The 1996 Farm Bill: Implications for Rural Communities

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While most of the media's focus on the 1996 farm bill has centered on the farm transition programs, the bill's Rural Development Title also charts some new directions.

One of the criticisms of previous federal rural development policy is that it was a "patchwork of federal programs." The patchwork resulted because there were several "categorical" programs, each with specific criteria and purposes. Each had different application procedures and a different set of forms. Many duplicated or had significant overlap with state programs and initiatives, but often were not well-coordinated or integrated.

The new Rural Community Advancement Program (RCAP) is designed to address several of these concerns. The U.S. House of Representatives agriculture committee considered eliminating the U.S. Department of Agriculture rural development programs and then block-granting some of the funding to states. But the Senate approach—which ended up in the 1996 farm bill—favored consolidating the programs, while retaining some federal say over how funds are used and retaining some federal credit for addressing rural issues.

The patchwork of programs clearly has been reduced. States and rural communities are given greater flexibility and opportunity to create projects that meet their perceived priorities—without having arbitrary criteria prevent access to the funds.

The five objectives specified in the enacting legislation for the new RCAP are as follows:

1. Promote strategic development activities and collaborative efforts by states and local communities in order to maximize impacts of federal assistance.

2. Optimize use of resources.

3. Provide assistance in a manner reflecting the complexity of rural needs—i.e., of business development, health care, education, infrastructure, cultural resources, environment and housing.

4. Advance activities that empower and build the capacity of states and local

communities to design responses to their unique needs.

5. Adopt flexible and innovative approaches to solving rural development problems.

The U.S. Secretary of Agriculture will require each state director of the USDA Rural Development Agency (USDA-RDA) to prepare a five-year strategic plan for his/her state. The plan will outline how federal, state and local assistance efforts will be coordinated. In addition, the plan will identify the goals, methods and benchmarks for measuring the success of carrying out that state strategic plan.

State, local, private and public leaders; state rural development councils; federally recognized Indian tribes; and community-based organizations are to be included in the strategic plan development process. USDA also will require that the state and local community institutions contributing to the planning process be full partners in implementing the plan.

The new RCAP program consolidates funding for many of the previous categorical grant programs into one Federal Rural Development Trust Fund. This trust fund will have five accounts:

1. All funds for community facilities—directed and guaranteed loans and grants—will come from a Rural Community Facilities Account.

2. All water or waste disposal grants or direct/guaranteed loans, all rural water or wastewater technical assistance and training grants, all emergency community water assistance grants, and/or all solid waste management grants will come from a Rural Utilities Account.

3. Rural business opportunity grants, business and industry guaranteed loans, and rural business enterprise grants or rural education network grants will come from a Rural Business and Cooperative Development Account.

4. A National Reserve Account will allow the secretary to exercise some flexibility to reserve end-of-year, unobligated funds and 5 to 15 percent of the specific-purpose accounts for use when emergencies or exceptional needs exist.

5. Finally, 3 percent of trust fund revenues will be placed in an account for federally recognized Indian tribes.

Surprisingly, given the political differences of the administration and Congress, the farm bill gives the U.S. Secretary of Agriculture discretionary authority over the state allocation formula for rural development funds. The funds must be distributed in a "fair, reasonable and appropriate manner that takes into consideration rural

population, levels of income, unemployment and other relevant factors as determined by the Secretary."

In recent debates over block grants, the most contentious debate has been on the factors to be used in the allocation formulas for distributing funds to the states. As a result, the factors in the allocation formula are likely to be one of the key decisions made during the rule-making and implementation process.

Greater emphasis on areas with high poverty (i.e., more than 25 percent of the population) would tend to shift funds to specific rural areas in Appalachia, to areas with high ethnic populations in the rural South and rural Southwest, and to reservations in the upper Great Plains.

At the same time, the median family income for all non-metro families is 73 percent of their metro counterparts. Beyond that, a large majority of all non-metro counties have poverty rates greater than 10 percent. So, the regional distribution pattern of federal rural development funds across states would be a lot different if a 10 percent level of rural poverty were used, rather than 25 percent.

Finally, the new RCAP provides many opportunities for Extension to work with USDA-RDA directors in developing state strategic plans. Many RDA staff are former Farmer's Home Administration personnel who are less familiar with community planning and economic development processes. Extension community economics specialists may be able to work with the RDA in ways similar to those in which Extension farm management specialists work with the Farm Service Agency.

In addition to the RCAP program, the Rural Development Title of the 1996 farm bill has several new provisions that can complement the formation of new value-added cooperatives and rural business ventures:

1. USDA now may guarantee loans to individual farmers for the purpose of purchasing start-up capital stock of a new-style farmer cooperative, established for the purpose of processing an agricultural commodity.

2. Nonprofit institutions may receive USDA grants to establish Rural Cooperative Development Centers in order to help create jobs in rural areas through the development of new rural cooperatives, value-added processing facilities and/or rural businesses. These centers can use the grants for packaging technical assistance, applied research and feasibility studies, training and outreach, and even loans and grants toward this purpose.

3. The 1996 farm bill upgrades the Alternative Agricultural Research and Commercialization Center to corporation status. This is the center that has invested in a number of interesting, potentially commercially viable value-added enterprises, such as making marble-like flooring products from

soybeans, wallboard from straw and clothing insulation from milkweed silk.

4. USDA may designate up to 10 venture capital organizations to demonstrate the usefulness of guarantees in attracting increased private investment in rural private business enterprises. To be eligible for this community development pilot project, an organization or entity must establish a rural business private investment pool for the purpose of making equity investments in rural, private business enterprises.

This time last year, when the farm bill debate was young, the Rural Policy Research Institute's national panel of rural policy experts identified the lack of well-developed equity capital markets in rural areas as a constraint for rural development.

Now, more tools have been enacted at the federal and state levels, particularly for agricultural value-added ventures. Perhaps the greatest additional needs are entrepreneurial spirit and effective implementation.

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