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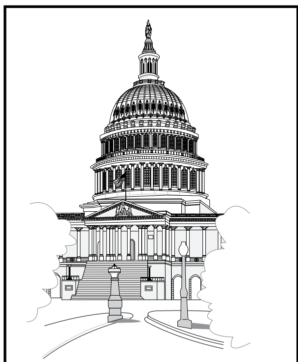

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Rural Conditions and Trends

Vol. 7, No. 2

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

Most rural areas have experienced some reductions or disruptions in Federal assistance during fiscal year 1996. Meanwhile, efforts to overhaul major Federal programs and regulations have begun and promise more significant changes in the future.

This issue of *Rural Conditions and Trends* describes Federal program and policy changes and their significance for rural areas. Our focus is on programs traditionally associated with rural development, such as assistance for infrastructure, businesses, and housing. However, we also look at many other programs of importance to rural communities and economies, like the environment and natural resources, agriculture, defense, social security, health, and education and training programs. We also discuss major tax and regulatory changes. The result is a fairly comprehensive review of how changes in Federal Government activities play out over the rural landscape.

Originally, this issue of *RCaT* was to examine only those changes that were adopted in legislation or regulations in fiscal year 1995 and that would take effect in fiscal year 1996. However, 1995 proved to be an unusual year in that the fate of many programs was delayed for over 6 months due to the inability of Congress and the administration to reconcile the fiscal year 1996 budget until the end of April 1996. Consequently, this issue of *RCaT* covers changes that were adopted in 1995 plus some changes adopted in early 1996.

We restricted our analysis to the largest and most important programs for rural development, focusing, where possible, on programs expected to change significantly in 1995-96. In most cases, the focus is on changes that have already been enacted by Congress or initiated by the administration. Like other issues of *Rural Conditions and Trends*, this issue is descriptive in nature. The analysis describes program activities, objectives, geographic allocations, and changes in program budgets and characteristics. Where relevant, the authors (all researchers in Economic Research Service's (ERS) Rural Economy Division) have added information about rural conditions to provide a context for understanding the roles different programs play in rural areas.

To indicate the rural places affected by Federal policies, we used the Census Bureau's 1994 Consolidated Federal Funds Reports data (also known as the Federal Funds data) to map the geographic distribution of selected Federal programs. These data vary among programs: some are accurate to the county level while others are only accurate to the State level. The limitations of the Federal Funds data are discussed in the appendix. We developed State typologies (see appendix) to compare program funding by type of State. The U.S. Department of Agriculture's (USDA) ERS nonmetro county typologies were used to compare program funding levels for different types of counties (see appendix). Where the Federal Funds data are inappropriate or misleading, other data sources are used.

Major Themes Include Budget Cuts, Shutdowns, Farm Legislation, Reform Proposals

Cutting the Federal deficit was an early priority of both the 104th Congress and the Clinton administration. The rescissions legislation enacted in July 1995 cut $16 billion in unobligated funds in fiscal year 1995 while providing an additional $7 billion in emergency disaster assistance, resulting in a net $9-billion reduction in Federal spending. These spending cuts were not evenly distributed but fell heavily on transportation (airports), housing (public housing), and several other functions.

As fiscal year 1995 ended, disagreement over how to reduce the deficit left many Federal agencies without regular appropriations for over 6 months (from October 1995 to April 1996) in fiscal year 1996. Many programs were temporarily shut down, or operated much, if not all, of the fiscal year on temporary and reduced funding. Temporary shutdowns caused disruptions in services that in some cases had significant adverse effects, such as in places that depend on national parks for tourism. Similar disruptions in other activities were less visible but more widespread, such as short-term cutbacks in environmental enforcement and school planning difficulties associated with uncertainties about Federal aid for the 1996-97 school year.

Nine cabinet-level departments were affected: Education, Housing and Urban Development (HUD), Health and Human Services (HHS), Commerce, State, Interior, Veterans Affairs, Justice, and Labor. These and many other agencies operated under temporary continuing resolutions until the end of April 1996, when the Omnibus Spending Act of 1996 provided their appropriations through the end of the fiscal year (September 30, 1996). This legislation made fiscal year 1996 budget cuts of about $23 billion in discretionary funding compared with fiscal year 1995 budget levels. Among the programs with substantial budget cuts, in percentage terms, were the Department of Commerce's Economic Development Administration (EDA) programs (20 percent), the Advanced Technology Program (49 percent), Native American programs (8 percent), the summer youth program (28 percent), the Perkins college loan program for disadvantaged students (36 percent), homeless assistance (25 percent), the Legal Services Corporation (31 percent), and the endangered species program (17 percent). These cuts may help reduce the deficit and, therefore, reduce Federal debt-service cost and its associated tax burden. However, the rural people and places that benefit from these programs will be adversely affected. In contrast, some programs received budget increases from this legislation, including Head Start and funding for AIDS. This legislation also provided $1.4 billion for community policing (up from $1.3 billion in fiscal year 1995), plus $0.5 billion for the local law enforcement block grant.

The Federal Agriculture Improvement and Reform Act of 1996, signed on April 4, reauthorized many of USDA's rural programs for fiscal years 1996-2002. In addition to reforming the Nation's farm programs, this legislation reforms most of USDA's rural development programs as part of the Rural Community Action Program (RCAP). RCAP will allow for increased coordination, planning, and capacity building at the State level, and allows for greater flexibility and transferability of program funds within USDA's three primary rural development functions (housing, infrastructure, and business assistance) to make better use of resources and include local participation. RCAP also requires annual strategic plans with performance benchmarks for each State. This legislation also authorized the creation of a Fund for Rural America. The Secretary would have discretion over the new fund, except that one-third must be devoted to rural development, one-third to research, and one-third to either rural development or research. The new Fund is authorized to begin to spend money on January 1, 1997. A total of $300 million has been appropriated, $100 million a year for 3 years.

Proposals to reform many other programs, including Education, Commerce, Labor, Environmental Protection Agency (EPA), HUD, and HHS programs, were debated in 1995 and in early 1996, but most of the major reform proposals were not enacted. Congress initially proposed to consolidate many of these programs and hand them over to the States to administer as new Federal block grants. The Clinton administration's plans for reinventing government also called for major program reforms and consolidations, but in most cases they would have retained Federal administration of the programs, as with the new RCAP program. Block grants give States flexibility, within limits, to retarget assistance. Program consolidations, even when not associated with block grants, can have a similar effect. Thus, when major reforms such as block grants and program consolidations occur, it is difficult to anticipate how these might affect local areas and the distribution of funding.

The two block grant proposals that received the most attention in 1995 were welfare reform and health reform. Despite some bipartisan agreement behind major components of welfare reform, such as time limits for welfare recipients and the notion of workfare, disagreements over funding for child care and other issues stood in the way of welfare reform during 1995. However, in August 1996, welfare reform was enacted. In the same month, health insurance reform, which, among other things, requires that insurers offer continuing coverage to workers who change or lose their jobs, was enacted. This legislation, however, did not include provisions to block grant the two large and growing health programs, Medicaid and Medicare. Like welfare reform, health reform continues to be debated, and its significance for rural areas is underscored in this report.

While attracting less attention from the general public, changes made in Agriculture and Defense programs may significantly affect many rural areas for many years to come. The 1996 farm legislation represents a major overhaul of Federal assistance to farmers, altering the system of income support payments and granting farmers greater planting flexibility. While the possibility that the farm payment safety net may be phased out creates uncertainties for the future, some farming areas should benefit at least in the short term from the act's provisions that allow farmers to continue to receive income payments for several years without the previous reduction associated with expected higher than normal farm prices. The reduction in defense spending in fiscal year 1996, and possible future reductions as reflected in the defense authorization bill, will probably be more important to urban areas than to rural areas. However, these reductions may adversely affect many rural people and places, particularly places with defense base closures.

Many reform proposals in 1995 involved tax cuts or regulatory changes. The flat tax and other major tax reforms have been debated, but no major new tax changes occurred. Rural people and places, though, continue to feel the effect of the significant increase in the earned income tax credit that benefits low-income families and which is being phased in over several years. Most proposed regulatory changes, including the "regulatory flexibility" and "regulatory reform" legislation, proposed changes in product liability rules, legal reforms, and reform of labor safety regulations were not enacted. However, 1995 and early 1996 saw some significant regulatory changes affecting rural credit, the environment and natural resources, electricity and telecommunications, and several other areas. Although we discuss these changes, it is too early to predict the effects of these changes.

The recently enacted welfare reform, health insurance reform, and minimum wage increase will not take effect until fiscal year 1997 and beyond. Consequently, we will cover this legislation in next year's issue of *Rural Conditions and Trends*.

This Report Covers 11 Program Categories

We report on program changes in 11 categories. The first four categories—general development, infrastructure, housing, and business assistance—may be viewed as basic development programs for rural areas. They include USDA's main rural development programs, and key development programs of HUD, Transportation, EPA, the Small Business Administration, the Appalachian Regional Commission, and the Economic Development Administration. Most of these programs include local economic and community development as major program goals. The other seven program categories are important to rural development though they are often not closely associated with rural development. These seven categories include education and training, natural resources and the environment, income support, health, agriculture, defense, and miscellaneous programs (includes social services, trade, and Native American programs). Next comes our coverage of tax and regulatory changes, followed by the appendixes, which describe data sources and definitions and include a table with budgetary information on selected programs. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

General Assistance Aids Comprehensive Development Strategies

Recent U.S. Department of Agriculture initiatives have helped to concentrate various forms of assistance in places with great needs, such as in high-poverty areas in the South and in timber-dependent areas in the Pacific Northwest. Economic Development Administration and Federal Emergency Management Agency programs have recently concentrated general assistance in places affected by natural disasters.

General development assistance facilitates the planning and coordination of government, private, and nonprofit sector resources to promote economic and community development. It comes in various forms and can be used in conjunction with many other programs, including infrastructure, business, and housing programs covered elsewhere in this report. Its flexibility makes general assistance ideal for comprehensive development strategies. It is also well suited for responding to problems unique to particular places or situations, such as in persistently poor places and in places adversely affected by natural disasters or structural economic changes.

Among the most important of such programs for rural areas are USDA's rural Empowerment Zone and Enterprise Community (EZ/EC) program and the Cooperative State Research, Education, and Extension Service's (CSREES) planning and technical assistance activities, the Commerce Department's Economic Development Administration's (EDA) planning and technical assistance grants and economic adjustment grants, the Department of Housing and Urban Development's (HUD) Small Cities Community Development Block Grant (CDBG) program, the Appalachian Regional Commission's (ARC) regional development programs, and the Federal Emergency Management Agency's (FEMA) disaster assistance. However, other programs also fit within this category.

USDA Has Several Important General Assistance Programs

USDA's EZ/EC program provides tax incentives, grants, and regulatory relief to about 100 high-poverty areas across the country, including 33 rural EZ/EC's (3 EZ's, 30 EC's) designated by the Secretary of Agriculture in December 1994, following a competition in which several hundred communities performed grass-roots strategic planning to create comprehensive plans for economic, community, and human development. The tax incentives go mainly to the EZ's. Each of the rural EZ's also gets $40 million in general purpose title XX grants from HHS. Each EC gets $3 million in title XX grants. As part of the Administration's EZ/EC initiative, the EZ/EC's also get priority when applying for other development-oriented grants and loans from various Federal agencies. For example, Congress earmarked $71 million in fiscal year 1995 and $67 million in 1996 from USDA's rural development programs for rural EZ/EC's. (Unless otherwise indicated, references to years in this article refer to fiscal years). USDA has also given some technical assistance to "Champion Communities"—rural communities that applied but did not receive EZ/EC designations. Most rural EZ/EC's only began to receive funding late in 1995, so the program's effect is just beginning. The geographic effect of this program has been primarily in the Southeast, Appalachia, the Mississippi Delta, and the Southwest, where rural poverty is greatest.

USDA has also begun to assist Rural Economic Area Partnership (REAP) zones—areas in North Dakota that have experienced significant outmigration and job loss. The first two zones were established in 1995 and received $25,000 each to develop strategic plans and benchmarking. USDA is committed to providing an additional $50,000 to capitalize an economic development fund for projects in these zones, and $10 million over 5 years in USDA development program set-asides.

CSREES's extension activities provide rural people and communities with valuable technical assistance that incorporates research results into practical solutions for rural problems. Because rural communities often lack the trained staff that exists in urban areas to review state of the art approaches to community solutions, these extension activities provide a much-needed service for rural development. Extension activities are provided through Land Grant universities which are spread across the country. Federal funding for total extension activities declined slightly from $439 million in 1995 to $422 million in 1996.

Other USDA programs that provide general development assistance include Rural Economic Development Grants ($20 million in 1996), and Resource Conservation and Development Areas ($29 million in 1996). The 1996 farm legislation also authorized the Rural Business Opportunity Grants, which could be used for technical assistance and training, conducting local or multi-county economic development planning, coordination of economic development activities, and leadership development training.

The Forest Service's Economic Recovery and Rural Development programs ($14.5 million in 1996) assist timber-dependent and persistent-poverty communities in diversifying their economies and building development capacity. In addition to its regular economic action aid, the Forest Service is contributing another $16 million in specially appropriated economic action funds, plus an additional $13.5 million in funding from its Jobs in the Woods program, in 1996 to the administration's Northwest Economic Adjustment Initiative. This initiative combines funding from various Federal agencies, including USDA, Interior, Commerce, Labor, and EPA, to provide a comprehensive solution to serious problems in the Northwest. This presidential initiative distributed $219 million (out of $260 million in appropriated funds) in Federal grants, loans, and contracts last year for economic and community development in the Pacific Northwest in 1995 in response to economic difficulties associated with declining employment in the forest industry. Total Federal resources for this initiative are expected to remain the same, or perhaps decline slightly, in 1996.

EDA's General Assistance Programs Are Small But Important for Rural Areas

EDA's Economic Development-Technical Assistance Program ($11 million in 1995) assists economic development in distressed areas. EDA's Economic Development-Support for Planning Organizations ($22 million in 1995) helps fund planning organizations in multicounty Economic Development Districts, redevelopment areas, and for Native American tribes. The planning support program plays a key role in developing and maintaining planning capacity that is lacking in many distressed rural areas and, equally important, it furthers regional solutions to regional problems. 1996 funding for both of these programs was cut about 10 percent. The technical assistance program was funded at about $10 million, while the planning program was funded at $19 million.

EDA's Special Economic Development and Adjustment Assistance Program helps State and local areas develop and implement strategies to adjust to economic difficulties from sudden and severe economic dislocation, such as plant closings, military base closures, defense contract cutbacks, and natural disasters. This program provided $291 million in 1995 but was held to $139 million in 1996 (including $30 million in economic adjustment grants and $90 million in defense conversion assistance).

Of the three forms of EDA assistance, technical assistance was most widely available in nonmetro areas (fig. 1). Adjustment assistance was the most concentrated of the three programs, with much of its 1994 funding going to Midwestern places affected by the serious flooding and to places in the Northwest affected by problems in the timber industry.

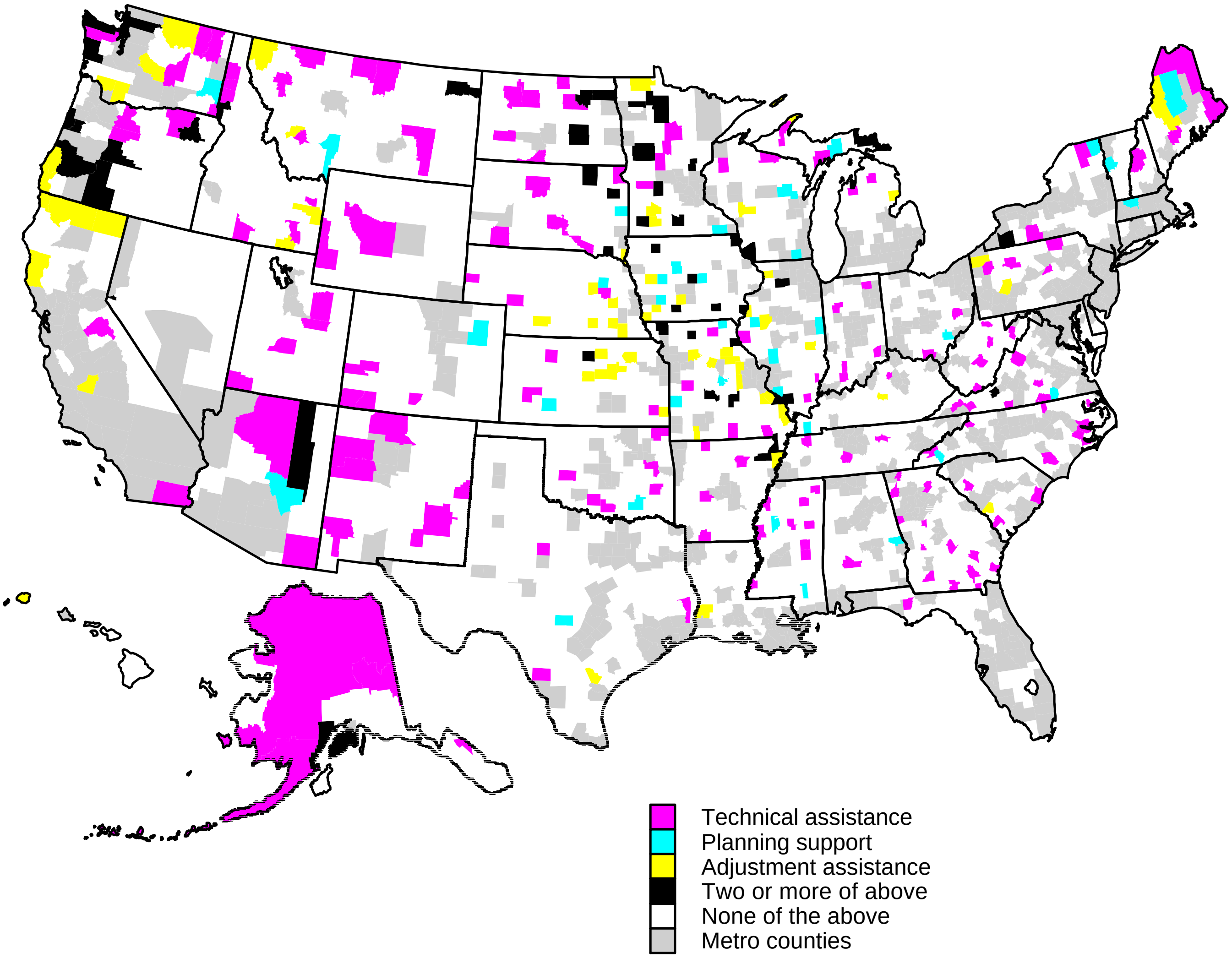
HUD's Small Cities CDBG Program Aids Both Economic and Community Development

The HUD Small Cities block grant program assists only small towns and rural areas outside metro/urban counties. Except in New York and Hawaii, this program is administered by the States, which have broad discretion in how the funding can be used, both in terms of function (housing, infrastructure, and employment generation) and form (grants and revolving loans). Small Cities Community Development Block Grant (CDBG) funds are valued for their flexibility and also for their ability to leverage matching funds from other Federal programs and from private sources.

Figure 1

Counties receiving general development assistance from three EDA programs, fiscal year 1994

Technical assistance is the most common form of general assistance



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

Because this is a block grant, we have no county-level data on local allocations across the country; but State-level data show, not surprisingly, that the program is particularly important to rural States, which receive the highest per capita dollars (fig. 2). When State receipts are measured per nonmetro person, however, a different pattern emerges, showing that nonmetro populations in the Northeast and Midwest States tend to benefit more, and nonmetro populations in Western States (excluding California) benefit less (fig. 3). Thus, while rural States tend to benefit more from this program than urban States, rural populations in some urban States benefit more than rural populations in some rural States. This results from the aid formula that allocates aid among the States. Funding for this program was held constant at its 1995 level of $1.3 billion.

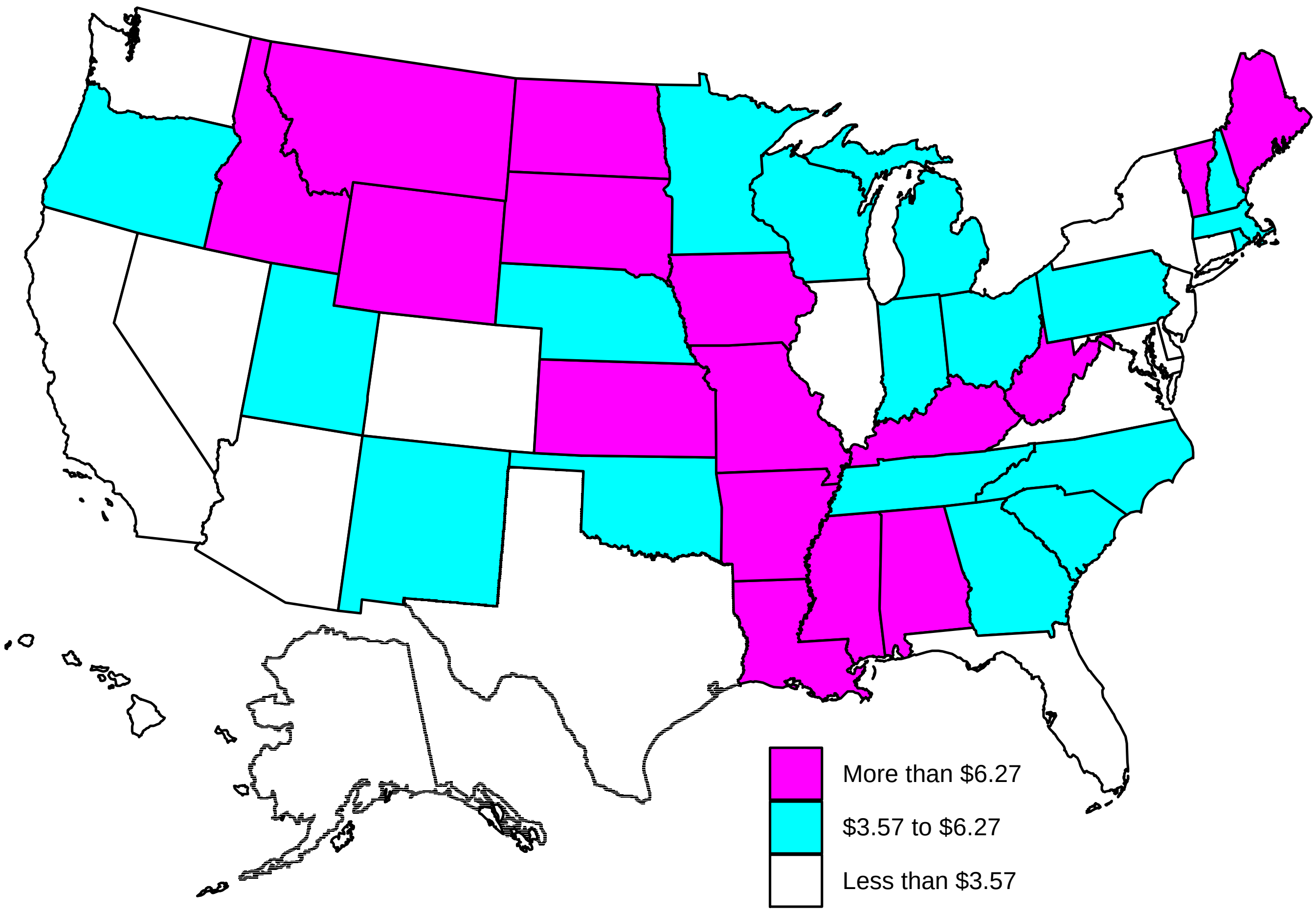
ARC Provides Comprehensive and Integrated Assistance

Rural Appalachia generally suffers from low incomes and other barriers to development. Federal aid to the Appalachian Regional Commission (ARC) local development districts, though only $5 million in 1996, plays an important role in planning for rural development

Figure 2

Per capita funding from the State/small cities program in fiscal year 1994

Rural States are the main beneficiaries



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

in the region. ARC's largest program is the highway program, $197 million in 1996, which is substantially higher than $133 million in 1995. However, ARC's area development programs, which include education, housing, and other forms of assistance, were cut from $101 million in 1995 to $92 million in 1996.

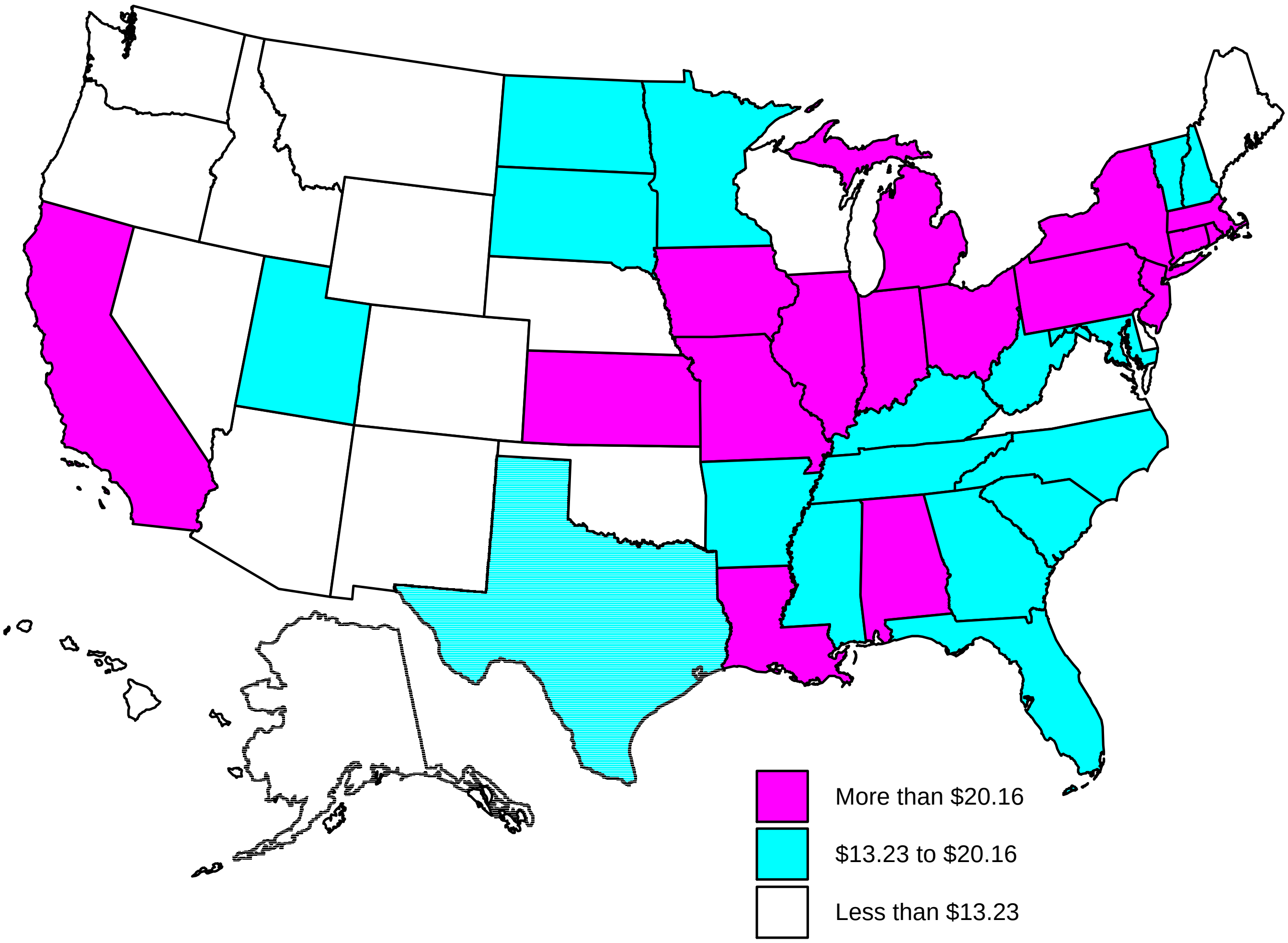
FEMA's Disaster Assistance Helps Many Rural Areas

FEMA's disaster assistance program provides cost-sharing grants to State and local governments, nonprofits, and individuals to alleviate suffering and hardship from major disasters or emergencies declared by the President. Although the places assisted vary annually, communities located along rivers, coastal areas, and fault lines tend to benefit most from these programs because floods, hurricanes, and earthquakes usually cause the costliest emergencies. In 1995, FEMA's disaster assistance was funded at $2.9 billion. The original estimate for 1996 was $2.8 billion. The Omnibus Spending Act, passed in April 1996, cut this by about $1 billion. In the event of major new disasters, however, sup-

Figure 3

State/small cities program funding per nonmetro person in fiscal year 1994

Nonmetro funding tends to be higher in the Northeast and Midwest, lower in the West



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

plemental budget authority could be added. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Some Infrastructure Programs Cut

Cutbacks occurred in 1995-96 in various Federal infrastructure programs covering transportation, wastewater, and public works. New Federal infrastructure initiatives include a program for financing drinking water systems, the 1996 farm legislation's Fund for Rural America, and provisions of the Telecommunications Act of 1996 for universal service in rural areas.

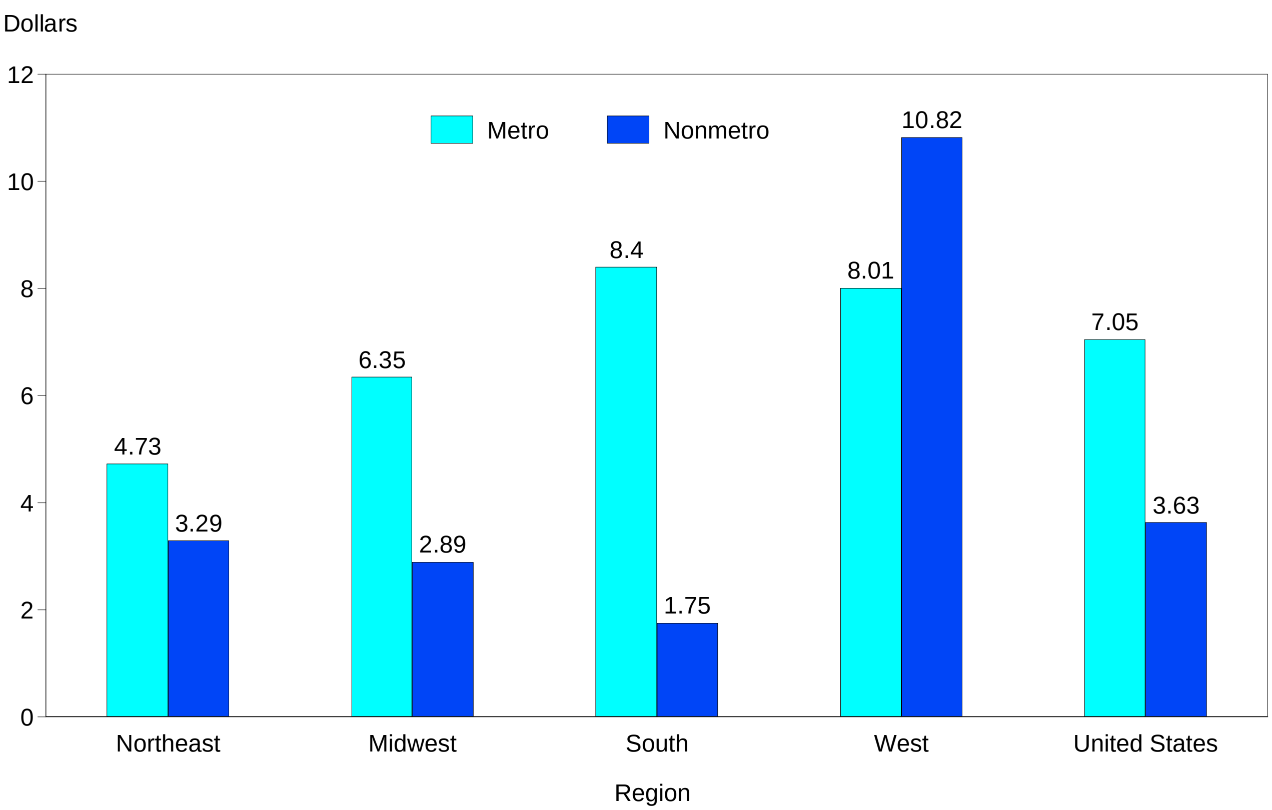
A well-functioning infrastructure network (composed of transportation, waste and wastewater, telecommunications, and other public facilities) is an important component of rural economic development. Recently, cutbacks have been implemented in a variety of Federal infrastructure programs, including public transit, passenger rail, airports, wastewater infrastructure, and public works. A major new Federal program designed to help States build and improve their drinking water systems was enacted, but will not take effect until fiscal year 1997. The 1996 farm legislation also authorizes increased funding for rural infrastructure beginning in 1997. Universal telecommunications service contained in the Telecommunications Act of 1996 also initiates a regulatory process in support of future rural telecommunications infrastructure projects.

Many Transportation Programs Received Reduced Funding

The largest funding cuts among infrastructure programs involved transportation. In mid-1995, the Rescissions Act (P.L. 104-19) cut $2.1 billion in airport capital accounts that fund airport improvements in many rural areas and $132 million for Federal-Aid Highway funding. Both of these programs are important in the West, especially in nonmetro counties (fig. 1). The fiscal year 1996 Omnibus Spending Act (P.L. 104-134) also cut $664 million in unused accounts from the $1.45-billion (fiscal year 1996) Airport Improvement Program, and added $300 million to the $20.8-billion Federal-Aid Highway Program.

Additional funding cuts resulted from the fiscal year 1996 transportation appropriations legislation (P.L. 104-50). Specifically, rural areas will be affected by the 16-percent fund-

Figure 1
Per capita grants for Airport Improvement Program, fiscal year 1994
Nonmetro counties in the West get most aid



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

ing decrease in the Nonurbanized Area Formula Apportionments for Public Transportation (Section 5311). Because Federal human service programs are an important source of funding for public transportation programs affecting low-income and elderly populations, future cuts in medicaid and medicare might also significantly affect transportation services available to these groups, particularly in rural poverty and retirement counties.

Other programs associated with transportation infrastructure that received reduced funding for fiscal year 1996 include Essential Air Services, Amtrak, and Local Rail Freight Assistance. The Essential Air Services Program provided about $30 million in fiscal year 1995 to restore air service to small communities that lost it after deregulation; its funding was cut over 25 percent. Some rural areas may also be hurt by the nearly 25-percent reduction in the Federal subsidy for the Nation's passenger rail network. Amtrak represents one of the few viable transportation options for residents in some rural communities, particularly for persons without access to automobiles. Hence, low-income residents, the elderly, and persons with disabilities may be hurt most. The Local Rail Freight Assistance Program, which provided $10 million in fiscal year 1995 for the maintenance of rail lines as freight carriers abandoned or cut back service, received no funding in the fiscal year 1996 transportation appropriation. These cutbacks will not have a widespread negative effect on nonmetro America, but specific rural areas that rely on these programs could be hard hit.

Some Environmental Infrastructure Programs Were Cut

Environmental infrastructure is a key to sustainable development in rural areas. The Environmental Protection Agency (EPA), which had to operate without permanent appropriations for more than half of fiscal year 1996, operates the clean water State Revolving Fund (SRF) Program. This $1.35-billion program (fiscal year 1996), which finances the construction of wastewater treatment facilities, lost nearly $1.1 billion in unused accounts under the 1995 Rescissions Act. The clean water SRF Program also oversees a new $50-million fund for wastewater treatment in impoverished communities. Additional provisions include $150 million for construction of wastewater facilities in the lower Rio Grande Valley, with a $50-million match by the State of Texas, and $15 million in grants for wastewater infrastructure in Native Alaskan villages.

Rural communities, in particular, might benefit from a new Federal program aimed at helping States build and improve their drinking water systems. This program authorizes $7.6 billion over 5 years for State revolving loan funds (RLF's) to improve drinking water starting in fiscal year 1997.

USDA's Rural Utilities Service (RUS) operates the $1.3 billion (fiscal year 1995) Water and Waste Disposal Program. This program, which was cut about 25 percent under the 1996 USDA appropriation, provides financial assistance (loans and grants) to nonmetro communities with populations of less than 10,000. About a quarter of all nonmetro counties received assistance in fiscal year 1994 under this program (fig. 2). USDA's Water 2000 initiative uses Federal funds to leverage private sector money to deliver safe, affordable drinking water by the year 2000 to the estimated 1.2 million rural residents without complete indoor plumbing facilities. In 1995, Water 2000 funded 217 new water treatment systems; it is projected to fund about 150 new systems in 1996.

Telecommunications Programs to Receive Greater Emphasis in Future

The Commerce Department's Telecommunications and Information Infrastructure Assistance Program is designed to promote the widespread use of advanced telecommunications (such as the Information Superhighway) throughout the Nation. This small program ($42 million in fiscal year 1995) directly benefits rural areas by using telecommunications to improve the quality and increase the accessibility of various social services, such as health care and education. Its budget was cut nearly in half in fiscal year 1996.

USDA's RUS operates the $935-million (fiscal year 1996) rural electrification and the $490-million (fiscal year 1996) rural telecommunication loan programs. These programs provide loans for upgrading and expanding facilities to improve electric and telephone service to rural residents, and both received modest funding increases in fiscal year 1996.

Looking to the future, the Telecommunications Act of 1996 (P.L. 104-104), which deregulates the telecommunications industry (see section on Regulations), endorsed the concept of universal service so that rural areas with low population density and limited economic opportunities will not be excluded from the benefits of modern telecommunications technology. To achieve this, subsidies offered through the RUS will be provided to reduce connection costs. The 1996 farm legislation also authorized $100 million annually in grants and loans for using technology to provide medical and educational services in rural areas.

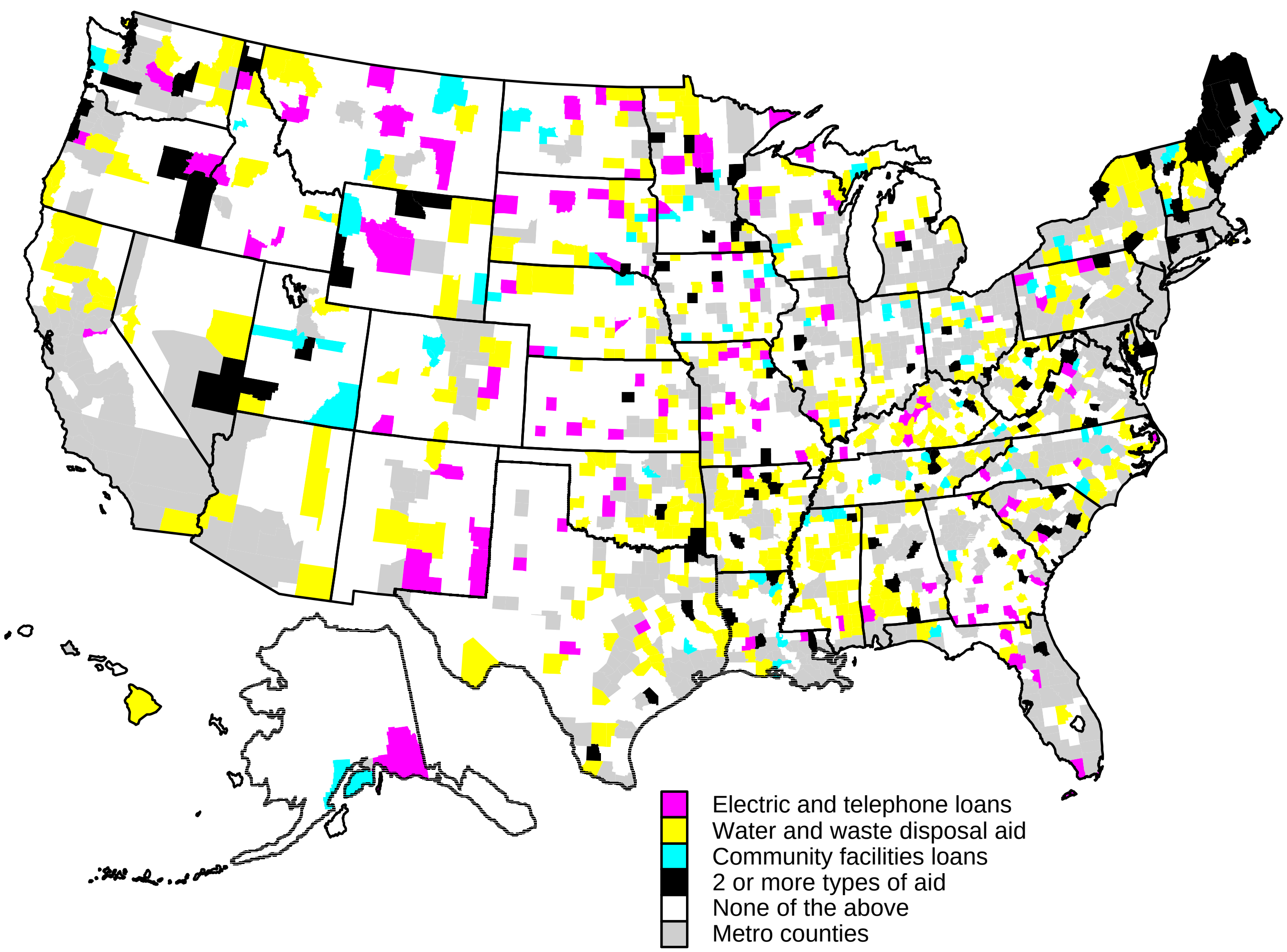
Changes in Other Infrastructure Programs

USDA operates a number of other important rural infrastructure programs. For example, the Forest Service's $313-million (fiscal year 1995) Payments to States Program provides grants for public schools and public roads located on national forest lands. This program was cut modestly (5 percent) in fiscal year 1996, mainly affecting rural areas in the West.

Figure 2

USDA rural infrastructure programs, fiscal year 1994

One-third of all nonmetro counties receive aid



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

Federal Business Assistance Declines Modestly

As Federal dollars become scarcer, business assistance programs are increasingly more innovative. Direct loans are little used. Important program changes go beyond loan mechanisms such as loan guarantees. All program agencies have also implemented evaluation goals to improve the overall efficiency of program operations.

Many Federal programs provide technical and financial assistance for rural business development. These programs share the goal of providing needed capital to help rural communities create sustainable businesses in an increasingly global marketplace. Three agencies provide most of the business assistance programs: the Small Business Administration (SBA), U.S. Department of Agriculture (USDA), and the U.S. Department of Commerce (Commerce). USDA's programs serve a primarily nonmetro clientele, while programs administered by the SBA and Commerce are available to both metro and nonmetro clients.

SBA has 14 small business development programs, more than any other agency. SBA's Small Business Loan Guarantee Program is the largest program in terms of dollars obligated. USDA's seven programs fill important niches in rural America. Commerce administers several programs designed to improve the competitive and technological edge of U.S. companies, but most of their programs benefit larger businesses. Business assistance has evolved gradually to include more technical assistance, but the current emphasis remains on improving access to financial assistance.

Federal financial business assistance consists of direct loans, guaranteed loans, and grants (see appendix for definition of terms). Eligibility requirements tend to be similar across programs at both USDA and SBA. Both agencies require that an applicant be unable to obtain financing elsewhere and that they demonstrate the ability to repay. Guaranteed loans have increased in popularity since the early 1980's, and are typically made through commercial lenders.

Grant programs, such as Commerce's Economic Development Administration's (EDA) title IX, typically provide local governments and nonprofit institutions with seed money enabling them to finance local business development. Seed money is most often used to fund either technical (nonfinancial) assistance or a revolving loan fund (RLF). RLF's are designed to provide a sustainable supply of capital because, as the loans are repaid, the original capital plus interest earnings is available to finance new projects. RLF's also try to leverage private investment. Grant applicants usually must demonstrate that they are located in areas that are experiencing chronic high unemployment or a major economic dislocation. Grant recipients typically have broad discretion in establishing credit standards used to determine borrower eligibility.

Many small businesses need more than capital. Technical assistance programs provide financial and business management training. They also provide development planning and other strategic assistance, mostly through project grants that fund cooperative agreements.

Most Nonmetro Counties Receive Some Form of Business Assistance

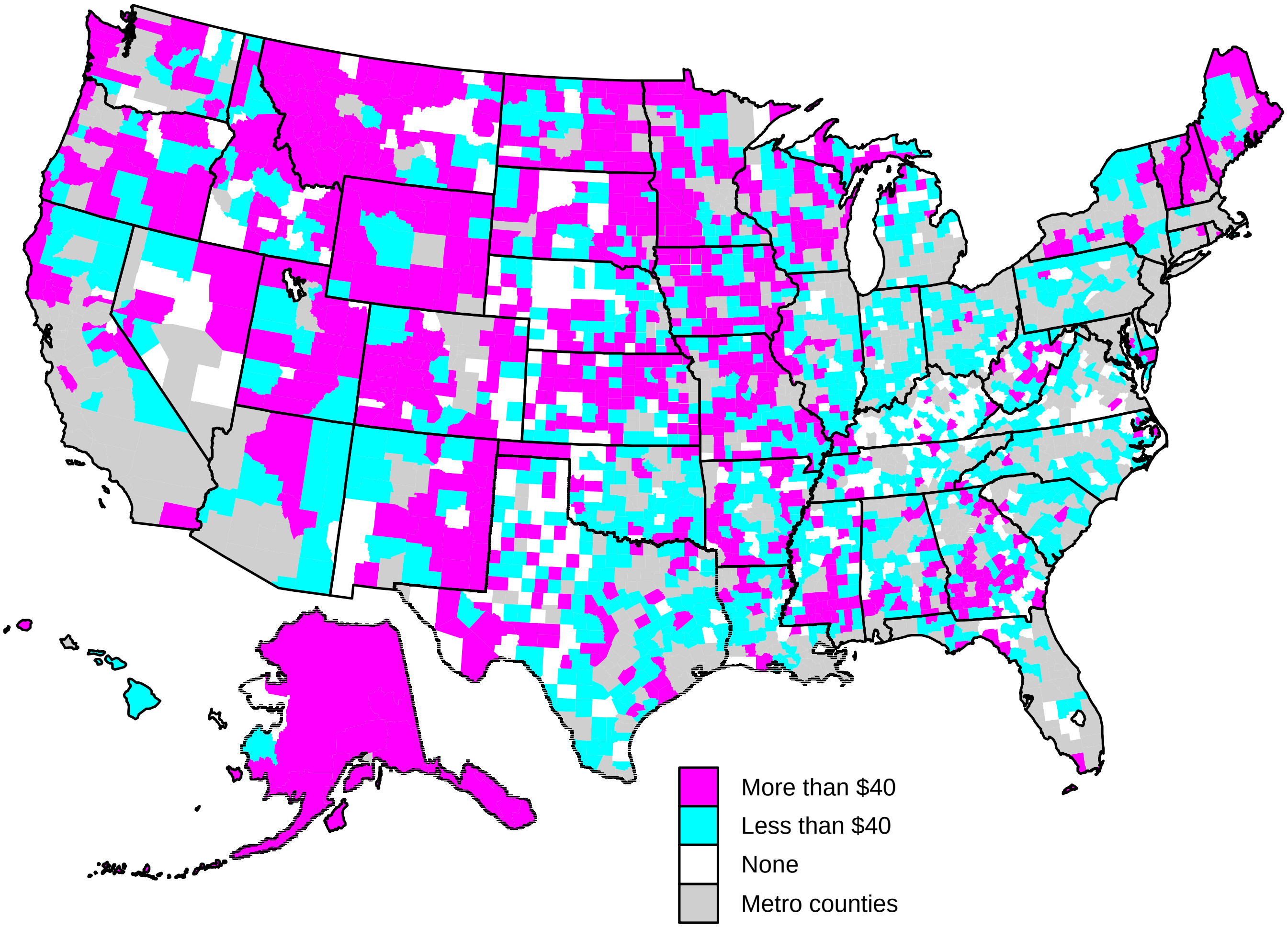
Of 2,276 nonmetro counties, all but 414 received some form of business assistance in 1994 from either SBA, USDA, or Commerce (fig.1). Many of the counties that received no Federal business assistance are in areas with declining populations, such as the Plains. The assistance seems to be concentrated in rapidly growing areas, such as the Rockies, and in places adjusting to economic difficulties (the Northwest) or natural disasters (the flood plains of the Mississippi and Missouri Rivers). This picture may be somewhat misleading, though, as it mainly reflects the SBA's small business loan program, which is larger than all the other business assistance programs combined.

Metro counties typically received more business assistance in 1994 than did nonmetro counties (fig. 2). Some types of nonmetro counties, such as farming and service counties, came close to the metro county average. Manufacturing and mining counties lagged far behind.

Figure 1

Per capita Federal nonmetro business assistance, fiscal year 1994

The counties not receiving assistance are in remote areas with little business activities



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

SBA's Business Assistance Programs Are the Largest

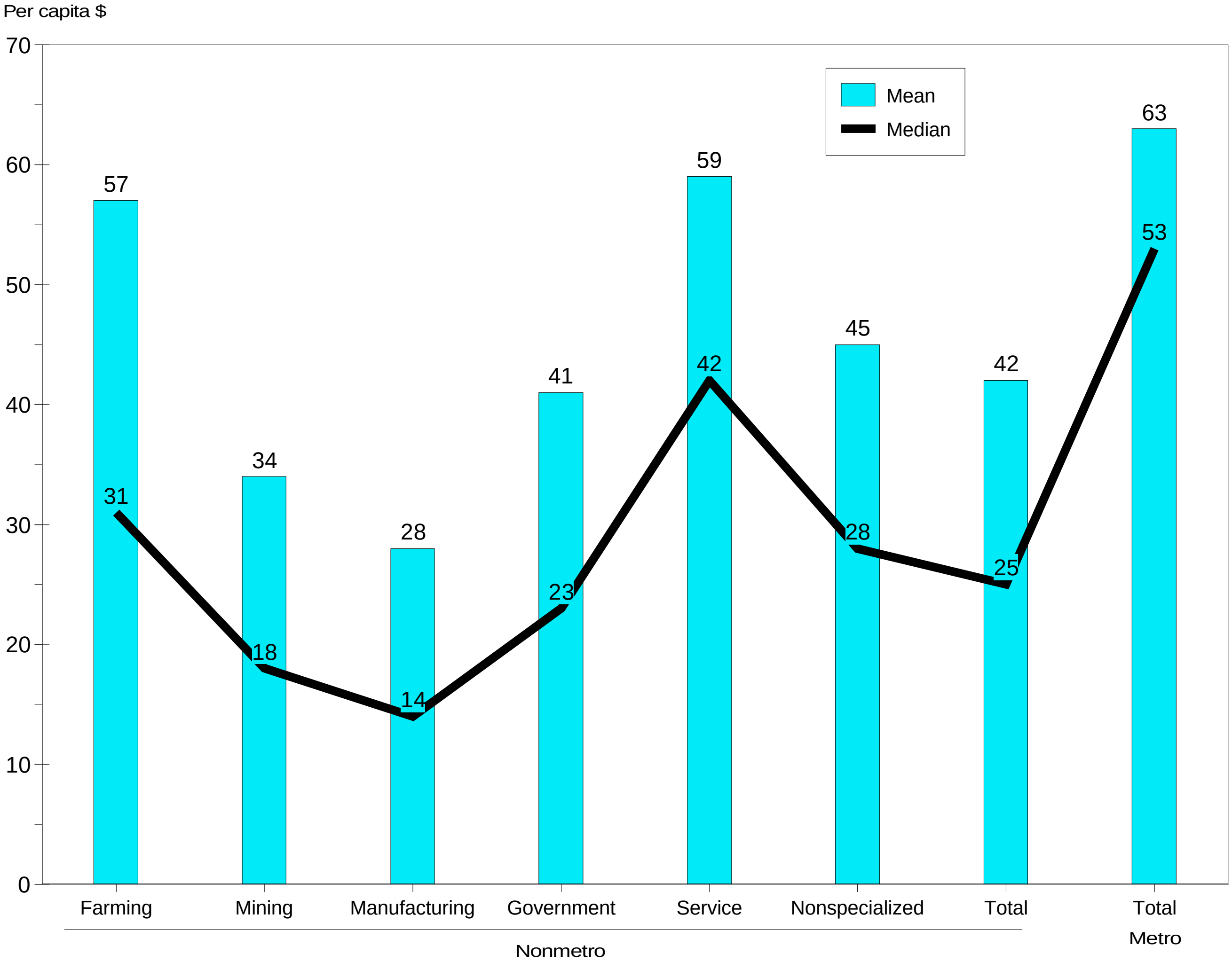
The small business loan guarantee program has shown impressive growth in recent years, increasing the number of loans it guarantees to 56,000, totaling about $8 billion by 1995. The Certified Development Company Program has shown similar growth. The program funding level for the Small Business Loan Guarantee Program increased about 40 percent for fiscal year 1996. Other SBA programs also experienced increases in fiscal year 1996. Some in Congress have proposed making considerable changes in SBA's programs. The Small Business Lending Enhancement Act of 1995 increased guarantee fees paid by participating banks to 3 percent. In addition, an annual fee was established that will be payable by the participating lender and not the borrower. Fees will also be assessed on loans that are sold into the secondary market. Although these changes could diminish private lender interest in the guaranteed loan program, they should reduce program budget costs.

Recently, SBA has been developing and using quantitative, measurable lending goals to improve program effectiveness. Programs are assessed by the number and amount of loans guaranteed, the rate of defaults and recoveries, and hard-to-measure goals, such as economic benefits to small businesses and their communities. SBA has adjusted its accounting for loan subsidies to reflect that losses had been higher than estimated.

Figure 2

Per capita business assistance by county type, 1994

Only farming and service counties received average per capita funding levels similar to urban areas



Note: The mean and median are calculated summing populations and business assistance dollars to arrive at the per capita measure.
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

However, recent data suggest that the situation is improving. SBA is proposing several changes that will require legislative approval. Important proposals include changing the Certified Development Company Program into a direct loan program, increasing fees on the Small Business Investment Company Guarantees, and increasing the interest rate on disaster loans.

USDA Programs Serve a More Tightly Defined Group of Businesses

Since 1974, USDA's programs have provided more than 5,120 businesses with nearly $5 billion in loan guarantees, reportedly helping to create or save over 460,000 jobs. The Rural Business-Cooperative Service administers most of USDA's rural business assistance programs, including technical assistance and research for agricultural cooperatives. Business and Industry (B&I) loan guarantees provide protection against financial loss creating an incentive for private lenders to extend more credit to rural businesses. Other programs, such as the intermediary relending program, allow sponsors to borrow from USDA to make loans to businesses and other organizations for development purposes.

Fiscal year 1996 funding levels increased for the B&I loan program to slightly over $500 million. Under budget accounting rules, lower market interest rates have reduced the amount of interest-subsidy cost associated with the B&I program. This reduction in turn allows the actual amount of lending to be guaranteed to rise to just over $700 million.

The legislation enacted in 1996 authorizes two new programs. Rural Business Opportunity Grants, not to exceed $1.5 million annually, is to assist public bodies, private nonprofit community development corporations, and other entities. The program's purposes include identifying and analyzing business opportunities, providing technical training assistance, establishing business support centers, and coordinating regional, community, and local economic development planning. The new legislation also authorizes a Rural Venture Capital Demonstration Program. In each fiscal year, up to 10 community development venture capital organizations would be designated to demonstrate the value of loan guarantees in attracting private investment to rural businesses. This program would guarantee up to 30 percent of a venture capital organization's investment pool. Total guarantees are limited to $15 million per fiscal year.

Commerce Has Smallest Presence in Nonmetro Business Assistance Programs

Having repeatedly faced the threat of shutdown, Commerce's business assistance programs were funded through continuing resolutions most of fiscal year 1996. Funding has not changed significantly for its two technical assistance programs, but changes in measuring performance may enable Commerce to improve the assistance it provides. The majority of the Manufacturing Extension Partnership's and Advanced Technology Program's funding went to metro areas. Nonmetro counties may have a difficult time qualifying for these funds since these programs focus on the kinds of advanced technology industries that tend to concentrate in urban areas.

The Economic Development Administration's (EDA) economic development assistance programs are carried out through a network of regional headquarters. EDA provides grants for public works, capacity building, economic and defense adjustment, and other financial assistance to help reduce substantial and persistent unemployment in economically distressed areas. Economic adjustment grants help communities adjust to a gradual erosion or a sudden change in economic conditions. These grants are awarded to qualifying revolving loan funds that make business assistance loans on preferential terms. Grant funds are used to leverage private sector investment in local business development.

EDA funding declined from $465 million in fiscal year 1995 to just over $335 million in fiscal year 1996. By some measures, EDA grants leverage as many as $5 for every $1 of grant money. EDA claims that in fiscal year 1995 its programs were responsible for more than 2.8 million jobs being created or saved nationally through $1.9 billion in private sector capital, resulting from revolving loan fund activities loan assistance to over 7,000 businesses. *[George Wallace, 202-501-6751, gwallace@econ.ag.gov]*

Federal Business Assistance Comprises Many Programs

Financial Assistance Programs: These Federal programs support small business through credit access by making direct and guaranteed loans.[1] Programs are increasingly built around guaranteeing private sector lending.

U.S. Department of Agriculture

Intermediary Relending Program
Business and Industrial Loans
Rural Economic Development Loans

Small Business Administration

Economic Injury Disaster Loans
Loans for Small Businesses
Physical Disaster Loans
Small Business Investment Companies
Small Business Loans
Local Development Company Loans
Bond Guarantees for Surety Companies
Handicapped Assistance Loans
Veterans Loan Program
Certified Development Company Loans
Business Loans For 8(a) Program Participants

U.S. Department of Commerce

Economic Development Administration's Title IX Grants to start Revolving Loan Funds

Technical Assistance Programs: Provide Federal support to business by providing project grants to economic development entities. These programs are designed to convey necessary knowledge of business management, finance, and operation.

U.S. Department of Agriculture

Small Business Innovation Research
Rural Development Grants
Rural Technology Development Grants
Rural Economic Development Grants

Small Business Administration

Business Development Assistance to Small Business.
Minority Business Development (section 8(a) program)
Management and Technical Assistance for Socially Disadvantaged Businesses (Section 7(j))
Small Business Development Centers
Women's Business Ownership Assistance
Microloan Demonstration Program

U.S. Department of Commerce

Manufacturing Extension Partnership
Advanced Technology Program

[1]Housing and Urban Development's Community Development Block Grant program is sometimes used to provide financial assistance to local businesses as well.

In contrast, the Rural Housing Service's $227-million (fiscal year 1995) Community Facilities Loan Program, which provides direct and guaranteed loans for a variety of community facilities in rural areas, received a funding increase of 25 percent in fiscal year 1996.

The Department of Commerce's Economic Development Administration (EDA) is another important source of funding for rural public works and infrastructure projects, providing grants for a variety of public facilities such as water and sewer systems, industrial access roads, port and railroad facilities, schools, and business incubator facilities. Under the Omnibus Spending Act of 1996, the $194-million EDA public works grant program (fiscal year 1995) was cut by nearly $30 million.

Rural infrastructure should benefit from the 1996 farm legislation's authorization of $300 million for a new Fund for Rural America, which would make funds available for 3 years, beginning in January 1997. This money could be spent on housing, infrastructure, and other rural development research projects. The farm legislation also established the Rural Community Advancement Program to improve the coordination and effectiveness of USDA's community and business development programs in rural communities. This legislation also included an additional $10 million annually for rural community facilities.

The recently created North American Development Bank will help finance or facilitate financing of NAFTA- (North American Free Trade Agreement) related projects in Mexico and the United States. This should help affected rural areas finance environmental infrastructure projects and community economic adjustment projects. *[Dennis Brown, 202-219-0329, dennisb@econ.ag.gov]*

Federal Assistance for Rural Housing Shifts Toward Loan Guarantees

Only since 1995 have loan guarantees outnumbered direct loans in USDA's main housing program (section 502), which assists in the purchase of single-family homes. The future of this and other housing programs includes tighter operating budgets, greater flexibility in use of funds, and more State and local government involvement.

Federal housing programs share with many other government programs the movement toward less government involvement and reduced expenditures. Funding reductions for housing programs are being accommodated by cuts in administrative expenses, revision or elimination of programs, reduction of subsidy levels, a shift to loan guarantees, and more stringent eligibility requirements. These cutbacks could be important for rural development, since housing is increasingly being promoted as a tool for economic and community development. In addition to Federal agencies' activities discussed later, two government-sponsored enterprises (GSE's), the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), are major players in home mortgage financing. (These GSE's and a recent initiative to increase their purchases of rural mortgages are discussed in the section on regulatory change.)

Fewer Rural Households Get Federal Housing Assistance

While a substantial minority of both rural and urban households benefit from Federal housing programs, rural households receive a smaller share. The 1993 American Housing Survey found that 17 percent of nonmetro and 25 percent of metro home mortgages were either from or insured by a Federal Government agency (fig. 1).

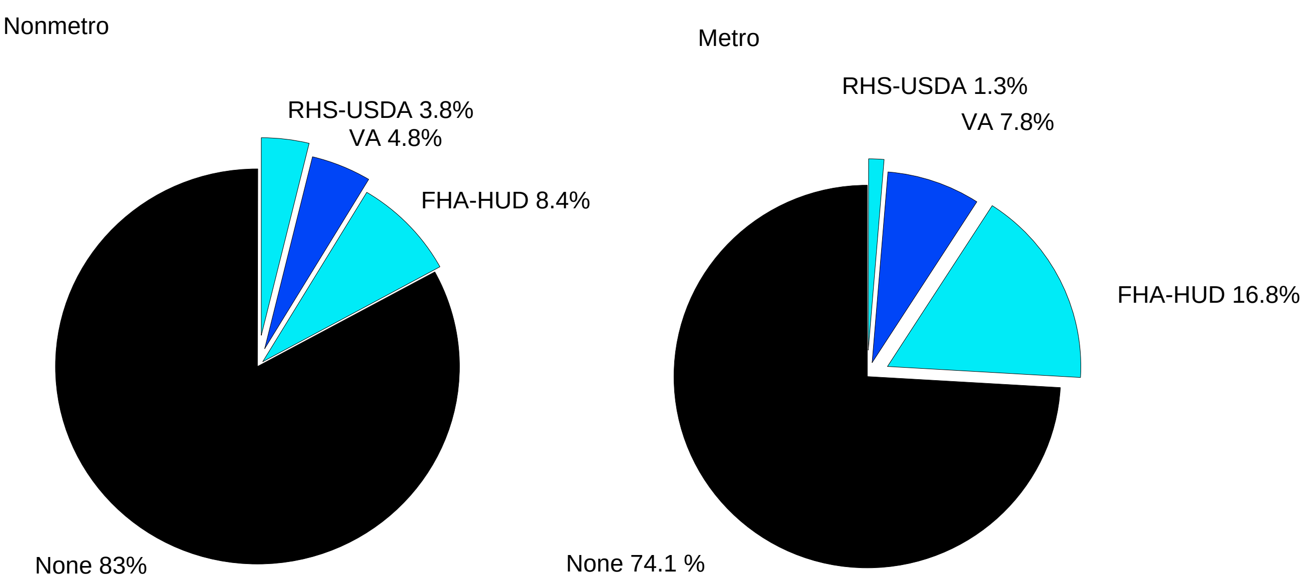
Federal programs emphasize homeownership, primarily using guaranteed/insured loans from private lenders rather than direct loans. Although direct lending under USDA section 502 is still larger than any other direct Federal mortgage lending program, and its level is still substantial, a majority of section 502's new activity comes from loan guarantees.

Other major Federal mortgage programs provide even more loan guarantees in nonmetro areas than USDA's section 502 program, which is targeted at persons with no more than moderate incomes for the purchase of modest housing. For example, in fiscal year 1994 section 502-guarantee activity averaged under $7 per nonmetro person, compared with

Figure 1

Federal agencies and home mortgage lending, 1993

Smaller share of rural lending is Federally insured or direct



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

$94 for single-family home loans insured by the Federal Housing Administration (FHA). Rural loans insured by the Department of Veterans Affairs (VA) were $35 per capita. These rural per capita amounts were only one-fourth of the urban level for FHA loans and half of the urban level for VA loans.

The amount of subsidy for new mortgage lending has dropped with the decline in direct loans, which usually employ such subsidy tools as reduced transaction charges, below-market interest rates, and relaxed lending standards, including smaller downpayment requirements. The subsidy costs of direct loans have also been lowered through lending at higher interest rates, recapturing prior subsidies, and charging lending fees.

While on a per capita basis urban areas receive more Federal funds for rental housing than do rural areas, the difference is much less for homeowner programs. In fiscal year 1994, the largest programs for rental housing provided about $96 per capita in urban and $68 per capita in rural areas. While owner programs have a clientele base across a broad income spectrum, renter programs are almost exclusively focused on the low-income population. Renter programs operate by either subsidizing rents for those unable to afford adequate housing or by promoting an increased supply of low-cost rental housing. Both approaches can be found in a single program, for instance when construction or financing costs are subsidized in return for an agreement that units be rented to program participants at reduced rates. Federal housing subsidies that are tied to particular rental units for a long period of time are being slowly replaced with more flexible tenant assistance. Programs are placing more emphasis on housing vouchers, local control, and homeownership.

USDA Emphasis Is on Home Ownership

USDA's housing programs are administered by the Rural Housing Service (RHS), which was created out of the Farmers Home Administration in a 1994 departmental reorganization. RHS housing programs provide assistance to rural populations in both nonmetro and metro counties. The largest RHS housing program is section 502 single-family housing, which constitutes about three-fourths of the agency's housing loan activity. New RHS lending in fiscal year 1994 split about equally between purchasers of rural homes in nonmetro (49 percent) and metro (51 percent) areas. Nonmetro counties with higher per capita levels of these loans were concentrated in New England, parts of the Mountain West, and scattered across the Midwest and Southeast (fig. 2). The section 502 program has experienced considerable change in the last 2 years. More new loans are now made under a section 502 loan guarantee authority, initiated in 1992. USDA section 502 direct lending for fiscal year 1996 will be $410 million, about 40 percent below that of 1994. However, section 502 lending will be higher in 1996 than 1995, with increases in both direct and guaranteed lending. Section 502 guaranteed lending is expected to be $680 million in fiscal year 1996, up 53 percent from a year earlier. For various reasons, through fiscal year 1995, subsidies provided to section 502 borrowers fell annually for several years. Direct loans are nearly all made at subsidized interest rates, while all guaranteed loans are at market rates. Total subsidy expenses on new loans fell not only from the smaller number of loans carrying an interest subsidy, but also from declines in market interest rates and changes in program regulations that generally lowered subsidy levels. The fiscal year 1996 combination of increased direct lending and higher conventional interest rates probably reversed this trend, with section 502's subsidy expense above its fiscal year 1995 level. A major change planned for fiscal year 1998 aims to save on costs, mostly by lowering administrative expenses.

The RHS administers other housing programs for the same rural areas eligible for the section 502 program. The largest of these activities involve financing for the construction or purchase of low-income rental housing and rental assistance for low-income tenants. Nonmetro areas received about $12 per person through these rental programs in fiscal year 1994, compared with $21 for section 502. RHS's total loan and grant activity for fiscal year 1996 is estimated to be 77 percent section 502, 20 percent rental programs, and

3 percent for other programs. Included in the last group are such activities as self-help housing, farm-labor housing, and very-low-income housing repair.

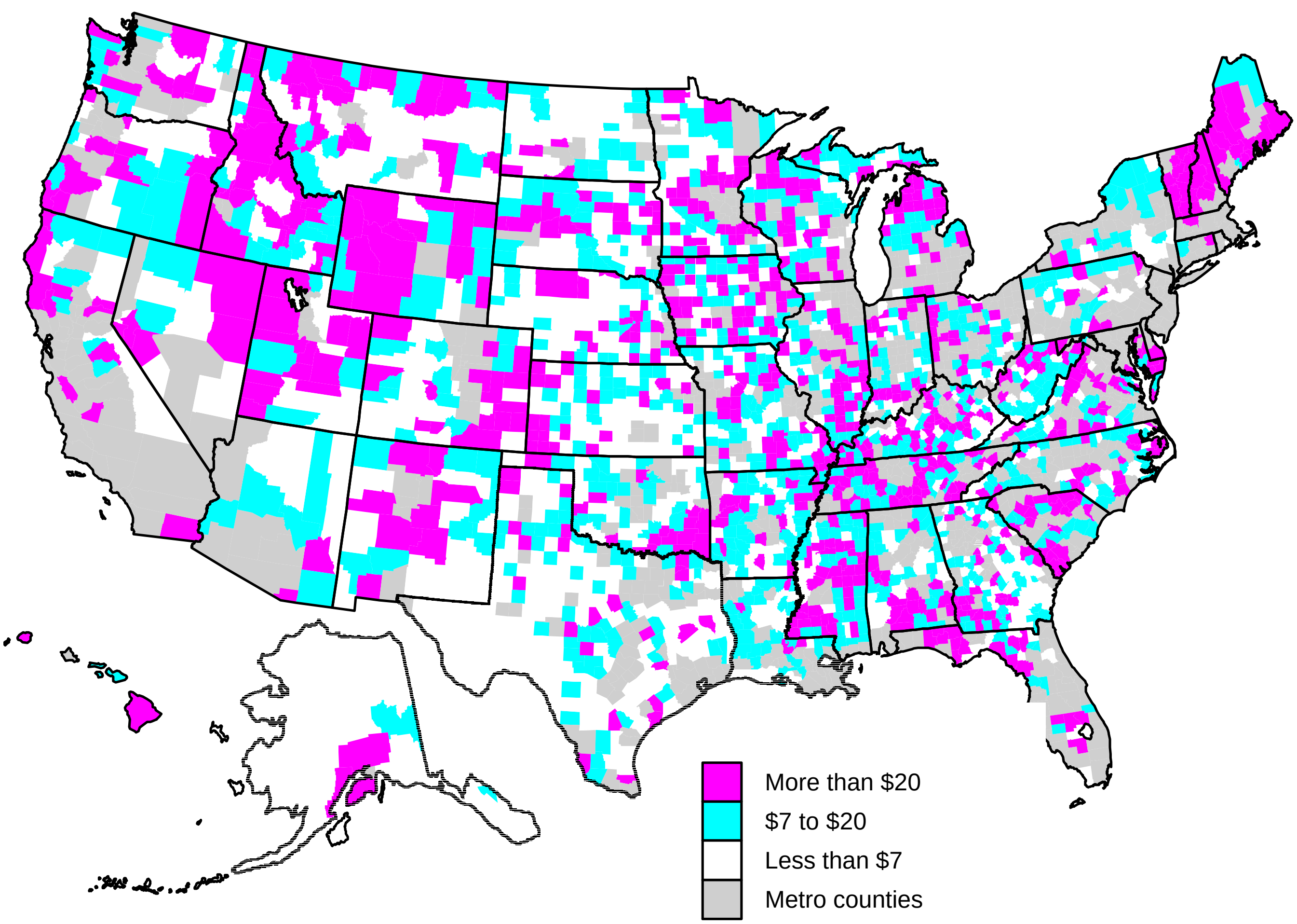
FHA Insurance Dominates HUD Housing Programs

HUD's main housing program is FHA's home mortgage insurance program, which provided $48.5 billion of mortgage insurance in fiscal year 1995. About 5 percent of the amount insured in fiscal year 1994 was in nonmetro areas. On a per capita basis, nonmetro residents received only about one-fourth as much as did metro residents. The largest housing program financed by direct outlays or grants was HUD's $17.5-billion section 8 low-income housing assistance program, of which rural areas received 13 percent. This program is undergoing substantial change as HUD's housing strategy moves away from long-term financing commitments. The next largest housing expenditure in fiscal year 1995 was HUD's $3.7-billion public housing capital fund, with a rural share of 17 percent. Per capita expenditures of this program were only slightly lower in nonmetro than metro areas, $13 and $15, respectively. The highest per capita levels of nonmetro activity were in the South and Southeast (fig. 3).

Figure 2

Per capita USDA nonmetro single-family housing loans, fiscal year 1994

USDA home ownership programs are more important in scattered rural counties of the Midwest and Southeast, with concentrations in New England and the Mountain West



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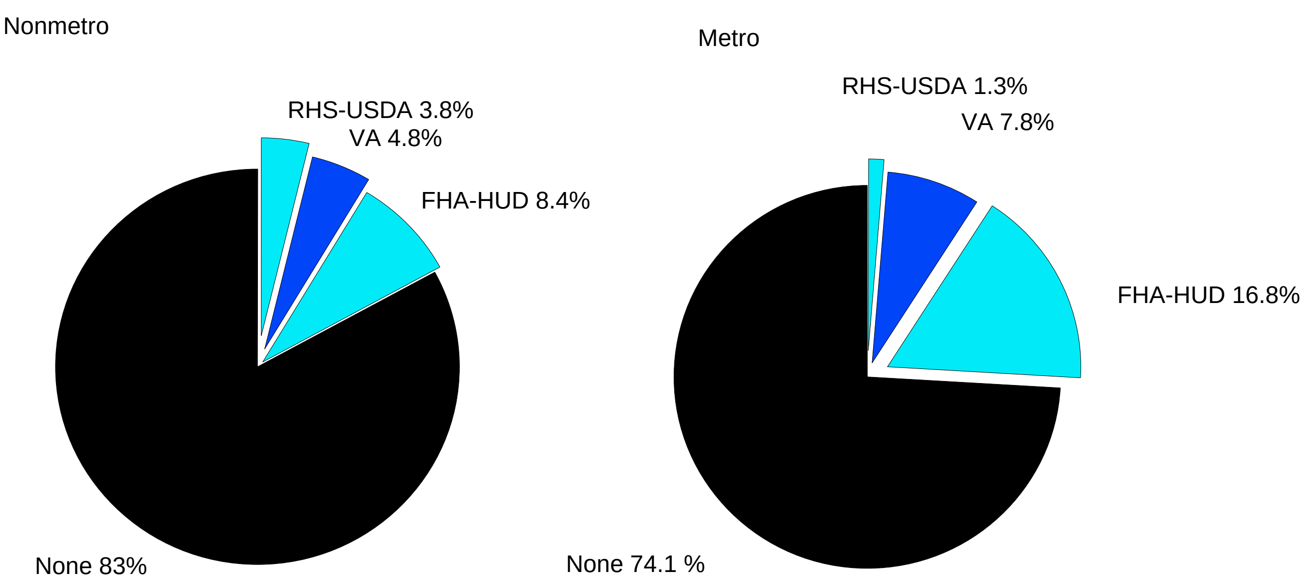

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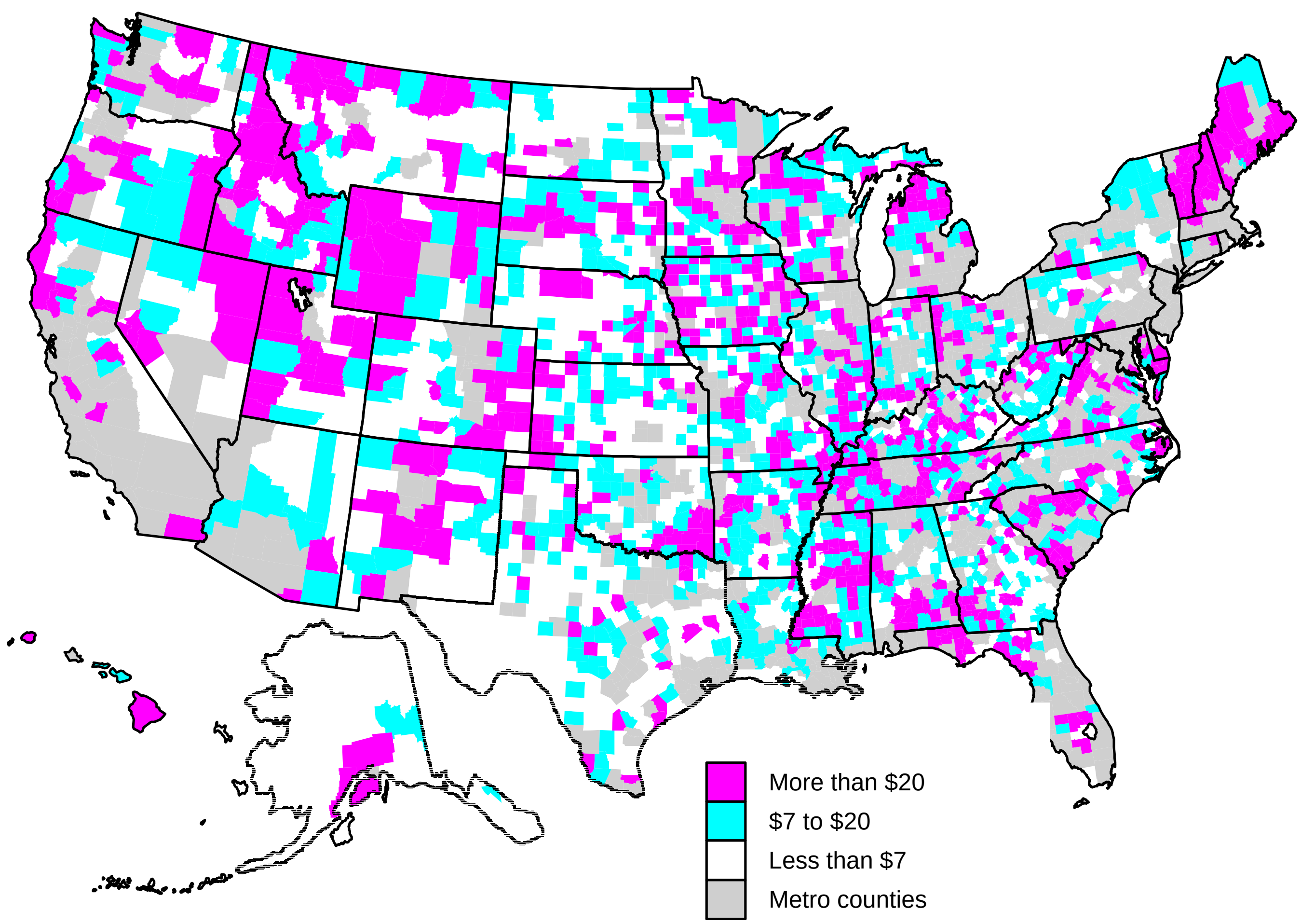

Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

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VA Loan Programs

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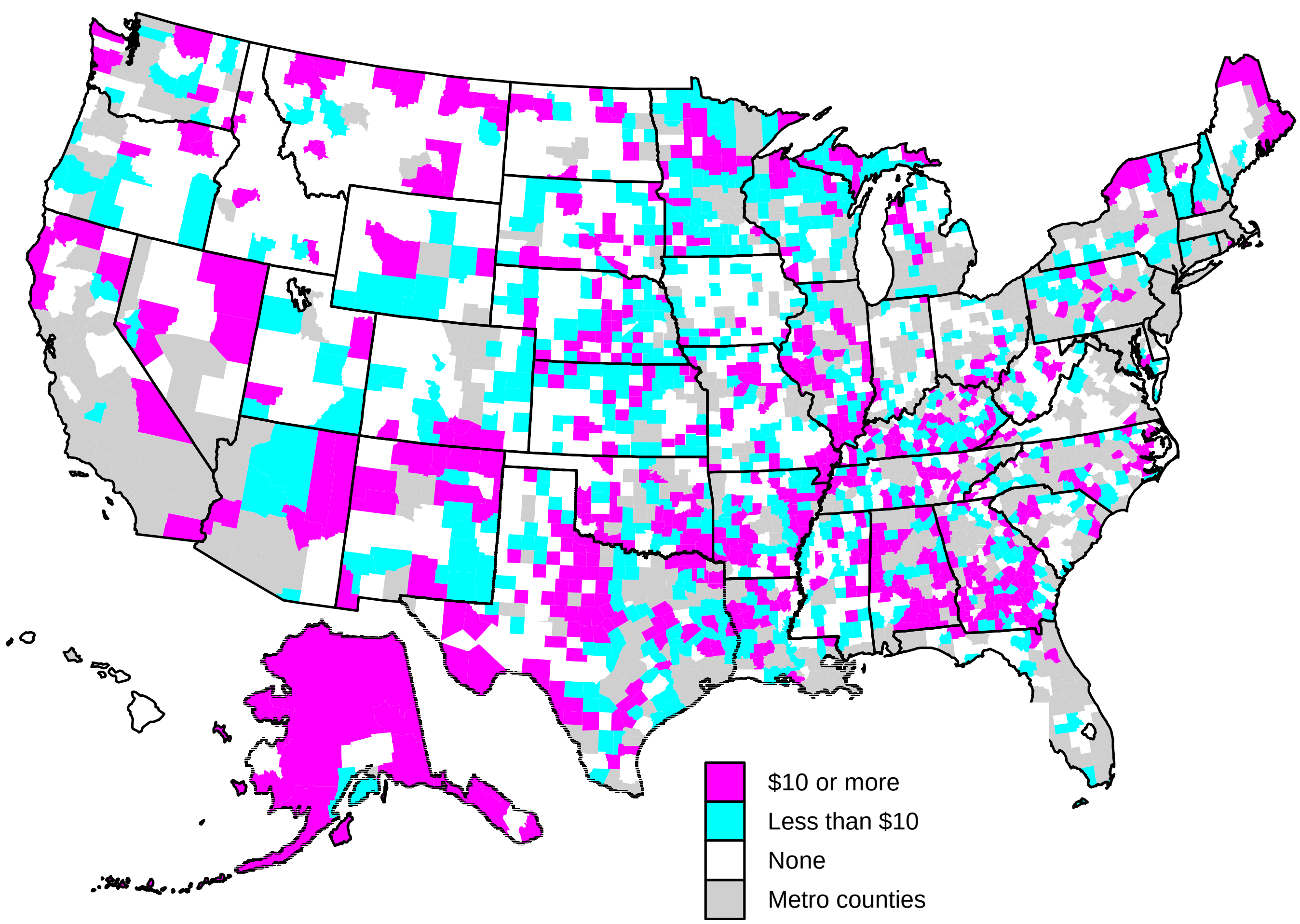
Figure 3

Per capita funding for nonmetro public housing, fiscal year 1994

Public housing expenditures are more important for rural counties in the South and Southeast plus areas with Native American concentrations



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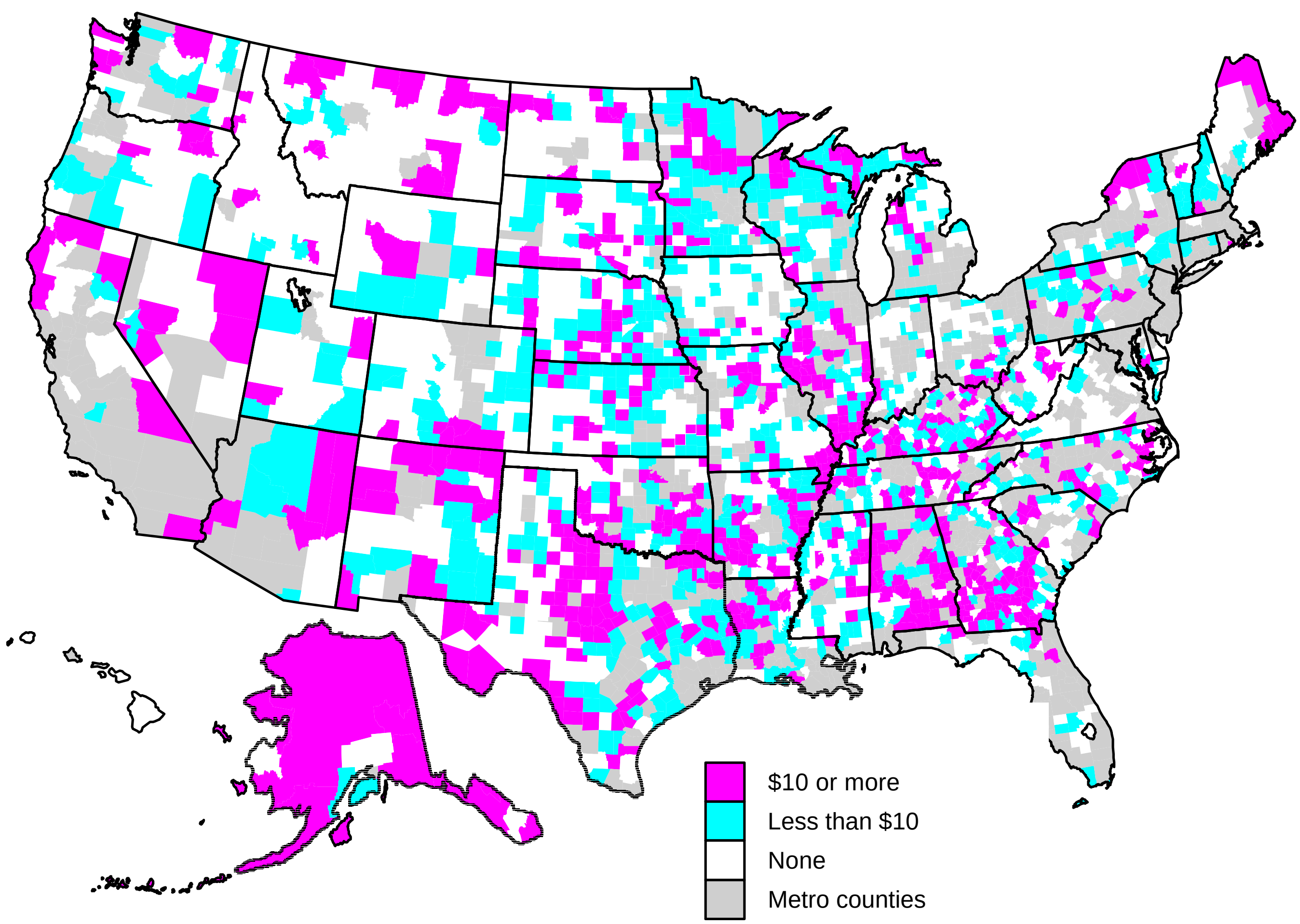


Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

Natural Resource and Environmental Programs Undergo Historic Changes

Regulatory reform, spending cuts, fee increases, program termination, and personnel reductions characterized the budget process for Federal natural resource and environmental programs for fiscal year 1996.

Natural resource and environmental programs are particularly important both to rural communities that depend on natural resource-based industries for employment and income and to people in urban areas who look to rural areas as a source of recreation and as a retirement destination. The Federal Government administers laws and provides funding for a broad range of programs pertaining to natural resources and the environment. Among the most important programs are soil conservation and forest management programs at USDA; fisheries and coastal zone management programs at Commerce; minerals management, water reclamation, wildlife restoration, and park maintenance at Interior; air, water, and land pollution abatement, control, and compliance at the Environmental Protection Agency; ordinance disposal at the Department of Defense; nuclear waste cleanup at Energy; and lead poisoning prevention at Health and Human Services.

Budget authority for natural resource and environmental programs is estimated at $20.7 billion for fiscal year 1996, a 2-percent decline from the previous year. Pollution control and abatement account for nearly a third of this total, followed by resource conservation and land management programs, with almost a quarter of the total (fig. 1).

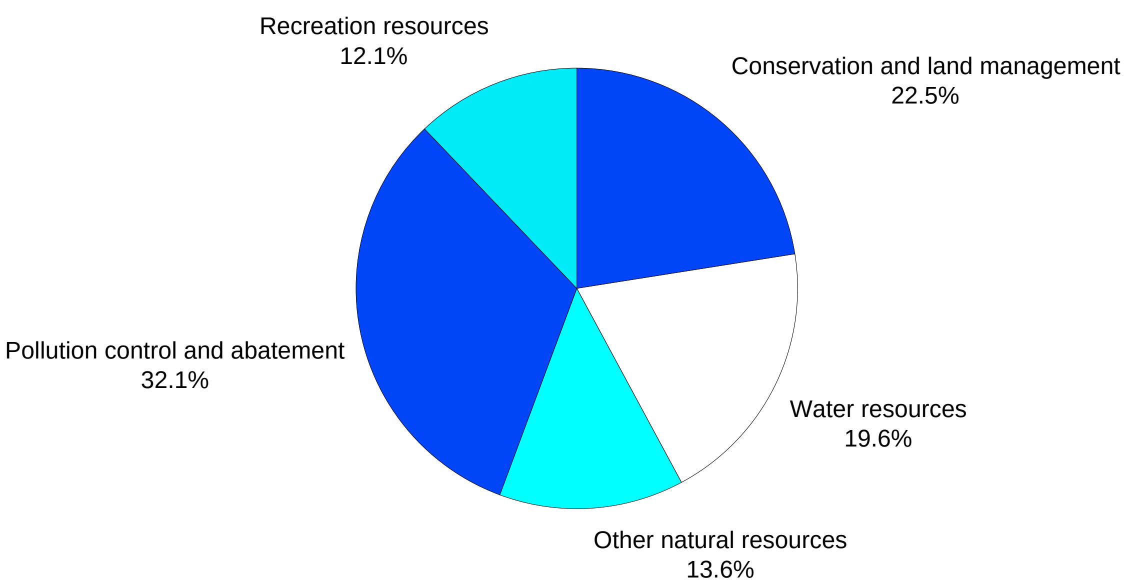
During 1995, the administration and Congress proposed many reforms of natural resource and environmental programs along with the agencies that administer them. (Some of these are discussed in the regulatory section of this issue.) Expiration of funding authorization for a number of key natural resource and environmental programs created hardships in some places. With pressure to reduce the Federal deficit, there have been proposals to raise revenues by charging higher fees or creating new fees for grazing on public lands, using national parks and extracting minerals from Federal lands.

The budget impasse between Congress and the President shut down most of Interior and other natural resource agencies for 6 days beginning November 14, 1995, and for 21 days beginning December 16, 1995. This closed nearly all of the national parks, monu-

Figure 1

Federal budget authority, natural resources and environment, fiscal year 1996

Pollution control and abatement account for one-third of the total budget of $20.7 billion



Source: Budget of the United States Government, Fiscal Year 1997, Historical Tables, Table 5.1, March 18, 1996, p ments, wildlife refuges, national forests, and other sites managed by the Federal Government. Business activity dropped sharply during the shutdowns for private companies and individuals, including food and lodging providers, tour operators, importers of pesticides, recreational equipment suppliers, gift shop owners, and others adjacent to Federal facilities. The lost business activity was particularly injurious in the South where warmer climates attract more winter visitors.

The President vetoed the appropriations bills for both Interior and the Environmental Protection Agency in mid-December 1995 because of the reduced funding levels sought by Congress. Consequently, these agencies operated until late April 1996 at reduced funding levels set by a series of stopgap spending bills (continuing resolutions). These reductions had a number of consequences for Federal personnel and programs, including early retirements, hiring freezes, threats of layoffs, curbs on environmental enforcement, delayed Government reports, slower payments to States and Indian tribes, moratoriums on listing of endangered species, and the closing of some research centers.

On April 26, 1996, the day after Congressional approval, President Clinton signed the omnibus fiscal year 1996 appropriations bill (P.L. 104-134) which provided funding for the remainder of the fiscal year for those agencies operating on temporary spending bills. The bill terminated the National Biological Service and the Bureau of Mines at Interior, although some of their functions were transferred to other agencies. Funding for natural resource programs at Interior were reduced nearly 4 percent on average from fiscal year 1995 levels.

Natural Resource Programs Adjust to New Budget Realities

Agricultural resources conservation funds rise 3 percent. Most Federal agricultural soil and water conservation funding comes from USDA's Conservation Reserve Program (CRP), which pays farmers to remove environmentally sensitive land from production. (CRP is discussed in the agriculture section of this issue). Other USDA programs include watershed protection, flood prevention, and wetlands protection and restoration on private lands. The Natural Resources Conservation Service (NRCS) administers these programs through a nationwide network of conservation specialists who work through some 3,000 locally organized and locally run conservation districts to help individual land users and rural and urban communities. Total appropriations for the NRCS increased 3 percent in fiscal year 1996 to $859 million. However, the Resource Conservation and Development Program, which provides local coordination of resource programs, decreased 12 percent to $29 million in fiscal year 1996. With the passage of the Federal Agriculture Improvement and Reform Act of 1996, NRCS was designated the lead agency in administering the Environmental Quality Incentives Program (EQIP), a new program which combines the functions of the Agricultural Conservation Program, Water Quality Incentives Program, Great Plains Conservation Program, and the Colorado River Basin Salinity Control Program. EQIP is funded at $130 million in fiscal year 1996 and $200 million annually thereafter.

Forestry programs challenged. USDA's Forest Service manages 191 million acres of public land (the National Forest System) in 44 States, Puerto Rico, and the Virgin Islands for sustained production of timber, forage, minerals, fish, wildlife, water, wilderness, and outdoor recreation. Alaska contains more national forest land than any other State, with around 22 million acres, followed closely by California and Idaho, each with around 21 million acres. The Forest Service also provides financial and technical assistance to protect private forest lands and natural resource-dependent rural communities, particularly those located in or near national forests that have become economically stressed due to public land management practices or policies. In addition, the Agency's Forest and Rangeland Research organization carries out research projects that help integrate social, economic, and biological factors to ensure sustainability of natural resources while meeting people's needs, including the needs of rural communities. To carry out the incremental costs of the Northwest Forest Plan, the Forest Service provided $96 million in funding in fiscal year 1996 for those areas within the range of the northern spotted owl, a $1-million increase over the previous year's level. Of this amount, $29.5 million was allocated for technical and economic assistance to communities affected by reduced Federal timber supplies.

Total spending for the Forest Service for fiscal year 1996 was set at $3.36 billion, about 8 percent above fiscal year 1995 spending levels. Increased funding for disaster and emergency programs offset significant cuts in other Forest Service activities (8 percent on average) including forest research, State and private forestry, the National Forest System, and land acquisition. While Forest Service programs are administered by the USDA, the budget for these programs is set along with Interior appropriations. As a result, the Forest Service was forced to shut down all nonessential operations from December 18, 1995, to January 6, 1996, during the budget impasse over funding for Interior and related agencies. Major forest issues that prolonged the budget debate included timber harvesting in Alaska's Tongass National Forest, the Columbia River Basin Assessment, and environmental issues related to the salvage provision in the 1995 Rescissions Act (for example, nesting of the Marbled Murrelet).

Fish and wildlife funds cut 3 percent; National Biological Service terminated. Interior's Fish and Wildlife Service manages 505 national wildlife refuges, 72 fish hatcheries, and 32 wetland management districts, with waterfowl production areas in 180 counties, encompassing more than 92 million acres (87 percent in Alaska, 3 percent in Nevada). Because of the budget impasse between Congress and the President, the Fish and Wildlife Service operated at reduced funding for much of fiscal year 1996. Final appropriations were approved on April 26, 1996 at $654 million, nearly 3 percent below fiscal year 1995 appropriations.

Resource management accounts for about three-fourths of spending and includes habitat management and maintenance in the wildlife refuge system, public use and recreational programs, the fish hatchery system, and other programs such as the endangered species program. Land acquisition projects, which protect endangered species and habitat on refuges, and the Cooperative Endangered Species Fund, which protects species from economic development pressures, also faced funding cuts in fiscal year 1996.

The National Biological Service, an Interior Department agency established in 1993 to provide scientific information and technologies to support conservation of the Nation's biological resources, was terminated in 1996 with some of its functions transferred to the U.S. Geological Survey. The National Biological Service had a budget of $162 million in fiscal year 1995.

Mining and minerals programs consolidated. Interior's mining and minerals programs enforce safety and environmental regulations; assure reclamation of old mines; research mine safety and pollution; manage the Nation's energy and mineral resources; collect revenues from mineral leases on Federal and Indian lands; and disseminate information about mining, processing, and mineral commodities.

Budget authority for mining and minerals programs for fiscal year 1996 dropped 16 percent to $591 million. The Bureau of Mines has shut down (about 1,200 layoffs) with some of its programs transferred to the Geological Survey and to the Department of Energy. Of particular note to rural areas is a moratorium through the end of fiscal year 1996 on land patents under the 1872 General Mining Law and the elimination of the rural abandoned mine reclamation program which was funded at $7.9 million in fiscal year 1995.

Water resource programs shift away from big dam construction. These programs develop, manage, and protect water and associated resources that benefit agricultural, municipal, industrial, and domestic users through flood control, recreation, and fish and wildlife projects. The Army Corps of Engineers, which is responsible for many of the Nation's projects on flood control, navigation, and shore protection, accounts for about 75 percent of Federal outlays for water resource programs with most of the remainder divided between Interior (20 percent) and USDA (2 percent).

Water resource programs initially received $4.11 billion in budget authority for fiscal year 1996, about 3 percent less than 1995 spending levels. However supplemental appropriations during the year to deal with floods raised the total to $4.36 billion, or nearly 3 percent over 1995 appropriations. In recent years, there has been a shift away from large dam projects toward smaller construction projects and water resource management (conservation, reclamation, environmental protection, and restoration). The Army Corps of Engineers received a net increase of nearly 1 percent after an initial cut of 4 percent in fiscal year 1996 as a result of a $165-million emergency supplemental appropriations for flood control. The Interior Department's Bureau of Reclamation, which supplies water to 28 million people in 17 Western States, received 2 percent less funds in fiscal 1996, mostly due to cuts in construction spending. Water resource projects administered by USDA's Natural Resources Conservation Service received $114 million in funding for fiscal year 1996, a 22-percent increase from fiscal 1995 funding but nearly $83 million below 1994's level. This does not include the $81-million natural disaster supplement appropriation in 1996 for emergency measures in watersheds for protection against flooding, erosion, or sedimentation damage. Efforts in watershed surveys and planning were cut by more than half to $14 million for fiscal year 1996 and $12.4 million for 1997.

Protests over parks shutdown helps restore some funding. Interior's National Park Service (NPS) manages 369 parks, comprising 76.6 million acres in 49 States, the District of Columbia, and U.S. territories. Alaska accounts for the bulk of land managed by the NPS with about 68 percent of the total, followed by California with about 6 percent. NPS sites received 273 million visits in fiscal year 1995 and 279 million visits are expected in 1996.

Like the other Interior agencies, NPS operated under a continuing resolution through much of fiscal year 1996 because of the budget impasse between Congress and the President. Total funding for fiscal year 1996 was finally set at $1.36 billion, down 1.7 percent. However, strong public protest over the closing of the National Parks for 27 days between November 14, 1995, and January 6, 1996, resulted in Congress providing a small increase in funding for visitor services for the remainder of the year (0.5 percent over fiscal year 1995).

Federal Grants to State and Local Governments Stagnate

Federal grants to State and local governments for natural resource and environmental programs are estimated at $4.0 billion in fiscal year 1996, 3 percent less than in fiscal year 1995. About 70 percent of these grants are from the Environmental Protection Agency, 20 percent from Interior, and 8 percent from USDA (excluding the Conservation Reserve Program). Federal grants for natural resource and environmental programs rose sharply throughout the 1970's and peaked at $5.4 billion in 1980 (fig. 2). Since then, grants have declined 25 percent in current dollars and 58 percent in constant fiscal year 1987 dollars. Most of the decline occurred in water infrastructure outlays provided by the Environmental Protection Agency, reflecting the completing of some construction projects and an increased reliance on loan revolving funds. During this same period, grants by USDA (mainly watershed, flood prevention, and forestry programs) rose sharply while grants by Interior (mainly fish, wildlife, mines, and minerals programs) increased moderately in nominal terms but declined slightly in 1987 dollars.

Of the $1.16 billion transferred to States for natural resource programs in fiscal year 1994, fish and wildlife conservation accounted for over 30 percent of the total followed by mining with nearly 20 percent, agricultural resource conservation and water resources each with about 16 percent, forestry with about 8 percent, and parks and recreation with about 3 percent (fig. 3). The top three States receiving Federal grants for natural resource programs were:

- Total grants basis: West Virginia ($87.5 million), California ($71.7 million), and Texas ($55.7 million);

Figure 2

Federal outlays for grants to State and local governments, natural resources and environment programs

These programs were down 58 percent in constant dollars since 1980 and from 6 to 2 percent as a share of total Federal grants

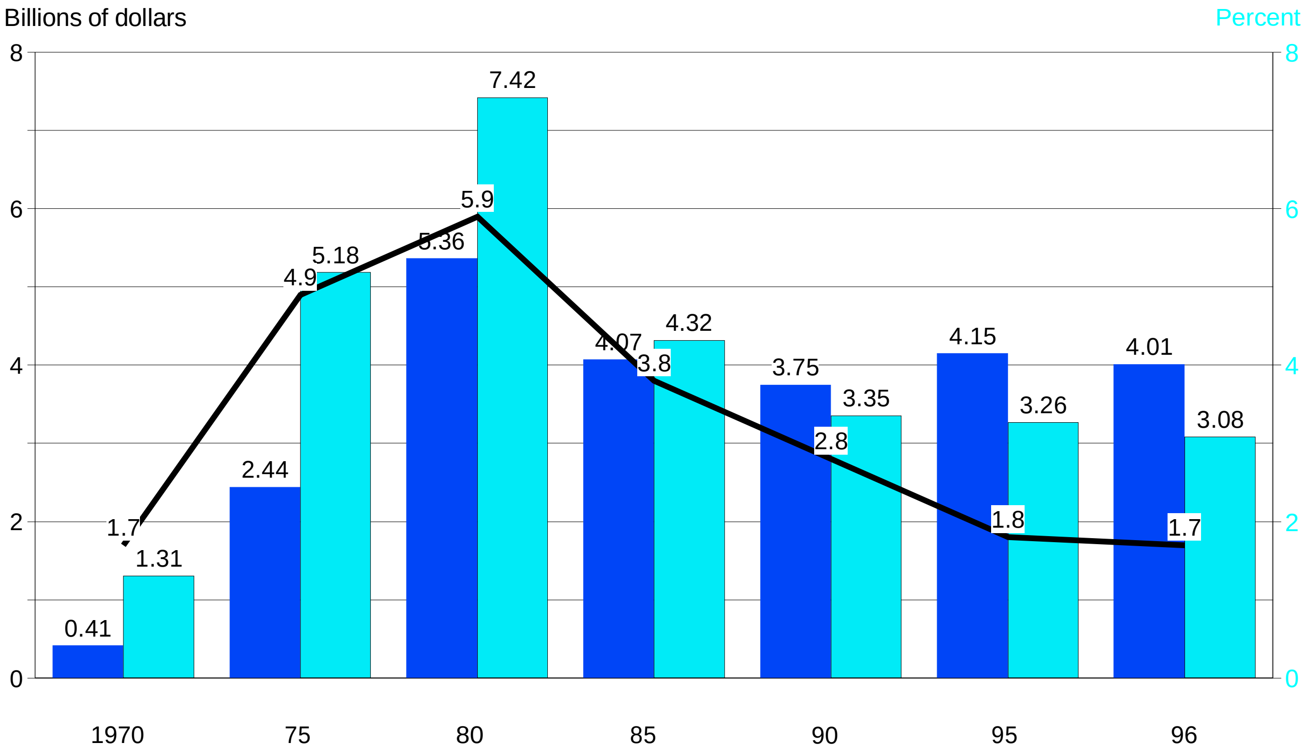
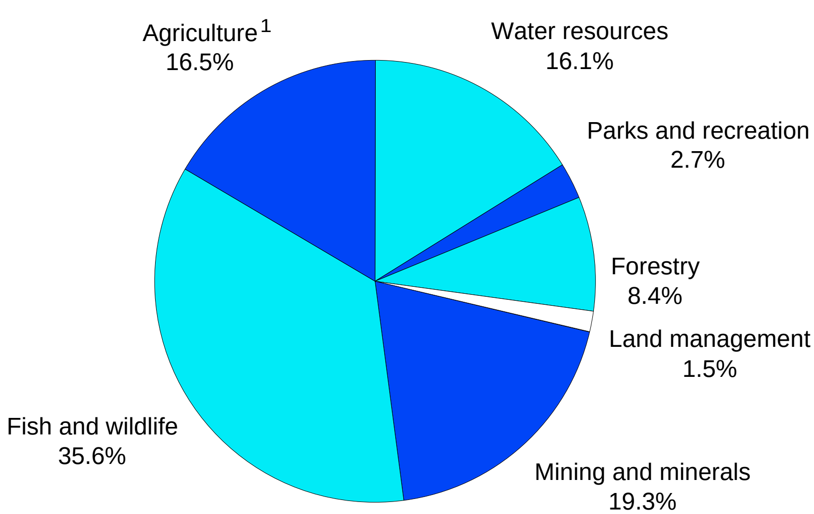


Figure 3

Federal outlays for grants to State and local governments, natural resources programs, fiscal year 1994

Fish and wildlife programs account for 36 percent of total grants of $1.16 billion



[1] Excludes funds for the Conservation Reserve Program.
Source: U.S. Census, Federal Funds database, fiscal 1994.

- Per capita basis: Wyoming ($70.50), North Dakota ($49.65), and West Virginia ($48.00);
- Per acre basis: West Virginia ($5.67), Rhode Island ($5.11), Delaware ($2.86).

The Mountain and Plains States tended to have the largest per capita grants for natural resources programs along with West Virginia and Alaska, while the lowest tended to be on the eastern seaboard and in California (fig. 4).

Federal grants were concentrated in fish/wildlife, water, and recreational programs for all but nine States. For these States, forest, mining, and public land management programs dominated, especially for Kentucky, Wyoming, Pennsylvania, Virginia, and West Virginia. Grants for agricultural conservation programs (excluding the CRP) were an important source of funds for Nebraska, Maine, Missouri, Texas, and Kansas. *[Walter H. Gardiner, 202-219-0545, gardiner@econ.ag.gov]*

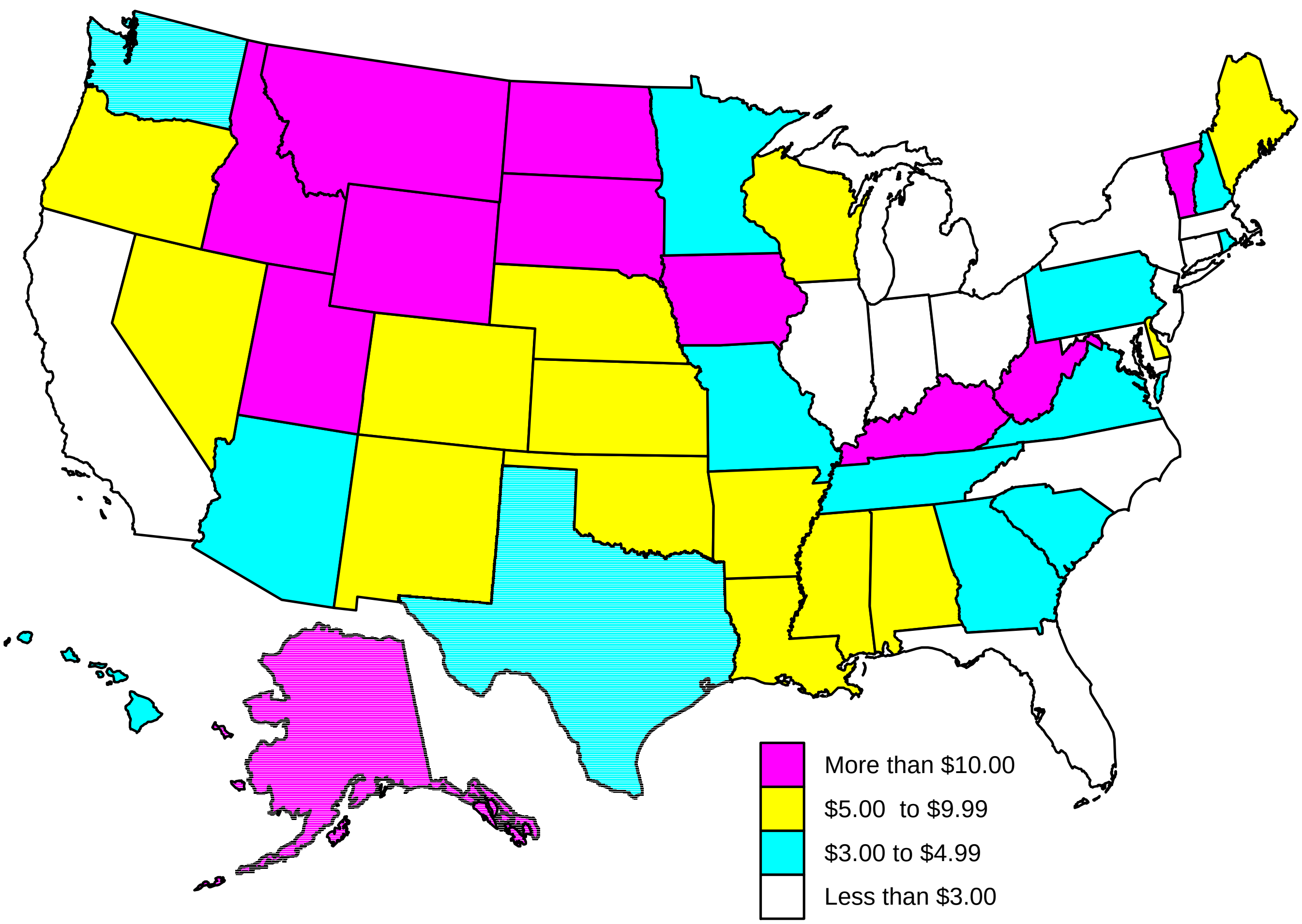
Environmental Protection Agency Survives Large Proposed Cuts

Most of the major environmental programs are within the Environmental Protection Agency (EPA). EPA programs include operating programs (such as air, water, and hazardous wastes), Water Infrastructure, Superfund, and the Leaking Underground Storage

Figure 4

Federal grants to States for natural resource programs, dollars per capita, fiscal year 1994

Largest per capita grants are concentrated in North Central and Mountain regions



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

Tank Trust Fund. EPA's fiscal year 1996 budget authority is $6.5 billion, down $706 million (10 percent) from fiscal year 1995 estimates. Cutbacks were led by reduced funding for Water Infrastructure and the Superfund while operating programs received a slight increase in funds. Operating programs constitute 46 percent of EPA's 1996 budget, followed by Water Infrastructure (33 percent), Superfund (20 percent), and the Leaking Underground Storage Tank Trust Fund (1 percent) (fig. 5). Except for shutdowns during temporary funding gaps, EPA operated through April 1996 under continuing resolutions in the absence of an approved appropriations bill. This led to delays in funding EPA's Superfund cleanup activities and pollution inspections and also delayed transfers of funds to States for safe drinking water programs.

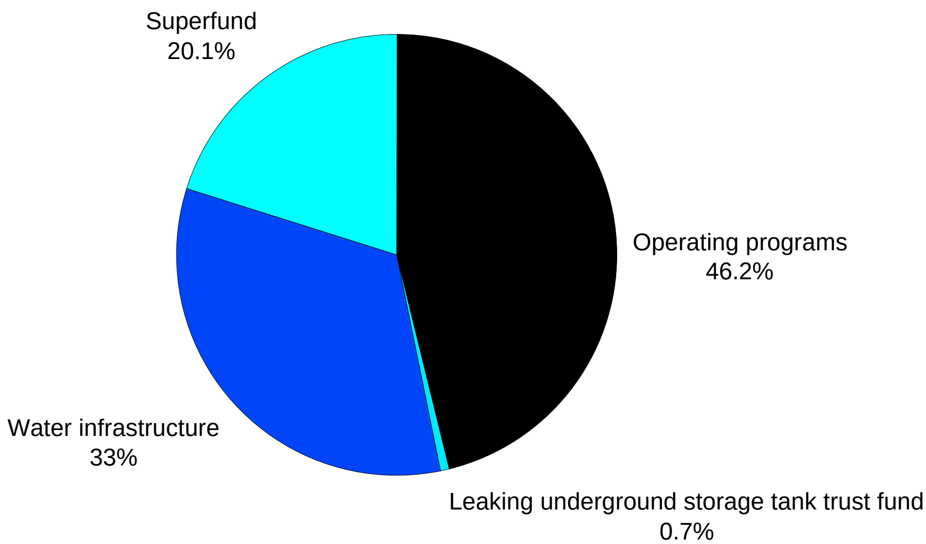
Air and water programs major focus of operating programs funding. A large part of EPA's funding is channeled through the water infrastructure programs (discussed in the infrastructure section of this issue) and dedicated to maintaining a clean, safe water supply. Other water programs include the Water Quality Program and the Drinking Water Program. The Water Quality Program has evolved from focusing on source problems of discharges from industrial and municipal facilities to a wider scope that includes nonpoint-source pollution problems such as wet weather runoff from farms, streets, lawns, and construction sites. The water quality operating program was trimmed $23.1 million (4.4 percent) to $499.3 million. The Drinking Water Program ensures that public water supplies are free of contamination that may pose unacceptable human health risks, and protects ground water resources. The Drinking Water Program was expanded $12.5 million (7.5 percent) to $178.1 million. EPA's air programs, responsible for implementing the Clean Air Act, were cut $28 million (5 percent) to $536.5 million. Multimedia funding was boosted $13.9 million (3 percent) to $456.8 million. Management and support was bolstered $49.1 million (7 percent) to $715.9 million, including over $100 million for EPA's buildings and facilities account.

Superfund and underground storage tank funds take cuts. The Hazardous Substance Response Trust Fund, known as the Superfund, pays for the cleanup of haz-

Figure 5

Environmental Protection Agency funding set at $6.5 billion for fiscal year 1996

Operating programs account for 46 percent of total



Source: Environmental Protection Agency, summary table of agency resources, July 1996.

ardous waste sites. Funding comes mainly from taxes on the chemical and petroleum industries and a corporate environmental tax. About 40 percent of the 620 Superfund sites are in nonmetro counties. The government shutdown and delays in passing EPA's budget led to a delay in starting Superfund cleanup activities for 1996. Superfund funding for fiscal year 1996 was trimmed nearly $121 million to $1.3 billion, down over 8 percent from fiscal year 1995 (based on the fiscal year 1995 operating plan prior to the $100 million rescission).

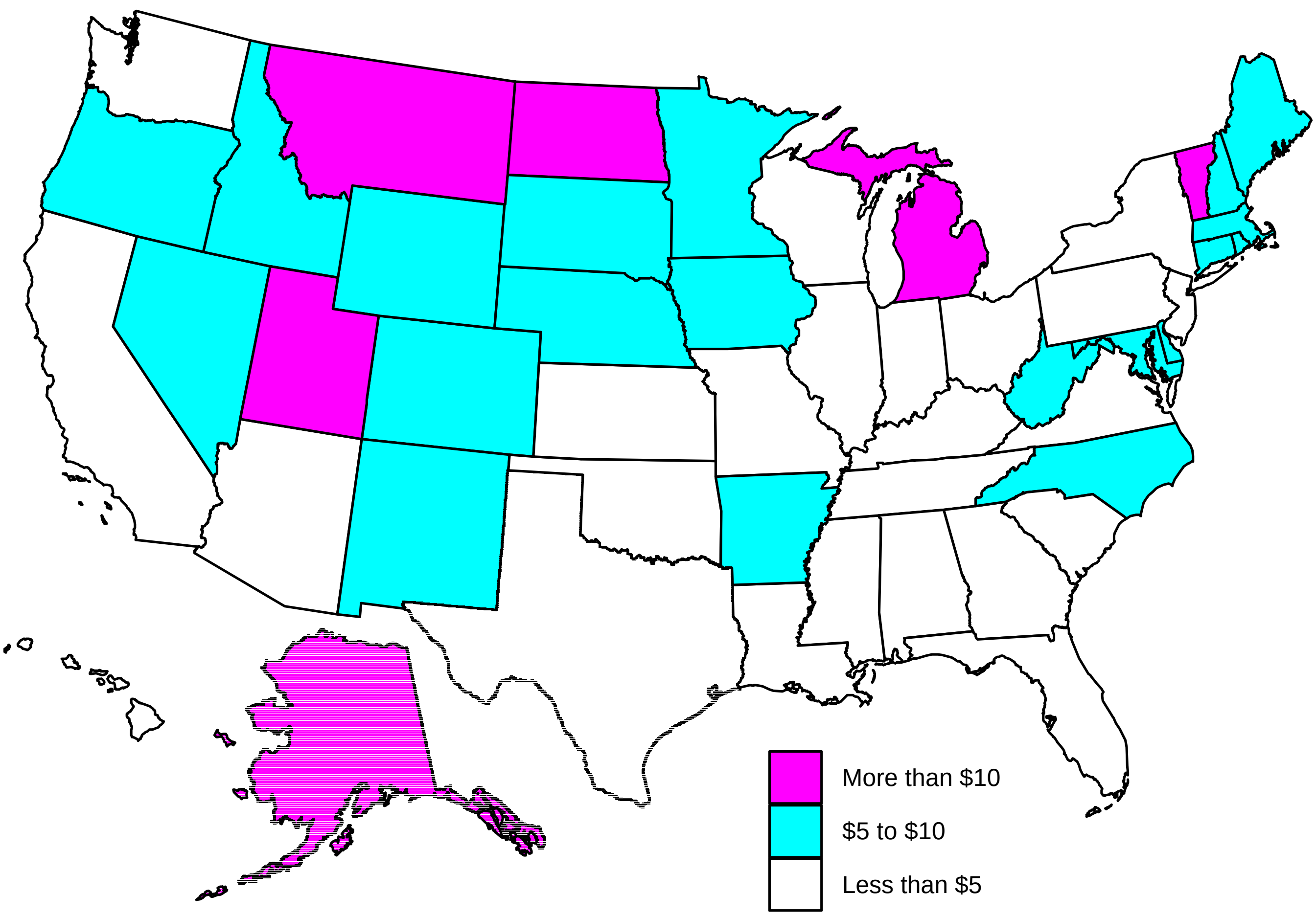
EPA's Leaking Underground Storage Tank program helps States oversee the large number of active cleanups of leaking underground storage tanks containing petroleum. This program was cut to $45.8 million, down 35 percent from fiscal year 1995.

Fewer funds for State, local and tribal environmental programs. While EPA's overall operating programs budget increased 1.4 percent to $3.0 billion in fiscal year 1996, State, local, and tribal grants for operating programs were trimmed relatively flat with a slight increase to $658 million. To increase flexibility within Federal fiscal constraints, EPA has established Performance Partnership Grants that allow State, local, and tribal governments to target their resources on their most pressing environmental problems. EPA is working with States and tribes to develop the terms of these new grants, which replace

Figure 6

Environmental protection per capita, fiscal year 1994

Per capita Federal grants to State and local governments for environmental protection frequently are larger in low-population States



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

multiple environmental grants with consolidated grants. The Water Quality Program for State, local, and tribal grants is funded at $214.9 million, down 1 percent from fiscal year 1995. The lower funding includes a reduction in water quality research. However, several grants in the water quality media are eligible to be consolidated with other grants into performance partnership grants, which States and tribes are encouraged to request. Drinking water funds available for State, local, and tribal grants were increased to $82.2 million, up 3 percent from fiscal year 1995.

EPA's air grant programs to implement the Clean Air Act and reduce greenhouse gas emissions were cut almost 4 percent to $173.6 million in fiscal year 1996. However, States will now be able to collect operating permit fees from major stationary sources of air pollution to fund some previous grant-funded programs. The Hazardous Waste program, which was increased almost 1 percent to $106.7 million, addresses prevention, management, and disposal of hazardous and municipal solid wastes. Multimedia programs (pollution prevention, pesticides enforcement, toxic substances enforcement, and general assistance to tribes) was increased $9 million (25 percent) to $44.9 million.

More than half of EPA's total budget is transferred directly to State, local, or tribal governments, and other partners. States with relatively high per capita funding tend to be low-population States. In fiscal year 1994, four of the seven States receiving per capita funding over $10 (Vermont, North Dakota, Alaska, and Montana) had populations below 1 million and were classified as rural and small town States. Michigan, Utah, and the District of Columbia also received more than $10 per capita (fig. 6). *[Cecil W. Davison, 202-501-6716, cdavison@econ.ag.gov]*

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

Education and training programs were funded by a series of continuing resolutions until April 26, 1996, when President Clinton signed the omnibus fiscal year 1996 appropriations legislation. The continuing resolutions specified large budget cuts for many of these programs and made it difficult for local administrators to plan and budget. The omnibus fiscal year 1996 appropriations bill restored funding for most education programs to 1995 levels or made smaller cuts than were specified in the continuing resolutions. However, most training and employment programs were cut significantly in the final 1996 budget from their 1995 levels.

Until April 26, Federal education and training programs operated in an atmosphere of uncertainty because they were funded through a series of short-term continuing resolutions with funding for most programs substantially reduced from fiscal year 1995 levels. Although the omnibus appropriations law restored funding for most programs to fiscal year 1995 levels or even slightly higher, planning and budgeting were difficult for local school systems throughout early 1996.

Several Federal education programs are targeted directly at individuals or local school districts and have a large effect on rural areas. These include title I of the Elementary and Secondary Education Act (grants for educating disadvantaged students), impact aid (reimbursement for school districts for the costs of educating school children connected to the presence of Federal activities that limit property tax revenues), and Star Schools (money for distance education programs). Additionally, many of the Federal grant and loan programs for higher education, including Pell grants and Perkins loans, are very important to rural students. Many Federal job training programs, including the Job Training Partnership Act, have a significant effect on rural areas.

Twenty-Five Percent of Title I Funds for Educating Poor Children Are Spent in Nonmetro Areas

Title I is one of the largest Federal education programs, with a fiscal year 1996 budget of $7.2 billion. Title I provides schools with funds based on the poverty level of the children within the school. In the past, title I has primarily provided funds for compensatory education for children achieving below grade level in reading and mathematics. In 1994, the focus of the program was changed to put more emphasis on extended learning time and teaching higher order thinking skills, while minimizing the amount of time children are pulled out of the classroom for remedial education. Additional changes in the program made it easier for high-poverty schools to use title I funds to enrich all children in the school, rather than targeting special programs only at title I eligible children.

Approximately 25 percent of title I funds are spent in nonmetro areas. Title I funds are distributed widely across nonmetro areas, with the greatest concentrations in high-poverty areas: the rural South, Appalachia, and Indian reservations in the West (fig. 1).

Under the continuing resolution in effect during early 1996, title I funds were reduced $1.1 billion, over 15 percent of the fiscal year 1995 spending level. Because title I is forward funded and schools operated during the 1995-96 academic year on money appropriated during fiscal year 1995, the budget cuts specified in the continuing resolution did not significantly hurt title I programs. However, uncertainty about the level of funding for this program for the academic year 1996-97 made planning difficult for schools. Local school administrators worried that reduced title I funds would force title I schools to make significant staffing cuts and other programmatic changes for the 1996-97 school year. Many schools had to notify teachers that they might not be rehired in the fall, and many school boards had to submit a budget during the spring without knowing how much Federal aid they would get. The lack of a firm title I budget by spring 1995 put these districts in an awkward situation.

Rural Schools Dependent on Impact Aid Funds Faced Serious Difficulties During 1995-96 School Year

The Impact Aid Program was funded at $691 million for fiscal year 1996 under the omnibus spending act signed on April 26, a cut of 5 percent from the fiscal year 1995 level of $728 million. Impact aid is provided to schools in lieu of property taxes, because a large military installation, Indian reservation, or even a national park on nontaxable federally owned land puts a tremendous strain on a school district. Impact aid covers basic educational expenses and is not intended to provide districts with extra programs. Almost half of impact aid funds go to school districts in nonmetro counties, and many of these districts depend heavily on the funds. Some rural districts receive several thousand dollars per student in impact aid. Without impact aid, many districts would not have the resources to educate the large numbers of federally connected children living within their borders. Because Federal land holdings are concentrated in the West, impact aid is a particularly important program in rural Western counties (fig. 2).

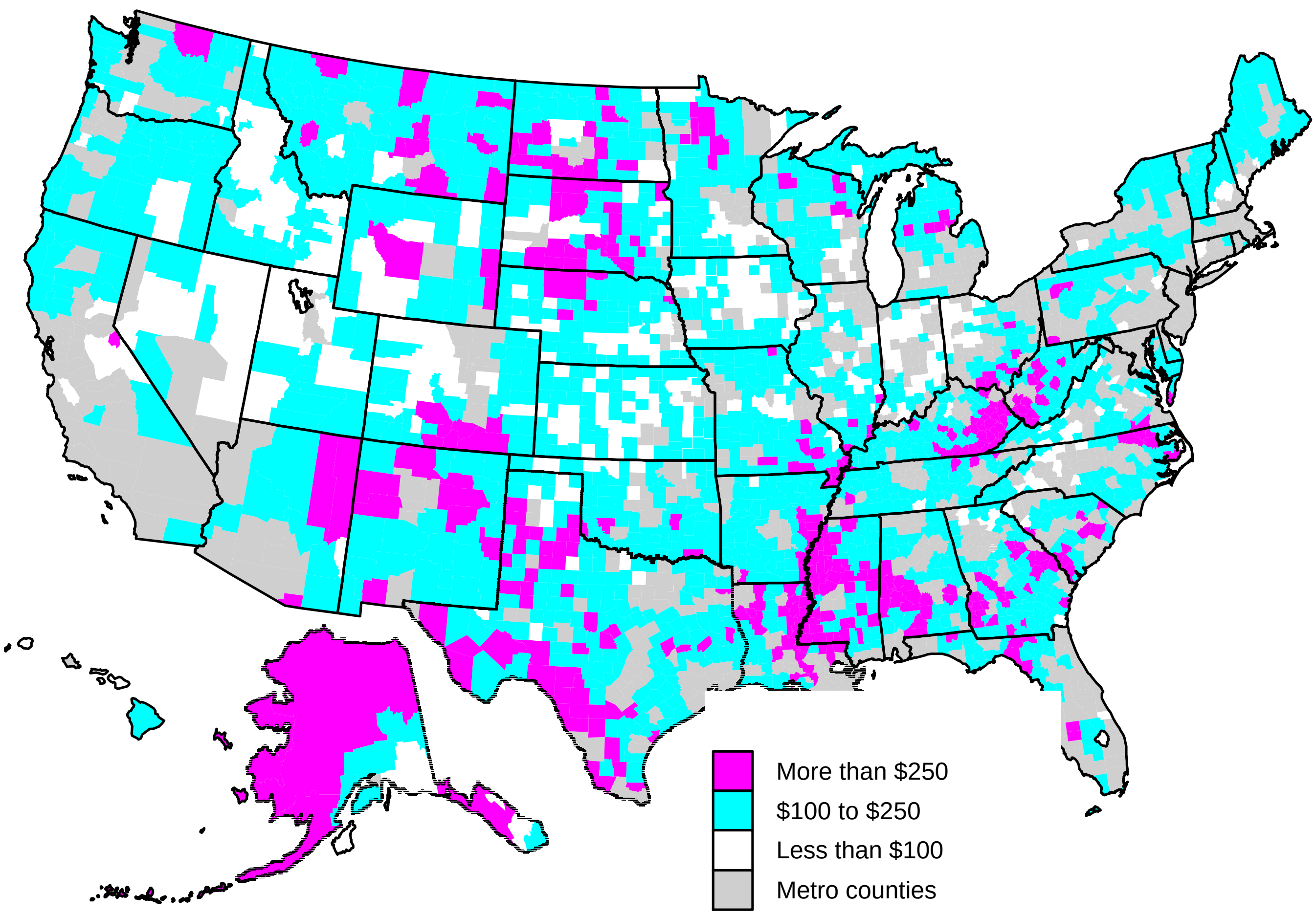
Impact aid is one of the few education programs that are not forward funded. Funds appropriated for fiscal year 1996 were spent during the school year 1995-96. Therefore, local schools were hurt by the continuing resolutions in effect during early 1996, which reduced impact aid funding from $728 million in fiscal year 1995 to approximately $550 million in fiscal year 1996.

Even this reduced level of impact aid was not available to schools until differences between the House and Senate appropriations bills were resolved in April 1996. When the House Appropriations Committee passed its 1996 education budget, it instructed the

Figure 1

Nonmetro title I spending per student, fiscal year 1994

Title I spending is spread throughout nonmetro counties with the highest concentrations in high poverty counties



Source: Calculated by ERS using Federal Funds data and 1990 census data from the Bureau of the Census.

Department of Education to allocate funds according to a new formula and told it to ignore a previously enacted hold-harmless provision that would have protected some districts from losing money from the change in formula. The Senate said nothing about the hold-harmless provision. Until April 26, the Department did not know how to allocate the impact aid funds. If it honored the hold-harmless provision and Congress eventually passed a budget bill which removed it, the Department would have to ask some school districts to return money and redistribute it to other districts. If it ignored the hold-harmless provisions, but Congress decided to continue them, the Department would be in the same position of asking for money back to redistribute to hold harmless districts. While waiting for clear instructions from Congress on the formula to use for payments, the Department adopted the conservative strategy of not paying any impact aid funds unless a school district could demonstrate a cash-flow crisis. Even then, the Department only partially paid the districts.

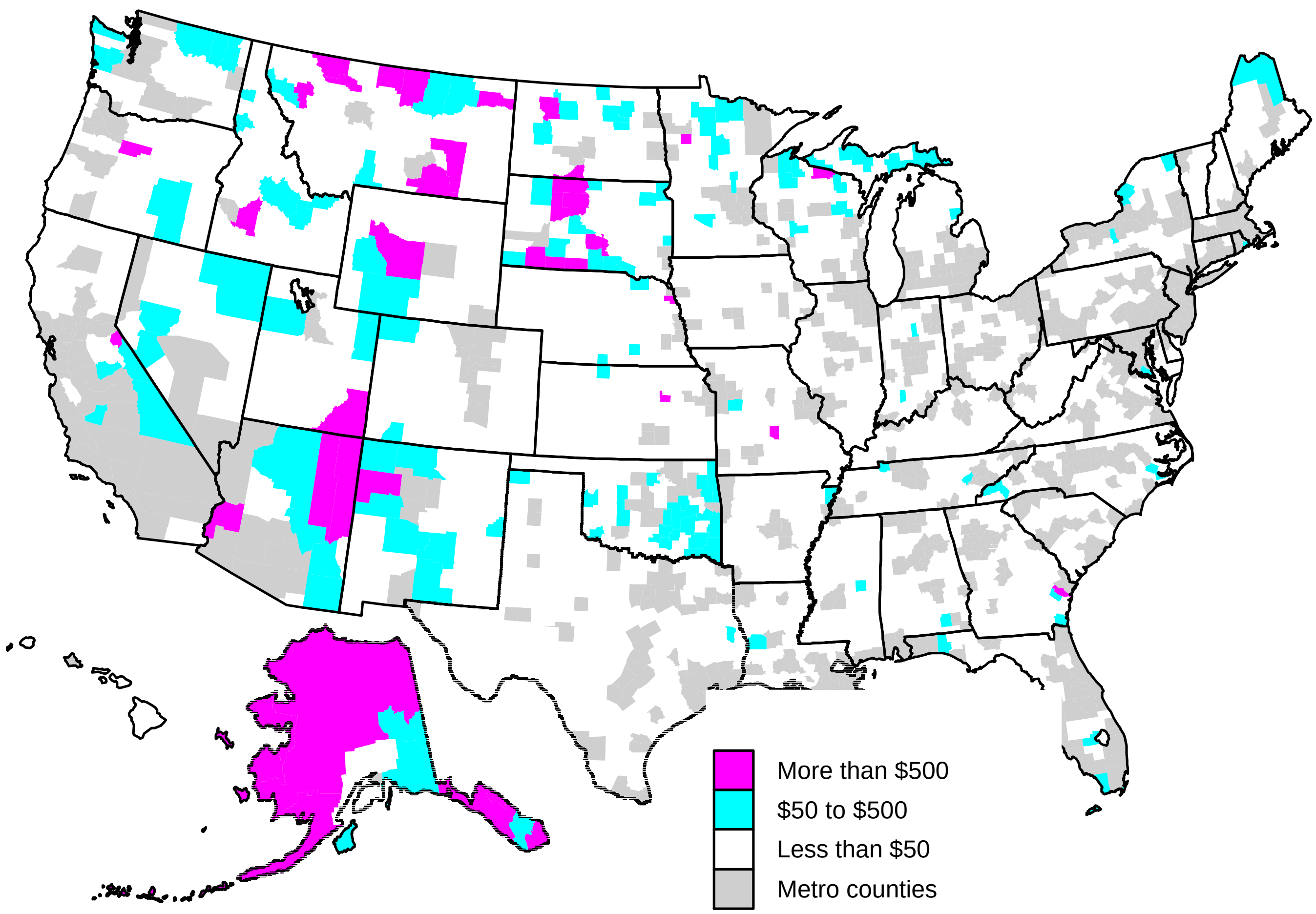
Star Schools Program Is Small, but Important to Isolated Rural Areas

Education's Star Schools Program, first authorized in 1988, provides local and State educational agencies with funds to encourage improved instruction in mathematics, science, foreign languages, literacy skills and vocational education through the use of telecommu-

Figure 2

Nonmetro impact aid spending per student, fiscal year 1994

Impact aid spending is concentrated in the West around Federally owned land



Source: Calculated by ERS using Federal Funds data and 1990 census data from the Bureau of the Census.

nications. The program is designed to serve poor and geographically isolated populations. For fiscal year 1996, Congress appropriated $23 million for Star Schools. In 1994 (the latest year for which metro-nonmetro breakdowns are available), over 35 percent of Star School funds went directly to schools in nonmetro counties. Many Star Schools funded programs are available to the community via cable television, as well as through individual schools. Although Star Schools is a small program compared with title I or impact aid, it can be quite important to isolated rural communities.

Postsecondary Financial Aid Awards Delayed in 1996 Because of Budget Crisis

Federal postsecondary financial aid is a major part of Education's budget. During the 1992-93 academic year, 32.1 percent of all undergraduates received Federal financial aid. The average Federal grant in 1992-93 was $2,003 and the average loan was $3,723. The fiscal year 1996 appropriations bill allocates $5.7 billion for Pell grants, a decline of 7 percent from the fiscal year 1996 appropriation of $6.1 billion. About 18 percent of Perkins loans and 19 percent of Pell grants go to nonmetro students.

The lack of a final appropriation for Pell grants and other financial aid programs for college students until April 26, combined with the two Government furloughs, made planning difficult for both students and colleges. Because most of Education was closed for 21 work days in late 1995 and early 1996, at a time when it had planned to test a newly implemented computer system for processing Free Applications for Federal Student Aid, the processing of these applications was seriously delayed. Education was not able to return to its normal 2-week processing time for financial aid applications until early April 1996. Because most colleges inform students of their financial aid eligibility by March, this delay in processing applications altered their normal calendar.

Until the continuing resolution of March 14, 1996, Congress had not specified the maximum award amount for Pell grants, so schools were unable to tell even students whose aid applications had been processed how large their award would be. Because many schools supplement Pell grants with their own financial aid funds, they were unable to make budgeting decisions about their own money. Federally guaranteed student loans are an entitlement, so schools were able to tell students whose aid applications had been processed how large a loan they were eligible for, but they could not give them the exact details of the loan until late April or early May.

Other Federal Education Programs' Effect on Rural Areas Difficult to Measure

Other Federal education programs, including Safe and Drug Free Schools and School-to-Work opportunities, were also funded under continuing resolutions through the first half of fiscal year 1996. Because most of these programs are forward funded, recipients did not have to adjust to the reduced spending levels specified in the continuing resolution. However, the reason for forward funding for education programs is to allow school districts planning time, and that was not possible for fiscal year 1996. We are unable to measure what proportion of the budget for these programs goes to rural schools, because funding is allocated through the States.

Job Training Funds Cut Significantly

The Federal Government spent over $7.4 billion on job training and employment programs in fiscal year 1995. Federal spending on job training and employment peaked in 1978 at $22.7 billion (1994 dollars), before declining sharply during the early 1980's. It increased slowly in importance as a response to changing economic conditions in the first half of the 1990's, although not to anywhere near the levels of the late 1970's (fig. 3). Additionally, the Clinton administration has emphasized the Job Corps, increasing spending in this area more rapidly than in other Federal job training programs (fig. 4).

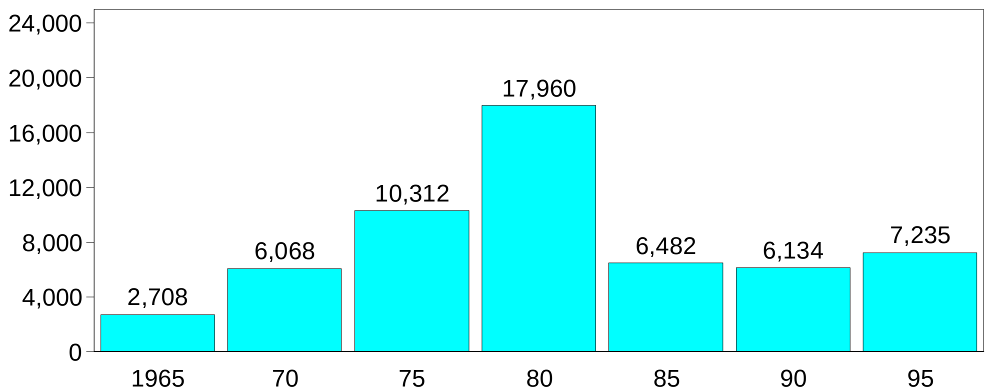
Job training and employment programs were among the programs with the largest budget cuts in the fiscal year 1996 budget. However, because job training programs are forward funded, these cuts did not take effect until July 1996. The total Employment and Training Administration budget, which includes all training programs in Labor, is $8.6 billion for fis-

Figure 3

Federal spending for training and employment programs, fiscal years 1965-95

Federal spending on training and employment programs grew sharply during the 1970's and then declined during the 1980's

Millions of fiscal year 1994 dollars



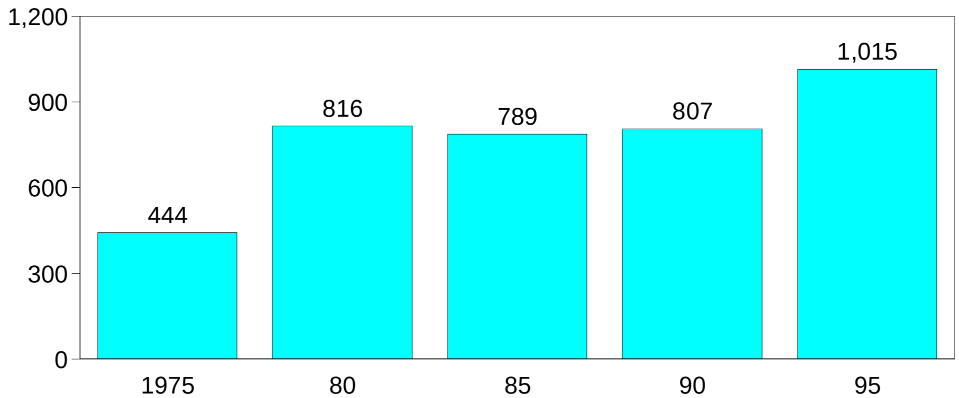
Source: Calculated by ERS using data from Historical Tables, Budget of the United States Government, Fiscal Year 1997.

Figure 4

Federal spending for Job Corps, fiscal years 1975-95

Federal spending for Job Corps was stable during the 1980's, but has been growing during the 1990's

Millions of fiscal year 1994 dollars



Source: Calculated by ERS using data from the Digest of Education Statistics, 1995, U.S. Department of Education, National Center for Education Statistics.

cal year 1996, a drop of 12 percent from fiscal year 1995. Total funding for the Job Training Partnership Act (JTPA) was cut from $4.5 billion in fiscal year 1995 to $3.9 billion in fiscal year 1996, down 13 percent. Title IIB of JTPA, summer jobs for youths, had its funding cut 28 percent from $867 million to $625 million. Until April 26, when the final budget bill was signed, no one was certain whether there would be a Federal summer jobs program in 1996, making it difficult to plan for the summer. One of the few training and employment programs to maintain steady funding from fiscal year 1995 to fiscal year 1996 is the Job Corps.

Both the House and Senate passed legislation during 1995 to change the design and administration of Federal job training programs. The bills would have shifted almost all Federal job training programs into block grants to be administered by the States. The block grants would have been used to create one-stop training centers where job seekers could find out about all job training programs at the same time. However, the reforms were not enacted, although there is agreement in both parties that job training programs are too fragmented and reform is needed.

The Job Training Partnership Act, the largest of the Federal job training programs, distributes funds to States, which redistribute funds to local Service Delivery Areas where local Private Industry Councils help set policy. If a law is enacted in the future consolidating job training programs into a block grant, there would probably be fewer requirements to geographically spread out job training money. A block grant could hurt rural areas if inhabitants seeking job training are forced to travel longer distances to take advantage of training programs. *[Elizabeth Greenberg, 202-501-7980, egrnberg@econ.ag.gov]*

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Title I is one of the largest Federal education programs, with a fiscal year 1996 budget of $7.2 billion. Title I provides schools with funds based on the poverty level of the children within the school. In the past, title I has primarily provided funds for compensatory education for children achieving below grade level in reading and mathematics. In 1994, the focus of the program was changed to put more emphasis on extended learning time and teaching higher order thinking skills, while minimizing the amount of time children are pulled out of the classroom for remedial education. Additional changes in the program made it easier for high-poverty schools to use title I funds to enrich all children in the school, rather than targeting special programs only at title I eligible children.

Approximately 25 percent of title I funds are spent in nonmetro areas. Title I funds are distributed widely across nonmetro areas, with the greatest concentrations in high-poverty areas: the rural South, Appalachia, and Indian reservations in the West (fig. 1).

Under the continuing resolution in effect during early 1996, title I funds were reduced $1.1 billion, over 15 percent of the fiscal year 1995 spending level. Because title I is forward funded and schools operated during the 1995-96 academic year on money appropriated during fiscal year 1995, the budget cuts specified in the continuing resolution did not significantly hurt title I programs. However, uncertainty about the level of funding for this program for the academic year 1996-97 made planning difficult for schools. Local school administrators worried that reduced title I funds would force title I schools to make significant staffing cuts and other programmatic changes for the 1996-97 school year. Many schools had to notify teachers that they might not be rehired in the fall, and many school boards had to submit a budget during the spring without knowing how much Federal aid they would get. The lack of a firm title I budget by spring 1995 put these districts in an awkward situation.

Rural Schools Dependent on Impact Aid Funds Faced Serious Difficulties During 1995-96 School Year

The Impact Aid Program was funded at $691 million for fiscal year 1996 under the omnibus spending act signed on April 26, a cut of 5 percent from the fiscal year 1995 level of $728 million. Impact aid is provided to schools in lieu of property taxes, because a large military installation, Indian reservation, or even a national park on nontaxable federally owned land puts a tremendous strain on a school district. Impact aid covers basic educational expenses and is not intended to provide districts with extra programs. Almost half of impact aid funds go to school districts in nonmetro counties, and many of these districts depend heavily on the funds. Some rural districts receive several thousand dollars per student in impact aid. Without impact aid, many districts would not have the resources to educate the large numbers of federally connected children living within their borders. Because Federal land holdings are concentrated in the West, impact aid is a particularly important program in rural Western counties (fig. 2).

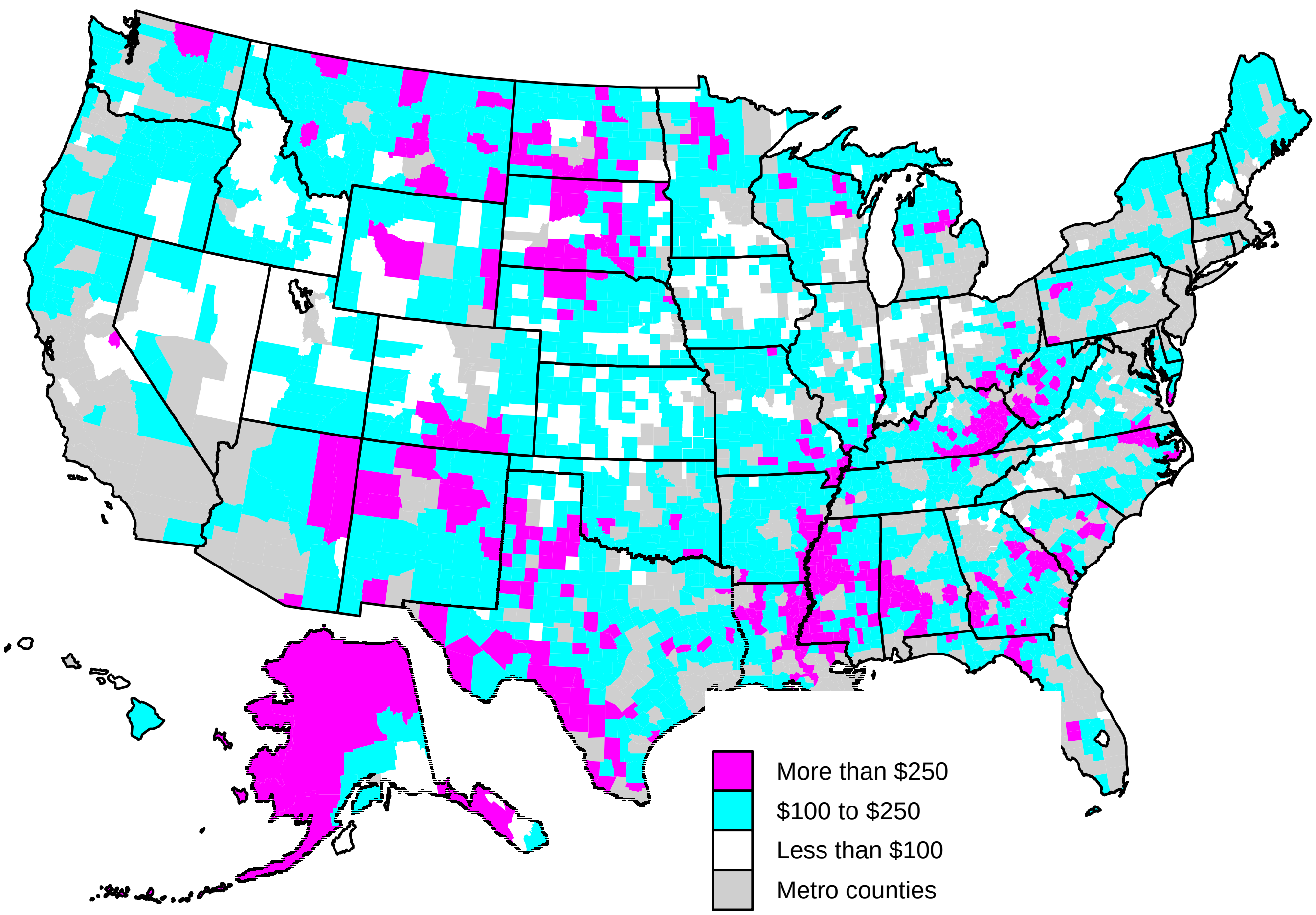
Impact aid is one of the few education programs that are not forward funded. Funds appropriated for fiscal year 1996 were spent during the school year 1995-96. Therefore, local schools were hurt by the continuing resolutions in effect during early 1996, which reduced impact aid funding from $728 million in fiscal year 1995 to approximately $550 million in fiscal year 1996.

Even this reduced level of impact aid was not available to schools until differences between the House and Senate appropriations bills were resolved in April 1996. When the House Appropriations Committee passed its 1996 education budget, it instructed the

Figure 1

Nonmetro title I spending per student, fiscal year 1994

Title I spending is spread throughout nonmetro counties with the highest concentrations in high poverty counties



Source: Calculated by ERS using Federal Funds data and 1990 census data from the Bureau of the Census.

Department of Education to allocate funds according to a new formula and told it to ignore a previously enacted hold-harmless provision that would have protected some districts from losing money from the change in formula. The Senate said nothing about the hold-harmless provision. Until April 26, the Department did not know how to allocate the impact aid funds. If it honored the hold-harmless provision and Congress eventually passed a budget bill which removed it, the Department would have to ask some school districts to return money and redistribute it to other districts. If it ignored the hold-harmless provisions, but Congress decided to continue them, the Department would be in the same position of asking for money back to redistribute to hold harmless districts. While waiting for clear instructions from Congress on the formula to use for payments, the Department adopted the conservative strategy of not paying any impact aid funds unless a school district could demonstrate a cash-flow crisis. Even then, the Department only partially paid the districts.

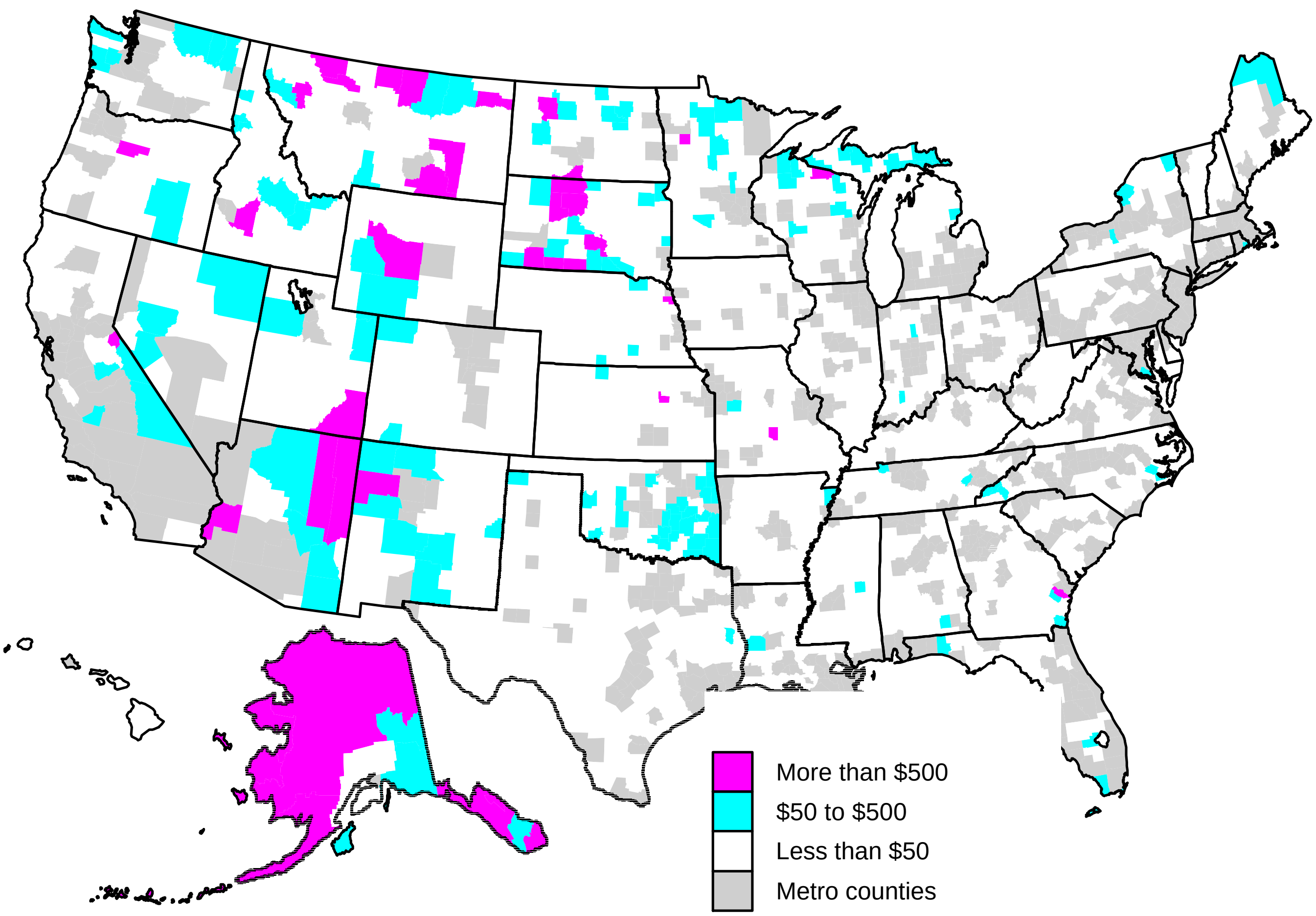
Star Schools Program Is Small, but Important to Isolated Rural Areas

Education's Star Schools Program, first authorized in 1988, provides local and State educational agencies with funds to encourage improved instruction in mathematics, science, foreign languages, literacy skills and vocational education through the use of telecommu-

Figure 2

Nonmetro impact aid spending per student, fiscal year 1994

Impact aid spending is concentrated in the West around Federally owned land



Source: Calculated by ERS using Federal Funds data and 1990 census data from the Bureau of the Census.

nications. The program is designed to serve poor and geographically isolated populations. For fiscal year 1996, Congress appropriated $23 million for Star Schools. In 1994 (the latest year for which metro-nonmetro breakdowns are available), over 35 percent of Star School funds went directly to schools in nonmetro counties. Many Star Schools funded programs are available to the community via cable television, as well as through individual schools. Although Star Schools is a small program compared with title I or impact aid, it can be quite important to isolated rural communities.

Postsecondary Financial Aid Awards Delayed in 1996 Because of Budget Crisis

Federal postsecondary financial aid is a major part of Education's budget. During the 1992-93 academic year, 32.1 percent of all undergraduates received Federal financial aid. The average Federal grant in 1992-93 was $2,003 and the average loan was $3,723. The fiscal year 1996 appropriations bill allocates $5.7 billion for Pell grants, a decline of 7 percent from the fiscal year 1996 appropriation of $6.1 billion. About 18 percent of Perkins loans and 19 percent of Pell grants go to nonmetro students.

The lack of a final appropriation for Pell grants and other financial aid programs for college students until April 26, combined with the two Government furloughs, made planning difficult for both students and colleges. Because most of Education was closed for 21 work days in late 1995 and early 1996, at a time when it had planned to test a newly implemented computer system for processing Free Applications for Federal Student Aid, the processing of these applications was seriously delayed. Education was not able to return to its normal 2-week processing time for financial aid applications until early April 1996. Because most colleges inform students of their financial aid eligibility by March, this delay in processing applications altered their normal calendar.

Until the continuing resolution of March 14, 1996, Congress had not specified the maximum award amount for Pell grants, so schools were unable to tell even students whose aid applications had been processed how large their award would be. Because many schools supplement Pell grants with their own financial aid funds, they were unable to make budgeting decisions about their own money. Federally guaranteed student loans are an entitlement, so schools were able to tell students whose aid applications had been processed how large a loan they were eligible for, but they could not give them the exact details of the loan until late April or early May.

Other Federal Education Programs' Effect on Rural Areas Difficult to Measure

Other Federal education programs, including Safe and Drug Free Schools and School-to-Work opportunities, were also funded under continuing resolutions through the first half of fiscal year 1996. Because most of these programs are forward funded, recipients did not have to adjust to the reduced spending levels specified in the continuing resolution. However, the reason for forward funding for education programs is to allow school districts planning time, and that was not possible for fiscal year 1996. We are unable to measure what proportion of the budget for these programs goes to rural schools, because funding is allocated through the States.

Job Training Funds Cut Significantly

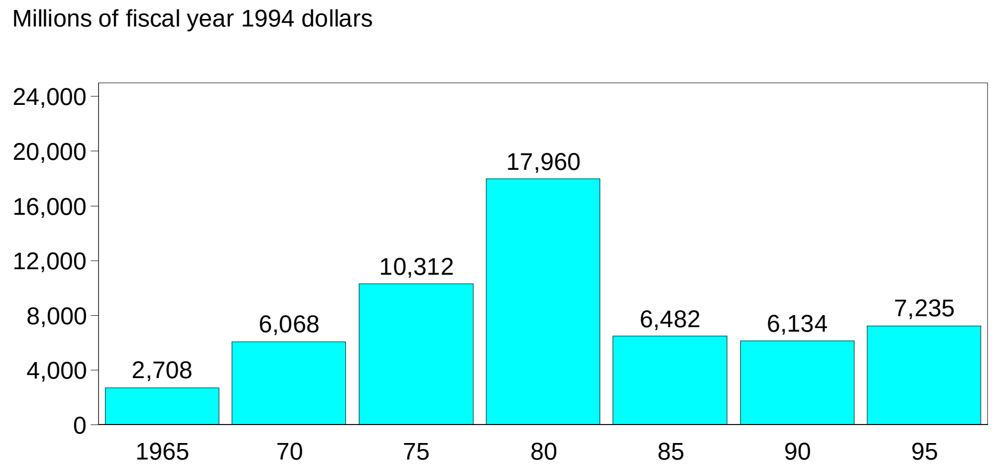
The Federal Government spent over $7.4 billion on job training and employment programs in fiscal year 1995. Federal spending on job training and employment peaked in 1978 at $22.7 billion (1994 dollars), before declining sharply during the early 1980's. It increased slowly in importance as a response to changing economic conditions in the first half of the 1990's, although not to anywhere near the levels of the late 1970's (fig. 3). Additionally, the Clinton administration has emphasized the Job Corps, increasing spending in this area more rapidly than in other Federal job training programs (fig. 4).

Job training and employment programs were among the programs with the largest budget cuts in the fiscal year 1996 budget. However, because job training programs are forward funded, these cuts did not take effect until July 1996. The total Employment and Training Administration budget, which includes all training programs in Labor, is $8.6 billion for fis-

Figure 3

Federal spending for training and employment programs, fiscal years 1965-95

Federal spending on training and employment programs grew sharply during the 1970's and then declined during the 1980's

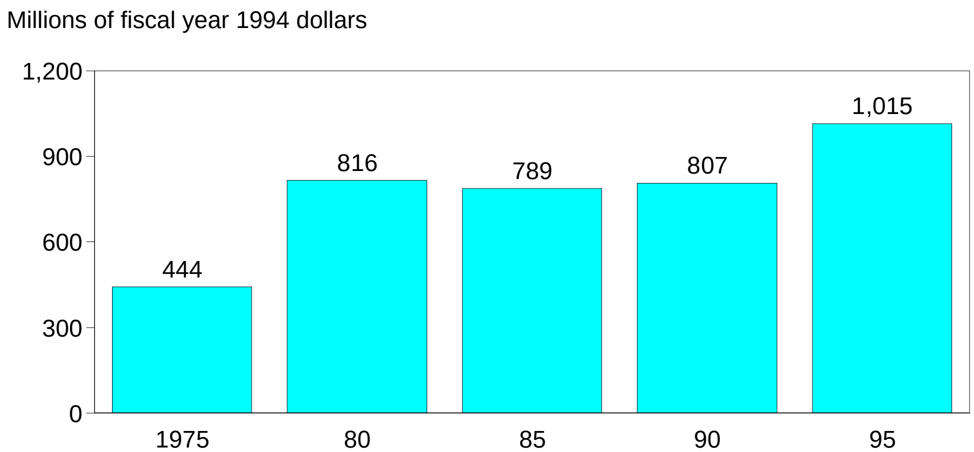


Source: Calculated by ERS using data from Historical Tables, Budget of the United States Government, Fiscal Year 1997.

Figure 4

Federal spending for Job Corps, fiscal years 1975-95

Federal spending for Job Corps was stable during the 1980's, but has been growing during the 1990's



Source: Calculated by ERS using data from the Digest of Education Statistics, 1995, U.S. Department of Education, National Center for Education Statistics.

cal year 1996, a drop of 12 percent from fiscal year 1995. Total funding for the Job Training Partnership Act (JTPA) was cut from $4.5 billion in fiscal year 1995 to $3.9 billion in fiscal year 1996, down 13 percent. Title IIB of JTPA, summer jobs for youths, had its funding cut 28 percent from $867 million to $625 million. Until April 26, when the final budget bill was signed, no one was certain whether there would be a Federal summer jobs program in 1996, making it difficult to plan for the summer. One of the few training and employment programs to maintain steady funding from fiscal year 1995 to fiscal year 1996 is the Job Corps.

Both the House and Senate passed legislation during 1995 to change the design and administration of Federal job training programs. The bills would have shifted almost all Federal job training programs into block grants to be administered by the States. The block grants would have been used to create one-stop training centers where job seekers could find out about all job training programs at the same time. However, the reforms were not enacted, although there is agreement in both parties that job training programs are too fragmented and reform is needed.

The Job Training Partnership Act, the largest of the Federal job training programs, distributes funds to States, which redistribute funds to local Service Delivery Areas where local Private Industry Councils help set policy. If a law is enacted in the future consolidating job training programs into a block grant, there would probably be fewer requirements to geographically spread out job training money. A block grant could hurt rural areas if inhabitants seeking job training are forced to travel longer distances to take advantage of training programs. *[Elizabeth Greenberg, 202-501-7980, egrnberg@econ.ag.gov]*

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

The rapid growth of Federal health spending has prompted legislative proposals to control Medicare and Medicaid expenditures. The proposals will affect rural communities because the Medicare and Medicaid programs provide health insurance for over one-fourth of the nonmetro population.

Real Federal spending on health grew rapidly between 1990 and 1995, increasing from $207 billion to $307 billion in constant 1995 dollars (fig. 1).[1] By 1995, health programs accounted for one-fifth of the entire Federal budget, and there was growing concern about the effect of health spending on the budget deficit. Congress has begun considering legislative measures to slow the growth of spending on the Medicare and Medicaid programs, which are responsible for the bulk of Federal health expenditures. The proposed measures have important implications for rural communities because the two programs provide health insurance for 26 percent of the nonmetro population.

Most Federal Health Programs Provide Personal Health Care

The Federal government supports a wide variety of health-related activities, but 92 percent of Federal health spending pays for personal health care through programs run by three Cabinet Departments. Some Federal health programs serve individuals entitled to care under existing legislation, while others target populations without adequate health services. Programs for individuals include Medicare for the elderly and disabled and Medicaid for the poor (both run by Health and Human Services), plus separate health care systems for veterans (run by Veterans Affairs), military personnel and dependents (run by Defense), and Native Americans (run by Health and Human Services). Programs that target populations include the National Health Service Corps and Community Health Centers serving residents of designated underserved areas, and Migrant Health Centers serving migrant farmworkers and their families (all run by Health and Human Services).

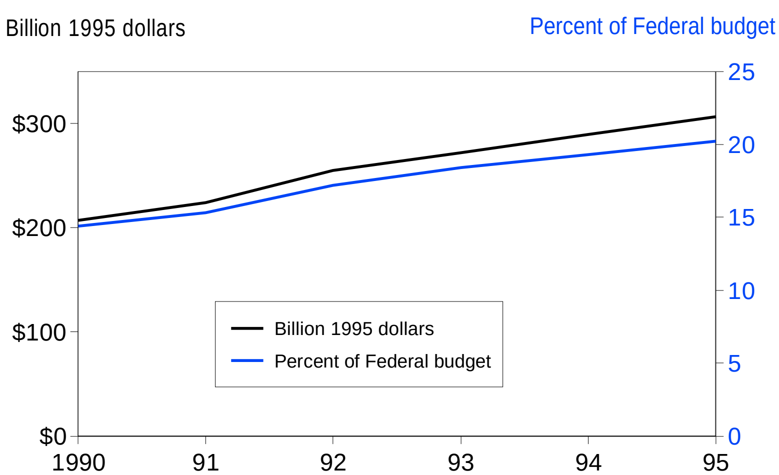
This review focuses on how proposed legislative changes in the Medicare and Medicaid programs might affect rural communities. Medicare and Medicaid accounted for 88 percent of Federal health spending in 1995 and covered 74 million persons. Other Federal health care programs may also face funding changes, but serve much smaller populations than Medicare or Medicaid.

[1] References to years in this article are fiscal years in the case of Federal expenditures, and calendar years in all other cases.

Figure 1

Growth of Federal health spending, 1990-95

One-fifth of the Federal budget was spent on health in 1995



Source: Calculated by ERS from the Budget of the United States Government.

Medicare Covers Relatively More Persons in Nonmetro than Metro Areas

Medicare provides subsidized health insurance for the elderly aged 65 or older and certain nonelderly disabled persons under age 65. The program is financed by Social Security taxes, general Federal revenues, and monthly premiums paid by Medicare beneficiaries, who were liable for 24 percent of the total cost of health services covered by Medicare in 1995. Federal Medicare expenditures rose 11 percent during 1995 to $180 billion, accounting for nearly 12 percent of the Federal budget.

Medicare covered about 38 million persons in 1995, including 34 million elderly and 4 million nonelderly disabled persons. Nonmetro residents are more likely to have Medicare than metro residents because nonmetro residents are more likely to be elderly or disabled (table 1). Estimates from the March 1995 Current Population Survey (CPS) for the noninstitutional population (excluding persons in nursing homes and other institutions) indicate that 16 percent of nonmetro residents and 12 percent of metro residents had Medicare in 1994. Less recent enrollment statistics reveal that Medicare covered 20 percent or more of the total population in many nonmetro counties in the Midwest and Great Plains with high proportions of the elderly (fig. 2). Only a few metro counties had comparably high proportions of Medicare beneficiaries.

Nonmetro health care providers are more dependent on Medicare revenue than metro providers due to the higher proportion of Medicare beneficiaries in nonmetro areas.

Table 1
The Medicare program
Nonmetro residents are more likely to have Medicare than metro residents

Item	Metro	Nonmetro
	Percent	
Eligibility:		
(1) Proportion of elderly persons aged 65 or older, 1990	11.9	14.7
(2) Proportion of disabled persons unable to work among persons aged 16-64, 1990	3.8	5.6
Program beneficiaries:		
(3) Proportion of Medicare beneficiaries, 1994	12.2	15.8
	Dollars	
(4) Median income of Medicare beneficiaries, 1994	17,960	15,547
	Percent	
(5) Proportion of Medicare beneficiaries below poverty level, 1994	12.4	16.5
	Dollars	
Finances:		
(6) Average Medicare expenditure per beneficiary, 1992	3,937	3,191
	Percent	
(7) Proportion of physician gross practice revenue from Medicare, 1994	26.7	33.1
(8) Proportion of community hospital net patient revenue from Medicare, 1993	33.5	38.8

Sources: (1)-(2) 1990 Census of the United States; (3)-(5) ERS estimates from March, 1995 Current Population Survey; (6) Rural Policy Research Institute; (7) American Medical Association; and (8) American Hospital Association.

Medicare payments accounted for a larger share of physician gross practice revenue in nonmetro areas (33 percent) than metro areas (27 percent) in 1994. Medicare payments also represented a larger share of community hospital net patient revenue in nonmetro areas (39 percent) than metro areas (33 percent) in 1993.

The average Medicare expenditure per beneficiary was 19 percent lower in nonmetro areas ($3,191) than metro areas ($3,937) in 1992. The difference was due to the lower Medicare reimbursement rates for health care providers in nonmetro areas, as well as different patterns of health care use by metro and nonmetro beneficiaries.

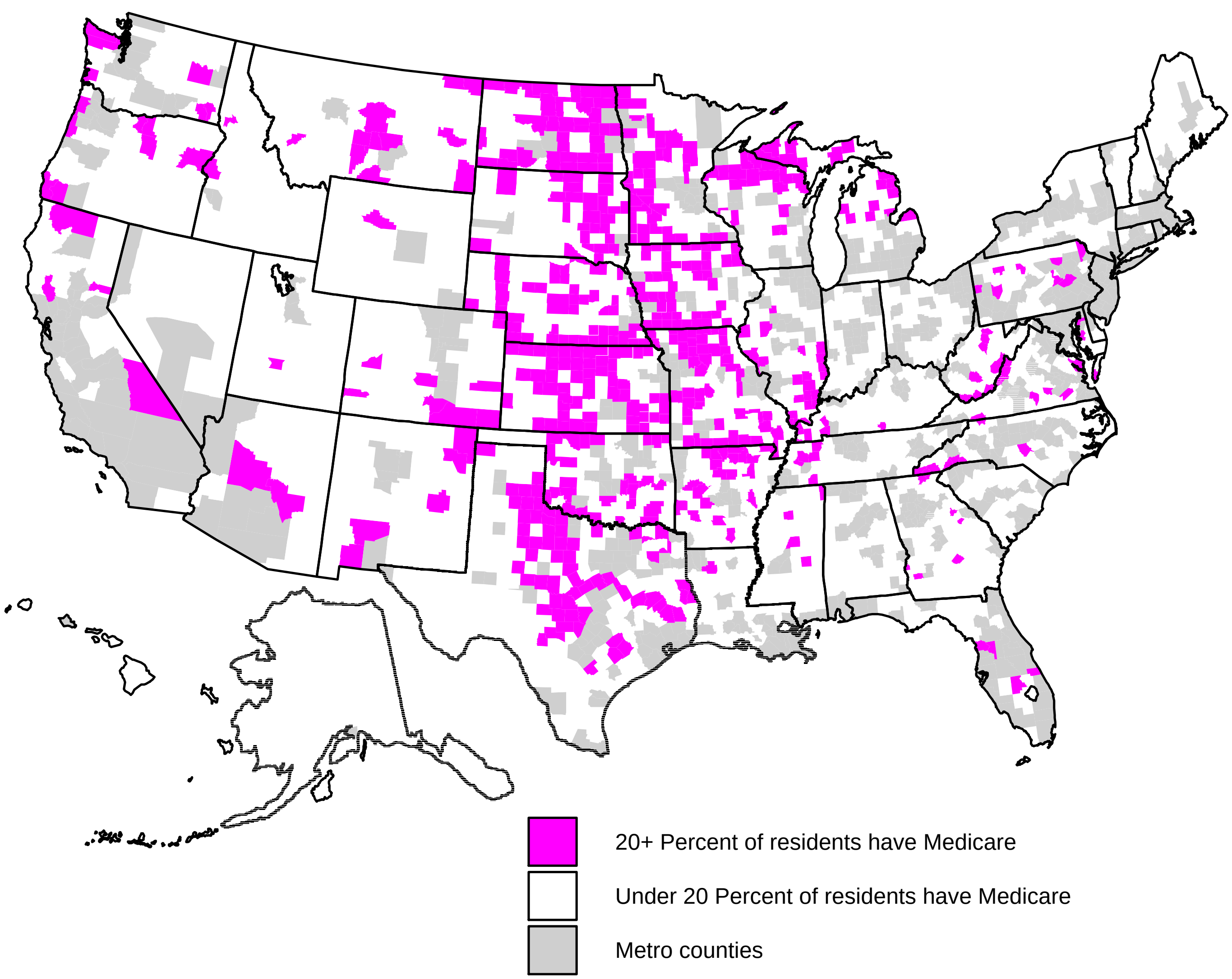
Proposed Changes in Medicare Will Affect Beneficiaries and Providers

Legislative proposals to slow the growth of Federal Medicare spending include (1) increasing the share of costs paid by Medicare beneficiaries, (2) reducing the growth of Medicare payments to health care providers, and (3) enrolling more beneficiaries in man-

Figure 2

Nonmetro counties with a high proportion of Medicare beneficiaries, 1991

Medicare covered one-fifth or more of the nonmetro population in many areas of the Midwest and Great Plains



Source: Calculated by ERS from Area Resource File data.

aged-care plans in the expectation that plans will provide health care at lower cost than traditional fee-for-service arrangements.

A general increase in cost sharing for Medicare beneficiaries will have a greater financial effect on nonmetro than metro beneficiaries because nonmetro beneficiaries have lower incomes. The March 1995 CPS indicates that median income was 13 percent lower for nonmetro beneficiaries ($15,547) than metro beneficiaries ($17,960) in 1994. Conversely, increases in cost sharing limited to high-income beneficiaries will probably affect relatively fewer nonmetro than metro beneficiaries.

Reductions in the projected growth of Medicare payments to health care providers may disproportionately affect nonmetro providers, who are more dependent on Medicare revenue than their metro counterparts. The effect on nonmetro providers will depend on how payment reductions are allocated among different categories of providers. Under current legislation, some categories of providers receive extra Medicare payments, including Sole Community Hospitals serving rural communities with only one hospital and physicians practicing in designated Health Professional Shortage Areas. Payment reductions could also affect the general population if Medicare hospital payments fall further below hospital costs for treating Medicare patients, forcing hospitals to shift additional unreimbursed costs to private patients or local taxpayers in the case of communities where public hospitals provide uncompensated care.

Proposals to enroll more Medicare beneficiaries in managed-care plans have focused on providing a wider choice of plans for beneficiaries. Measures that make managed-care plans more widely available could affect relatively more nonmetro than metro beneficiaries because nonmetro areas are less well served by plans than metro areas. However, the expansion of plans may also increase price competition among health care providers, threatening the financial viability of nonmetro providers whose ability to discount fees is limited by low patient volumes or profit margins.

Medicaid Covers Same Proportion of Metro and Nonmetro Residents

Medicaid is a combined Federal-State program to provide medical assistance for specific categories of the poor, including the elderly, disabled, and families with dependent children. The program is administered by individual States with the Federal government paying part of the costs under a matching formula based on State per capita income. In 1995, the Federal share of Medicaid costs ranged from 50 percent (in 13 States and the District of Columbia) to 79 percent (in Mississippi). Total Federal Medicaid costs rose 9 percent to $89 billion in 1995, accounting for nearly 6 percent of the Federal budget.

About 41 million persons were enrolled in Medicaid at some time during 1995, including nearly 2 million residents of nursing homes and other institutions. March 1995 CPS estimates indicate that there was no significant difference in the proportion of the noninstitutional population with Medicaid in metro areas (12 percent) and nonmetro areas (13 percent) in 1994 (table 2). Prior to 1994, Medicaid covered a higher proportion of nonmetro than metro residents. The disappearance of the metro-nonmetro difference in 1994 was associated with a decline in the nonmetro poverty rate.

The new welfare law enacted in August 1996 changed some aspects of the Medicaid program. The law terminated the Aid for Families With Dependent Children (AFDC) program that had determined Medicaid eligibility for poor families, but requires States to continue providing Medicaid for those meeting July 1996 AFDC eligibility standards. The law also allows States to deny Medicaid to most legal immigrants already in the U.S., and requires States to exclude most future legal immigrants from Medicaid for 5 years following their arrival. March 1995 CPS estimates indicate that Medicaid covered about 3 million noncitizens in 1994, nearly all in metro areas.

Medicaid covers only a minority of the poor because families with employed persons are generally ineligible for program participation. The March 1995 CPS indicates that Medicaid covered similar proportions of the metro and nonmetro poor in 1994 (table 2). Estimates from the March 1994 CPS based on a larger sample reveal that the nonmetro poor were least likely to have Medicaid in a large region including 10 Central States (fig. 3). A higher proportion of nonmetro poor adults were employed in the Central States (67 percent) than in other States (51 percent) in 1993, reducing Medicaid enrollment in the Central States due to the restrictions on coverage of families with workers.

Physicians derived a larger share of their gross practice revenue from Medicaid patients in nonmetro areas (16 percent) than metro areas (11 percent) in 1994. In contrast, nonmetro community hospitals received a smaller share of net patient revenue from Medicaid (11 percent) than metro hospitals (13 percent) in 1993. The geographic variations in physician and hospital revenue suggest that nonmetro Medicaid enrollees use relatively more physician services but fewer hospital services than metro enrollees, perhaps because nonmetro enrollees are less likely to visit hospital emergency rooms for nonemergency care.

There are large variations in Medicaid expenditures between States due to differences in medical benefits, reimbursement systems, the health status of enrollee populations, and other factors. In 1995, average Medicaid expenditures per recipient of medical assistance ranged from $1,891 in Tennessee to $7,276 in New York. (Arizona had lower expenditures than Tennessee, but the exact amount spent in Arizona was unavailable.)

Effect of Changes in Medicaid May Vary by State

Legislative proposals to slow the growth of Federal Medicaid expenditures initially included (1) setting annual limits on Federal Medicaid spending and (2) converting Federal matching funds into block grants to allow States to determine Medicaid eligibility and benefits. The State governors subsequently proposed that some categories of the poor remain automatically eligible for Medicaid benefits, including the elderly, pregnant women, and children under age 13.

The effect of annual limits on Federal Medicaid spending may vary by State, depending on whether States increase their own Medicaid spending, restrict the number of persons eligible for coverage, or reduce benefits to compensate for the new spending constraints. The effect on nonmetro areas will consequently depend on how individual States respond. Some States may regard the health needs of the nonmetro poor as a more important funding priority than other States.

Table 2

The Medicaid program

Metro and nonmetro residents are equally likely to have Medicaid although poverty is greater in nonmetro areas

Item	Metro	Nonmetro
	Percent	
Eligibility:		
(1) Proportion of persons below poverty level, 1994	14.6	16.0
Program enrollees:		
(2) Proportion of Medicaid enrollees, 1994	12.4	12.7
(3) Proportion of Medicaid enrollees among persons below poverty level, 1994	48.8	44.0
Finances:		
(4) Proportion of physician gross practice revenue from Medicaid, 1994	10.5	16.1
(5) Proportion of community hospital net patient revenue from Medicaid, 1993	12.9	11.4

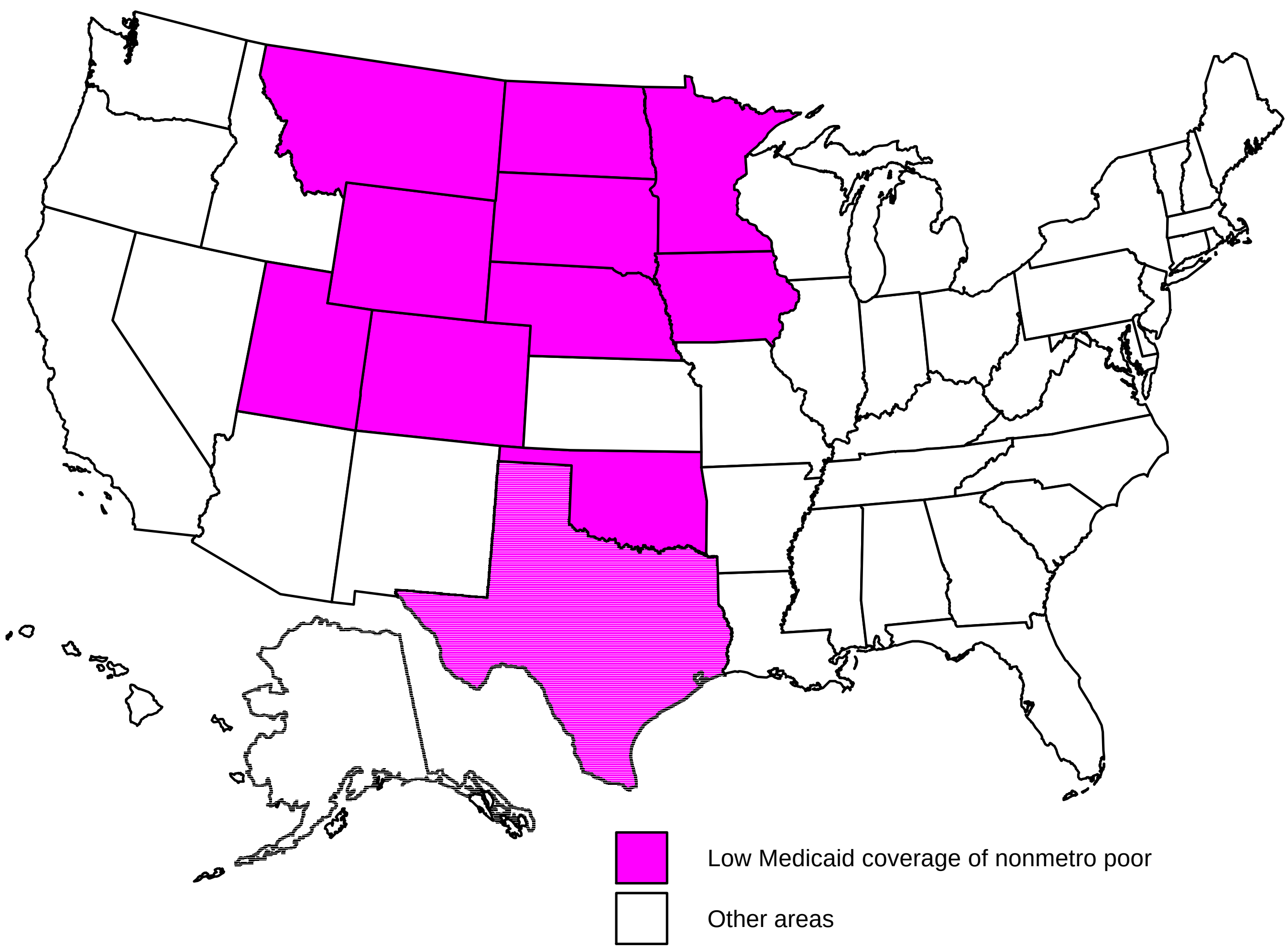
Sources: (1)-(3) ERS estimates from March 1995 Current Population Survey; (4) American Medical Association; and (5) American Hospital Association.

The conversion of Federal matching funds into block grants would give States more authority over Medicaid eligibility standards and benefits, even if some of the poor remain automatically eligible for coverage. It is difficult to predict how individual States might use the new powers provided by block grants, but States are unlikely to expand eligible populations or increase benefits in view of current efforts to limit public spending. *[Paul D. Frenzen, 202-501-7925, pfrenzen@econ.ag.gov]*

Figure 3

Regional variations in Medicaid coverage of the nonmetro poor, 1993

Only 29 percent of the nonmetro poor had Medicaid coverage in a large region covering 11 Central States



Source: Calculated by ERS using data from the March, 1994 Current Population Survey.

Income and Nutrition Support Programs Are Important Resources for Rural Communities

Income and nutrition programs are important sources of support for the rural elderly and for economically vulnerable rural people. They are especially important in the most rural areas and in those farthest from urban centers. There were few substantial changes in these programs in fiscal years 1995 and 1996, although major overhauls of all of the programs loom large in current public discourse.

Federal social insurance, disability insurance, and welfare programs provide retirement income to virtually all the rural elderly, transitional assistance to individuals and families facing temporary economic hardship, and a social safety net for the most economically vulnerable rural populations. Federal outlays for these programs increased somewhat in fiscal year 1996, although the increase was substantially above inflation for only the child nutrition programs (table 1). By far the largest Federal income support program is the Old Age, Survivor, and Disability Insurance Program operated by the Social Security Administration and popularly known as Social Security. Social Security accounted for 22.1 percent of all Federal outlays in 1995, and its benefits amounted to 6.4 percent of total personal income nationwide. Because rural areas are home to a disproportionate share of the elderly, Social Security is of more importance in rural than in urban areas. Means-tested programs, commonly referred to as welfare programs, while not making up a large share of aggregate rural income, are, nevertheless, important sources of support to the most economically vulnerable families and individuals in rural America. Almost one-fourth (23 percent) of the rural population is in households benefiting from one or more of the four largest federally supported welfare programs, and those households include 65 percent of the rural poor and over 80 percent of rural poor children (fig. 1). The Food Stamp and School Lunch Programs, with their wider eligibility, benefit a larger

Table 1

Summary of largest income support and nutrition programs

Projected Federal outlays for income and nutrition support programs in fiscal year 1996 are somewhat higher than in the previous year, but the increase is substantially above the inflation rate only for child nutrition programs

Program	Federal outlays by fiscal year: 1995	1996 projected	Change	Rural areas most affected by the program
	Billion dollars		Percent	
Social Security (OASDI)	335.8	351.0	4.5	The most remote rural counties and retirement-destination counties
Aid to Families with Dependent Children (AFDC)	17.1	17.4	1.2	Persistent-poverty and transfer-dependent counties
Supplemental Security Income (SSI)	26.5	26.6	.5	The most remote rural areas and persistent-poverty, transfer-dependent, and mining-dependent counties
Food Stamps	25.6	26.3	3.1	The most remote rural areas and persistent-poverty, transfer-dependent, and mining-dependent counties
Child nutrition programs (primarily the School Lunch and School Breakfast Programs)	7.5	8.2	9.8	The most remote rural areas and persistent-poverty and transfer-dependent counties

Source: Budget of the United States Government, fiscal year 1997 share of the rural population than do Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI).

Social Security Is a Larger Share of Rural Than of Urban Income

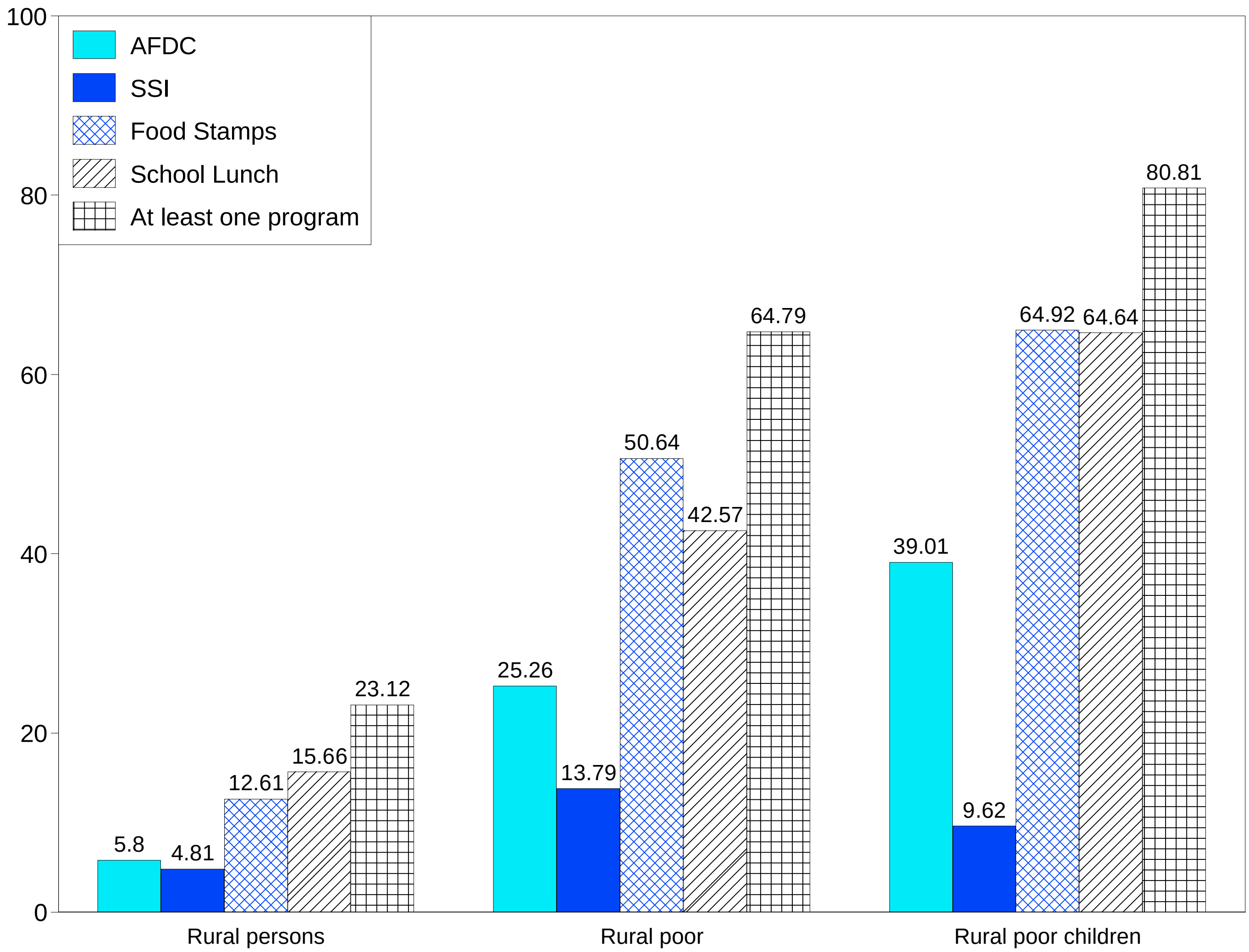
In 1993, 26 percent of the elderly lived in nonmetro counties compared with 21 percent of the non-elderly, and Social Security benefits made up 9.6 percent of total personal income in nonmetro counties compared with 5.8 percent in metro counties. The most remote rural counties and retirement-destination counties receive disproportionately high shares of Social Security income. Counties with a high proportion of Social Security income (more than 10 percent of total personal income) are concentrated in the Midwest, in the remote rural areas in Appalachia and the Northeast, and in high-amenity areas of the Sunbelt and the Northwest (fig. 2).

The projected increase in Social Security expenditures in 1996 is due to inflation and to growth in the elderly population, not to substantive changes in the Social Security program. Legislation enacted in March 1996 will raise the Social Security earnings limit gradually over the next 6 years for recipients age 65-69. When it is fully implemented, earnings allowed without loss of benefits will be $30,000 — more than double what it would have been under previous law. The effect of this change will be small in rural areas, affecting less than 8 percent of persons age 65-69 and less than 2 percent of all

Figure 1

Percent of rural population groups in households receiving selected program benefits, 1993

Almost all children in rural low-income families benefit from one or more means-tested support programs



rural Social Security recipients. There has been some discussion of a downward adjustment of the Consumer Price Index (CPI), based on the argument that it has overstated inflation. If enacted, this adjustment would slow the growth of Social Security payments, because they are indexed to cost-of-living increases as measured by the CPI.

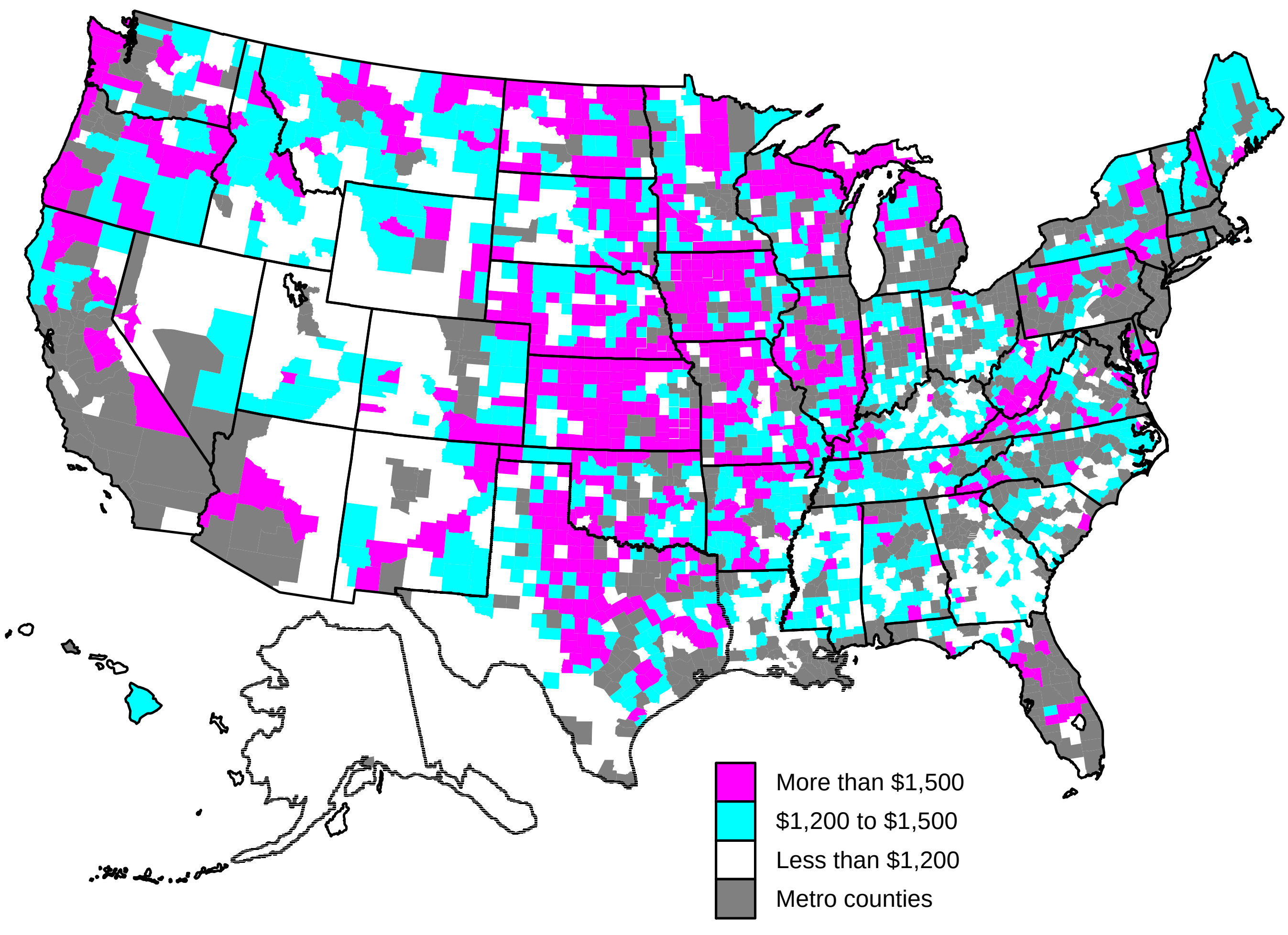
Rural Access to AFDC Is Constrained by Low Benefit Levels in States with Large Rural Populations

AFDC provides income support to very-low-income families with children under age 18. The overwhelming majority of beneficiaries (93 percent) are in families headed by women, although two-parent families with both parents unemployed also qualify. AFDC is funded jointly by Federal and State Governments with the Federal share varying from 50 to 80 percent depending on State per capita income. Eligibility criteria and benefit levels are set by States within very broad limits, with the result that participation rates and benefits vary widely among States. In 1993, average monthly benefits of recipient families varied from $121 in Mississippi to $568 in California and $751 in Alaska. The lowest benefit States, those averaging less than $300 per family per month, are disproportionately rural. They include 50 percent of the nonmetro population and 60 percent of the nonmetro poor, but only about 33 percent of the urban population. Although most persistent-poverty and

Figure 2

Per capita Social Security payments, fiscal year 1994

Social Security payments are an important income source in the most remote rural counties and in high-amenity rural counties



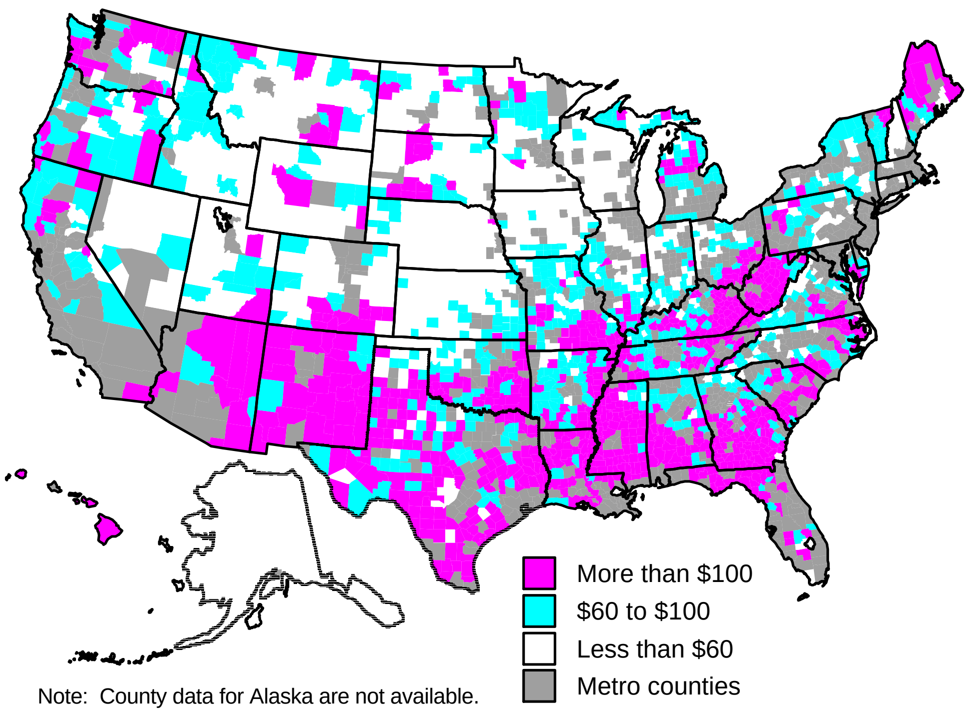
Source: Calculated by ERS using Federal Funds data from the Bureau of the Census

Figure 3

Food stamps, 1994, and poverty levels, 1989

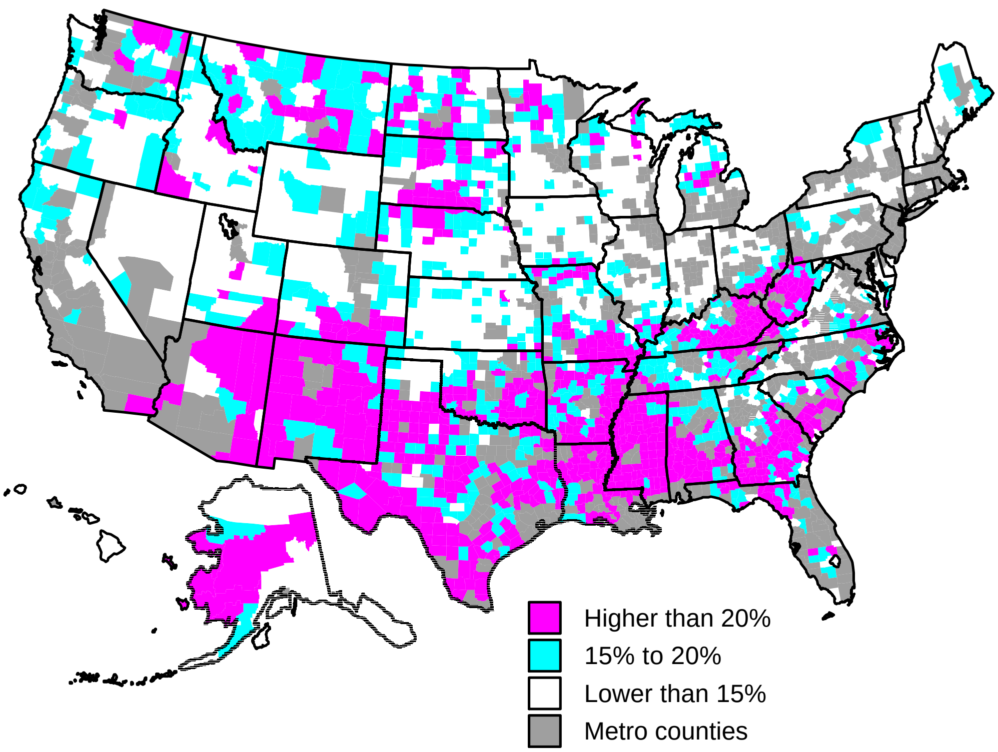
The Food Stamp Program, with its consistent national standard, is very effectively targeted to high-poverty counties

Per capita Food Stamp expenditures, fiscal year 1994



Note: County data for Alaska are not available.

Poverty rate, 1989



Source: Calculated by ERS using Federal Funds and decennial census of population data from the Bureau of the Census.

transfer-dependent counties are in the lower benefit States, large shares of the population in those counties receive AFDC benefits, making per capita AFDC expenditures higher there than in other nonmetro counties.

Although AFDC has remained an entitlement in principle, almost all State programs are operating under waivers allowing them to impose additional requirements for receipt of assistance. Recently enacted welfare reform will terminate the entitlement status of AFDC, provide funds for the program to States in the form of block grants, and increase State discretion. Work requirements and time limits will be mandatory in the State programs and will pose challenges for rural low-income families because of the weak labor markets in rural areas where most of the AFDC recipients are located. AFDC has been funded through fiscal year 1996 by a series of continuing resolutions. Growth in program outlays from 1995 to 1996 was less than inflation.

SSI Provides Income of Last Resort to Rural Disabled and Elderly

SSI provides income support to low-income blind and disabled persons and to low-income elderly persons not covered by Social Security. Most of the program's 6 million beneficiaries are elderly, but people of all ages with physical, mental, and developmental disabilities receive assistance. SSI benefits rural people, especially those in the most remote rural areas, somewhat more than those in urban areas due primarily to the higher proportion of low-income elderly in rural areas. Per capita expenditures are highest in persistent-poverty counties, transfer-dependent counties, and mining-dependent counties. SSI outlays grew only about 0.5 percent from 1995 to 1996, representing a slight decrease when adjusted for inflation. Recently enacted legislation will eliminate SSI benefits for disability from drug and alcohol abuse and support for children with certain mental and behavioral disabilities.

Food Stamps Are Well Targeted to High-Poverty Rural Areas

The Food Stamp Program, operated by USDA, is one of the most important support programs for low-income rural residents. It is the only national program for which virtually every person with below-poverty income qualifies. Eligibility requirements and benefit levels are standardized nationally, which results in very effective targeting of food stamp funds to high-poverty counties (fig. 3). The program's effect, measured as the total value of food stamps per capita, is substantially higher in rural than in urban areas and is highest in the most rural areas (nonmetro counties not adjacent to metro counties). This is due both to the higher poverty rates in rural areas and to lower average benefit levels from other public assistance programs, especially AFDC. (Benefits from AFDC and other assistance programs are included in the income used to determine Food Stamp Program eligibility and benefits.) Food stamp receipts are highest in persistent-poverty and transfer-dependent counties and are also well above average in mining-dependent counties. In 1993, an eighth of the rural population was in households that received food stamps, and these beneficiaries included over half of the rural poor and nearly two-thirds of rural poor children. Food stamps remain an entitlement, and budget allocation is in accordance with anticipated demand by qualifying persons. Estimated program outlays for 1996 are just slightly higher than for 1995, after adjusting for inflation. The Food Stamp Program was reauthorized for 2 years with only minor changes in the Federal Agriculture Improvement and Reform Act of 1996. Changes introduced by the recently enacted welfare reform law will be analyzed in next year's issue of *Rural Conditions and Trends*.

Most Children in Low-Income Rural Families Benefit from School Food Programs

The National School Lunch and School Breakfast programs, operated by USDA, provide funds to public and private elementary and high schools to provide hot lunches and breakfasts to school children. Children from families with income below 130 percent of the poverty threshold qualify for free meals; those from families with income from 130 to 185 percent of the poverty line qualify for reduced-cost meals. Children from higher income families can purchase meals from the school programs at very slightly subsidized rates. Rural families, especially those in the most remote rural areas, benefit disproportionately from this program because of the generally lower incomes in rural areas; 31 percent of all rural children, including 65 percent of poor rural children, received free or reduced price meals in 1993. This program remains an entitlement, and budget allocation is in accordance with anticipated demand. *[Mark Nord, 202-219-0554, marknord@econ.ag.gov]*

Funding Continues to Drop in Defense Programs

Defense funding declined for fiscal year 1996. While defense spending will likely increase in nominal terms in the next few years, the expenditures will be a declining portion of the Nation's gross domestic product, and some programs will receive fewer dollars (in real terms) than they are currently receiving. Funding priorities did not undergo significant changes for fiscal year 1996 from that established in earlier fiscal years. While the bulk of spending in defense programs is in metro counties, nonmetro counties do receive a substantial sum.

On February 10, 1996, President Clinton signed into law the National Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106). The bill authorizes "appropriations for fiscal year 1996 for military activities of the Department of Defense, to prescribe personnel strengths for such fiscal year for the Armed Services, and for other purposes." This and two earlier acts (P.L. 104-61 and P.L. 104-32) cover the fiscal year 1996 budget for the Defense Department that includes not only the primary mission of national defense, but funds for local economic adjustment to the declining defense expenditures, environmental restoration from military operations, and U.S. Department of Energy and national security programs.

While the $266 billion in the act's budget for fiscal year 1996 was $7 billion more than the President had requested, it represented a decline from the estimated $272 billion in fiscal year 1995 expenditures. The post-Cold War trend of less spending on national defense continues but is bottoming out. Nevertheless, the expenditures on the Nation's defense, as a portion of total Federal outlays according to current departmental budget plans, will continue to decline for the rest of the decade (from 20.5 percent in 1994 to an estimate of 15.4 percent in the year 2000). The 1990's have reversed the 1980's trend of increased spending on defense. In addition, Defense, unlike most other Federal departments and agencies, began restructuring and reducing the number of personnel (both civilian and military personnel) several years ago.

The four major components of defense spending are procurement, personnel, operations and maintenance, and research and development. Procurement (purchases of new military equipment) is the only category expected to receive an increase in outlays during the latter half of the decade (47 percent by 2001); the other categories are expected to receive gradually less funding through the year 2000. The fiscal year 1996 budget for procurement, however, calls for only $48 billion in outlays, a decline of $6 billion from fiscal year 1995 levels. Consistent with the proposed outlays, employment in the private industry that supplies Defense will have decreased from 3.6 million in 1989 to about 2.1 million by 1997 (procurement funding fell 70 percent from the peak in 1985 to the current fiscal year, 1996). Probably less than 15 percent of this industry is in rural areas.

Personnel is the funding category most important to rural areas. Roughly 22 percent of domestically based military personnel (active-duty, National Guard, and Reserves) are in rural areas (nearly a half a million). While the number of personnel will have declined by about 30 percent between 1989 and 1999 according to Presidential budget proposals, the share rural areas have will remain roughly the same if this reduction continues to follow the same pattern. Most of the decline in the number of military personnel has already taken place. An outlay of $67 billion is expected for military personnel during fiscal year 1996; a decline of $3 billion from fiscal year 1995 outlays. The National Guard and the Air National Guard, for example, will lose 27,000 personnel in fiscal year 1996. Figure 1 shows the concentrations of military personnel (active-duty, National Guard, and Reserves) across the country.

While the economic effects of realignment and reductions in the various forces (active-duty, National Guard, and Reserves) are spread across the Nation, some rural communities are especially feeling the affect from the reduced level of the military. More than 20 of the 75 rural military bases that existed in 1990 will be closed by the end of the decade; some other rural bases will have fewer personnel. Communities near bases undergoing cutbacks will face greater economic distress than most others across the Nation.

With the ongoing adjustments in the defense sector, programs have been set up to assist communities that have had to face adjustments. Slightly more than $40 million in Federal outlays during fiscal year 1994 were spent on military base reuse studies and planning assistance for communities experiencing base closures and realignments, one of the programs with the greatest direct impact on rural areas. Approximately $4.5 million was for rural communities' efforts to develop plans for the redevelopment of former military properties (table 1). The largest beneficiaries, however, were in metro areas: $5 million for Monterey County, CA; $3.8 million for York County, VA; $3 million each for Sacramento County (Sacramento), CA, and Suffolk County, MA; and nearly $1.5 each for Alameda County (Oakland), CA, and Dorchester County (Charleston), SC.

Community planning assistance for defense industry adjustments totaled nearly $10 million in funding; nonmetro counties directly received $650,000 of this sum. The program helps communities plan their adjustment to the changes in defense industries. Only 12 communities received this funding in fiscal year 1994; five are in nonmetro counties (table 2). The largest outlays again went to metro areas: Bexar County (San Antonio), TX, received $8 million; Dallas County (Dallas), TX, received $331,000; and Orange County, CA, received $300,000. Funding for adjustment programs is expected to hold steady or rise slowly for the rest of the decade.

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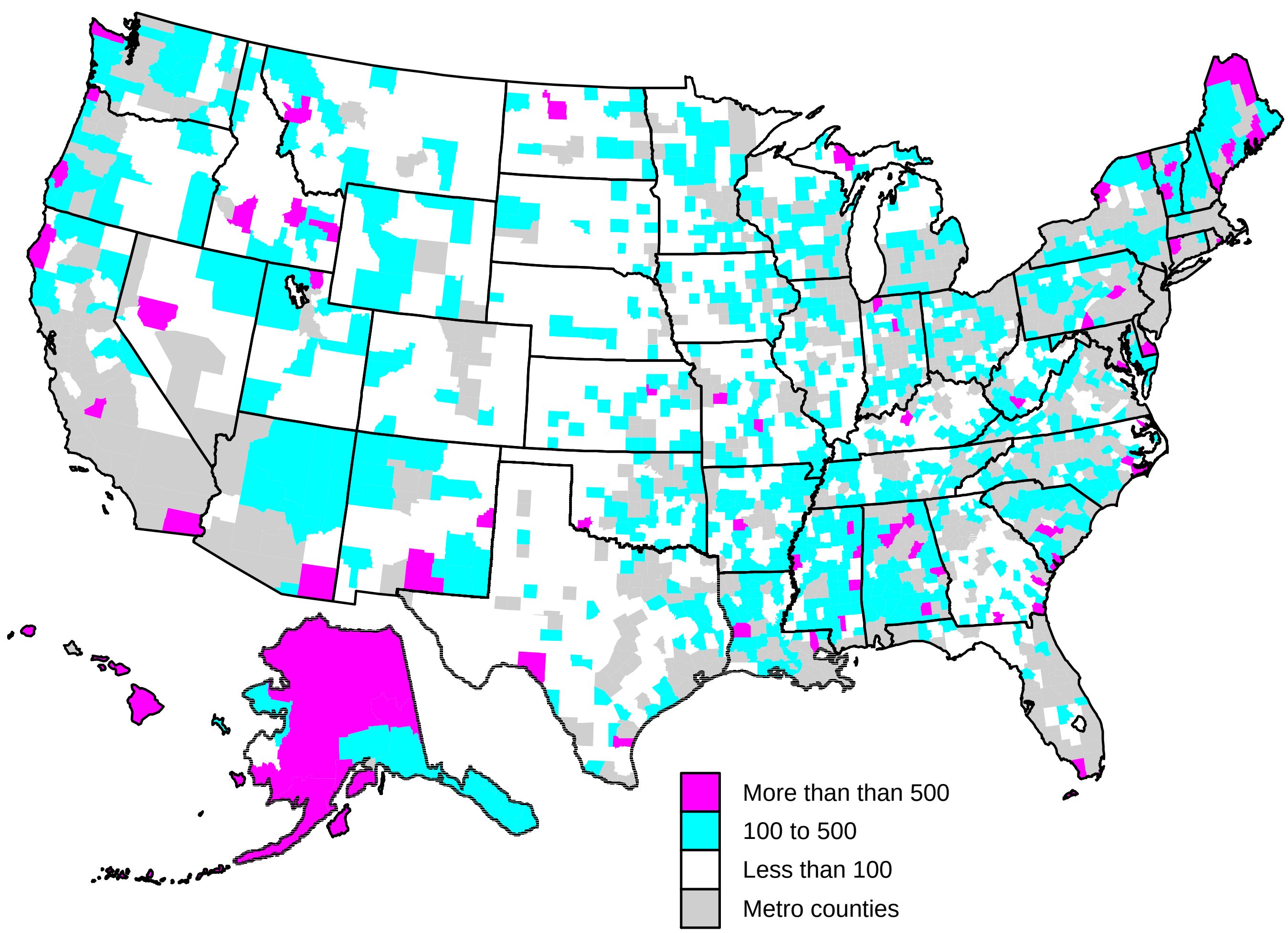

Source: Calculated by ERS from data provided by the U.S. Department of Commerce, Bureau of Economic Analysis.

Table 1

Nonmetro counties receiving military base reuse assistance

Twelve nonmetro counties received assistance in fiscal year 1994

County	Amount of grant
	Dollars
Lowndes County, Alabama	100,000
Mississippi County, Arkansas	707,510
Humboldt County, California	46,875
Ripley County, Indiana	347,600
Vernon Parish, Louisiana	75,000
Aroostook County, Maine	696,288
Franklin County, Maine	200,000
Marquette County, Michigan	705,600
Clinton County, New York	901,446
Clearfield County, Pennsylvania	230,000
Bee County, Texas	286,300
Tooele County, Utah	184,500
Total nonmetro	4,481,119

Source: Calculated by ERS from Federal Funds data.

Table 2

Nonmetro counties receiving community planning assistance for defense industry adjustments

Five rural communities received the funding in fiscal year 1994

County	Amount of grant
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Bonneville County, Idaho	98,120
Labette County, Kansas	135,000
Seneca County, New York	170,000
Tooele County, Utah	196,400
Pulaski County, Virginia	50,000
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Nearly $35 billion was spent in fiscal year 1995 by Defense on research, development, testing, and evaluation. Approximately the same will be spent in fiscal year 1996 with a slight increase expected for the rest of the decade. These Department of Defense expenditures have some impact on rural areas. In fiscal year 1994, nearly $500 million was spent on basic and applied research with approximately 7.5 percent ($37 million) going directly to nonmetro counties. Basic and applied research funding in nonmetro counties for fiscal year 1994 can be seen in figure 2. Overall, Defense spent $1.4 billion in research programs, such as basic and applied research, medical research, and astronomy research; $82 million (6.1 percent) went directly to nonmetro counties. The recipients are units of the military, private companies, and universities. Most rural recipients are universities. *[Peter L. Stenberg, 202-219-0543, stenberg@econ.ag.gov]*

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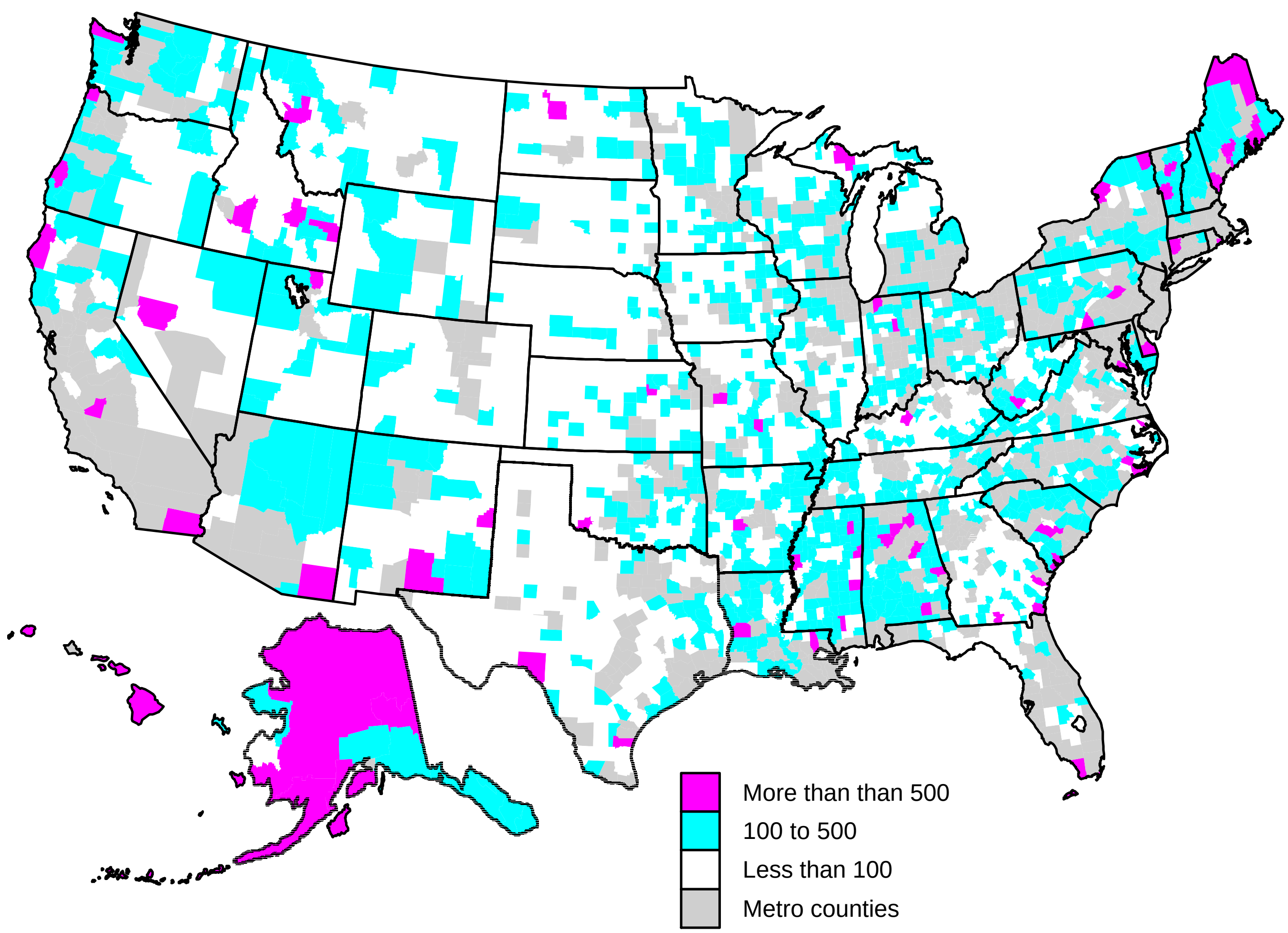
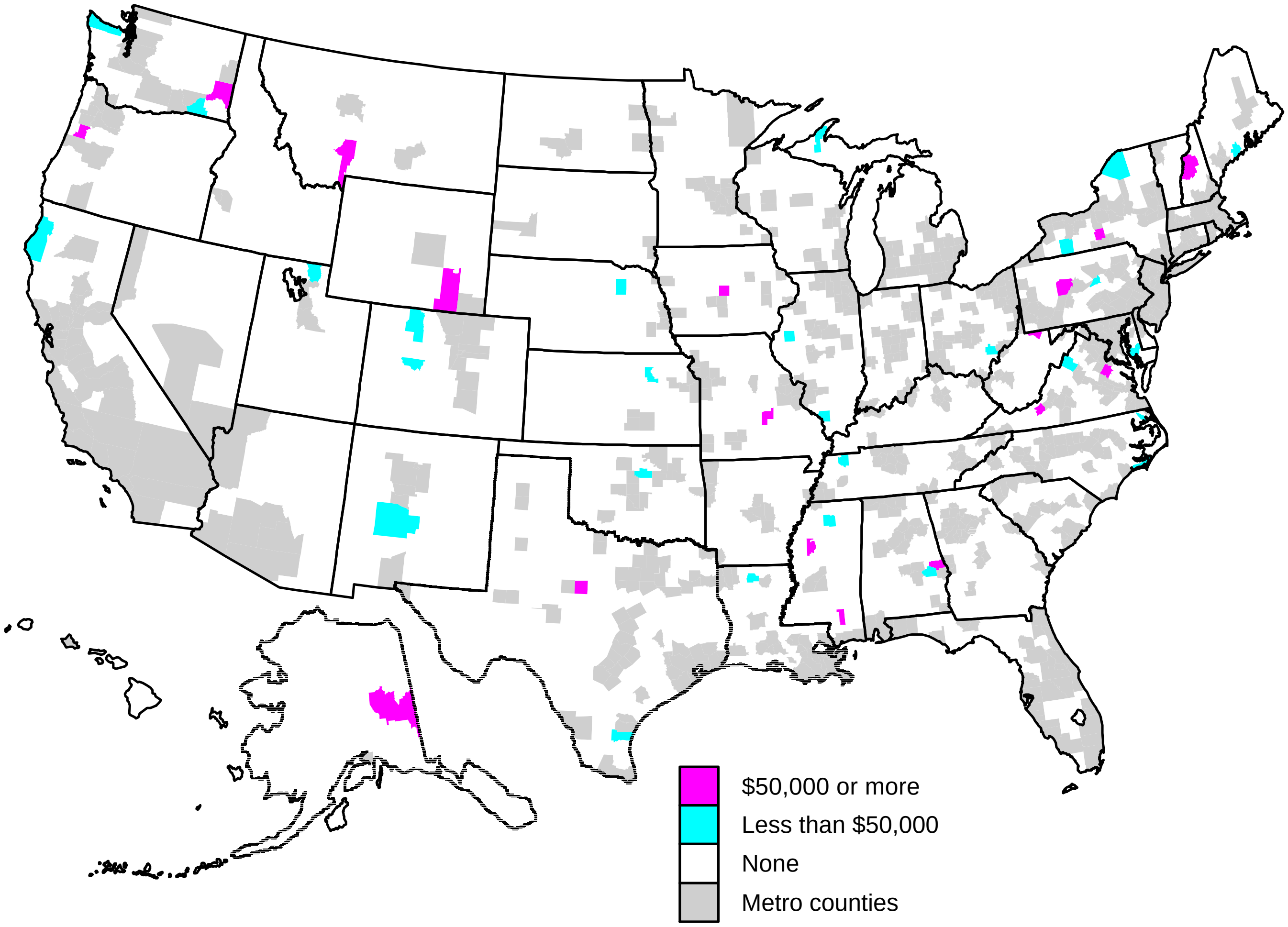


Source: Calculated by ERS from data provided by the U.S. Department of Commerce, Bureau of Economic Analysis.

Figure 2

Defense investment in basic and applied scientific research, fiscal year 1994

Rural universities are frequent recipients of the funds



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

The Federal Agriculture Improvement and Reform Act of 1996 replaces income support payments tied to farm prices with a series of seven annual fixed but declining production flexibility contract payments, totaling more than $35 billion during 1996-2002. Participating farm operators must continue to comply with conservation provisions related to highly erodible land and wetlands preservation to receive contract payments.

Under pressure to have new legislation in place before spring planting got underway in mid-April and the winter wheat harvest began, Congress passed the Federal Agriculture Improvement and Reform Act of 1996 in late March 1996. Agriculture Secretary Glickman, although "concerned about the dissolution of the safety net that protects farmers and rural America during lean times," recommended that the President sign the bill. The President, in turn, signed the bill into law on April 4 "with some reluctance," stating that his goal is to have "truly farmer-friendly" legislation.

Failure to enact new legislation would have meant that many commodity programs would revert to "permanent law" dating back to 1938 and 1949, not to the Food, Agriculture, Conservation, and Trade Act of 1990. Most farm legislation subsequent to the permanent law has been temporary amendments that expire every 4 or 5 years.

If farm policy had reverted to permanent law, loan rates based on an outmoded formula would have skyrocketed, and programs would have become increasingly chaotic. The result would have been tremendous expense to taxpayers and long-lasting disruption in the farm sector. Nevertheless, after considerable discussion in Congress about whether to repeal the permanent law, the new 7-year farm legislation largely suspends permanent law provisions. This ensures that farm programs will be debated when the 1996 law expires.

The 1996 legislation overhauls many farm programs and policies that have been in place since the 1930's. In a move toward a more market-based agriculture, the legislation frees farmers from most production restrictions, eliminates acreage reduction (set-aside) requirements, and ends mandatory crop insurance. However, an operator who does not buy crop insurance must waive rights to disaster payments, if such payments are authorized.

The legislation also ends deficiency payments based on the difference between market prices for wheat, feed grains, cotton, and rice and their target prices. Instead, title I of the 1996 legislation, entitled the Agricultural Market Transition Act, authorizes a fixed production flexibility contract payment that is not linked to prevailing market prices, and that declines over the 7 years of the contract regardless of market conditions. Any operator receiving such a contract payment is required to comply with conservation and wetland protection provisions of the legislation.

Although both the House and Senate discussed eliminating the peanut and sugar programs, instead the new legislation modifies the programs and scales back the level of support. Nonrecourse loan programs for other commodities remain in place with some modification. For example, the legislation increases the interest rate for Commodity Credit Corporation (CCC) loans 1 percentage point over the CCC's cost of borrowing from the Treasury.

The revised dairy program provides for a 4-year phase-out of Federal purchases of cheese, butter, and nonfat dry milk. It also makes available to processors a recourse loan program to be implemented for these milk products beginning in 2000. The dairy program provides for consolidation and reform of Federal milk marketing orders within 3 years, to not less than 10 nor more than 14 orders. Meanwhile, however, in accordance with provisions of the 1996 Act, the Secretary of Agriculture has granted authority to implement a Northeast Interstate Dairy Compact based upon a finding of compelling public interest. Congressional consent for the compact terminates when the new consolidated Federal marketing orders become effective.

The 1996 legislation has several provisions related to conservation programs, including reauthorizing the Conservation Reserve Program (CRP) and the Wetlands Reserve

Program. Legislation provides funds to help farmers pay for conservation and pollution control projects through the Environmental Quality Incentives Program (EQIP).

The 1996 Legislation Removes the Link Between Income Support Payments and Farm Prices

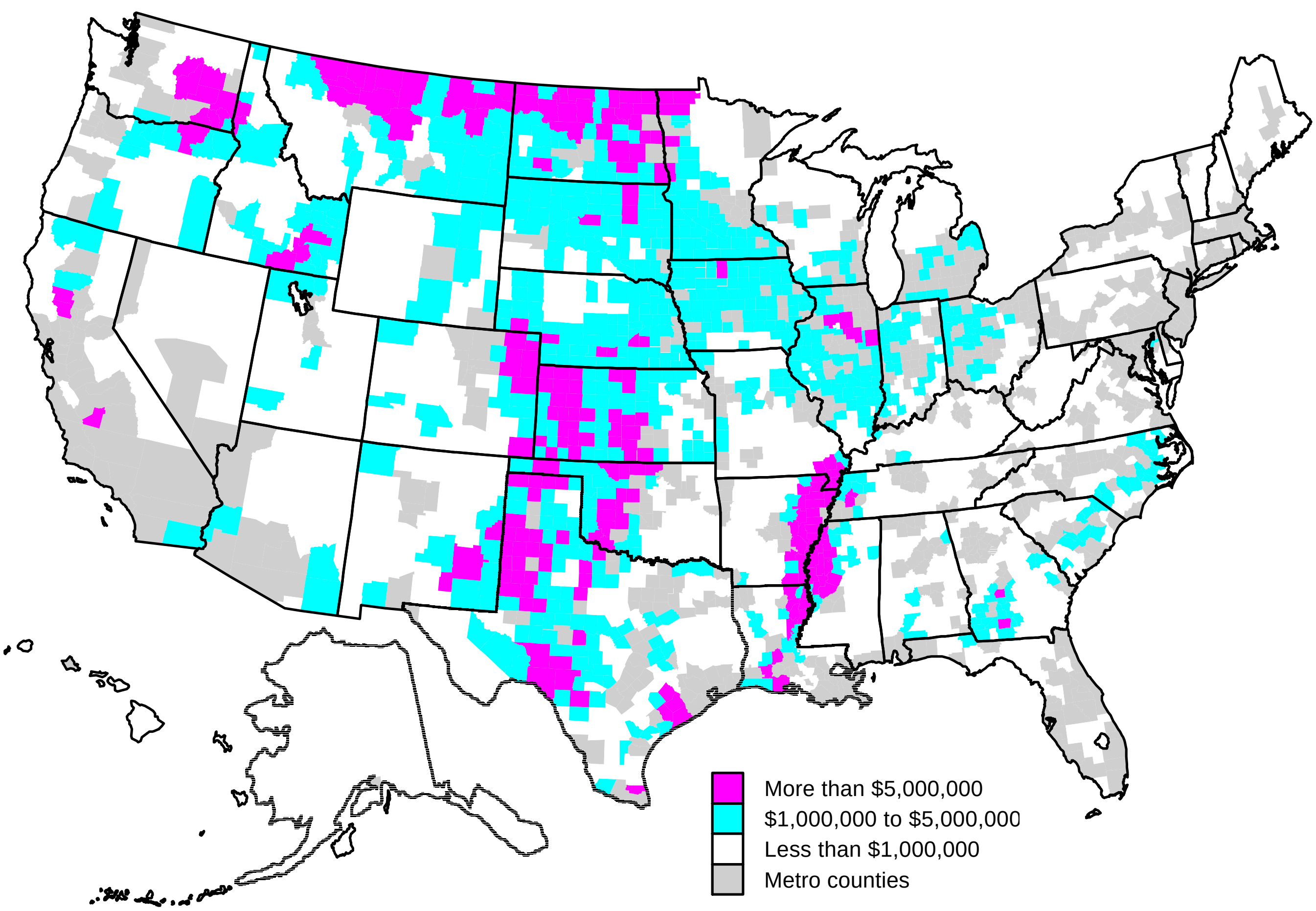
Direct payments to farmers through commodity programs (deficiency payments) were intended to provide some government control over production of selected farm products and to protect incomes of producers from wide swings in market prices. Eligibility sometimes required taking a portion of cropland out of production (set-aside), and the payment rate was based on the spread between target prices and market prices.

Direct payments to farmers for wheat, feed grains (corn, sorghum, barley, and oats), cotton, rice, and wool totaled nearly $5 billion in fiscal year 1994, with more than three-fourths going to nonmetro counties. These payments to farmers in nonmetro counties were concentrated in the Northern and Southern Plains, Corn Belt, and lower Mississippi Valley (fig. 1). Total direct payments per nonmetro county ranged from $0 to $10.6 million in fiscal year 1994, averaging $679,000.

Figure 1

Direct government payments to farmers in nonmetro counties, fiscal year 1994

Direct government payments for wheat, feed grains, cotton, rice, and wool provided more than $5 million to 213 nonmetro counties, primarily in the Northern and Southern Plains, and the lower Mississippi Valley



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

Direct payments under commodity programs added more than $70 per capita to nonmetro county income, on average. Counties with the highest payments per capita were clustered primarily in the Northern and Southern Plains.

Under the new legislation, eligibility for the 7-year production flexibility contract payments requires that a farm operator have a planting history of a contract commodity for at least 1 of the previous 5 years, or have land that was enrolled in CRP with an associated planting history of a contract commodity. Thus, the market transition payments would, in most cases, go to those who had received deficiency or CRP payments in the recent past.

Nevertheless, the legislation does offer another avenue to obtain a contract. New entrants to farming or formerly nonparticipating operators may become program participants by purchasing or share-renting land that is already under a production flexibility contract. However, they will likely pay higher prices for land under contract. A purchaser may acquire rights to the remaining years of the contract payment by agreeing to comply with the conditions of the contract. If production flexibility contracts are not extended or replaced with another income support program when the current farm legislation expires, then land prices will likely reflect the effect of the loss of income from government payments.

Although the total national payout is fixed by law, the distribution of payments depends on how many producers participate and the number of contract acres. In addition to the currently eligible base, eligible cropland coming out of CRP could be added to the contract acreage at the beginning of each fiscal year.

The legislation establishes overall spending limits to the maximum extent practicable that decrease from $5.57 billion in fiscal year 1996 to $4.008 billion in fiscal year 2002. The allocation of contract payments remains set for the 7-year period for: wheat, 26.26 percent; corn, 46.22 percent; sorghum, 5.11 percent; barley, 2.16 percent; oats, 0.15 percent; upland cotton, 11.63 percent; and rice, 8.47 percent.

Because current commodity prices are high, deficiency payments under the old program would have been low. Production flexibility contract payments are not linked to market prices and are expected to be higher over the next 7 years than the amount projected for the old deficiency payments (fig. 2). Total outlays for production flexibility contract payments for fiscal year 1996 under the new legislation (over $5 billion) exceed outlays projected under the old program, and annual outlays will not fall below $5 billion until 2001.

By the August 1, 1996, deadline, over 97 percent of eligible acreage had been enrolled in 7-year Production Flexibility Contracts. The switch to the new program will offer a one-time boost to cash-flow for some farm operators. Advanced 1995-crop deficiency payments that have to be refunded because of overpayment will be added to funds available for contract payments. Then, 100 percent of the new contract payment for fiscal year 1996 will be paid by September 30, 1996, half of it within 30 days of signing a contract. For each of fiscal years 1997 through 2002, operators have the option of receiving 50 percent of the contract payment on December 15 or January 15 of the respective fiscal year, and the final payment no later than September 30.

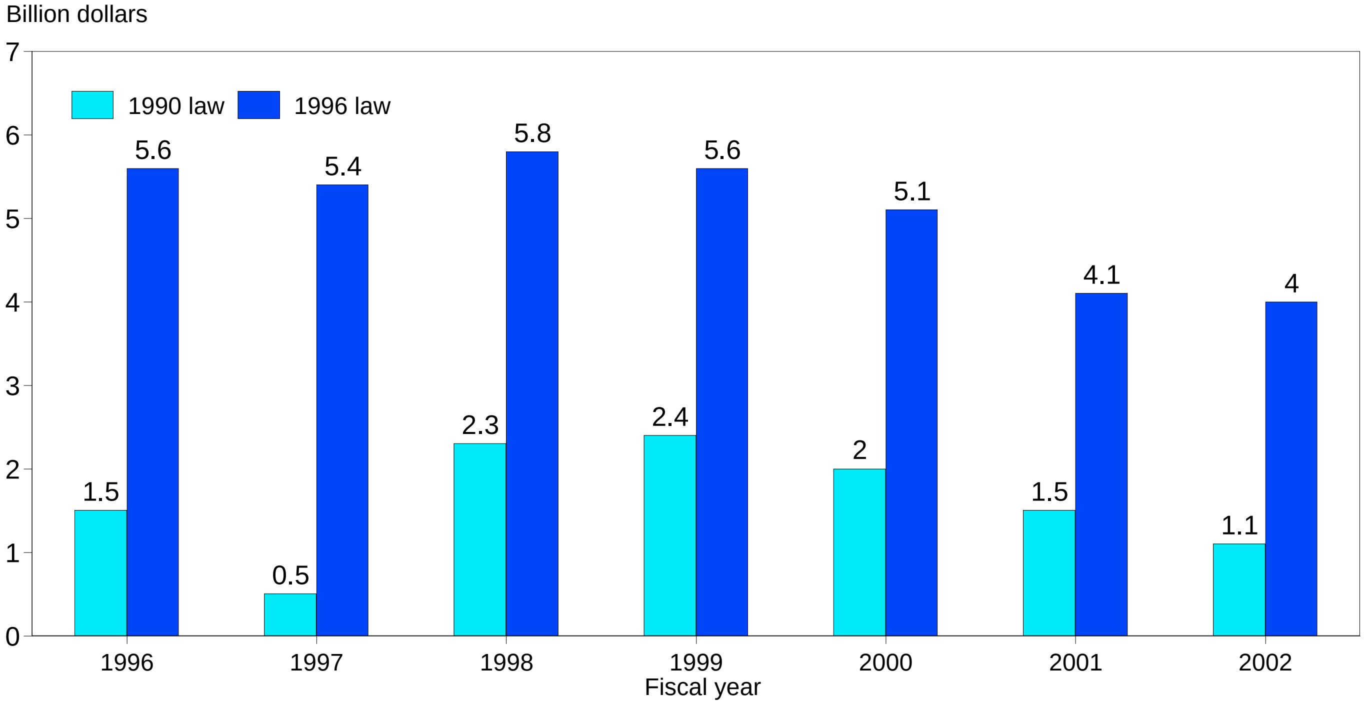
In 1994, 36 percent of all farms received direct government payments. Commercial-sized farms (those with sales of $50,000 or more) were more likely to participate in government programs than smaller farms, and these large farms received higher payments per farm, because payments were mainly based on acreage (fig. 3).

A large share of 1994 program payments went to producers of cash grains in rural areas of the Corn Belt and Northern Plains. In these regions, farms have higher debt/asset ratios and are more likely to have reached their debt-repayment capacity. Farms in the cotton-producing areas of the rural southwest also have high debt/asset ratios and farm income that is highly dependent on government payments. Operators of some of these farms may have difficulty adjusting as they shift to production based on anticipated market conditions with the new contract payments.

Figure 2

Projected direct farm payments

Under the 1996 legislation, the amount of Federal spending on direct farm payments is likely to be higher than the amount projected under the 1990 law



Source: "1996 Farm Act Impacts: An Early Assessment," Agricultural Outlook, Aug. 1996 pp. 22-25, C. Edwin Young and Paul C. Westcott, USDA/Economic Research Service.

Land in Expiring CRP Contracts May Be Added to Production Flexibility Contract Acreage

The Conservation Reserve Program (CRP) was authorized by the 1985 farm legislation as a voluntary long-term cropland retirement program with a soil conservation orientation. By the early 1990's, over 36 million acres of environmentally sensitive land were enrolled in the program, primarily under 10-year contracts. The 1996 legislation caps enrollment at about the current level, but allows the enrollment of new land as room is made available by the expiration or early termination of old contracts. Termination of contracts is not permitted for land enrolled after January 1, 1995, and deemed to be of high environmental value, or land that has been enrolled for less than 5 years.

Payments under the CRP totaled $1.7 billion in fiscal year 1994, with about 90 percent going to nonmetro counties (fig. 4). Income from CRP averaged $29 per capita in the nonmetro counties. In fiscal year 1994, 12 States, primarily in the Northern and Southern Plains and the Corn Belt, had more than 1 million acres enrolled in CRP. Most nonmetro counties where payments to operators totaled more than $1 million are located in those States.

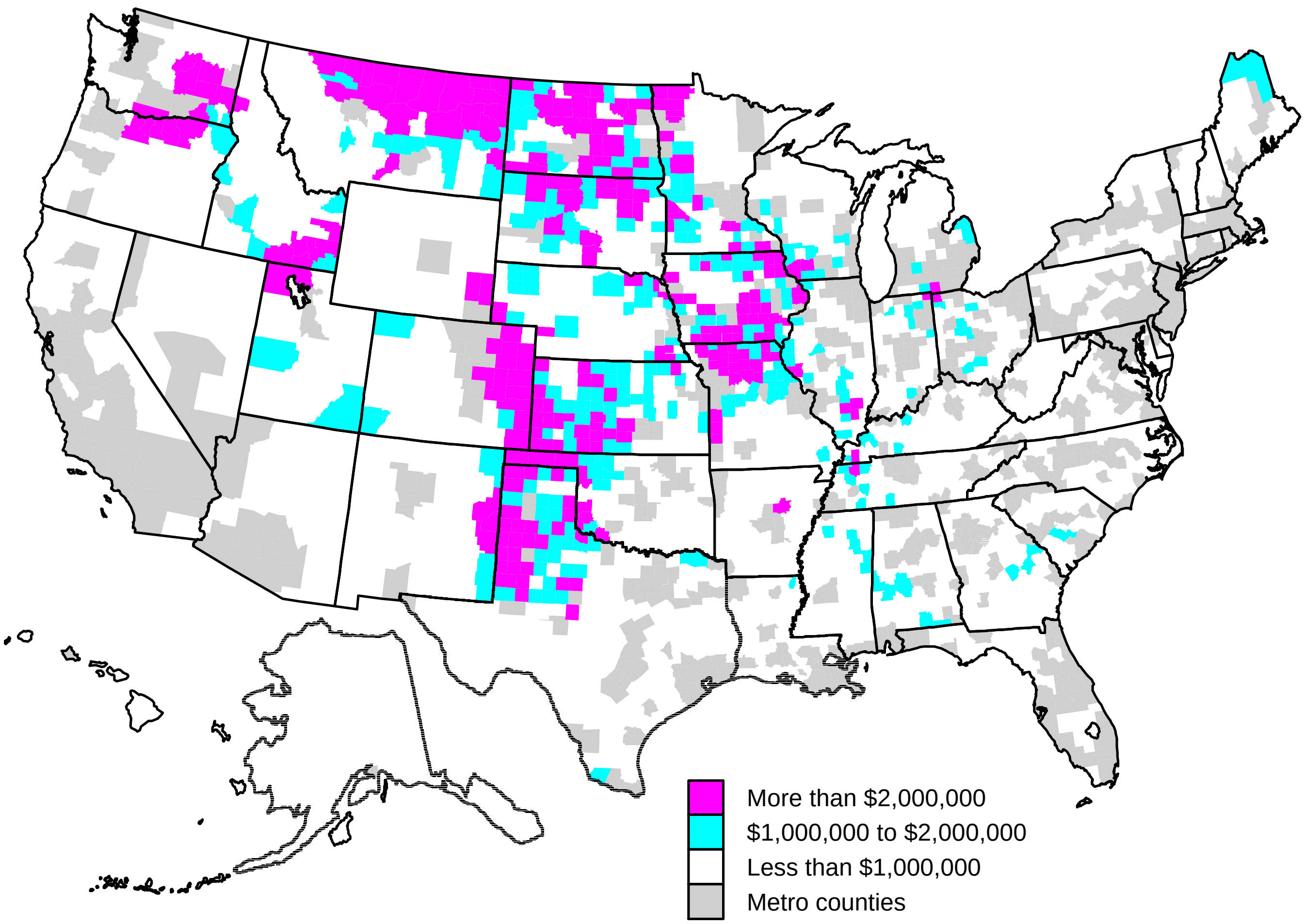
Around 15 million acres of CRP-enrolled land under contracts scheduled to expire in 1996 were offered 1-year extensions. The number of acres that were extended is not yet known, but an additional 8.5 million acres is up for renewal in 1997 (fig. 5). Since base acres enrolled in CRP retain their planting history, some of this acreage would be eligible for production flexibility contracts. Overall, about two-thirds of CRP acres are eligible to be enrolled under production flexibility contracts.

Any increased economic activity in the farm sector could lead to growth in the nonfarm sector. If crop prices remain high and operators do not re-enroll farmland in CRP, acreage returned to production could provide some new jobs in agricultural production,

Figure 4

Conservation Reserve Program payments in nonmetro counties, fiscal year 1994

The 244 nonmetro counties that received more than $2 million from the CRP are clustered primarily in the Northern and Southern Plains, and the western Corn Belt

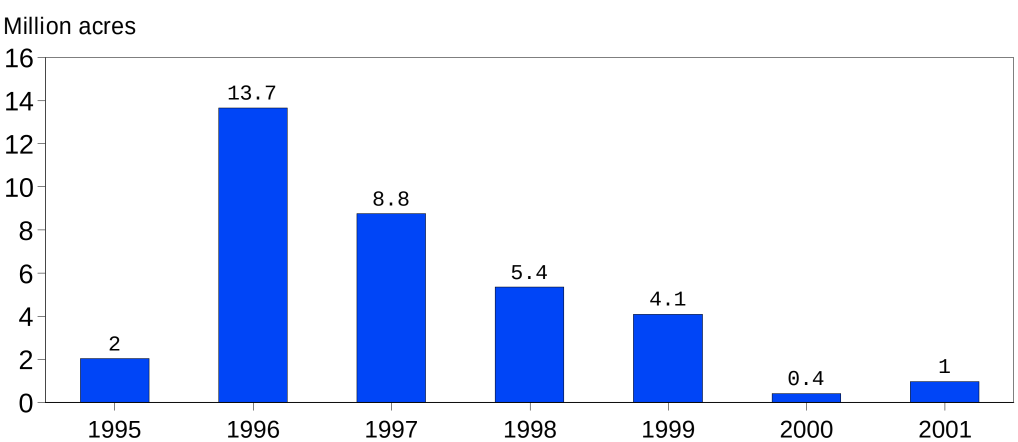


Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

Figure 5

Post-contract availability of Conservation Reserve Program land, 1994

More than two thirds of farmland put under CRP contracts during 1983-86 becomes available for cropping or other uses by late 1997



Source: USDA Conservation Reserve Program contract data.

and spending for agricultural inputs might increase. Additional employment in food and fiber processing, distribution, and marketing industries could result as more farm products move through domestic and world markets. However, little change is projected in land in production, and not all of the income and employment resulting from a return of CRP acreage to production would stay in rural areas. Nevertheless, some areas where farming is important could realize gains.

It is unknown whether these changes will translate into higher farm incomes beyond higher contract payments. If the additional supply cannot be absorbed in the marketplace and prices fall, farm incomes could drop and some of the potential benefits to rural communities would not materialize.

Effects of Changes in Farm Legislation Go Far Beyond Program Recipients

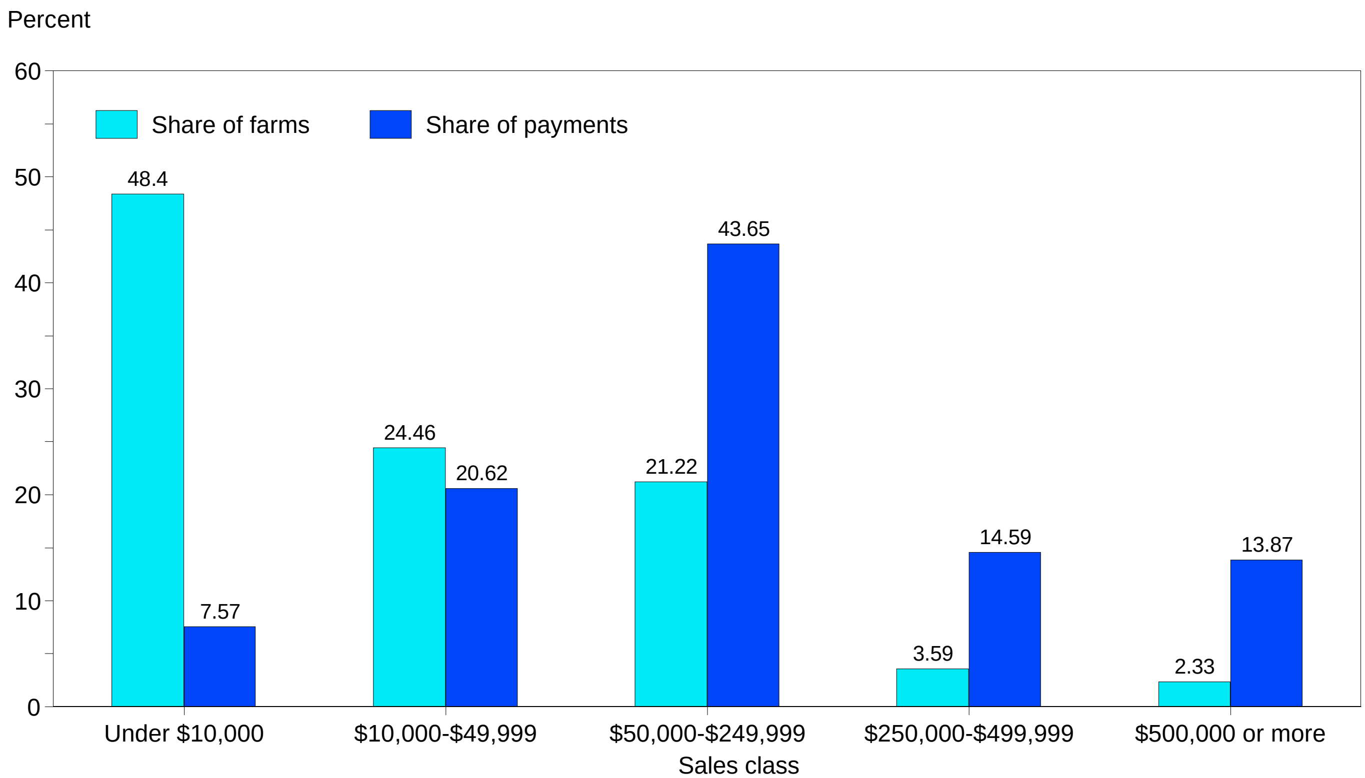
Farm programs provide a stable source of income to program participants and can benefit other agriculture-related businesses. Increased income generated in the farm sector contributes to expansion in the nonfarm sector as farm families buy additional goods and services in the local economy. Over time, government payments to farmers are capitalized into higher farmland values, improving the tax base for rural communities.

Not surprisingly, the 556 nonmetro farming-dependent counties are located in the same areas where direct government payments are concentrated. Direct government payments to individuals totaled more than $1 million in 73 percent of farm-dependent counties in fiscal year 1994. In addition, CRP payments to landowners totaled more than $1 million in 43 percent of nonmetro farm-dependent counties in fiscal year 1994. Dependence on income from farming and high levels of farm income from government payments make these counties especially sensitive to changes in farm programs. *[Judith E. Sommer, 202-501-8313, jsommer@econ.ag.gov, and Janet E. Perry, 202-219-0803, jperry @econ.ag.gov]*

Figure 3

Direct government payments, by sales class, 1994

Commercial-sized farms (sales $50,000 or more) got far more than their proportionate shares of government payments in 1994



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

Some important programs involving social services, trade, and Native American assistance have sustained budget cuts in fiscal year 1996, disproportionately affecting those rural States and communities that have particular needs for these programs.

In this section, we cover three groups of programs that play substantially different roles: social services, trade and export promotion, and Native American assistance. Each group contains programs that have sustained significant budget cuts in fiscal year 1996. (Unless otherwise indicated, references to years in this article are fiscal years.)

Social Services help individuals and families overcome problems, such as drug abuse, aging disabilities, and lack of child or foster care, that limit participation in the local community and economy. Most social service programs fund State and local governments and/or nonprofit groups that provide assistance to families and individuals. Many programs fall into this category. Among these, with their 1995 appropriations, are five large programs administered by the Department of Health and Human Services (HHS): Community Services Block Grants, $389 million; Social Services Block Grants, $2.8 billion; Child Care Development Block Grants, $935 million; Foster Care and Adoption, $3.6 billion; and Aging Services, $877 million.

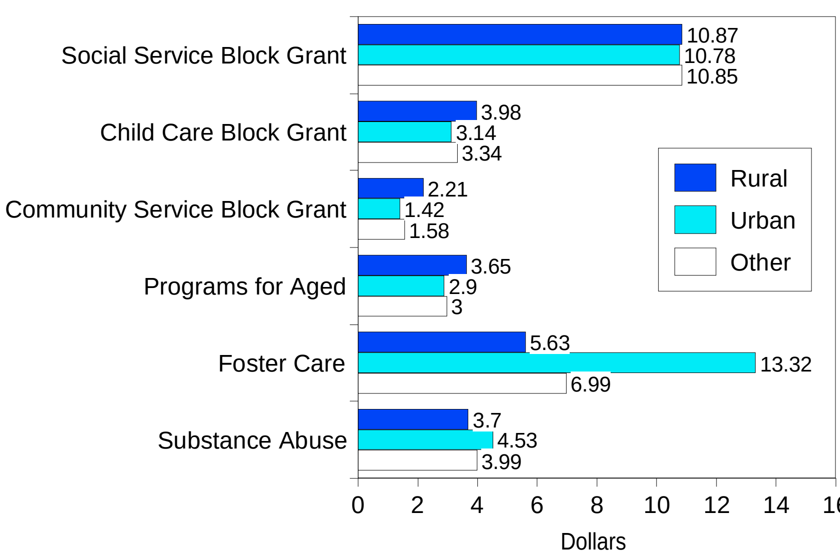
Recent funding trends for these programs are mixed, as HHS operated under continuing resolutions through most of 1996. Funding for Child Care Development Block Grants remained constant from 1995 to 1996. This program slightly favors rural States over urban States (fig. 1). Funding for the Community Service Block Grants, Social Service Block Grants, and the aging programs, which also tend to favor rural States, has declined. Funding for foster care, which tends to favor urban States, has increased, while funding for the Substance Abuse Program, which also favors urban States, has declined. *[Rick Reeder, 219-0551, rreeder@econ.ag.gov]*

Trade and Export Promotion Programs are increasingly important as rural economies become more dependent on the global economy. USDA has several programs promoting exports of agricultural commodities, including the Export Credit Guarantee Programs, the Market Access Program (MAP), and the Export Enhancement Program (EEP). USDA's P.L. 480 (title I) concessional program also has the effect of increasing U.S. agricultural exports. The U.S. Department of Commerce's International Trade Administration (ITA)

Figure 1

Social service program funding, per capita, fiscal year 1994

Foster care particularly favors urban States



Source: Calculated by ERS Bureau of the Census, Consolidated Federal Funds Reports data.

programs include trade development, foreign trade zones, and special projects. The Agency for International Development (AID) programs can also be viewed as adding to U.S. exports to AID-assisted developing countries.

Under USDA's largest export subsidy programs, the Commodity Credit Corporation (CCC) Export Credit Guarantees (GSM-102 and GSM-103), U.S. exporters registered sales valued at $2.9 billion in 1995. These two programs plus two new programs are authorized to provide $5.7 billion in assistance in 1996. The rural counties relying heavily on agricultural exports, such as wheat-growing areas in the Northern Great Plains, corn and soybean areas in the Midwest, and cotton and rice areas in Texas and the Mississippi Delta, benefit most from these programs. These programs provide export credits to developing and middle-income countries with exchange constraints that would otherwise prevent the purchase of U.S. agricultural commodities without commercial credit being made available.

Funding for some other USDA trade programs is expected to decline in 1996. For example, the MAP promotes high-value products, such as fruits and vegetables, meats, dairy and processed foods. MAP regulations require that small businesses and cooperatives be given priority assistance. The 1996 farm legislation authorized MAP funding at $90 million per year from 1996 through 2002, an 18-percent reduction from 1995. The EEP employs price subsidies to ensure the competitiveness of U.S. exports. Funding for this program was expected to increase from 1995 to 1996. While the 1996 farm legislation reduces EEP price subsidies in 1997, the law authorizes increases from 1998-2000, followed by modest reductions through 2002.

Funding for USDA's concessional P. L. 480 (title I) program, which provides food assistance to developing countries, declined by about 8 percent from 1995 to 1996. Besides helping the affected countries, this assistance also stimulates U.S. exports of wheat, cotton, oils, rice, and feed grains.

The budget for Commerce's ITA programs has remained at about $265 million. Among the more important programs for rural areas has been the Consortia of American Businesses in the Newly Independent States (CABNIS), which works with food processing industries, dairy operations, and agribusinesses to increase U.S. exports, especially meat exports, to Eastern Europe. This program, however, has not issued any new awards since September 1994. Commerce's Office of Travel and Tourism was shut down in mid-1996, and this could decrease the visibility of rural areas to foreign tourists. The private sector Rural Tourism Foundation, begun in 1992, is expected to take over this tourism promotion responsibility, with the help of a computer network at the University of Colorado.

AID's development assistance programs help to modernize industries, develop markets, and provide food aid to underdeveloped countries. These programs were cut significantly by the 1995 rescissions; AID's New Independent States programs were cut less. Agency restructuring and the proposed absorption of AID into the U.S. Department of State make it difficult to predict the future of these programs. *[Rick Reeder and Amy Cox, 202-219-0551, e-mail rreeder@econ.ag.gov]*

Native American Programs provide most of the Federal assistance that Indian reservations receive. The majority of Native American program funding comes from the Bureau of Indian Affairs (BIA) and the Indian Health Service (IHS), which collectively account for $3.8 billion in assistance for Native Americans in 1996. Other agencies provide significant funding to Native Americans, including the U.S. Department of Education's $52-million Indian Education Program and the U.S. Department of Housing and Urban Development's (HUD) $160-million Indian Housing Development Program. Many of these programs have undergone significant funding cuts in 1996.

The BIA budget was cut 9 percent from its 1995 budget of $1.7 billion. Affected activities may include education, law enforcement, housing for the elderly, adult vocational training, natural resource protection, land management, reservation road maintenance, and various administrative support activities. The effect on Native Americans will vary among tribes, because tribes have considerable freedom in deciding how to use BIA funds. In addition, funding for BIA construction projects is down 25 percent from $130 million in 1995. This cut directly affects construction, repair, and improvement of various major tribal projects, including schools, irrigation, and power systems. General assistance payments and foster-care for Native Americans, as well as tribal organization contracts, will not, however, be affected by the decrease in funding for BIA, since appropriations for these activities have already been signed into law under separate legislation (P.L. 104-91 and P.L. 104-92).

Pending legislation would reorganize the BIA, but the specific details have not yet been finalized. The purpose is to make the Agency more responsive to the needs of tribal governments. This has widespread support, both in Congress and among tribal leaders.

IHS provides medical care to the 1.4 million Native Americans who are members of federally recognized tribes. Its $2.2-billion budget is virtually unchanged from 1995. However, funding for construction, repair, maintenance, and improvement of tribal Indian health facilities declined by about 5 percent from $253 million in 1995.

The Indian Education Program was cut significantly to only 65 percent of its 1995 budget of $81 million. This is an important source of funding for elementary and secondary schooling for Native Americans. Nonmetro schools serving Indian populations will likely be negatively affected. HUD's Indian Housing Development program was also cut significantly, down 20 percent from $200 million in 1995. *[Dennis Brown, 202-219-0329, dennisb@econ.ag.gov]*

Federal Tax Developments Limited to the Earned Income Tax Credit

Despite the absence of major tax legislation in 1995, some important tax policy developments occurred for rural America. These included the continued phase-in of the expanded earned income tax credit enacted in 1993 and new legislation aimed at improving the targeting of the credit. The large number of tax proposals pending, including the fundamental reform of the Federal income tax, suggests that changes of even greater importance to rural America may be enacted in the near future.

Despite the introduction of a number of new tax initiatives during the year, there were no major tax bills, and only a few minor changes were actually enacted into law in 1995. However, as a result of previous legislation, some significant developments occurred with regard to the earned income tax credit.

The earned income tax credit is a refundable tax credit available to low-income workers who satisfy certain income and eligibility criteria. Most recipients receive the credit in a lump sum at the end of the year by claiming it on their Federal income tax return. Since the credit is refundable, any amount in excess of Federal income and other tax liabilities is used to help the taxpayer offset social security taxes. This refundable portion of the credit is considered a program outlay, while that part used to offset Federal income taxes is considered a tax expenditure. In recent years, about 75 percent of the total credit has been refunded to taxpayers. In fiscal year 1994, based on Federal funds data, the refundable portion of the credit was just over $12 billion. The total value of the credit was $15.7 billion.

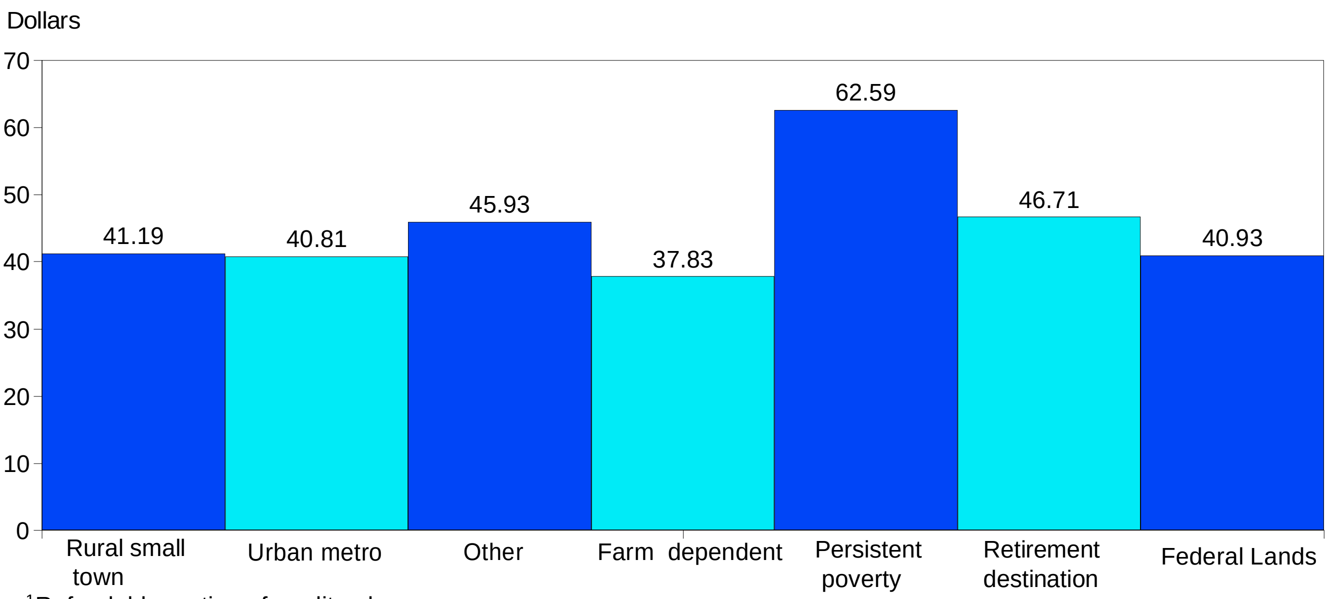
Legislation enacted in 1995 affects eligibility for the earned income tax credit beginning in 1996. Under this legislation, an otherwise qualifying individual will no longer be eligible for the earned income tax credit if the taxpayer has interest, dividend, or net rent or royalty income in excess of $2,350. The primary purpose of this change was to improve the targeting of benefits by denying eligibility to those individuals who may have a relatively low level of earned income but a significant amount of unearned income suggesting some wealth. An estimated 1 to 2 percent of all recipients in 1995 will be ineligible for the credit as a result of this change. However, as many as 10 percent of farmers currently receiving the credit will be disqualified in 1996.

The most significant development with regard to the credit occurred not as a result of legislation enacted in 1995 but because of a 1993 law phased in over a 4-year period.

Figure 1

Per capita earned income tax credit benefits by type of State, fiscal year 1994 [1]

Benefits are largest in persistent-poverty States[2]



[1]Refundable portion of credit only.

[2]See data definitions for State Classifications.

Under the 1993 act, the credit rate for eligible workers with two or more children was increased from 19.5 percent to 40 percent (18.5 to 34 percent for eligible workers with one child). The credit was also expanded to include some low-income workers without children. Thus, both the number of beneficiaries and the level of benefits have significantly increased. For fiscal year 1996, the refundable portion of the credit is expected to increase to $19.1 billion. This represents about 85 percent of the total estimated credit amount of $22.3 billion.

Since the credit is targeted to low-income workers, many of whom are below or near the poverty level, benefits have been the largest in those States identified as persistent-poverty States. Such States received an average per capita benefit in fiscal year 1994 of $62.59 (fig. 1). An additional $19.30 per capita benefit was provided to residents in these States in the form of a Federal income tax offset, resulting in a total per capita benefit of $81.89.

A comparison of rural and urban recipients at the State level is less revealing. In fiscal year 1994, about 16 percent of rural taxpayers received the credit versus only about 12 percent of urban taxpayers. However, per capita benefits in rural States were only slightly higher at $41.19 compared with $40.81 for urban States. This may reflect the overlap between rural and farm-dependent States. Farm-dependent States have the lowest per capita benefit levels at $37.83. This is consistent with the fact that the share of farmers receiving the credit is below that for all taxpayers and only about half that of other rural residents.

Pending Tax Proposals Suggest More Significant Developments in the Future

The large number of tax proposals pending and the delay of action on a number of these during 1995 and 1996 suggest more tax legislation in the future. Both the administration and Congress have proposed significant tax law changes, including a child tax credit, a reduction in capital gains tax rates, education and savings incentives, and additional provisions designed to improve targeting and reduce benefits under the earned income tax credit. Proposals that would completely overhaul the existing Federal income tax system, including a number of flat tax proposals, are also likely to receive some attention. While none of these changes are specifically targeted to rural areas, they could have a significant effect on the tax liabilities and the earned income tax credit benefits of rural residents. *[Ron L. Durst, 202-219-0896, rdurst@econ.ag.gov]*

Some Regulatory Changes Underway; Others Still to Be Enacted

A major overhaul of Federal regulations is underway. Recent regulatory changes that promise to have the greatest effect on rural areas include those involving credit institutions, natural resources and the environment, and electricity and telecommunications. Many, although not all, of these changes involve deregulation.

The 104th Congress kicked off its effort to deregulate the economy and reinvent the Federal regulation-making process, beginning in early 1995 with the unfunded mandate legislation that makes it more difficult for Congress to create new regulations that impose significant costs on State and local governments without compensating them with additional Federal funds. The Telecommunications Act of 1996 represents the most significant deregulation legislation passed by Congress thus far. Many other major regulatory changes were proposed. Some were enacted, others were not, but may be considered in the future. This latter category includes the regulatory reform bill that would make it more difficult to establish new Federal regulations, the regulatory flexibility bill that would ease regulations on small businesses, the proposed overhaul of labor safety regulations, the reform of environmental laws, and legal reform. Nevertheless, many changes in rules and regulations have already been brought about in the last year, some by Congress, others by the administration or the courts, and some may significantly affect rural areas. Not all of these changes involve deregulation.

New Regulations Lead to Significant Changes in Credit Available to Rural Areas

In 1995, the Federal Reserve Board and the other bank and savings and loan regulators revised the regulations for the Community Reinvestment Act (CRA), which encourages banks and savings and loans to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. CRA's regulations were revised to increase lending in underserved areas while reducing regulatory costs for affected financial institutions. Revised regulations went into effect in January 1996, making it easier for small financial institutions to comply with CRA exams. Large finanacial institutions are not required to be tested under the new CRA exams until July 1997, although they had to begin collecting new loan data on January 1, 1996. Revised rules require larger banks to report separately small business lending data for their rural market areas. These changes may encourage an increase in rural lending in places served by large banks and reduce compliance costs for small banks serving rural areas.

To provide additional incentives to banks and other institutions that provide credit to low-income areas, Congress enacted a modified version of a Clinton administration initiative to fund a series of community development financial institutions (CDFI). CDFI funding was set at $382 million over 4 years, but actual obligations have been well below authorized funding levels. One-third of the funds are meant to go to existing banks as rebates of deposit insurance premiums for doing a good job of servicing low-income areas. The CDFI legislation also reduces the regulatory burden for banks. This may help rural banks lower interest rates on loans and sell loans to other investors, and it leaves rural bankers with more time to make loans.

Proposed, but not enacted, were major revisions to the Glass-Steagall Act. This act limits bank activity in the insurance and securities industries. If Glass-Steagall is altered significantly, it could open up access to a wide array of bank financial services that could benefit nonmetro areas.

The Farm Credit System Reform Act, signed into law in February 1996, reforms both the Farm Credit System (FCS) and the Federal Agricultural Mortgage Corporation (Farmer Mac), two Government-sponsored enterprises (GSE's) that provide credit assistance for agricultural and rural housing borrowers. This legislation decreases the regulatory burden for FCS institutions, which should lower their operating costs and could be passed along to agricultural borrowers in the form of lower cost credit. The Farm Credit Administration, which oversees FCS, proposed additional changes that would allow FCS to increase its lending to nonfarm rural housing, processing and marketing operations, and farm-related businesses.

Farmer Mac, which provides a secondary market for agricultural real estate and home mortgages, has been modified in an attempt to lower costs, grant regulatory relief from higher pending capital standards, and provide guidelines for recapitalization. Farmer Mac's new charter allows it to purchase loans directly from lenders and either hold purchased loans in portfolio or sell them as mortgage-backed securities.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are the GSE's that are the major intermediaries in the secondary market for home mortgages. Their principal activity is purchasing home mortgages from lenders, grouping these into mortgage pools, and issuing financial securities for shares of income streams generated by these pools. This allows them to reduce risk and associated interest costs for home loans.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 required both of these GSE's to meet specific goals, including the goal that they should focus more activity in "housing located in central cities, rural areas, and other underserved areas." HUD was given oversight authority, and it recently set the goal that 24 percent of the dwelling units financed by both of these GSE's should be in underserved areas. HUD defined 1,511 of the Nation's 2,305 nonmetro counties (having 54 percent of nonmetro population) as underserved. As of 1994, only 8.7 percent of Fannie Mae's loans and 13.4 percent of Freddie Mac's had been in these underserved areas, thus GSE housing assistance to underserved rural areas may be expected to substantially increase in the future in order to meet the 24 percent goal. *[George Wallace, 202-501-6751, gwallace@econ.ag.gov, and Jim Mikesell, 202-219-0098, mikesell@econ.ag.gov]*

Environment and Natural Resources Regulations Beginning to Change

Regulations covering the environment and natural resources were a topic of much debate in 1995 and 1996. Although Congress has proposed to reduce or alter most environmental regulations, many regulatory issues were unresolved, including those involving the Superfund for hazardous wastes, the Clean Air Act, the Clean Water Act, the Coastal Zone Management Act, the Endangered Species Act, and the Atlantic Striped Bass Conservation Act.

Some significant changes have already been enacted covering natural resource management. The 1995 rescissions act, for example, required the Forest Service to accelerate its logging of dying and diseased trees. This act also waived compliance with certain environmental regulations and insulated timber sales from some legal challenges. These changes will particularly affect the Pacific Northwest and northern California. The recent Omnibus Spending Act of 1996, however, gave the President the option to waive additional timber cutting in Alaska's Tongass National Forest. This legislation also allowed the President to ignore the moratorium that Congress earlier imposed on additions to the endangered species list.

The General Mining Law of 1872 that regulates the exploration and extraction of minerals from Federal lands has been targeted for reform by those who want to end the sale of Federal lands and increase fees on mining companies and impose stricter mine reclamation requirements. To date, action on these goals has been generally limited to a continuation through fiscal year 1996 of the moratorium on land patents under the 1872 General Mining Law, which lets companies take possession of mineral-laden public lands for as little as $2.50 per acre and a continuation of the long-standing moratorium on offshore oil and gas leasing.

EPA has revised some of its policies to provide more flexibility for environmental enforcement for small communities (under 2,500 residents). For example, in its November 1995 Policy on Flexible State Enforcement Responses to Small Community Violations, EPA expressed its support for State flexibility in using compliance incentives for small communities. This policy recognizes that environmental benefits can be achieved by negotiating with communities and entering into legal agreements that specify a reasonable timetable for compliance in exchange for relief from EPA penalties. Another EPA ruling that could significantly affect rural areas, particularly corn-growing areas that provide inputs to ethanol production, involves provisions of the Clean Air Act that require the use of reformulated gasoline in areas with high levels of air pollution. In March 1996, EPA raised the maximum level of ethanol allowed in reformulated gasoline—from 7 to 10 percent. *[Cecil Davison, 202-501-6716, cdavison@econ.ag.gov; Walt Gardiner, 202-219-0545, wgardiner@econ.ag.gov; Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Telecommunications and Electric Industries Are Being Deregulated

On February 8, 1996, President Clinton signed into law the Telecommunications Act of 1996. The legislation is the first comprehensive rewrite of the Communications Act of 1934 and covers five major areas: telephone service, telecommunications equipment manufacturing, cable television, radio and television broadcasting, and the Internet and online computer services. In each of these areas, the act relaxes concentration and merger rules, eliminates cross-market entry barriers, and assigns new implementation obligations to the Federal Communications Commission (FCC). The act, as a result, modifies previous legislation, such as the Cable Act of 1992, and judicial actions, such as the early 1980's consent decree in the breakup of American Telephone and Telegraph (AT&T). The ultimate purpose of the act is to allow much quicker adoption of new technology and discontinuance of outmoded technology. U.S. West's proposed purchase of Continental Cablevision is the first major restructuring in the telecommunications industry to result from the legislation.

For rural areas, the act's provision calling for universal service is most critical. Universal service denotes the type of telecommunication service that must be provided to everyone at some maximum cost to the purchasers of the service. The new legislation ushers in a new standard for universal service and, for the first time, allows the definition of universal service to evolve (without further legislation) so that there can be more ready adaptation to future changes in technology and market. The act, however, does not set the new standard, but provides for a Federal-State Joint Board that will be appointed by the FCC to determine what will constitute universal service. The Federal-State Joint Board will make recommendations to the FCC by November 1996. The FCC will issue its order on universal service during May 1997.

Since the breakup of AT&T in the early 1980's, the Universal Service High Cost Fund covered the subsidy for universal service. All long-distance telecommunications providers contributed to the fund. The new act requires all telecommunication providers to contribute to a fund that will subsidize the provision of universal service. As a consequence, it is foreseeable that some time in the future Internet access may become part of universal service, and Internet access providers may be required to contribute to the universal service fund. Without knowing what will constitute universal service, however, no determination can be made as to who in rural areas will benefit from the law, who will pay for the subsidy, how much they will likely pay, and myriad related questions.

Another potentially far-reaching regulatory change involves the electric industry. Since the the passage of Energy Policy Act of 1992, the Federal Energy Regulatory Commission has required public utilities to open their transmission lines and lease them to competitors, which should enable more utilities to sell power across State boundaries and beyond their traditional service areas. New rules, proposed in April 1996, would change the way electricity is sold at the wholesale level. New energy service companies are expected to become efficient middlemen in buying electricity from producers and selling it to consumers. Legislation has been proposed that would expand deregulation to cover the retail market, requiring utilities to give customers a choice of electricity providers by the year 2000. These new rules are aimed at improving efficiency and lowering rates by increasing competition among electric utilities and independent wholesale power generators. Some States have already moved to deregulate the electric industries within their States, but Federal regulations are required to deal with interstate issues.

Data Sources

Federal Funds Data: The principal data source we use to indicate geographic dispersion of program funding is the Consolidated Federal Funds Reports data from the U.S. Department of Commerce, Bureau of the Census. We usually refer to these data as the Federal Funds data. Census collects these data annually from each Federal department or agency. We aggregated the data to the county, State, region, and national level for each program for fiscal year 1994. (Unless otherwise specified, references to years are fiscal years.) The Census data for 1994 covered 1,206 individual programs, but not all of these programs had reliable data at the county level.

Each program has individual characteristics that affect the way the data show geographic patterns. For example, funds for many programs go directly to State capitals or regional centers that redistribute the money or program benefits to surrounding areas. Examples include block grant programs and some procurement programs that involve a substantial degree of subcontracting. Census screens the data to identify such programs, and we have added our own screen which separates out those programs which allocate 25 percent or more of their funds to State capitals. We ended up with 719 programs that we believe are fairly accurate to the county level for 1994. For the screened-out programs, we believe it is only meaningful to indicate geographic variations among States but not among counties. Thus, for some of the programs, we provide county maps and statistics, while for others we rely on State maps and statistics.

The benefits of Federal programs do not all go to the places that receive funds. For example, money spent on National parks benefits all who visit the parks and not just those who live where the parks are located. Such spillover benefits are present in almost all Federal programs and are not reflected in the Federal funds data. In addition, different programs affect communities in different ways and have different multiplier effects on local income, employment, and community well-being. Thus, even if the reported funding dispersion is considered to be an accurate depiction of where the funds are spent, care is required when interpreting the data as program effects.

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

Budget Data: We obtained information on recent changes in program funding levels, such as the level and change in funding from 1995 to 1996, from various sources, including Congressional Quarterly Weekly Report, the President's Fiscal Year 1997 Budget, the 1997 budget summaries provided by major government agencies, Congressional legislation, conference reports, and legislative summaries, and from the most recent Catalogue of Federal Domestic Assistance. In some cases, we contacted budget officials by phone to obtain information.

Population Data: Per capita funding amounts were estimated using 1994 county population estimates from the Bureau of the Census.

Medicare and Medicaid Data: Estimates of Medicare and Medicaid coverage (and related estimates of income and employment) reported in this issue are derived from the March round of the monthly Current Population Survey (CPS) conducted by the Bureau of the Census. The CPS sample includes about 58,000 households that are representative of the U.S. civilian noninstitutional population. The March CPS provides detailed information about individual economic and demographic characteristics, including health insurance, income, and employment during the previous calendar year. The March 1995 CPS was affected by several changes in survey methodology that restricted information about metro-nonmetro differences to half the sample, reducing the reliability of estimates. Information about Medicare expenditures per beneficiary was calculated by the Rural Policy Research Institute (RUPRI), using data provided by the Health Care Financing Administration, U.S. Department of Health and Human Services. Information about physician gross practice revenue was provided by the American Medical Association, based on a national survey of physicians conducted in 1994. Information about community hospital net patient revenue was provided by the American Hospital Association, based on the 1993 Annual Survey of Hospitals.

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ERS's State types are defined as follows:

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

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

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

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

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

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

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

These State types are illustrated in figures 1-5.

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

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

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

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

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

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

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

Regions:

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

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

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

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

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

Metro areas: Metropolitan Statistical Areas (MSA's), as defined by the Office of Management and Budget, include core counties containing a city of 50,000 or more people or have an urbanized area of 50,000 or more and a total area population of at least

100,000. Additional contiguous counties are included in the MSA if they are economically integrated with the core county or counties. For most data sources, these designations are based on population and commuting data from the 1990 Census of Population. The Current Population Survey data through 1993 categorizes counties as metro and nonmetro based on population and commuting data from the 1980 Census. Throughout *Rural Conditions and Trends*, "urban" and "metro" have been used interchangeably to refer to people and places within MSA's.

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

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

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

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

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

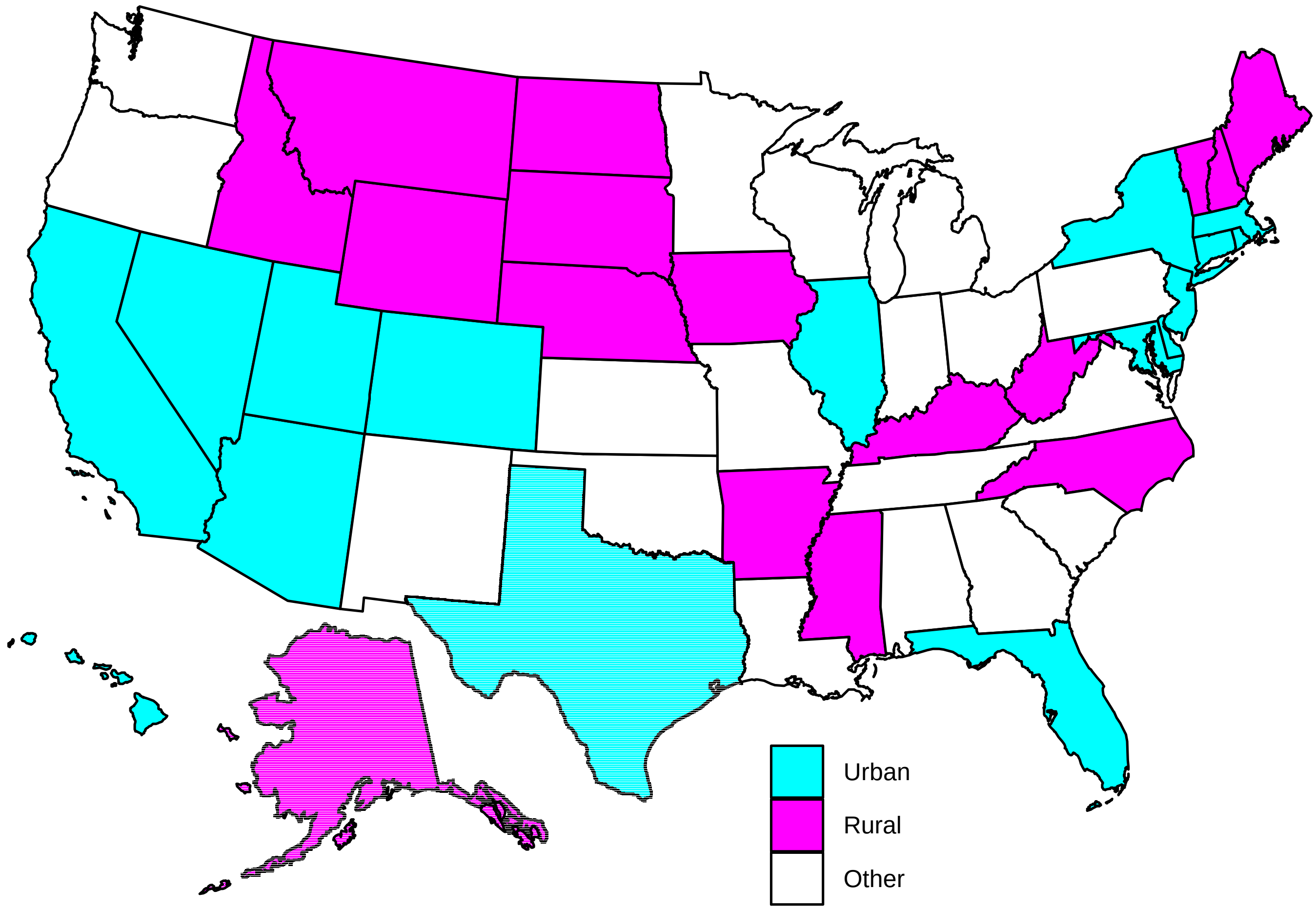
Loan guarantee: This is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender.

Fiscal year: A fiscal year is the government's accounting period. It begins October 1 and ends September 30, and is designated by the calendar year in which it ends. *[Faqir Bagi, 202-219-0546, fsbagi@econ.ag.gov; Samuel Calhoun, 202-219-0584, scalhoun@econ.ag.gov; and Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Figure 1

Urban-rural typology, 1993

Rural States are mostly in the Northern Plains and the Southeast

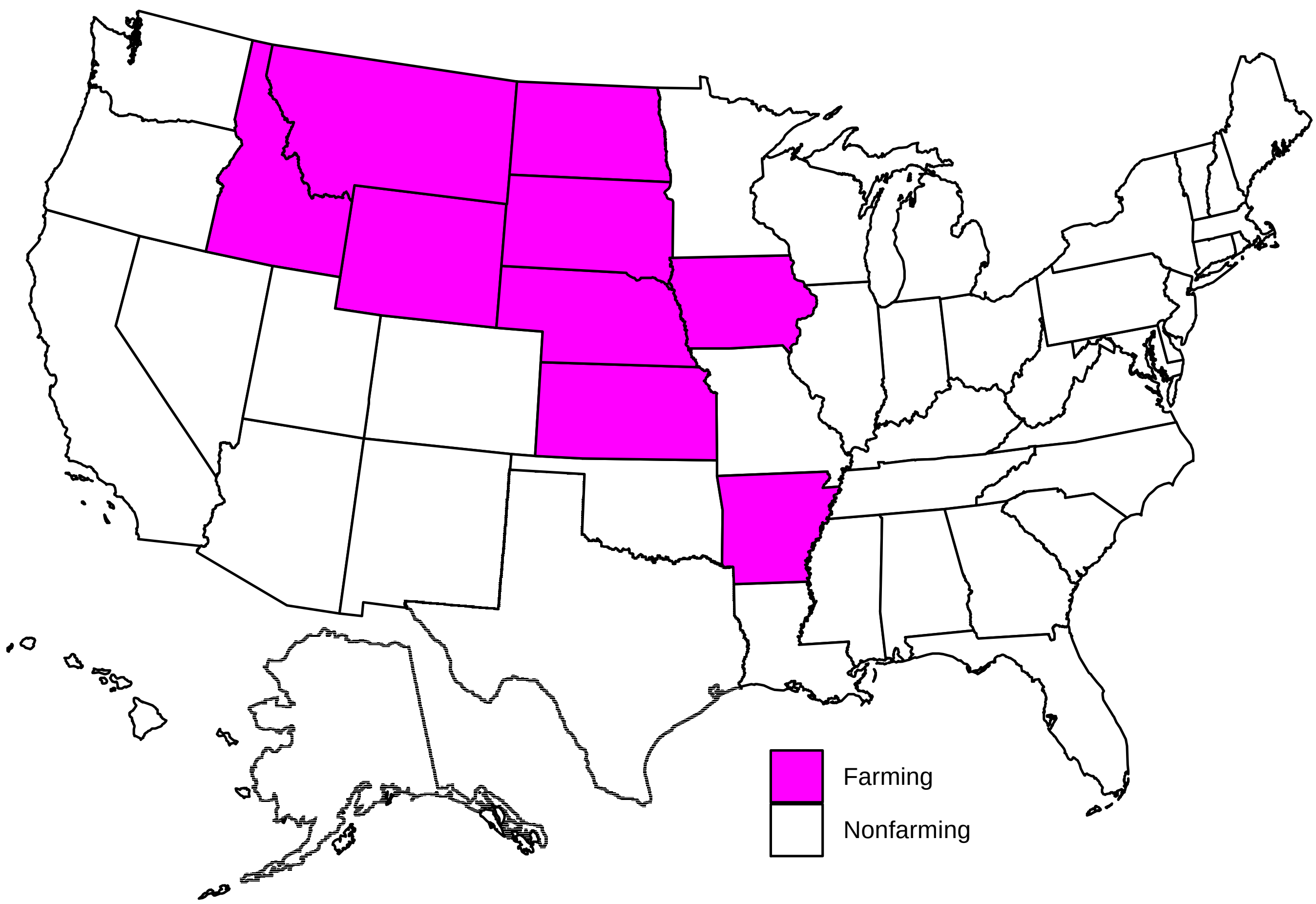


Source: Calculated by ERS using data from the Bureau of the Census.

Figure 2

Farming States, 1991-93

Farming States are concentrated in the Plains

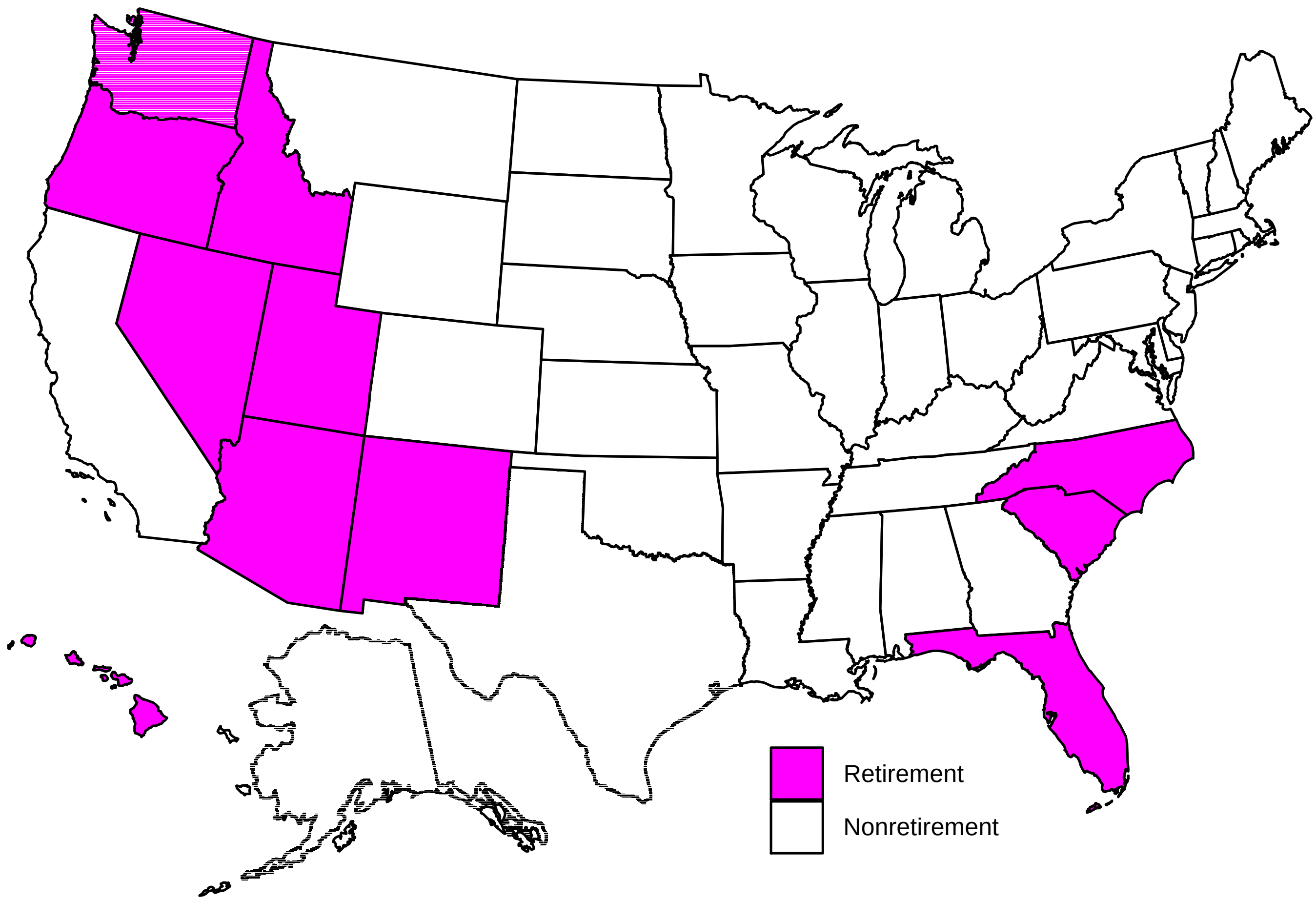


Source: Calculated by ERS using data from the Bureau of Economic Analysis.

Figure 3

Retirement States, 1980-90

Retirement States are concentrated in the West and the Southeast

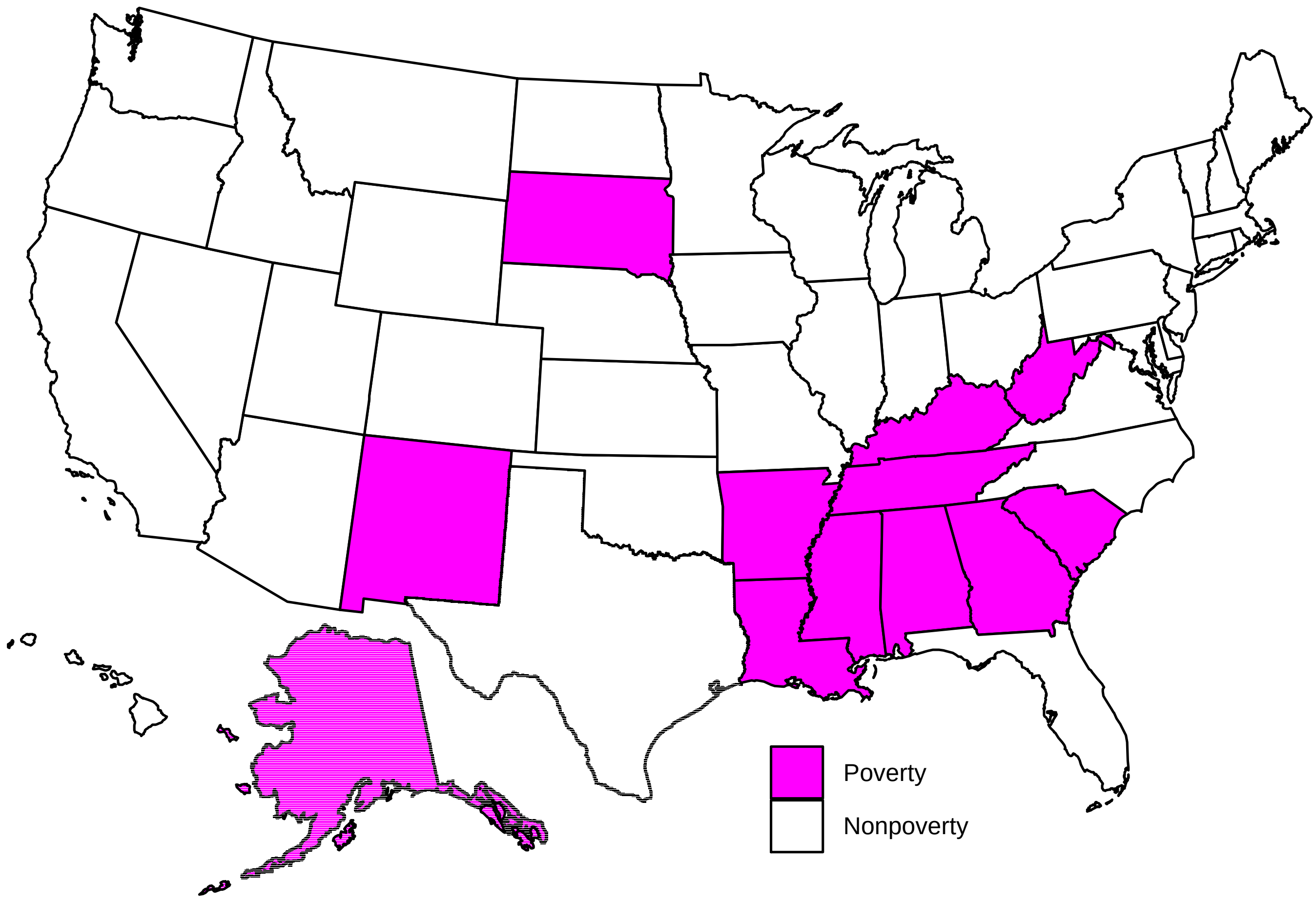


Source: Calculated by ERS using data from the Bureau of the Census.

Figure 4

Poverty States, 1960-90

Poverty States are concentrated in the Southeast

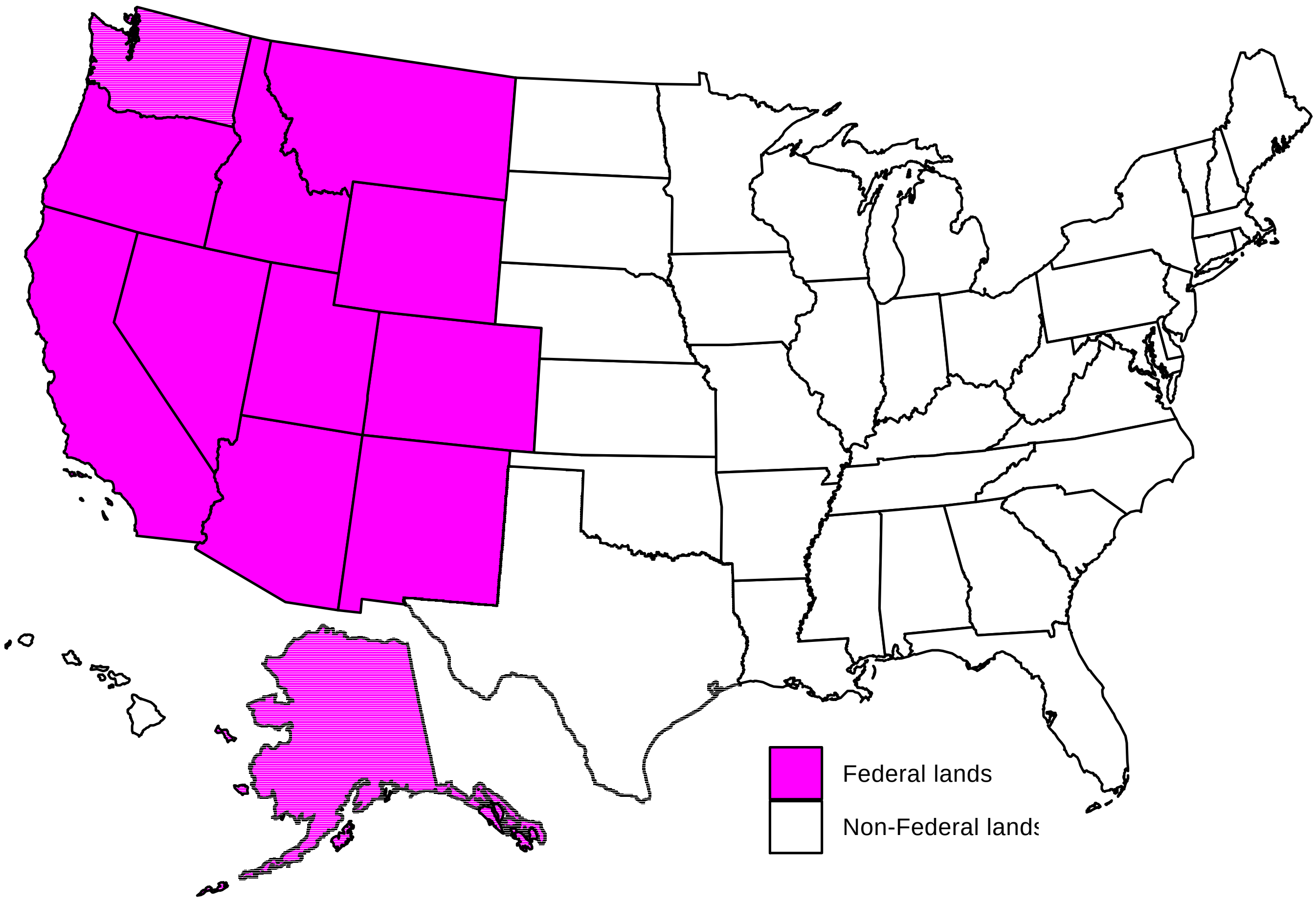


Source: Calculated by ERS using data from the Bureau of the Census.

Figure 5

Federal lands States, 1987

Federal lands States are concentrated in the West



Source: Calculated by ERS using data from the Natural Resources Conservation Service, USDA.

As discussed earlier in appendix A, the budget data reported here are meant to reflect program levels—such as the amount of new loans issued—and do not necessarily correspond to budget authority figures published elsewhere. In some cases, such as income support programs, outlays are presented as more reflective of program levels. In some cases, rescissions are reflected in the numbers. Some program funding information, such as in the Medicare and Medicaid programs, does not include trust fund amounts funded from other sources, hence the funding amounts may increase or decrease dramatically without having a similar affect on program levels. Since the programs vary in type of assistance, such as loans, grants, salary payments, and transfer payments, the amounts for different programs are not directly comparable. Hence, no attempt was made to compute totals or subtotals of programs.

The data for this table come from a variety of sources, including agency budget summaries, the President's Fiscal Year 1997 Budget, the Catalogue of Federal Domestic Assistance for 1996, congressional legislation, conference reports, legislative summaries, and other sources, such as *Congressional Quarterly Weekly Report*. In some cases, we contacted budget officials by phone to obtain information.

The selected programs are not meant to be an exhaustive list. Only those programs that were covered in this issue were included in the table, and of those covered in this issue, some of the smaller, less significant programs were excluded. Nevertheless, we believe this table includes most of the more important programs for rural areas and their development. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Appendix table 1—Budget changes for selected programs, fiscal years 1995 to 1996

Program	Agency[2]	Program funding[1] 1995	1996	Change[3]
		Billions of dollars		
General development assistance:				
Rural Economic Development Grants	USDA/RBS	0.020	0.020	0
Extension activities	USDA/CSREES	.439	.428	-.011
Resource Conservation and Development Areas*	USDA/NRCS	.033	.029	-.004
Economic Action Grants*	USDA/FS	.016	.015	-.001
Pacific Northwest Supplemental Economic Action Grants*	USDA/FS	.017	.016	-.001
Local Development Districts	ARC	.004	.005	.001
Highway Program	ARC	.133	.197	.064
Area Development	ARC	.101	.092	-.009
Support for Planning Organizations	Commerce/EDA	.022	.019	-.003
Technical Assistance	Commerce/EDA	.011	.010	-.001
Special Economic Development/ Adjustment*	Commerce/EDA	.291	.139	-.152
Small Cities/Community Development Block Grant	HUD	1.300	1.300	.000
Disaster Assistance	FEMA	2.900	1.800	-1.100
Infrastructure programs:				
Water and Waste Disposal Grants and Loans	USDA/RUS	1.340	1.000	-.340
Rural Electrification Loans	USDA/RUS	.910	.940	.030
Rural Telecommunication Loans	USDA/RUS	.410	.490	.080
Community Facilities Loans	USDA/RUS	.230	.280	.050
Payments to States (for Schools and Roads)	USDA/FS	.310	.300	-.010
Public Works Grants	Commerce/EDA	.190	.170	-.020
Telecommunications and Information Infrastructure Assistance (TIIA)	Commerce	.040	.020	-.020
Airport Improvement Grants	Transportation	1.450	1.450	.000
Federal-Aid Highway	Transportation	20.830	20.830	.000
Nonurbanized Area Formula Public Transportation	Transportation	.130	.110	-.020
Essential Air Services	Transportation	.030	.020	-.010
Amtrak	Transportation	.990	.750	-.240
Local Rail Freight Assistance	Transportation	.010	0	-.010
Clean Water State Revolving Fund	EPA	1.200	1.350	.150

See notes at end of table.

—Continued

Appendix table 1—Budget changes for selected programs, fiscal years 1995 to 1996—Continued

Program	Agency [2]	Program funding [1] 1995	1996	Change [3]
		Billions of dollars		
Business assistance:				
Rural Business Enterprise Grants	USDA/RBS	0.475	0.450	-0.025
Business and Industry (B&I)	USDA/RBS	.424	.700	.276
Small Business Loan Guarantees 7(a)	SBA	.425	.539	.114
Special Economic Development/ Adjustment Program	Commerce/EDA	.291	.139	-.152
Housing assistance:				
Single Family Housing (Sec. 502)—				
Direct Loans	USDA/RHS	.934	1.016	.082
Guarantees	USDA/RHS	1.049	1.700	.651
Multifamily (Sec. 515)	USDA/RHS	.183	.152	-.031
Loan Guarantees	VA	27.339	31.336	3.937
FHA Mortgage Insurance	HUD	48.508	59.757	11.249
Public and Indian Housing	HUD	2.971	3.184	.213
Natural resources and environmental programs:				
Natural Resources Conservation Service	USDA/NRCS	.832	.859	.027
Forest Service	USDA/FS	3.115	3.355	.240
Fish and Wildlife Service	Interior	.671	.654	-.017
National Biological Service	Interior	.162	0	-.162
Bureau of Mines	Interior	.152	.064	-.088
Army Corps of Engineers	Defense	3.339	3.366	.027
National Park Service	Interior	1.385	1.361	-.024
Operating Programs (total)[4]	EPA	2.970	3.011	.041
State and Tribal Assistance[4]	EPA	2.769	2.155	-.614
Superfund[4]	EPA	1.431	1.311	-.121
Leaking Underground Storage Tank Trust Fund[4]	EPA	.070	.046	-.024
Education and training programs: [5]				
Title I	Education	7.200	7.200	0
Impact Aid	Education	.728	.691	-.037
Star Schools	Education	.025	.023	-.002
Perkins Loans	Education	.176	.113	-.063
Pell Grants	Education	6.147	5.747(2)	-0.400

See notes at end of table.

—Continued

Appendix table 1—Budget changes for selected programs, fiscal years 1995 to 1996—Continued

Program	Agency [2]	Program funding [1] 1995	1996	Change [3]
		Billions of dollars		
Job Training partnership Act				
Title II A-Adult Training	Labor	.996	.850	-.146
Title II B-Summer Youth	Labor	.867	.625	-.242
Title III C-Youth Training	Labor	.127	.127	.000
Title III-Dislocated Workers	Labor	1.229	1.098	-.131
Wagner-Peyser (Employment Service)	Labor	.839	.762	-.077
Job Corps	Labor	1.042	1.042	.000
Health programs:				
Medicare [6]	HHS	180.100	197.400	17.300
Medicaid	HHS	89.100	94.900	5.800
Income support programs: [7]				
Social Security (OASDI)	HHS	335.800	351.000	15.200
Aid to Families with Dependent Children (AFDC)	HHS	17.100	17.400	.300
Supplemental Security Income (SSI)	HHS	25.600	26.600	1.000
Food Stamps	USDA	25.600	26.300	.700
Child nutrition (mainly the School Lunch and School Breakfast Programs)	USDA	7.500	8.200	.700
Defense (total):	Defense	272.000	266.000	-6.000
Agriculture programs:				
Deficiency payments	USDA	3.900	[8]	[8]
Production flexibility contract payments	USDA	[9]	5.570	[9]
Conservation Reserve Program	USDA	1.738	1.836	.098
Trade and export promotion:				
CCC Export Credits [10]	USDA	2.949	5.700	2.751

See notes at end of table.

—Continued

Appendix table 1—Budget changes for selected programs, fiscal years 1995 to 1996—Continued

Program	Agency [2]	Program funding [1] 1995	1996	Change [3]
		Billions of dollars		
Market Access Program (MAP)	USDA	.110	.090	-.020
Export Enhancement Program (EEP) [11]	USDA	.800	.959	.159
P.L. 480 Program	USDA	1.286	1.187	-.099
Social services programs:				
Child Care Development Block Grant	HHS	.935	.935	.000
Community Services Block Grant	HHS	.458	.429	-.029
Social Services Block Grant	HHS	2.800	2.800	.000
Aging Services	HHS	.877	.828	-.049
Foster Care and Adoption	HHS	3.600	4.300	.700
Substance Abuse	HHS	1.700	1.400	-.300
Native American programs:				
Bureau of Indian Affairs (BIA) (Total)	Interior	1.730	1.570	-.160
Indian Health Service (IHS) (Total)	HHS	2.160	2.210	.050
Indian Education Program	Education	.080	.050	-.030
Indian Housing Development Program	HUD	.200	.160	-.040

* These programs also appear elsewhere in this table as all or part of other programs.
[1] Budget authority, outlays, or loan or loan guarantee program levels are used, depending on the program (see text).
[2] The following agency acronyms are used in this table: USDA=U.S. Department of Agriculture; RBS=Rural Business-Cooperative Service; CSREES=Cooperative State Research, Education, and Extension Service; NRCS=Natural Resources Conservation Service; FS=Forest Service; ARC=Appalachian Regional Commission; EDA=Economic Development Administration; HUD=U.S. Department of Housing and Urban Development; FEMA=Federal Emergency Management Agency; RUS=Rural Utilities Service; EPA=Environmental Protection Agency; SBA=Small Business Administration; RHS= Rural Housing Service; VA=U.S. Department of Veterans Affairs; HHS=U.S. Department of Health and Human Services; CCC=Commodity Credit Corporation.
[3] Change is for fiscal years 1995 to 1996.
[4] 1995 amounts are prerescission.
[5] Includes unspent funds carried over from previous years.
[6] Excludes Medicare beneficiary part B premiums.
[7] Income support programs are represented by outlays.
[8] Deficiency payments, authorized by the 1990 farm legislation, were discontinued in 1996.
[9] Production flexibility contract payments were first authorized in the 1996 farm legislation. They replace the income support payments tied to farm prices (deficiency payments).
[10] Includes short-term (GSM-102) and intermediate-term (GSM-103) guarantees. The increase does not reflect a change in the authorization level. It reflects the fact that program activity in 1995 was less than the amount authorized, while the 1996 estimate assumes that program activity will rise to the authorization level.
[11] The increase does not reflect a change in authorization, but the fact that program activity in 1995 was less than authorized.
Source: U.S. Department of Agriculture, Economic Research Service, based on various published and unpublished Federal Budget reports in 1996.

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How this will affect rural areas is unclear. *[Peter Stenberg, 202-219-0543, stenberg@econ.ag.gov, and Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Some Other Regulatory Changes Have Rural Implications

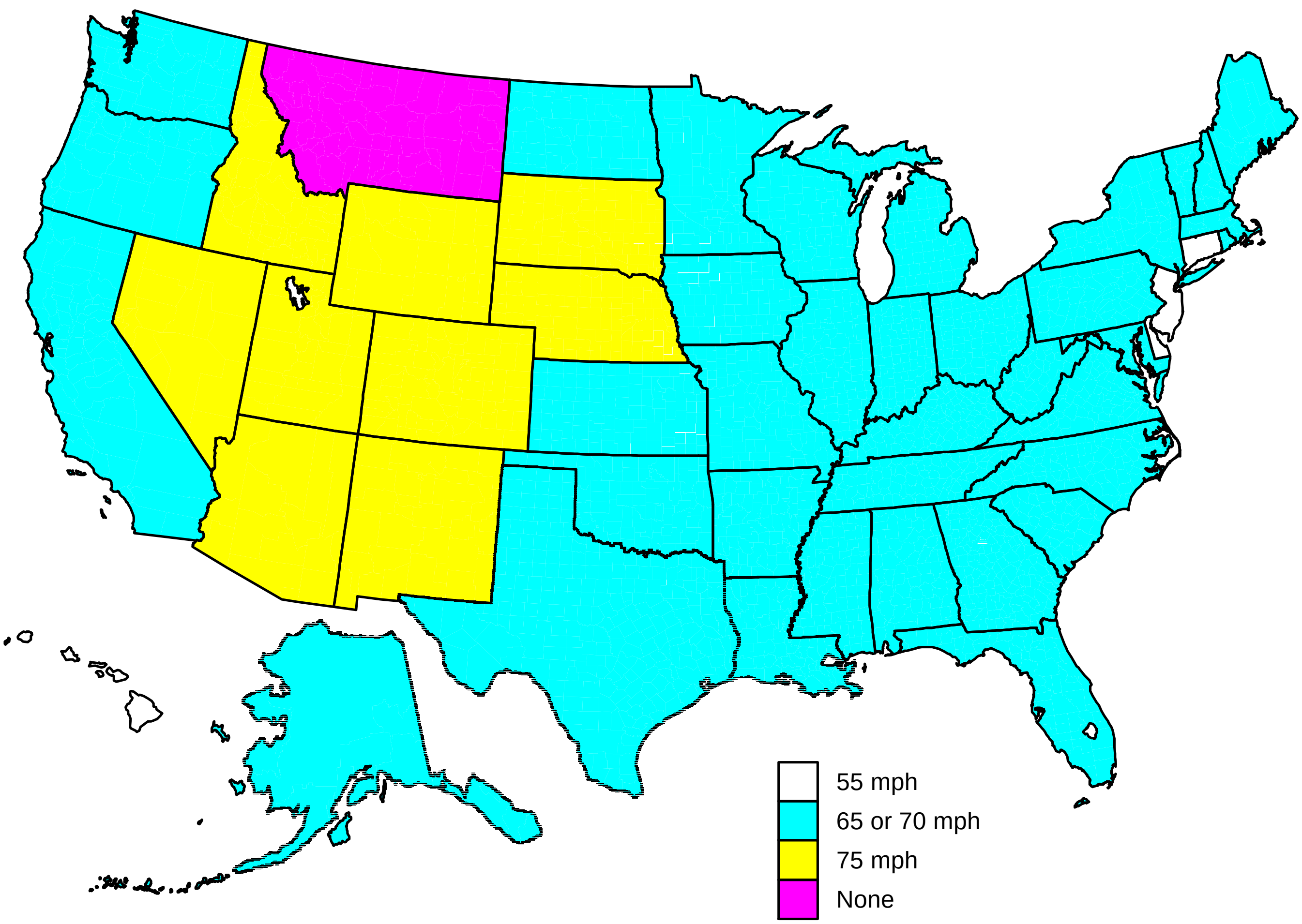
The legislation that created the 161,000-mile National Highway System, P.L. 104-59, allows States to increase their maximum speed limits. This is expected to reduce travel time to many rural areas and may make many remote rural counties more economically competitive, especially in parts of the West, where significantly higher limits have already been adopted (fig. 1).

The March 1996 Supreme Court ruling in Seminole Tribe of Florida v. Florida limited the ability of Indian tribes to sue States over tribal rights to set up gambling operations. This could limit the growth of the Indian gaming industry in States that oppose this activity. Indian gambling operations have helped foster a greater degree of economic self-suffi-

Figure 1

New maximum daytime speed limits, by State, as of May 7, 1996

Limits are highest in the Mountain States and parts of the Upper Plains



Source: Calculated by ERS using data from the American Automobile Association.

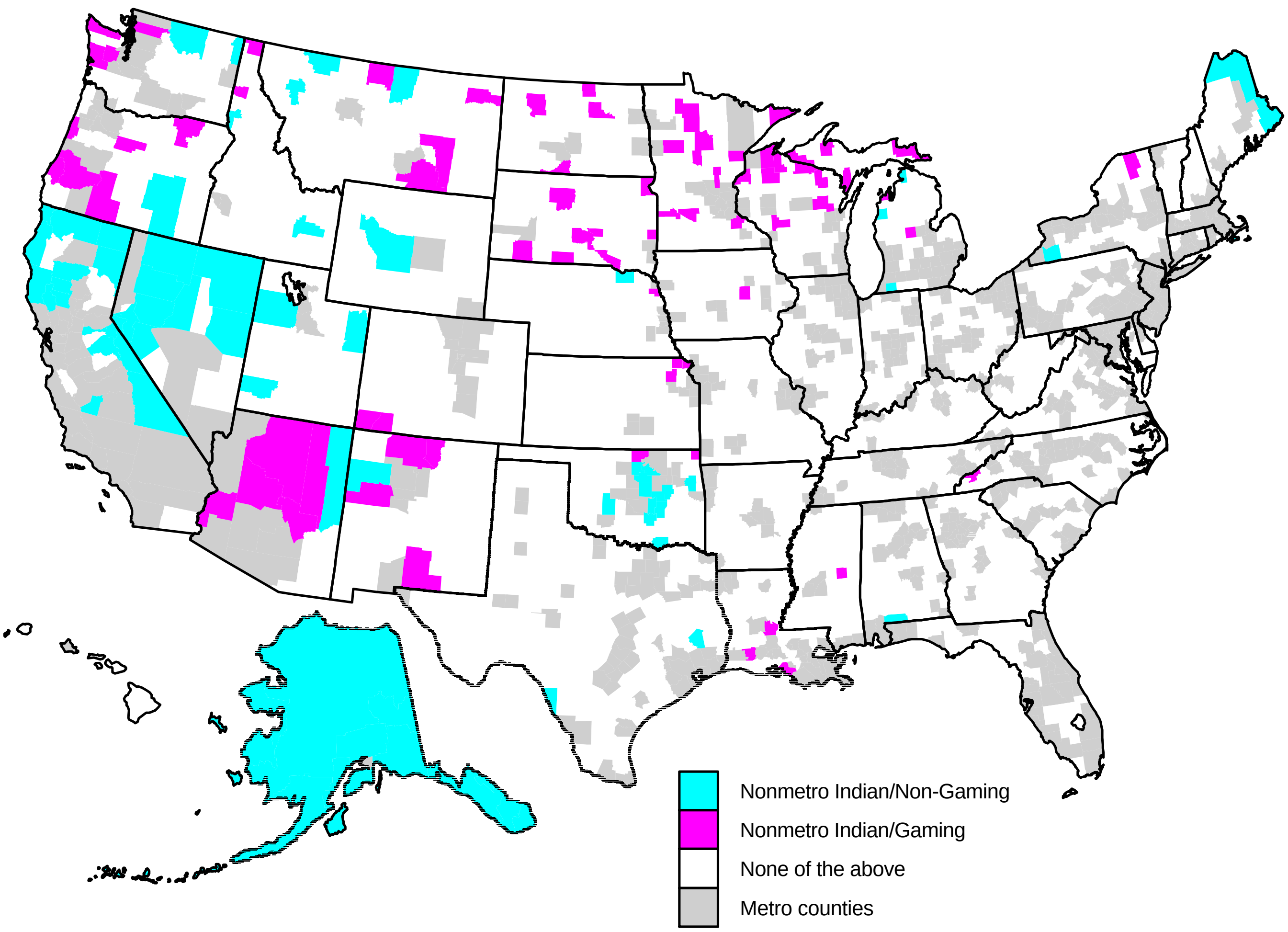
ciency for Native Americans by providing them with a major new source of income and employment. Less than one-fourth of about 560 federally recognized tribes engage in gaming operations, and of these, only about 20 are actually doing well by such activities. Indian gaming is most prominent in the Southwest, the Pacific Northwest, the Upper Plains, and the Midwest (fig. 2).

In January 1996, legislation was enacted that will prevent States from taxing retirement earnings of former State residents. In the past, some States, such as California, have applied source taxes to retirement income generated in the State to raise additional revenues and discourage the outmigration of wealthy retirees, many of whom move to lower tax rural areas. This change might therefore be expected to increase future migration from high-tax urban States to low-tax rural States that are popular retirement destinations. *[Dennis Brown, 202-219-0329, dennisb@econ.ag.gov, and Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*

Figure 2

Nonmetro counties with one or more federally recognized Indian Tribes and their gaming status, as of December 1995

Nonmetro gaming operations are most common in the southwest, the Pacific Northwest, the Upper Plains, and the Midwest



Note: Each tribe's location is based on the mailing address of its tribal leader.
Source: Calculated by ERS using data from the Bureau of Indian Affairs.