of community services and facilities available to nonmetro residents is of different composition and quality than that available to metro residents. While it may not be feasible or desirable for every nonmetro housing unit to be connected to a public water and sewer system, it is a goal that all occupied rural housing have access to water supply and sewerage and solid waste disposal arrangements which are adequate to guard the occupants' health and to meet State and Federal environmental protection standards.

Similarly, access to high-quality educational systems is a high priority goal for nonmetro areas.

Access to adequate health care, police and fire protection, and complementary services to enhance local government capabilities in nonmetro areas is also a rural development goal.

This report was prepared for the Rural Development Administration, U.S. Department of Agriculture, by the Rural Development Administration, U.S. Department of Agriculture, January 1972.

APPENDIX II

FEDERAL OUTLAYS IN DISTRICT III BY AGENCY
FISCAL YEARS 1968-72 (note a)

	<u>Amount</u> (000 omitted)
Department of Agriculture	\$131,565
Department of Health, Education, and Welfare	133,747
Department of Transportation	16,158
Civil Service Commission	6,241
Railroad Retirement Board	2,424
Department of Justice	24
Small Business Administration	6,512
Office of Economic Opportunity	1,391
Department of Commerce	721
Post Office Department	15,170
Department of Housing and Urban Development	8,148
Department of Labor	15,972
Treasury Department	22,066
Department of the Interior	11,069
Department of Defense	22,346
Veterans Administration	20,703
Others	<u>676</u>
Total	<u>\$414,923</u>

The outlay data is presented to provide a general indication of the level of activity by Government agencies in District III and, as all types of outlays including grants, loans, and loan guarantees are combined, the data is not intended to be used for any other purpose.

Source: Federal Outlays compiled by OEO.

APPENDIX III

FEDERAL OUTLAYS IN DISTRICT III BY FUNCTION
FISCAL YEARS 1968-72 (note a)

Program function (note b)	Amounts	
	FYs 1968-72	FY 1972
	(in \$000 omitted)	
Agriculture	\$109,084	\$27,348
Business and commerce	7,075	1,618
Community development	16,174	2,402
Disaster prevention and relief	424	-
Education	12,160	3,554
Employment	16,198	1,269
Food and nutrition	5,031	1,647
Health and medical services	10,333	3,162
Housing	13,577	3,576
Law enforcement	37	7
Natural resources	6,294	479
Recreation	3,368	511
Transportation	16,158	7,394
Welfare and social services	140,148	34,866
National defense	20,900	4,124
Science	107	54
Legal services	20	-
Other	<u>37,535</u>	<u>3,725</u>
Total	<u>\$414,923</u>	<u>\$95,736</u>

^aThe outlay data is presented to provide a general indication of the level of Government activity by program function in District III and, as all types of outlays including grants, loans, and loan guarantees are combined, the data is not intended to be used for any other purpose.

^bData shown above may not agree with that shown in the body of report which we adjusted on the basis of more precise information developed during review.

Source: Federal Outlays compiled by OEO; functionalized by GAO.

APPENDIX IV

POPULATION OF DISTRICT III
 CATEGORIZED BY AGE FOR
 CENSUS YEARS 1950, 1960, and 1970

Age group	Population						Percent of change 1950-70
	1950		1960		1970		
	Number	Percent	Number	Percent	Number	Percent	
Under 10	22,387	20.4	22,825	22.1	17,109	17.6	-23.6
10 to 19	17,449	15.9	18,190	17.6	20,344	20.9	+16.6
20 to 29	15,931	14.5	10,252	9.9	10,559	10.8	-33.7
30 to 39	14,410	13.2	11,615	11.3	8,864	9.1	-38.3
40 to 49	12,786	11.7	11,754	11.4	10,733	11.0	-16.1
50 to 59	11,451	10.4	10,803	10.5	10,706	11.0	-6.1
60 to 69	8,956	8.2	9,365	9.1	9,239	9.5	+3.2
70 and over	6,229	5.7	8,380	8.1	9,854	10.1	+58.2
Total	<u>107,549</u>	<u>100.0</u>	<u>103,184</u>	<u>100.0</u>	<u>97,428</u>	<u>100.0</u>	-11.1

Source: Bureau of the Census data for the years indicated.

APPENDIX V

RESULTS OF POLL TO
DETERMINE THE REASONS PEOPLE LEAVE DISTRICT III

The following groups of individuals were polled by questionnaire to determine why people leave District III.

<u>Group</u>	<u>Size of</u>		<u>Response</u>	
	<u>Universe</u>	<u>Sample</u>	<u>Number</u>	<u>Percent</u>
Former district residents who left during the period March 1971 to March 1973	1,586	533	301	57
1971 and 1972 graduates of colleges in the district	1,434	478	322	67
1971 and 1972 graduates of State universities who had resided in the district	606	203	156	77
1971 and 1972 graduates of high schools in the district	3,563	509	272	53
1973 college seniors of three colleges in the district	<u>287</u>	<u>287</u>	<u>112</u>	39
Total	<u>7,476</u>	<u>2,010</u>	<u>1,163</u>	58

The questionnaire asked the individual to rank, in order of importance, the three major reasons they either left the district or, in the case of college seniors, planned to leave or stay in the district upon graduation. The following table shows the reasons ranked as most important for those who left or planned to leave.

APPENDIX V

RESPONSES OF PERSONS WHO LEFT OR
PLANNED TO LEAVE DISTRICT III

<u>Factor</u>	<u>Total</u>	<u>Former residents</u>	<u>Graduates from area colleges</u>	<u>Graduates from State universities</u>	<u>High school graduates</u>	<u>College seniors intending to leave</u>
Lack of jobs	35.2%	30.3%	45.8%	50.4%	15.2%	36.5%
Husband or wife employed outside area	12.3	8.6	16.3	17.7	6.1	15.9
Better salaries	8.9	21.7	N/A	N/A	2.0	7.9
Lived in area on temporary basis to attend school or other reason	7.0	N/A	21.6	1.8	N/A	12.7
Continue education outside area	6.3	N/A	N/A	N/A	43.4	4.8
Better educational facilities	5.7	4.1	1.6	9.7	16.2	1.6
Desired to be nearer larger population centers	1.8	2.2	1.0	0.9	-	6.3
Better cultural and entertainment activities	1.4	1.1	1.0	0.9	1.0	4.8

APPENDIX "

Factor	Total	Former resi- dents	Graduates from area colleges	Graduates from State univer- sities	High school grad- uates	College seniors intend- ing to leave
Better weather	1.0	1.0	0.5	-	-	1.0
Better housing	0.7	1.0	-	-	-	-
Lower taxes	0.7	1.5	0.5	-	-	-
Better medi- cal services and facili- ties	0.4	0.4	0.5	-	-	1.0
Lower cost of living	0.1	0.4	-	-	-	-
Better recreation	0.1	0.4	-	-	-	-
Better welfare programs	-	-	-	-	-	-
Other	<u>17.7</u>	<u>25.5</u>	<u>11.2</u>	<u>18.6</u>	<u>16.1</u>	<u>6.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

APPENDIX V

The first three factors listed in the table specifically relate to job opportunities and employment; they account for about 47 percent of the district residents who left or intended to leave. Our analysis of responses in the "other" category showed that another 8 percent left or planned to leave for reasons that were considered to be job related. These responses included such reasons as transfer by employer and move to location of available employment. In total, then, about 55 percent cited job-related factors as the most important reason they left or planned to leave the district.

APPENDIX VI

SELECTED MEDICAL PERSONNEL AND
FACILITIES IN DISTRICT III
AS OF MARCH 1973

County	Nurses					Quality as- balance	Hos- pitals	State- licensed beds
	Physi- cians	Den- tists	Regis- tered	Public Health	Li- censed RN's			
Aurora	-	-	13	1	-	-	-	-
Bon Homme	3	3	27	-	10	-	2	50
Brule	4	2	33	1	8	1	1	44
Charles Mix	45	2	45	-	9	1	2 ^a	47
Dakota	23	8	146	1	72	1	3	240
Douglas	1	-	24	-	9	1	1	21
Gregory	3	1	27	1	9	-	2	50
Hanson	-	-	18	-	2	-	-	-
Hutchinson	9	4	36	-	18	-	2	64
Jerauld	1	1	16	1	4	1	1	37
Sanborn	-	-	17	1	8	-	-	-
Yankton	14	8	167	2	38	1	1	166
Total	<u>83</u>	<u>29</u>	<u>569</u>	<u>14</u>	<u>187</u>	<u>6</u>	<u>14</u>	<u>719</u>

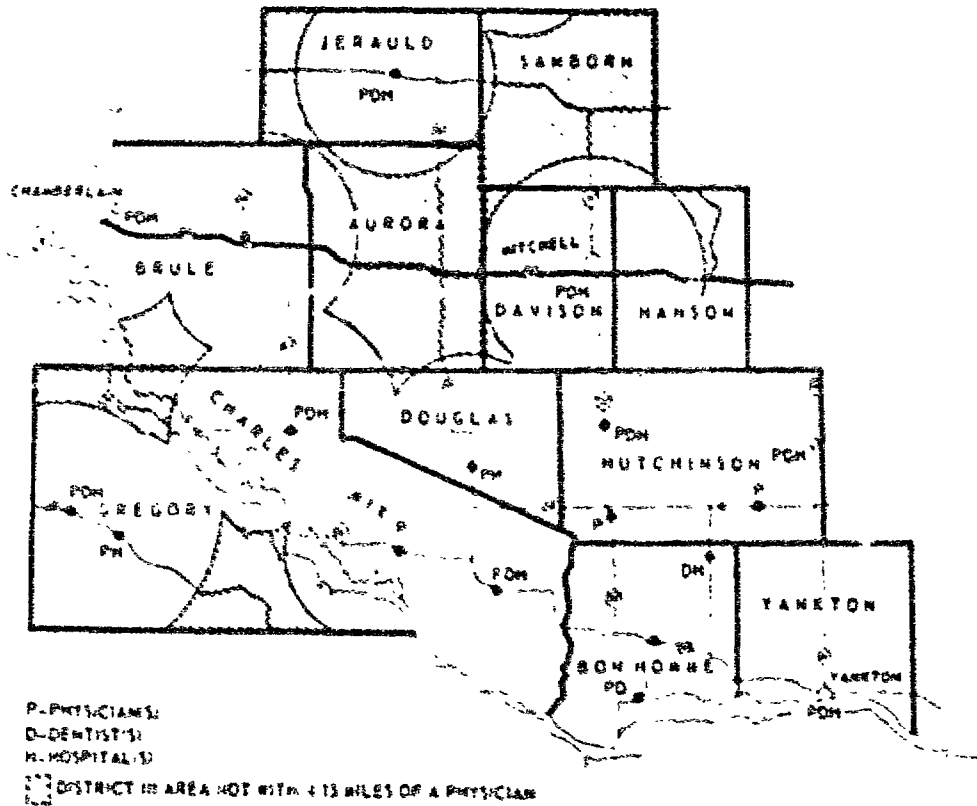
^aDoes not include an Indian Health Service hospital and two Federal physicians working there.

^bState officials told us in March 1974 that Bon Homme, Charles Mix, and Douglas Counties each had obtained a public health nurse.

^cBon Homme, Gregory, and Hutchinson Counties each had an ambulance on order.

APPENDIX VII

LOCATION OF PHYSICIANS, DENTISTS,
AND HOSPITALS IN DISTRICT III
MARCH 1973



APPENDIX VIII



DEPARTMENT OF AGRICULTURE

WASHINGTON, D. C. 20250

JUL 1 1974

Mr. Henry Eschwege, Director
Resources and Economic
Development Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

Thank you for the opportunity to comment on your draft report
"National Rural Development Efforts and the Impact of Federal Programs
on a 12-County Rural Area in South Dakota."

We have reservations about the report and are not persuaded that the
research upon which the report is based provides adequate justifica-
tion for all findings and conclusions. The report specifies that the
problems outlined are considered typical of those of the northern
Great Plains region. We neither confirm nor dispute such a conclusion
if confined to that specific region. It is our position, however,
that the northern Great Plains area, and particularly the 12-county
area in South Dakota, is atypical of the nation as a whole and that
problems specific to the district visited should not be used for the
purpose of reaching national findings and conclusions.

It is the Administration's and the Department's position that the
basic initiatives for rural development are primarily State, local or
private responsibilities and that the Federal role is one of respon-
siveness to such initiative. The Department's policy as expressed in
Secretary's Memorandum 1607 (November 7, 1969) is as follows:

Most details of the development process should be left to
local determination. The approach of the Department is to
assist people to help themselves. For those activities in
which the Department has expertise and responsibility, it
will provide direct services to the communities and individ-
uals. For activities beyond the Department's purview, the
Department can serve as communicator and catalyst. However,
development is the primary responsibility of the local
people.

Program regulations for implementing the Rural Development Act that
were published in the Federal Register (36 F.R. 23020, et. seq.,
October 18, 1971) are consistent with the earlier expression of De-
partmental policy. The general policy as stated in the regulations is
as follows:

APPENDIX VIII

Mr. Henry Eschwege

Federal implementations of the Act will be consistent with the President's policy of decentralized decision-making and administrative responsibility which gives fullest possible consideration to State and local rural development goals and priorities... (7 C.F.R. 22.104, 38 F.R. 29020).

In light of this policy, the Department would be remiss if it failed to respond to needs expressed in programs and priorities developed by the planning district. However, the district under discussion is new, having been organized in April 1973, and the report indicates that it was not organized when GAO began its fieldwork. There were no district goals or comprehensive data on districtwide problems available and the report does not indicate what the counties and municipalities have done to date. To evaluate the Federal effort properly, some understanding of local effort is needed. Conclusions in the report are based on interviews with local officials, community leaders and residents in lieu of local plans and objectives. Information relative to development initiatives and requests for assistance suggests that local efforts have not been strong.

Regarding the formulation of rural development goals, the USDA reiterates the view that the Federal government should not set arbitrary goals for its rural citizens. Instead, the Department is seeking to establish and, to the degree feasible, to quantify goals based on State and local data input.

Enclosed are specific comments on certain sections of the report which we would like to appear at the end of Chapters 2, 3, 4, 5 and 7.

Sincerely,

[See GAO notes.]



WILLIAM ERWIN
Assistant Secretary

Enclosure

GAO note: The comments referred to were considered in the preparation of this report but are not reproduced herein.

APPENDIX IX



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20540

July 1, 1974

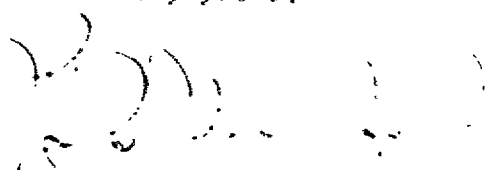
Mr. Victor L. Lowe
Director
General Government Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

This is in reply to your letter of May 10, 1974 requesting comments on the draft report entitled "National Rural Development Efforts and the Impact of Federal Programs on a 12-County Rural Area in South Dakota."

We have reviewed the attached comments of the Assistant Secretary for Economic Development and believe they are responsive to the matters discussed in the report.

Sincerely yours,


Henry B. Turner
Assistant Secretary
for Administration

Attachments



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20548

21 JUN 1974

Mr. Victor L. Lowe
Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

This is in reply to your letter of May 10, 1974. Your letter forwarded a draft of a proposed report to Congress on national rural development efforts and the impact of Federal programs on a 12-county rural area in South Dakota. You, also, requested comments on the report with particular emphasis on Chapter 5.

We have no adverse comments. The scope and coverage of the entire report are to be commended. The attached comments contain some additional points which you may wish to include in your final draft. We hope that these will be of some assistance to you. [See GAO note.]

Thank you for the opportunity to comment on the report.

Sincerely,

A handwritten signature in cursive script that reads "William W. Blunt, Jr.".

William W. Blunt, Jr.
Assistant Secretary
for Economic Development

Enclosure

GAO note: The comments referred to were considered in the preparation of this report but are not reproduced herein.

APPENDIX X



DEPARTMENT OF HEALTH, EDUCATION AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20454

JUN 5 1974

Mr. Gregory J. Ahart
Director, Manpower and
Welfare Division
U.S. General Accounting Office
441 G. Street, N.W.
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary has asked that I respond to your request for our comments on your draft report entitled, "National Rural Development Efforts and the Impact of Federal Programs on a 12-County Rural Area in South Dakota". Our comments are as follows:

GAO RECOMMENDATION

That HEW initiate action, including the development of of necessary legislation, to establish common criteria for designating health personnel shortage areas to be used for all programs designed to deploy health personnel to such areas.

DEPARTMENT COMMENT

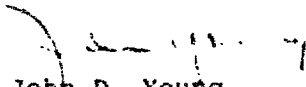
We concur. Criteria for designating relevant shortage areas have been developed by the Health Services Administration and should be published as a Notice of Proposed Rule Making in the Federal Register in the very near future.

Page 2 - Gregory J. Ahart

[See GAO note.]

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,


John D. Young
Assistant Secretary, Comptroller

GAO note: Comments which referred to changes have been deleted.

APPENDIX XI



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20548

JUL 17 1974

Mr. Henry Eschwege
Director, Resources and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Thank you for giving me an opportunity to review your proposed report, National Rural Development Efforts and the Impact of Federal Programs on a 12-County Rural Area in South Dakota. We are now in the process of identifying ways in which we can improve HUD's efforts in rural areas and small towns, and the information contained in your report will be of use in our evaluation.

I will confine my comments and recommendations to the following areas:

Chapter 7: Housing

Measuring Housing Needs for Local Areas

The study found that there are no reliable estimates of housing needs for the 12-county district examined in the report. The Secretaries of Agriculture and Housing and Urban Development are urged to work together, in cooperation with State and local officials, to determine specific housing needs and the types of assistance necessary to meet them.

The implication of the report is that HUD and USDA should quantify housing needs at the county level. As indicated below, HUD has taken several steps to address housing requirements in rural areas. However, we would be unable to identify specific housing needs for every rural county in the United States, both because of the conceptual difficulties involved and because our manpower and other resources are limited.

The report implies that housing "needs" can be identified for all communities and that this data can then be used over a number of years to equitably distribute available resources to all communities. It is important to understand

APPENDIX XI

the various indications of the term, housing "needs." However, it is true that, at any given time, a measurement of housing deficiency can be made after a method of measurement and a definition of standards have been agreed upon, the estimation of housing needs involves much more than a measurement of substandard housing.

Estimation of housing needs is a dynamic undertaking, matching current supply-demand forces in the light of available resources and considering, among other factors, trends in employment and migration, family formation, births and deaths, housing production and demolition activities. Moreover, an area such as South Dakota's District 1.1 does not necessarily constitute a single housing market. It may consist of many markets having diverse trends and prospects in housing as well as in overall economic development. A one-county area would not necessarily constitute a housing market, either. Comprehensive estimation of the needs of local housing markets has to be done at the local level and on a regular basis, depending upon the growth of the locality.

As the report notes, on page 110, HUD obtained in early 1977 from the Bureau of the Census special tabulations of the 1970 Census which aggregate the number of households who were living under circumstances that might lead them to apply for housing assistance. These Census Bureau tabulations were used to identify, by county, households with the following characteristics:

1. Households occupying units lacking some or all plumbing and/or
2. Households with more than 1.25 persons per room and/or
3. a. Tenant households paying more than 25 percent of their income for rent, or
- b. Owner households occupying housing more than 50 years old and valued by the owner at values of less than \$5,000, \$7,500 or \$10,000, depending on the particular geographical region and location, inside or outside an SMSA.

APPENDIX XI

These criteria are not meant to measure the number of families living in substandard housing, as the report repeatedly implies. Instead, they are intended as a basis for estimating the number of families who might be expected to apply for various kinds of housing assistance which might be made available. Thus, the tables suggest a propensity to apply for housing aid rather than a measure of absolute housing needs or a measure of housing quality.

The draft report states on page 101 that "55 percent of the study district's households were living in inadequate conditions." The percentage indicates the number of households with the characteristics identified above. A very large proportion of the housing occupied by these households is structurally sound and sanitary. Some of these units may be overcrowded; most of the families occupying these units will be paying more than 25 percent of their income for rent. It would be erroneous, however, to equate this number with local housing requirements. On the basis of our experience, only a small portion of these families would actually apply for housing assistance in any one year.

As the report notes, the special tabulations of the 1970 Census were sent to HUD Regional Offices in April 1975 for their use in estimating the number of households which might apply for assistance under a HUD housing program. The new annual housing survey carried out by the Census Bureau on a sample basis with HUD funds will have a rural component in 1975 and should be of value in developing more accurate assessments of the characteristics of rural housing.

Although we have not attempted to provide a detailed assessment of rural housing "needs" on a county-by-county basis, we have developed a framework to help insure that Federal resources available for housing programs are distributed equitably to all communities, including rural communities. In addition to the above measures, HUD has aggregated from 1970 Special Census tabulations the gross number of renter households within each HUD field office jurisdiction whose housing circumstances might lead them to apply for subsidized housing assistance under HUD's revised Section 23 leasing program. These estimates were developed as an aid for allocating "fair-share" percentages of the units available under this program.

APPENDIX XI

Some of the revised Section 23 Program funds will be allocated to state housing agencies. These State agencies are expected to be better able than HUD to assess local housing needs, including rural needs. In some cases, these agencies may be able to operate in rural areas in which HUD could not previously operate because of the absence of a Local Housing Authority.

Rural housing needs will also be assisted by the provision in the revised Section 23 Program which allows the use of the Farmers Home Administration's Section 515 Rental Housing Program in conjunction with the Section 23 Program.

Role of State and Local Governments

Although we agree that we need to continually evaluate our progress in meeting national housing goals, we believe that the state and local governments should have a major role in assessing their individual housing needs. Indeed, this concept is at the foundation of the Administration's housing and community development revenue sharing proposals. It is difficult for the Federal Government to determine "needs" in view of local priorities and subtle market determinants.

Consequently, we are concentrating on ways in which we can assist States and local government develop the capacity to identify and meet their needs. In fiscal year 1973, according to data provided by the State of South Dakota, approximately \$60,000 of HUD 701 Comprehensive Planning and Management funds were passed through the State 701 Agency to the third planning and development district comprising the 12-county area covered in the report. Planning utilizing 701 money is required by statute to include a housing element. There is also a limited but useful technical assistance resource for providing planning and management assistance to States and localities in each HUD Regional Office.

In addition, a broad cooperative effort to expand the availability of mortgage credit in rural areas and small communities is now being made by HUD, USDA, the Veterans Administration and the Federal Home Loan Bank Board in order to stimulate the unsubsidized housing sector in rural areas. Major trade associations of lenders, builders and realtors have also been asked to participate in this effort and to urge their members to expand their activities in nonmetropolitan areas.

APPENDIX XI

ADMINISTRATIVE MATTERS

and introduced to Chapter 7 indicates that federal housing assistance programs in District III could be better administered. Since this finding is not supported in the report, we suggest that the statement be deleted.

Water and Sewer Treatments

[See GAO note.]

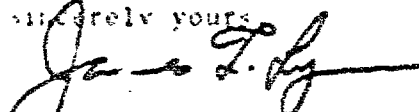
Water and Sewer Needs

Over 1 billion was spent in District III under the HUD water and sewer program during fiscal years 1968-1972. The report correctly points out that the Administration terminated HUD water and sewer programs "in accordance with plans to replace categorical grant-in-aid programs with special revenue sharing." In view of the rural nature of the area, however, it would be expected that the Farmers Home Administration's water and sewer program would be of greater importance to the District than the discontinued HUD program.

As a final general comment, it is inappropriate to compare housing, employment and other indicators for the 12-county rural areas with figures for entire states and the Nation as is done throughout the report. Rather, comparisons should be with other rural areas in order to better determine whether South Dakota's District III is better or worse off than, or typical of, other rural areas.

If I can be of further assistance to you, please let me know.

Sincerely yours,


James T. Lynn

GAO note: Comments have been deleted because of changes to this report.

U. S. DEPARTMENT OF LABOR
Office of the Assistant Secretary
WASHINGTON

MAY 19 1974

Mr. Gregory J. Ahart
Director
Manpower and Welfare Division
United States General Accounting
Office
Washington, D. C. 20548

Dear Mr. Ahart:

In response to your letter of May 10, 1974, my staff has completed its review of Chapter 5 of the GAO draft report-- National Rural Development Efforts and the Impact of Federal Programs on a 12-County Rural Area in South Dakota.

More specifically, we agree that job creation through non-agricultural economic development is the key to rural development. As noted in the findings, manpower training programs sponsored by the Office of Economic Opportunity (OEO) and the Department of Labor (DOL) serve to increase the outmigration from rural areas because people are being trained for jobs which do not exist where they live. Thus, Government finds itself in the embarrassing position of offering programs which in such areas are counterproductive. Very often the best and the brightest take advantage of training opportunities and then depart for the cities leaving rural areas bereft of future leaders.

It must be pointed out, however, that the kind of job creation described in the Chapter's narrative section brings little benefit to farmworkers over the age of forty. For reasons which would require an inordinate amount of space to put forward, such persons do not easily enter the non-agricultural labor market. Even when they do succeed in so entering, their inability to cope with the differences between urban and rural living makes them early dropouts from the job market. Thus, they and their families become heavy additions to an already overburdened urban welfare system.

APPENDIX XII

For this group, therefore, a limited investment in agricultural ventures such as feedlots and farming cooperatives allows for the creation of jobs for which no further skill development is necessary. Although much of our food production has been vertically integrated with large corporations holding a goodly share of the best agricultural land, reasonable livings can still be made by those who feel more comfortable working in agriculture when the cooperative leasing or purchasing of land is employed.

The approaches to the creation of jobs which appear to be most favored are the encouragement of local businesses to grow and expand, or the attraction of new businesses to the area. The former is to be preferred, in our judgement, over the latter even though many hazards and uncertainties attend expansion unless the conditions which allow for growth and expansion are present. We prefer this to the latter approach, however, because the relocation of industry often means the closing of plants and the elimination of jobs in one area in order to open new plants and create new jobs elsewhere. Very often businesses employ this tactic to flee high taxation and labor costs in one area to take advantage of lower costs in another. In making rural sites attractive for such "jumpers," small towns and counties may tax themselves heavily to build industrial parks only to have their "guests" move again when a more desirable location appears on the horizon.

No mention is made in this Chapter of creating new, nonagricultural businesses in rural areas. Although the experiences of SBO and the Small Business Administration have shown that such ventures have an extremely high failure rate, this approach needs further examination given the limited possibilities for the expansion of existing businesses and the mixed blessing which results from encouraging an industry or business to move from one locale to another.

The conclusion reached by the writers of Chapter 5, that the proper funding and effective implementation of the Rural Development Act by the Farmers Home Administration can provide for the creation of jobs and thus stem the rural to urban migration, is acceptable to us in the absence of any other viable options.

Sincerely,

Fred G. Clark

FRED G. CLARK
Assistant Secretary for
Administration and Management

U.S. GOVERNMENT
 SMALL BUSINESS ADMINISTRATION
 WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

JUN 18 1974

Mr. Walter L. Law
 Director
 Economic Development Division
 U.S. Small Business Administration Office
 Washington, D.C. 20416

Dear Mr. Law:

I am writing you in connection of the 1974-75 rural development opportunity to submit a rural development report.

I am writing you to inform you of the total Federal investment in rural development programs and projects in the 15-county rural area in South Dakota that is covered by your report.

It is to be noted that flexibility in SBA programs than your report recognized. For example, a maximum 10% business development loan could possibly be provided for a viable industry project. It would take care of the financing problem of prospective entrepreneurs which your report indicates are unable to get through financial assistance.

It is also noted that the South Dakota Investment Council has the practice of purchasing the guaranteed portion of SBA loans from banks. The professional adviser and council (and SBA) simply may not have considered job creation opportunities through the injection of additional capital. Furthermore, the Investment Council evidently did not consider the fact that new businesses may be initiated creating, in turn, greater tax revenues for the State. We would

APPENDIX XIII

[Faint, illegible text]

[Faint, illegible text]

APPENDIX XIII

U.S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
WASHINGTON, D. C. 20416

OFFICE OF THE ADMINISTRATOR

JUL 9 1974

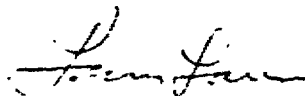
Mr. Victor L. Lowe
Director
General Government Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

As we indicated in our letter of June 18, 1974, the Small Business Administration regrets the decision by the South Dakota Investment Council to cease purchasing the guaranteed portions of SBA-guaranteed loans. Consequently, this matter was referred to those SBA personnel charged with the responsibility of expanding the secondary market for SBA-guaranteed loans, to see if the situation could be remedied. Their conversations with the SBA District Office in Sioux Falls, South Dakota, revealed that the policies of the South Dakota Investment Council have been reversed once again, and that since the latter part of 1973 they have been regular purchasers of the guaranteed portions of SBA-guaranteed loans.

We hope that you will be able to include this new piece of information in your report.

Sincerely,



Louis F. Laun
Acting Administrator

APPENDIX XIV



OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

ASSISTANT SECRETARY
FOR ADMINISTRATION

June 27, 1974


Mr. Henry Eschwege
Director
Resources and Economic Development
Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your letter dated May 10, 1974, requesting that we review and comment on the GAO draft report on national rural development efforts and the impact of Federal programs on a 12-county rural area in South Dakota. Appropriate officials of the Department of Transportation have reviewed the report and have commented on those areas which may affect or involve our programs.

I have enclosed two copies of the Department's reply.

Sincerely,


William S. Heffelfinger

Enclosure

DEPARTMENT OF TRANSPORTATION REPLY

TO

GAO DRAFT REPORT TO THE CONGRESS OF THE UNITED STATES

ON

NATIONAL RURAL DEVELOPMENT EFFORTS AND THE IMPACT OF
RURAL PROGRAMS ON A 12-COUNTY RURAL AREA IN SOUTH DAKOTA

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

The report contains no recommendations addressed to the Department of Transportation. The report does, however, recommend that USDA 'ascertain the desirability of having key Federal departments and agencies establish rural development offices' -- a recommendation which could eventually affect the Department of Transportation.

The report discusses transportation only peripherally. In one section the problem of the study area's distance from markets is mentioned. In another section the study concludes that area roads and highways are adequate. Finally, in another section, there is a description of a plan for emergency ambulance transportation service to be established partially with the assistance from the Department of Transportation's Highway Safety Program. In none of these sections, however, are there any specific findings or recommendations directed toward the Department of Transportation.

SUMMARY OF DEPARTMENT OF TRANSPORTATION POSITION

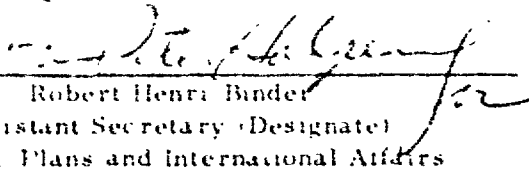
The report has been reviewed by the Federal Highway Administration, the Federal Railroad Administration and the Office of the Assistant Secretary for Policy, Plans and International Affairs. The only comments generated by this review are as follows:

While the report finds no transportation problem other than the area's distance from markets, a more detailed survey of the area might reveal certain localized problems caused by rail branch line abandonment or by deficient highway bridges and worn or under-designed pavements that would restrict truck service. There may also be certain problems caused by the lack of public transit service particularly among the elderly.

APPENDIX XIV

[See GAO note.]

The Department of Transportation has not investigated the possibility of establishing a rural development office and presently has no position on the matter. We would, however, be willing to discuss the matter with appropriate officials in USDA.


Robert Henri Binder
Assistant Secretary (Designate)
for Policy, Plans and International Affairs

GAO note: Comments which referred to changes have been deleted.



STATE OF SOUTH DAKOTA

 RICHARD F. KNEIP
 GOVERNOR

EXECUTIVE OFFICE

 PIL 196
 5/501

June 7, 1971

Mr. Richard J. Woods
 Assistant Director
 United State General Accounting Office
 Room 6639, South Agriculture Building
 11th and Independence Avenue, S. W.
 Washington, D. C. 20250

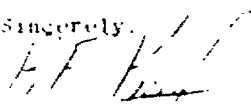
Dear Mr. Woods:

Enclosed are the comments compiled by the State Planning Bureau, in conjunction with other state agencies, in review of the draft of your proposed report to the Congress, National Rural Development Efforts and the Impact of Federal Programs on a 12-County Rural Area in South Dakota. As an introductory comment, let me take this opportunity to congratulate you and the persons in the General Accounting Office who prepared this report for a job well done. I am sure that your work will not only be most helpful to Congress, but will also prove very useful to this state in planning and coordinating our efforts to best facilitate rural development in South Dakota.

To facilitate your office's handling of this review, the comments have been divided to correspond with the major chapter headings in the report. The comments of the Third District Planning and Development District, the area surveyed in the report, are also attached to this report. [See GAO note.]

It is my hope that you find the comments useful in your preparing the final report to Congress.

Sincerely,



RICHARD F. KNEIP
 GOVERNOR

RFA/PVA

GAO note: The District's comments were considered in the preparation of this report but are not reproduced herein.

APPENDIX XV

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STATE PLANNING BUREAU'S COMMENTS ON NATIONAL RURAL DEVELOPMENT EFFORTS AND THE IMPACT OF FEDERAL PROGRAMS ON A 12-COUNTY RURAL AREA IN SOUTH DAKOTA

Agriculture Sector

The general review of the importance of the agriculture sector in District III is good. Further, it seems appropriate to stress the need for the USDA, state and local extension services to make a more determined effort to reach lower-income farmers with their programs and research material particularly in the area of farm management. However, the report does not clearly identify why the lower income farmers are typically less frequent participants in extension programs than their higher-income counterparts.

The recommendation given in the report--that extension personnel should be encouraged to seek out and assist lower-income farmers rather than waiting for these farmers to come to them--suggests that it has been the lower-income farmers lack of personal initiative which has been the major reason for their not coming forward. If this is true then the recommendation appears sound.

It may be, however, that there exists more underlying reasons which are responsible for the lower-income farmers lack of participation. One possibility may be that often times the extension materials are presented--both in writing and orally--in a far too sophisticated manner to be of practical use to these farmers. If this is true then the recommendation given seems lacking. Rather, efforts should be directed towards making the extension programs more applicable to the lower-income farmers' particular circumstances and levels of comprehension.

In view of this and other possible reasons for lack of lower-income farmers participation in extension programs, we would recommend that the GAO make further studies to identify these reasons. It is our belief that with such information the GAO will be in a position to make recommendations to the Secretary of Agriculture on how best the USDA can work to encourage state and local extension agencies to allocate a higher proportion of their extension efforts to lower-income farmers.

In addition, the text makes no reference to the likely detrimental effects that will accompany the proposed cutbacks in SCS personnel in the area. We feel this cutback holds possible serious consequences to the area.

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This comes at a time, when due to high farm prices, farmers in the District and throughout South Dakota are plowing up land previously held in soil bank or for grazing land which have a marginal productive potential. Further, much of this land is highly susceptible to wind and water erosion. Given that the South Dakota Department of Environmental Protection now estimates that from seventy to ninety percent of all air, land, and water pollution is directly attributable to such erosion, it appears inconsistent with the Federal Government policy "to make rural America a better place to live and work" that much of the expertise working to help farmers prevent erosion is being cut back at a time when it may be most needed. Additionally, the long run productivity of land in the area is also seriously threatened, and this should be regarded as detrimental to rural development.

Given these observations, we suggest that the GAO address the potential problems arising in rural development if the proposed cutback in SCS personnel is implemented. Again such information is essential to USDA officials in assessing whether their proposed actions are in the best interest with the overall Federal Government policy of "revitalization and development of rural areas as a means of achieving a balanced national growth."

Nonagriculture Sector

The GAO analysis of the potential development of the nonagricultural economy in District I.I is generally good. It recognizes that stimulating the sector is very important to promoting rural development and stemming outmigration in the district. Further, the report's emphasis on providing easily accessible and low cost capital for investment to potential job-producing enterprises is most appropriate given the frequency which interviewed firms stated that credit problems had been a major deterrent to their locating in South Dakota. (This problem area followed only distance to markets as the major reason listed by firms for not locating in South Dakota).

The report is lacking, however, in not identifying why South Dakota has traditionally been given low priority by Federal agencies, particularly the USDA, in their allocation procedures of available funds for the purpose of stimulating rural development. Many case points to this fact are identified in the text of the report, (not necessarily in the context presented here).

Under the provision of the 1972 Rural Development Act, FHA is authorized to guarantee up to ninety percent of a loan against loss, or if it is determined that no lender is available who will make a

APPENDIX XV

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guaranteed loan, the FHA itself can make and insure loans to businesses in communities of less than 50,000 people. (As a point of clarification this includes all of South Dakota communities with the exception of Sioux Falls.) In the FY 1974 Congress authorized 200 million dollars for this purpose. Of this, South Dakota FHA offices were allocated approximately \$1.6 million or roughly .75 percent of the total allocation. When asked why South Dakota received such a small allocation, a USDA official told GAO that the "amount allocated may be sufficient to meet the current demand."

However in the text of the report, statistics are given that in letters of intent to apply for loans (preapplication) alone, the FHA national office had received requests totalling about \$2.7 [million] from South Dakota firms. Given that these requests were written before the October, 1973, implementation date the above statement on the allotment sufficiency appears questionable.

[See GAO note.]

It is recognized that due to limited funds and seemingly unlimited wants some allocation scheme is necessary. In light of the above observations, we suggest that GAO receive from the USDA (FHA) and other Federal agencies with programs to stimulate rural development written explanation of the criteria they utilize in allocating their available funds to the different states. These are necessary for Congress to evaluate the adequacy and effectiveness of Federal programs in stimulating rural development.

Health Services and Facilities

In general, the GAO review of health services and facilities in District III is sound. However, the Comprehensive Health Planning Agency and HEW have no specific criteria for determining physician shortage areas, but most Federal programs designed to alleviate such shortages necessitate this determination to be effective. This would certainly appear to be a major void in the present Federal programs designed to provide better health service to rural areas that needs to be addressed as soon as possible.

The report also gives considerable evidence that Federal programs have been relatively ineffective in attracting health personnel to shortage areas. Reasons as to why this is so, however, are not given

GAO note: Comments have been deleted because of changes to this report.

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other than to say that the rural areas are unattractive to such personnel. It would appear helpful, therefore, if steps are to be taken to change this situation in the future, to have more specific information as to why such personnel find these areas to be unattractive and what if anything might be done to make these areas attractive. Only with such information will Congress be in a position to change its current programs and/or enact new programs designed to provide better health services and facilities in rural areas of the Nation.

We would recommend, therefore, an additional study be made to provide Congress with information on why health personnel are reluctant to practice in rural areas and what it might do to overcome this reluctance.

GAO study of District III: Housing section

Much of the housing data presented in the report is sound. The "cost of housing" section may be a bit misleading in that the median costs are not broken down by standard and substandard units. Although the conclusion that the cost of housing in the District is low may be right, such a breakdown might suggest that the cost of standard units is not in fact low relative to the rest of the state. In addition, the section could be considerably strengthened through an analysis of housing costs relative to income in different income categories. Finally, it would be interesting to know what the average cost of a new home actually is in District III.

The section on "Residential property taxes" lacks much analysis. The figures alone do not seem to indicate whether in fact citizen's fears with respect to high property taxes are justified.

We suggest that some additional information on South Dakota's Housing Development Authority be included in the section on State Actions. It might be worth noting, for example, that the HDA is currently providing construction financing for approximately 1100 units across the state, many of which are in District III.

An additional problem with the Farmer's Home Administration which should be mentioned is the lack of adequate staff required to do the work of that agency. Such a situation increases delays in the application procession operation among other things.

Finally, we think that although specific housing needs must indeed be identified, the process of doing this is not nearly as problematic as implementing programs which meet the housing needs of a basically rural population and which get money into housing in rural areas.

APPENDIX XV

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Capital Requirements

The overall review of the availability of capital facilities in District III is basically sound. The report, however, does appear lacking in two areas. First, the report addresses only the adequacy of these facilities in promoting rural development at the present time. Given that rural development is an ongoing and long term project, it would seem most appropriate for the report to include some indication as to what will be the future capital needs in the area if rural development is to be realized. Further, if such an analysis should show that present facilities are likely to be inadequate in the future, information should be available on what will be the extent of replacements that will be necessary, the cost of such replacements and a time table listing the years that different replacements will be necessitated. Not only will such information be valuable to Congress in assessing future capital facilities requirements in the area, but it would also give them information basis for planning and coordinating their resources and efforts so as to best stimulate rural development in the future.

Secondly, the report is lacking by not addressing sufficiently the adequacy of capital facilities in the District from the standpoint of supporting an acceptable quality of life to the residents in the area. Rather, these facilities are mainly evaluated from the standpoint of their being adequate for promoting economic development. Again, this gap arises in that the stated purpose of Federal rural development programs is "to make rural America a better place to live and work."

We recommend, therefore, that the analysis of capital facilities in District III be expanded to incorporate the future potential of the facilities for supporting both economic development and an acceptable quality of life for the area's residents.

The General Accounting Office should be commended for its fine work in preparing this report. Indeed, the analysis and the much needed information provided in the report will be of extreme usefulness to Congress in evaluating the impact of Federal efforts and programs in stimulating rural development. The State of South Dakota will also be able to utilize the report in determining how best its resources and programs can be used to promote rural development and serve the interest of its citizens. We look forward to continual cooperation with the GAO and Congress in the future.

APPENDIX XVI

PRINCIPAL DEPARTMENT OF AGRICULTURE
 OFFICIALS RESPONSIBLE FOR THE RURAL DEVELOPMENT ACTIVITIES
 DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	From	To
Secretary of Agriculture:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
Orville L. Freeman	Jan. 1961	Jan. 1969
Assistant Secretary for Rural Development (note a):		
William W. Erwin	Jan. 1973	Present
Thomas K. Cowden	May 1969	Jan. 1973
Vacant	Jan. 1969	May 1969
John A. Baker	Mar. 1961	Jan. 1969
Administrator, Farmers Home Administration:		
Frank B. Elliott	Aug. 1973	Present
Frank B. Elliott (acting)	Mar. 1973	Aug. 1973
Vacant	Feb. 1973	Mar. 1973
James V. Smith	Mar. 1969	Feb. 1973
James V. Smith (acting)	Jan. 1969	Mar. 1969
Howard Bertsch	Apr. 1961	Jan. 1969
Administrator, Rural Development Service (note b):		
Walter A. Guntharp	Apr. 1973	Present
Walter A. Guntharp (acting)	Jan. 1973	Mar. 1973
William W. Erwin	Feb. 1972	Jan. 1973
Joseph D. Coffey (acting)	Oct. 1971	Feb. 1972
H. L. Ahlgren	Oct. 1970	Sept. 1971

APPENDIX XVI

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Administrator, Extension Service:		
Edwin L. Kirby	Feb. 1970	Present
Lloyd H. Davis	Oct. 1963	Feb. 1970

^aUntil January 1973, the title of this position was Assistant Secretary of Agriculture for Rural Development and Conservation.

^bUntil January 1973, the title of this position was Deputy Under Secretary for Rural Development.