THE PATTERN OF UNITED STATES DEPARTMENT OF AGRICULTURE POLICY & FUNDING IN RURAL AMERICA'S LOW WEALTH AND MINORITY COMMUNITIES

An Analysis by the Southern Rural Development Initiative

June, 2007

SRDI

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About the Southern Rural Development Initiative

The Southern Rural Development Initiative provides practical tools for rural community leaders, organizations, and related national sectors to create just and economically sustainable communities across the rural South.

SRDI works toward: A nation that values and invests in rural communities; The Southeast as a region where rural communities — with legacies of injustice, abuse and indifference — have the vision, will, and resources to be just, inclusive, and sustainable; rural places that young people choose to call home.

Raleigh:
128 East Hargett Street, Suite 202, Raleigh, NC 27601 (919 829-5900)

Asheville:
20 Battery Park, Suite 211, Asheville, NC 28801 (828 285-9230)

www.srdi.org

About the SRDI Federal Funds Analysis Project

The SRDI Federal Funds Analysis Project is both a database tool and convening process to enable rural leaders and policy advocates to forge more strategic partnerships with a range of federal agencies. This project was supported initially through a "proof of concept" grant from the WK Kellogg Foundation, and is currently funded by the Ford Foundation.

Several versions of the database tools can be used. The first is located on the SRDI website and is the community learning interfaced designed as a platform for rural policy education:

http://www.srdi.org/srdi/transf/FederalFundsIntro.htm

The newest database tools allow custom queries of data for wide angle policy analysis, and a more focused county summary page of key USDA data. This version of the database was designed in partnership with the Rural Policy Research Institute (RUPRI). This database tool can be found at:

http://circ.rupri.org/srdi/

INTRODUCTION: RECONNECTING USDA POLICY AND FUNDING TO THE NEEDS OF RURAL AMERICA'S LOW WEALTH COMMUNITIES

"To see what is in front of one's nose needs a constant struggle."
– George Orwell

For the federal government, the U.S. Department of Agriculture (USDA) is rural America's primary partner. SRDI's analysis of USDA funding patterns from 2001-2003 to rural America suggests a deep disconnect between the policies that drive this flow of USDA resources and the pervasive challenges facing rural people and places. The USDA has many programs that truly benefit rural America – including conservation, agricultural disaster assistance, product marketing, nutrition, and rural development. Those USDA policies, however, that send billions in subsidies each year to a small number of farm operations in poor counties is neither a wise nor an effective allocation of the federal government's increasingly scarce financial resources. It is also not in the interest of the hundreds of counties in dire need of basic economic transformation to compete in a 21st century economy.

Though this report focuses on the misalignment of USDA funding patterns with the needs of rural America, the fundamental need is for USDA's mission and strategic goals to acknowledge and act on the realities of rural America. The agency's current stated mission, "We provide leadership on food, agriculture, natural resources, and related issues based on sound public policy, the best available science, and efficient management" does not mention rural communities. When rural America was organized around agriculture, service to farmers did mean service to rural communities. Today, however, only 14 percent of America's rural workforce is employed in farming. The professional researchers at USDA recognize the need for a new focus and strategies:

> "One point is clear – commodity based farm policies as currently constructed do not fully address the complexity of issues facing rural economies and populations. For example, the high level of farm payments in the late 1990s did little to eliminate the long-term outmigration from farming areas. ERS research shows that counties highly dependent on farm payments had some of the highest rates of population loss, even during periods when most other rural counties were gaining population."
>
> "Rural policy for the future will need to encompass a broader array of issues, and these different rural issues will require different mixes of solutions. Strategies to generate new employment and income opportunities, develop local human resources, and build and expand critical infrastructure hold the most promise for enhancing the economic opportunities and well being of rural America."[1]

Clearly, USDA's mission and strategic goals must acknowledge the importance of communities and the impact of the agency's interconnected major missions have on these communities.

[1] Whitener, Leslie and Tim Parker. *Policy Options for a Changing Rural America.* AmberWaves May 2007 Special Issue. USDA Economic Research Service.

SRDI's intent is to provide the data and analysis to stimulate debate and action around the question: *What does it mean to really invest in rural America?* The five- to seven-year cycle for the reauthorization of the Farm Security and Rural Investment Act (inadequately referred to by its short hand name of "the Farm Bill") provides a good time frame to take stock of the policy partnership between USDA and rural America. It is time to ask and reflect on the nature and dimensions of a rural/federal partnership that truly works for rural places in the 21st century.

Since the late 1990s, the size and scope of USDA's agricultural commodity subsidy programs have generated much debate. It is increasingly recognized that these subsidies primarily benefit a small number of large landowners in the Great Plains and the Deep South with little if any direct or indirect benefit accruing to the many people and institutions whose ingenuity and resources are working to advance rural America. In addition, pressures both from the domestic fiscal front and international trade agreements make it likely that these commodity subsidies will be scaled back. The nation has an opportunity, with the re-authorization of the Farm Security and Rural Investment Act, to redirect some of these commodity subsidies to strengthen America's rural communities in effective and lasting ways. SRDI's fear, however, is that if these commodity dollars leave rural America that they will never return. Environmental interests are making their case that significant portions of the commodity program be redirected to conservation programs. and there is certainly a need for such a redirection. But who will speak for the needs of rural communities, and especially low wealth rural communities? How can USDA resources be redeployed for a higher and better use in rural America?

Undergirding this study and its recommendations are the following tenets:

- The federal government must be a partner in responding to the many challenges of rural America – persistent poverty, declining populations, and economies beset by global competition.
- While regulations and policies not related to funding matter, it is the shape, scope, and prioritization of program funding that define most policy choices – and policy partnerships.
- Outside partners cannot solve rural America's challenges, but they can support local and regional efforts that build on a rural community's vision and assets. Federal funding is necessary but not sufficient for change.
- Building community assets – physical, social, institutional, cultural, and economic – is a central strategy to building rural places that thrive and remain distinctly rural. Key to this strategy is the accepted philosophy that a shared destiny, community connections, and the obligation of stewardship are critical to securing a prosperous future.
- Healthy, equitable rural communities are productive and have widely shared prosperity. They are communities where the legacies of racism and injustice are actively addressed.

Key Findings

This study provides a new context within which to examine USDA policy – placing side-by-side the critical missions of agriculture, nutrition, and rural development in the context of community. The contrasts are stark.

USDA resources to America's poorest rural communities are seriously mis-aligned with need and effective strategies to meet these needs. SRDI's analysis of USDA funding patterns over the period 2001-2003 shows that as a category, our nation's poorest rural counties have received billions of dollars more in agricultural commodity subsidy payments than in rural development grants and loans. This policy and funding imbalance clearly inhibits the ability of low wealth counties to develop into prosperous and secure communities that can effectively compete in the 21st century. Key points:

- For every rural development grant dollar sent to the 364 poorest rural counties in America, $15.65 went in agricultural commodity direct payment subsidies – most of it to a small number of very large farm operations.

- Farm operations in the poorest tier of nonmetro (rural) counties received over $7 billion in direct payment subsidies from the two primary agriculture commodity direct payment programs. This direct payment subsidy is $6.7 billion more (for the three-year period) than these poor rural counties received in community development grants. Nationally, in nonmetro and predominantly rural counties in metro regions, the difference between commodity direct payments and rural development grants over the three years was $47 billion. This disparity is the $47 billion "opportunity cost" for rural America.

- Over this three-year period, these 364 poor rural counties received $5 billion through nutrition programs, primarily to children and their families. This is a per capita allocation of $730, compared to the national nutrition program per capita allocation of $305 and $366 for nonmetro counties. This reflects the extreme poverty conditions found in these counties.

USDA perpetuates the legacy of the Deep South's anachronistic, inequitable economy through its agricultural subsidy programs. The commodity crops grown in this region that account for the bulk of the subsidy payments (rice, cotton, and sugar) are crops that anchored the old plantation system. *Sharecropping and Jim Crow are gone, but those communities and states that have not invested in building broad-based community assets through education, civic capacity, and basic economic infrastructure remain dependent on an anachronistic economy via supports from the federal government.* Some specifics:

- For every rural development grant dollar sent to 107 majority minority counties, $20.64 went in direct subsidies to a very small number of commodity crop farm operations – mostly very large.

- Commodity crop farm operations in these predominantly minority nonmetro counties received over $3.4 billion in direct payment subsidies from the two primary agriculture commodity programs. This direct payment subsidy is $3.2 billion more (for the three-year period) than these rural counties received in community development grants.

- Based on an analysis of 2002 USDA Census of Agriculture data, SRDI conservatively estimates that non-white farm operators in majority minority counties received less than 6 percent of the direct farm subsidies going to these majority minority counties.

- These same 107 predominantly minority nonmetro counties received $1.8 billion in nutrition program support. This is a per capita of $813, compared to the national nutrition program per capita of $305, and $366 for nonmetro counties.

USDA has significant rural development underinvestment relative to low wealth rural community need. Using USDA nutrition dollars as a programmatic indicator of community need, SRDI calculates that in 2000 nonmetro counties with 20 percent and greater poverty rates that for every nutrition dollar allocated USDA rural development invested:

- 61 cents in total rural development spending
  - 9 cents in rural development grants
  - 7 cents in direct payments (chiefly rural rental assistance program)
  - 14 cents in direct loans
  - 31 cents in guaranteed loan obligations

- $1.43 in agricultural commodity direct payment subsides was expended for every nutrition dollar in these same counties.

Rural counties within metro regions have a critical stake in shaping USDA policy. There are significant USDA funding allocations to rural counties within metropolitan regions, going mostly to low density counties where 25 percent of its labor force or more commute to a metro center.

- $12 billion over the three-year study period in direct agriculture subsidy payments went to "rural" and "mixed rural" metropolitan counties. These same counties received $815.6 million in rural development grants. *The U.S. is increasingly a metropolitan nation and rural development policy must acknowledge and act upon this new reality.*

Key Recommendations

1. **Align USDA's policy partnership to effectively respond to the real needs of rural America.**
   At a minimum, new policy should redirect 10 percent of USDA agricultural commodity subsidy direct payments to rural development and other asset-building, place-based strategies. SRDI estimates that $1.7 billion annually could have been redeployed just in the three-year period of FY2001-2003, as estimated from the 2001-2003 Census Bureau Consolidated Federal Funds reports. This is $1.7 billion that annually could enhance small town assets, build affordable housing and preserve natural assets under assault, and, above all, create new competitive advantages needed for rural communities to thrive in the 21st century. A reasonable cap on the maximum direct subsidy dollars a farm operation can receive in a given year will go far to meet this goal. SRDI strongly believes that any reduction in the commodity subsidy program should remain in rural America to the betterment of rural America.

2. **Focus on a community assets framework with the needs of rural children as the "central pivot" for developing and evaluating policy.**
   USDA's major mission programs operate in silos, disconnected from the communities that they serve. Rural communities – if they are to become more vibrant and less dependent on income transfer programs – need a linked interdependent policy system organized around a community asset framework. This framework would emphasize developing programs and networks that support small businesses and entrepreneurship, increase income for low wealth families, especially women, socially disadvantaged farmers, and develop community based assets such as schools, medical facilities, water systems, and quality small town life. USDA's Rural Development programs support many of these strategies but at the margins and with minimal resources relative to the need.

We also propose that USDA acknowledge that its substantial nutrition support programs reflect deepseated rural poverty particularly among children, and that a central policy benchmark be enhancing the well-being of children in rural America. This is a benchmark that can only be attained by recognizing the interdependence of agriculture, nutrition, and rural development missions.

3. **Recognize and respond to significant integration between rural, suburban, and urban counties within metropolitan America.**
   The majority of the nation's rural population now lives in a metropolitan county. USDA must develop policy and program strategies that are responsive to rural conditions within a metropolitan context. The challenges and opportunities of rural people and places within the metro context will be the frame through which suburban and urban allies perceive and contribute to rural America's future. If that influence is to be positive, rural America needs a compelling, albeit realistic, narrative of the rewards and challenges of the rural life that will engage suburban and urban allies.

Conclusion: What does it mean to really invest in rural America?

The current deliberations to reauthorize the Farm Security and Rural Investment Act present a true opportunity to align USDA's policy priorities and spending. *A aligned and re-invigorated policy partnership between USDA and rural America enables rural communities – especially those of low wealth – to have a stronger chance of creating new competitive advantages based on enduring community assets*. These enduring assets only come from the skill and ingenuity of all rural people, and the boundless distinctiveness of all rural places. The opportunity cost of not fully investing in these community assets has immense consequences – both for the communities and the federal government's fiscal health. It is time to put rural investment in the Farm Security and Rural Investment Act. It is time for USDA to have a more responsible policy partnership with rural America.

USDA FUNDING THROUGH A LENS OF POVERTY AND RACE

All federal funds go somewhere for some purpose. The where and what of the flow of USDA funds is especially critical to the future prosperity of rural America. This section demonstrates how USDA dollars, when analyzed by mission and program and examined through the lens of poverty and race, disproportionately support a small number of large commodity crop farm operations in poor rural counties. In many of these counties the population is predominantly African-American. The large farm operations receiving significant commodity subsidies are overwhelmingly white.

Using data from fiscal years 2001-2003, this report goes from the general to the more specific. In this next section, we look at total USDA allocations by the poverty level of the recipient county. We then examine USDA's hard expenditures – grants and direct payments – through the lens of poverty. Finally, we compare USDA's two largest agricultural direct subsidy programs with USDA's rural development grants at the county level. In the next section, we do a similar analysis through the lens of race.

THE LENS OF POVERTY

Table 1: Total USDA Spending for the Three Missions Areas

In Table 1 (page 8), we present total USDA funding from 2001-2003 for three major "mission areas" – Agriculture, Nutrition, and Rural Development. Total spending includes grants, direct payments (of various kinds), direct loans, and guaranteed loan obligations. Following are particularly significant points based on data in this table and from more detailed data not shown here.

- **For the poorest tier of counties.** Per capita funding for rural development is greatest in the poorest tier of counties, $449 per capita in the poorest tier compared to $416 per capita in the least poor tier. But this trend is modest. There is only a 7 percent difference between the poorest and the least poor tier.

- **For the poorest set of nonmetro counties,** $14.8 billion more was allocated to agricultural than to rural development programs in this three-year period – $3.1 vs. $18.0 billion. This discrepancy in the poorest of rural counties is greater than in the other two poverty categories and for any of the metro counties in the bottom half of the table, even though the total rural development per capita allocation is higher for the poorest counties than for any other classification.

- **Rural counties receive more nutrition dollars than urban, per capita.** While nonmetro counties receive only about 21 percent of USDA's total nutrition dollars, high poverty nonmetro counties have a much higher per capita allocation than do metro-urban counties – $730 per capita for high poverty rural vs. $310 per capita for metro urban counties. This imbalance persists when looking at the national average per capita allocation ($305) compared to the nonmetro average per capita allocation ($366). Given that participation in USDA's nutrition programs is a key indicator of concentrated poverty and community dependence, these numbers speak to the rural face of poverty in our nation.

- **Water and wastewater spending predominates.** Rural development allocations in low wealth counties were primarily rural utility related allocations for water and wastewater and rural electrification. Rural Electrification guaranteed loans (program 10.850) made up $123.55 of the $448.62 per capita total – 27 percent of total rural development allocations in low wealth counties.

- **USDA allocations to metropolitan counties are significant.** Most of the funding goes to those metro counties classified as "completely-rural" and "mixed-rural."[2] We see over $29 billion in agriculture spending, nearly $18 billion in nutrition programs and $13 billion in rural development funds going to these two classifications, again pointing to our assertion that metropolitan America has a significant stake in these programs and, consequently, in the Farm Security and Rural Investment Act reauthorization.

- Metro-mixed urban (think suburban) and urban counties get a significant, albeit smaller share of total agriculture allocations – $4.9 billion for metro-mixed urban and $3.8 billion for metro-urban. Agricultural commodity direct subsidy payments make up $3.2 billion, 37 percent of the total. Data not shown on this chart indicate that $781 million was to cooperative extension and other agriculture research programs located in these counties.

- **Metro patterns resemble nonmetro ones.** In the metro-rural and metro-mixed rural clusters, the agriculture and rural development patterns favor those of the nonmetro clusters. For rural development expenditures, the mixed-urban and urban counties also received the bulk of their allocations in utilities, but primarily for rural electrification loans rather than for water/wastewater loans. Loan guarantees made up 68 and 72 percent of the entire rural development portfolio of mixed urban and urban counties.

- **Guarantee disparity between agriculture and rural development.** Even in the loan side of the equation there are significant differences between agricultural and rural development flows. While not shown in the table, data indicates that for agricultural programs in low wealth counties, 5.5 percent of total allocations were guaranteed loan obligations. For rural development a little over 50 percent of total allocations were guaranteed loan obligations.

[2] Isserman, Andrew. *In the National Interest: Defining Rural Correctly in Research and Public Policy*. International Regional Science Review Vol. 28, No. 4, Oct., 2005. Dr. Isserman's research was funded by the Office of the Under Secretary for Rural Development, U.S. Department of Agriculture. See the methodology section for definition of the Rural-Urban density code categories used in this report.

Table 1. Distribution of Total USDA Funding by Major Mission Areas: 2001-2003

	Agriculture		Nutrition		Rural Development	
	Total	Per Capita	Total	Per Capita	Total	Per Capita
Nonmetro Counties by Poverty Rate						
Greater than 20% (364)	**$17,991,315,592**	**$2,161.14**	**$5,048,512,780**	**$730.33**	**$3,104,212,475**	**$448.62**
10 to 19.9% (1,361)	46,616,576,464	1,433.63	11,243,071,374	345.76	13,835,019,394	425.37
Less than 10% (327)	19,636,967,927	2,087.70	1,631,345,079	173.44	3,917,527,860	416.48
Nonmetro Subtotal	**$84,244,859,983**	**$1,724.86**	**$17,922,929,233**	**$366.95**	**$20,856,759,729**	**$427.03**
Metro Counties by Rural-Urban Density Code						
Metro-Rural (304)	8,458,055,603	1,283.63	2,034,961,971	308.84	2,359,665,966	358.12
Metro-Mixed Rural (467)	21,573,267,915	364.92	16,625,711,106	281.24	11,010,846,285	186.24
Metro-Mixed Urban (147)	4,939,598,848	122.53	10,029,234,788	248.79	2,459,969,952	61.06
Metro-Urban (171)	3,830,487,971	30.25	39,194,257,946	309.77	2,011,139,468	15.88
Metro Subtotal	**$38,801,410,337**	**$166.88**	**$67,884,165,811**	**$291.93**	**$17,841,621,671**	**$76.70**
Total	**$123,046,270,320**		**$85,807,095,044**		**$38,698,381,400**	

Source: 2001-2003 United States Census Bureau Consolidated Federal Funds Report - SRDI Analysis

Table 2: USDA Hard Expenditures

Table 2 (page 9) presents a deeper, more complex portrait of USDA funding patterns. We define "hard expenditures" as grants and direct payments, those program funds that do not need to be repaid. We do not include the Nutrition program spending in this chart because these food dollars only flow as grants or direct payments and thus are accurately reflected in Table 1.

The data presented in Table 2, for Agriculture and Rural Development starkly differ from the numbers in Table 1. Our observations follow:

- USDA spent $10.7 billion more on agricultural hard expenditures than in rural development grants and direct payments – a 1200 percent difference over the three years.

- Hard expenditures comprised 65 percent of total *agricultural* allocations in the poorest segment of nonmetro counties. Hard funding for *rural development* dollars in these same counties, however, made up only 27 percent of total funding. The rural development mission of USDA is largely driven by loans, especially guaranteed loan obligations. In contrast, direct payments rather than loans or loan guarantees dominate the agricultural mission of the agency.

- Hard agricultural expenditures in the poorest nonmetro counties (as with total agricultural expenditures) are mostly for two types of programs: commodity subsidy direct payments and crop insurance and crop disaster payments. These two program types account for 70 percent of all agriculture-related hard expenditures.

- Water and wastewater grants ($42.34 per capita) and Rural Rental Assistance Program ($42.31 per capita) made up nearly two-thirds of all rural development hard expenditures in the poorest tier of nonmetro counties. The remaining hard rural development expenditures for these counties were housing or business development related.

- The Environmental Quality Incentives Program (EQIP) is included under Rural Development because the census bureau classifies this program as "community resources." In fact, this program which supports farmers to implement best management conservation best practices would be more accurately classified as an agricultural activity. If expenditures for EQIP were shifted from rural development to agriculture, the per capita expenditures for the poorest segment of nonmetro counties would decrease from $120.98 to $108.74.

Table 2. Distribution of USDA "Hard Expenditures" (Grants and Direct Payments) by Major Mission Areas: 2001-2003

	Agriculture			Rural Development		
	Total Grant/ Direct Payments	Per Capita	% of Total Ag. Expenditures	Total Grant/ Direct Payments	Per Capita	% of Total RD Expenditures
Nonmetro Counties by Poverty Rate						
Greater than 20% (364)	**$11,618,789,832**	**$1,240.15**	**65%**	**$837,203,432**	**$120.98**	**27%**
10 to 19.9% (1,361)	35,452,786,798	1,090.29	76%	2,332,167,268	71.62	17%
Less than 10% (327)	13,265,503,734	1,410.33	68%	598,442,434	63.62	15%
Nonmetro Subtotal	**$60,337,080,364**	**$1,235.36**	**72%**	**$3,767,813,134**	**$77.14**	**18%**
Metro Counties by Rural-Urban Density Code						
Metro-Rural (304)	6,250,233,829	948.56	74%	375,811,280	57.04	16%
Metro-Mixed Rural (467)	14,304,615,399	241.97	66%	1,216,533,265	20.58	11%
Metro-Mixed Urban (147)	2,995,300,012	74.31	61%	245,248,919	6.09	10%
Metro-Urban (171)	3,342,569,240	26.40	87%	159,056,239	1.25	8%
Metro Subtotal	**$26,892,718,480**	**$115.66**	**69%**	**$1,996,649,703**	**$8.57**	**11%**
Total	**$87,229,798,844**		**71%**	**$5,764,462,837**		**15%**

Source: 2001-2003 United States Census Bureau Consolidated Federal Funds Report - SRDI Analysis

Table 3: Comparing Major Agricultural Direct Payment Subsidies and Rural Development Grants

Table 3 (page 11) compares expenditures for the two largest agricultural direct payment subsidy programs[3] with rural development grants. We chose to only include these two commodity programs because they are the largest, comprising 43 percent of total USDA agriculture allocations over this period, making up 62 percent of all agriculture hard expenditures in the poorest tier of nonmetro counties. Nationally, USDA spent slightly over $50 billion more on these two direct subsidies as compared to rural development grants during the 2001-2003 period. As the largest commodity programs, the two are the most visible and the most scrutinized for reduction. They are also the commodity payment programs most commonly found in the poorest rural counties. Not included is a wide range of farm purchase or operating loans, market assistance, agriculture extension grants, research, conservation programs, or crop disaster payments.

USDA rural development hard expenditures include direct payments as well as grants. In this table we excluded both the EQIP program (discussed on page 9) and the rural rental assistance program. While rural rental assistance payments may help expand the supply of affordable housing, SRDI concluded, after much deliberation, that the rental assistance program is more of a safety net than a community development effort and thus would dilute efforts to contrast major agriculture direct subsidies with rural development asset building grants.

The term "opportunity cost," used in Table 3, is a carefully chosen phrase. Defined as the (mathematical) difference between the cost of the two major agriculture direct subsidy programs and the cost of rural development grants, SRDI believes these "opportunity costs" reflect the full range of mis-alignment of USDA resources with rural America's needs.

Here are our observations:

- Farm operations growing commodity crops in the poorest tier of nonmetro counties received over $7 billion in direct subsidies from the two major direct subsidy commodity programs. For the three-year period this is $6 billion more than these poor rural counties received in community development grants.

- Looked at in another way, for every rural development dollar allocated to low wealth counties, farm operations, chiefly very large farm operations[4], received $15.65 in commodity direct subsidies for a set of six commodity crops[5].

- Rural development grants are weighted to lower wealth counties. Given the limited size of the national portfolio, less poor counties cannot qualify or compete. This adversely affects rural counties like those in the Great Plains – counties whose challenges of absolute population loss and declining regional economies are not reflected in pure poverty statistics. Similarly, rural counties within metro regions, challenged by encroaching growth and suburbanization, have critical development needs but are less eligible or cannot compete for limited rural development dollars, especially grant dollars.

[3] The two largest agricultural commodity programs are 10.051 Commodity Loans and Loan Deficiency Payments (we include here only the direct payment component, not the loans) and 10.055, Production Flexibility Payments for Contract Commodities. Other smaller programs such as the Livestock Assistance Program and the Livestock Compensation Program are excluded from our analysis.
[4] Stout, Jim, Edwin Young and Anne Effland. Farm and Commodity Policy: Government Payments and the Farm Sector. USDA Economic Research Service Briefing Room. (www.ers.usda.gov/Briefing/Farm Policy/gov-pay.htm. This briefing cites that 9.7 percent of farm operations collected 59.5 percent of commodity payment dollars in 2005.
[5] Stout, Jim, Edwin Young and Anne Effland. Farm and Commodity Policy: Government Payments and the Farm Sector. USDA Economic Research Service Briefing Room. (www.ers.usda.gov/Briefing/Farm Policy/gov-pay.htm. These crops are corn, rice, cotton, sugar, soybeans and wheat. The majority of American farms receive no USDA commodity subsidy support. For farm operations growing commodity crops, most payments are small. USDA ERS cites a national average payment for commodity crop operators of $17,900 annually.

Table 3. Comparison of Major Agriculture Direct Subsidies and Rural Development Grants

	Two Largest Agricultural Subsidies		Rural Development Grants		Opportunity Cost (Difference Between Two Major Agriculture Direct Subsidies and Rural Development Grants)	Ratio of Two Major Agricultural Subsidies to Rural Development Grants
	Total	Per Capita	Total	Per Capita		
Counties by Poverty Percentage						
Over 20% (364)	7,196,286,275	1,040	459,757,808	66.43	6,736,528,467	15.65
10-19.9% (1,361)	20,283,701,519	624	1,219,481,986	37.50	19,064,219,533	16.63
0-9.9% (327)	9,642,972,961	1,025	324,242,287	34.47	9,318,730,674	29.74
Nonmetro Total	**$37,122,960,755**	**$760.06**	**$2,003,482,081**	**$41.01**	**$35,119,478,674**	**18.53**
Metro Counties by Rural-Urban Density Code						
Metro-Rural (304)	4,232,854,908	642.40	180,748,879	27.44	4,052,106,029	23.42
Metro-Mixed Rural (467)	8,598,707,056	145.46	634,894,684	10.74	7,963,812,372	13.54
Metro-Mixed Urban (147)	1,572,921,156	39.02	126,808,766	3.15	1,446,112,390	12.40
Metro-Urban (171)	**$1,680,581,761**	**$13.28**	**$95,925,930**	**0.75**	**$1,584,655,831**	**17.52**
Metro Total	**$16,085,064,881**	**$69.17**	**$1,038,378,259**	**4.45**	**$15,046,686,622**	**15.49**

Source: 2001-2003 United States Census Bureau Consolidated Federal Funds Report - SRDI Analysis

THE LENS OF THE RACE

We used the same analytical steps in this section as in the previous ones. The analysis begins with total USDA allocations for three major mission areas, moves to hard expenditures (grants and direct payments), and then compares direct commodity subsidies with rural development grants. The data in this section is constrained by the Census Bureau's definition of "non white" which does not include many Hispanics. We are only able to include African Americans, Native Americans, and Asian Americans in this analysis. SRDI intends to do a separate state analysis of Texas, New Mexico, and Arizona to better include Hispanics within the people of color analysis.

We begin by remembering a fascinating time-series set of national maps[6] that clearly show the significant decline in the number of high poverty counties over a 40-year period. At first glance, these maps tell us how far we have come in reducing pervasive rural poverty. Looking at these maps through the lens of race, however, provides a very different policy frame. Forty years ago, concentrated rural poverty could be found all over rural America. By 2000, in contrast, except for central Appalachia, concentrated rural poverty is only to be found in communities of color: African-American, Hispanic, and Native American. The legacy of our nation's racial history is still very much with us. Given this pattern, it is critical to look at USDA funding patterns with this lens of race firmly in place.

Table 4: Total USDA Allocations

Our observations are:

- Counties with 50 percent or more people of color or greater ("majority-minority counties") have much higher per capita dollars from USDA coming via Agriculture programs than they do from the other two mission categories (Nutrition and Rural Development). This contrast is much sharper than for county clusters with smaller minority populations. Though not shown on Table 4, these majority-minority counties, in addition to the direct payment component, have a far greater allocation of Commodity Loans and Loan Deficiency Payment direct loans than other counties. In these counties, the per capita for this direct loan program is $1,700 – as compared to a per capita of $323 in the next highest tier. Agricultural direct loans for majority-minority counties are 45 percent of the total agricultural portfolio.

- These majority-minority counties also have high per capita expenditures for nutrition programs ($813 as compared to the national average of $305 and the non-metro average per capita of $366). This high value clearly indicates a high concentration of poverty in these majority-minority counties.

- Table 4 shows a total rural development per capita of $619 for these majority-minority counties. Analysis of data not shown here indicates that $367 or 59 percent of this $619 total is a reflection of loan guarantee obligations, not direct expenditures.

- More detailed data also show that the Rural Electrification Loan and Loan Guarantee program is responsible for 43 percent of total rural development dollars and 70 percent of total rural development loan guarantee dollars for these majority-minority counties. This represents $580 million in obligations for the three-year period studied.

- For majority-minority counties, total agricultural expenditures by USDA exceeded total rural development expenditures by $7.7 billion. Adding in the next cluster of counties (30- 49.9 percent people of color) brings this differential to $13.4 billion for a total of 332 counties.

[6] These maps can be found on the website of the Rural Policy Research Institute: http://circ.rupri.org/animation/.

Table 4. Distribution of Total USDA Funding by Major Mission Areas/Percentage Community of Color: 2001-2003

Nonmetro Counties by Percent Community of Color	Total Agriculture and Natural Resources Grants, Direct Payments, and Loans	Per Capita	Nutrition Grants and Direct Payments	Per Capita	Total Community Resource Grants, Direct Payments and Loans	Per Capita
50% and Greater (107)	9,034,202,209	4,019.91	1,827,789,820	813.31	1,390,685,965	619
30-49.9% Community of Color (225)	7,813,370,369	1,391.28	3,061,057,620	545.06	2,169,788,448	386
20-29.9% Community of Color (179)	7,668,005,722	1,703.84	1,990,564,948	442.31	2,144,208,219	476
10-19.9% Community of Color (296)	9,659,814,057	1,268.29	2,532,666,076	332.53	3,179,336,186	417
0-9.9% Community of Color (1,244)	50,069,467,626	1,734.81	8,510,850,769	294.88	11,972,740,911	415
Nonmetro Total	**$84,244,859,983**		**$17,922,929,233**		**$20,856,759,729**	

Source: 2001-2003 United States Census Bureau Consolidated Federal Funds Report - SRDI Analysis

Table 5: Hard USDA Expenditures

SRDI defines "hard expenditures" as grants and direct payments – those program funds that do not need to be repaid. As in the Lens on Poverty section, Nutrition program spending is excluded in the subsequent charts because these programs expenditures only flow as grants or direct payments and thus are accurately reflected in Table 4 for Total USDA Funding.

We note that:

- Hard expenditures for the majority-minority county cluster is slightly over $2,000 per capita lower than in Table 4 because it does not include the significant *loan* dollars coming through agriculture subsidy channels. Majority-minority counties still have agricultural hard expenditures that are 64 percent higher than that of the most White county tier ($1270 per capita). This reflects the extensive presence of commodity crop acreage in these counties.

- On the rural development side, removing the loan (direct and guaranteed) category reduces the per capitas and reestablishes a linear trend across the racial categories. The hard expenditures remaining are primarily grants for water and wastewater systems, followed by housing and economic development programs.

- With the exception of the majority-minority category, all race categories showed that more than 70% of all agricultural spending is hard expenditures. The reverse trend is manifest for the rural development program mission. For all race categories, less than one-fourth of total rural development expenditures come in the form of hard money. Again, the EQIP program which we consider to be an agriculture rather than a rural development program, skews that data for the majority minority category, accounting for $11 of the $136 per capita.

Table 5. Distribution of USDA "Hard Expenditures" (Grants and Direct Payments) by Major Mission Areas: 2001-2003

	Agriculture			Rural Development		
Nonmetro Counties by Percent Community of Color	**Total Grants/ Direct Payments**	**Per Capita**	**Percent of Total Ag. Expenditures**	**Total Grants/ Direct Payments**	**Per Capita**	**Percent of Total RD Expenditures**
50% and Greater	4,681,857,319	2,083.26	52%	307,658,581	136.91	22%
30-49.9% Community of Color	5,844,796,945	1,040.75	75%	506,020,232	90.09	23%
20-29.9% Community of Color	5,354,833,799	1,189.85	70%	384,224,103	85.39	18%
10-19.9% Community of Color	7,789,601,628	1,022.73	81%	617,103,009	81.04	19%
0-9.9% Community of Color	36,665,990,673	1,270.40	73%	1,952,807,209	67.63	16%
Nonmetro Total	**$60,337,080,364**	**$1,235.36**	**72%**	**$3,767,813,134**	**$77.14**	**18%**

Source: 2001-2003 United States Census Bureau Consolidated Federal Funds Report - SRDI Analysis

Table 6: Comparing Major Commodity Direct Payment Subsidies and Rural Development Grants

In the Lower Mississippi Delta states of Arkansas, Mississippi, and Louisiana, and to a lesser degree in Alabama, Georgia, South Carolina, and North Carolina, there is a significant overlap of high concentrations of agriculture commodity direct payment subsidies in counties that are predominantly poor and with African-American majority or near-majority populations. The commodity crops grown in this region that account for the majority of the subsidy payments are the traditional southern crops that underpinned the old plantation system – rice, cotton, and sugarcane. The legacy of the plantation system seems long ago now, but it remains with us, as does so much in the rural South, through counties and regions that did not invest in building widely shared community assets – strong civic governance, diverse economies that bring economic stability, or strong schools to which anyone in the nation would be content to send their children. Sharecropping and Jim Crow may be gone, but through the current commodity subsidy system the economic legacy of the South's plantation economy still reverberates.

Table 6 (page 16) presents a similarly stark portrait to the one we saw in Table 3 that presented USDA funding data by county poverty classifications. In this race analysis, however, a more regional picture emerges. Seventy-two percent of the 107 minority majority counties are African-American counties in the nonmetro South. The balance of counties is Native American counties in the Great Plains, Southwest and Alaska, and native Hawaiian populations.

Our observations:

- The central data point in Table 6 is the $1,535 subsidy per capita for majority-minority nonmetro counties – 93 percent greater than that for the next highest race cluster (0-9.9% people of color).

- The per capita ranges for all race categories for rural development grants ranges from $37 to $74, compared to $542 to $1,535 for commodity direct subsidies. Or to put it another way…***For every rural development grant dollar sent to a majority-minority community, $20.64 goes in direct subsidies to commodity crop agricultural operations.***

- For majority-minority counties, the "opportunity cost" is $3.2 billion. Adding in the next highest minority population cluster produces an "opportunity cost" of $6.6 billion.

- The opportunity cost between these commodity subsidies and rural development grants for all nonmetro counties, echoing the total from Table 3, is $35 billion over three years.

RACE AGAIN – WHO RECEIVES THE AGRICULTURAL COMMODITY DIRECT SUBSIDIES IN THE SOUTH?

Based on a review of the 2002 Census of Agriculture[7], nearly all of the $7 billion of commodity direct payment subsidies in majority minority counties and in counties with 30 to 49.9 percent community of color populations are going to farms with white owner/operators. As noted above, USDA Economic Research Services data suggests that 60 percent of the commodity direct subsidies are going to just 10 percent of farms receiving them. The 2002 Agriculture Census data indicates that:

- Nationally, less than 1 percent of agriculture subsidy payments go to farms with non-white farm operators. In Southern states the total percentage received by non-white farm operators, chiefly African-American, range from a high of 2.5 percent in Georgia to less than 1 percent in Arkansas and Louisiana.

2002 Agriculture Census data is unavailable at the county level. It is reasonable to assume that some majority minority counties may have a slightly higher percentage of black farm operators receiving commodity payment support than the state figures 2002 Agriculture Census reports at the state level. SRDI conservatively estimates that, at a minimum, 94-95 percent of total agriculture subsidy direct payments in majority minority counties are going to farms with white operators.

While this report has a focus on rural development implications of USDA funding patterns, it must be noted that an important part of the rural development equation for the rural South and low wealth and/or majority minority counties in particular involves the productive use of natural resources, both farm land and forest. African-American farmers and forest managers have had historic challenges that have inhibited their full potential. Current USDA policy for "socially disadvantaged farmers" is a good start but was not fully funded in the 2002 reauthorization. This is a key example of farm policy and rural development interests intersecting in a productive way. The development of reasonable, equitable farm policy that strengthens the base of African-American farmers and reasonable, efficient commodity support structures can reinforce one another.[8]

[7] National Agricultural Statistical Service, United States Department of Agriculture. 2002 Census of Agriculture. Table 47: Selected Farm Characteristics by Race of Principal Operator. This is both a national and an individual state table.

[8] The Federation of Southern Cooperatives Land Assistance Fund is a strong advocate for black owned land. They propose that 10 percent of all USDA farm programs to socially disadvantaged farmers in those counties where socially disadvantaged exceed 5 percent of all farmers, a five year graduation requirement for participating farmers, and raising cost share requirements for all relevant USDA programs to 90 percent. The full FSC/LAF USDA reauthorization proposal can be found at http://www.federationsoutherncoop.com/farmbilla07.htm.

Table 6. Comparison of Agriculture Direct Subsidies and Rural Development Grants

Nonmetro Counties by Percent Community of Color	Two Largest Agriculture Direct Subsides: Total	Two Largest Agriculture Direct Subsides: Per Capita	Rural Development Grants: Total	Rural Development Grants: Per Capita	Opportunity Cost (Difference Between Two Major Agricultural Direct Subsides and Rural Development Grants)	Ratio of Two Major Agriculture Direct Subsidies to Rural Development Grants
50% and Greater (107)	**$3,449,453,345**	**$1,535**	**$167,121,196**	**$74**	**$3,282,332,149**	**$20.64**
30-49.9% (225)	3,679,514,629	655	263,395,906	47	3,416,118,723	13.97
20-29.9% (179)	2,961,023,441	658	173,967,644	39	2,787,055,797	17.02
10-19.9% (296)	4,124,648,274	542	344,140,477	45	3,780,507,797	11.99
0-9.9% (1,244)	22,908,321,066	794	1,054,856,858	37	21,853,464,208	21.72
Nonmetro Total	**$37,122,960,755**		**$2,003,482,081**		**$35,119,478,674**	

Source: 2001-2003 United States Census Bureau Consolidated Federal Funds Report - SRDI Analysis

A LOOK AT ARKANSAS' DEEP DELTA COUNTIES: DO COMMODITY SUBSIDIES BROADLY BENEFIT THE ECONOMY?

In general, this is a complex issue involving hundreds of variables. Recent research from the Midwest suggests that the agricultural support system has not benefited localities and regions, but instead coincides with weak job and population growth. "Farm payments are not providing a strong boost to the rural economy in those counties most dependent on them. Job gains are weak and population growth is actually negative in most counties where farm payments are the biggest share of income."[9]

And what of the South? What do we know about a very rural region where there is significant overlap between agriculture commodity program expenditures and high poverty? Tables 7 (page 17) and 8 (page 18) indicate that the policy of spending more than $1 billion over three years in 11 Delta counties of Arkansas in agriculture commodity payments as compared to rural development funds have been accompanied by continuing loss of population and nonfarm employment.

The Data

- Table 7 shows USDA 2001-2003 funding data for 11 Delta counties in Arkansas. Total allocations from the two primary direct subsidy programs totaled slightly over $1 billion for the three-year study period. Nutrition program allocations were over $252.4 million, with five counties having per capita allocations above $1,000 – a clear sign of pervasive economic and social distress.

[9] Mark Drabenstott. *Do Farm Payments Promote Rural Economic Growth?* The Main Street Economist. Center for the Study of Rural America, Federal Reserve Bank of Kansas City. March 2005

- Rural development grants, direct loans, and guaranteed loans for these 11 counties totaled $138 million, with the majority being guaranteed loan obligations. ($14.1 million in rural rental assistance payments are not shown because of space limitations.)

- For every rural development grant dollar, USDA allocated $150 in agriculture subsidies to these 11 Delta counties – almost entirely high poverty and majority-minority in population.

- Note that Table 8 shows key demographic and economic data for these same 11 counties. All but one county has lost population during the first years of this decade. Between 2000 and 2004, every county lost nonfarm employment – some dramatically so.

Table 7. Arkansas' "Deep Delta" County Analysis of Select USDA Programs/Categories: 2001-2003

County	USDA Agriculture Subsidy Direct Payments (10.051 and 10.055)		USDA Nutrition & Food Stamp Expenditures		USDA Rural Development Grants		USDA Rural Development Direct Loans		USDA Rural Development Guaranteed Loans	
	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita
Chicot	80,226,074	5,683	16,505,938	1,169	133,094	9	2,480,700	176	0	0
Mississippi	131,939,574	2,538	39,336,882	757	965,953	19	3,914,729	75	12,681,361	244
Phillips	86,679,176	3,278	41,438,654	1,567	1,956,329	74	11,797,954	446	2,838,425	107
Crittenden	76,684,606	1,508	39,898,207	784	327,532	6	486,495	10	8,582,232	169
Cross	124,122,834	6,357	14,354,131	735	262,830	13	929,179	48	2,529,330	130
St. Francis	106,272,946	3,623	33,978,001	1,159	578,065	20	3,142,224	107	41,313,685	1,409
Monroe	76,203,321	7,432	10,591,685	1,033	1,142,475	111	583,634	57	217,500	21
Disha	102,322,401	6,670	14,893,956	971	170,543	11	2,687,429	175	0	0
Ashley	57,652,492	2,381	16,165,005	668	696,168	29	2,324,990	96	14,577,684	602
Lee	96,989,624	7,710	16,590,000	1,319	404,680	32	1,825,261	145	2,238,148	178
Woodruff	87,589,795	10,021	8,720,719	998	179,202	21	1,709,590	196	350,100	40
	$1,026,682,843		**$252,473,178**		**$6,816,871**		**$31,882,185**		**$85,328,465**	

Data Source is the US Census Bureau's Consolidated Federal Funds Reports for Fiscal Years 2001, 2002, and 2003.

Analysis by the Southern Rural Development Initiative

Table 8. Arkansas' "Deep Delta" Counties: Select Demographic and Economic Indicators

	Percent Persons Below Poverty in 2003	Percent Population Change 2000-2005	Private Nonfarm Employment: Percentage Change 2000-2004
Chicot	27.9	(7.7)	(2.6)
Mississippi	22.3	(7.8)	(18.9)
Phillips	28.4	(8.8)	(11.3)
Crittenden	22.5	2.0	(5.8)
Cross	19.6	(1.5)	(1.9)
St. Francis	25.2	(4.9)	(30.8)
Monroe	23.2	(9.3)	(2.7)
Disha	23.2	(6.4)	(4.5)
Ashley	17.8	(4.3)	(10.4)
Lee	29.1	(8.2)	(3.1)
Woodruff	23.0	(7.3)	(18.6)

Source: US Census Bureau "Quick Facts" County Summary pages.

Of all the tables shown in this report, these last two suggest the heart of what happens when USDA, the federal government's chief partner to rural America, shapes its major mission of agriculture, rural development, and nutrition in an insular, uncoordinated fashion, and where community context matters little. *The almost $1 billion "opportunity cost" of agriculture direct payments over rural development grants in these Arkansas Delta counties that face prevailing development needs is an extreme – but it is a perfect example of how policy mis-alignment inevitably results in such significantly mis-aligned funding patterns.*

The $3 billion opportunity cost between commodity subsidies and rural development grants in the 107 majority-minority counties reflect a similar pattern. The contrast between agriculture and rural development might not be so high in counties without a significant commodity crop presence, but the paucity of rural development commitments in the face of such need remains. The full impact of the concept of "opportunity cost" is seen as a missed chance to reduce poverty, and to increase economic activity and diversity. Over time this can lead to a measurable reduction in the $1.8 billion spent on feeding poor children and adults in majority-minority counties. USDA policy and expenditure patterns in poor counties, and in counties predominantly with minority populations, reinforce the economic and social inertia that inhibits a brighter future for much of the rural South.

ALIGNING USDA MAJOR PROGRAM MISSIONS THROUGH A RURAL COMMUNITY ASSETS FRAMEWORK

SRDI's Federal Funds database provides a place-based framework to evaluate and shape USDA policy for rural America. For the first time, we can track which USDA funds go where and for what purpose, and can compare expenditures by county, mission, program, size, duration, and demographics. But how do we know what mix and level of USDA programs is making a proactive difference in specific rural places? What criteria do we use to judge community vitality?

SRDI suggests that we use the well-being of children as our policy frame. Here's why:

Children connect communities to the future. Think of the phrase "canaries in the coal mine." These bright yellow birds were used to warn coal miners in the 19th century of the presence of methane gas – odorless but toxic. *The status of children in a rural community is comparable to the status of canaries in the coal mine. Unfavorable conditions, whether social, economic, or psychological, seem to visit children first.* USDA's Economic Research Service has noted that children are more likely to be poor than any other age group.[10] The relative absence of children is also a sign of community distress. The rural population in many places, including farmers, is aging and rural schools are closing. Without young people, rural communities lack hope for the future.

The Annie E. Casey Foundation has developed a powerful theory of community change around the phrase, *"Kids do well when families do well; and families do better when they live in a supportive environment."* Children, families, and communities co-exist in a complex social ecology. Though the USDA policies that affect rural communities are a complex web, their impact on children and communities fall as a single footprint. Shaping this footprint so it effectively and positively affects rural places must be central to the mission of USDA.

SRDI proposes that the well-being of children be the "central pivot" around which USDA's policies and major missions revolve. It can help USDA better align its policies with community needs and aspirations. It can also encourage new local and regional partnerships that are effective and creative. Three questions, we believe, can best begin this process of policy development and evaluation:

1. *Which policies and programs make rural communities more economically diverse and stable so parents can earn a decent income to take care of their children?*

2. *Which policies and programs increase self-sufficiency and decrease dependence on life-preserver programs that keep individuals, families and farms afloat, but do not build permanent community assets?*

3. *Which policies and programs build distinctly rural community assets that are widely shared so all children will consider staying, or one day returning, to their rural home place?*

Each of the above questions encourages policymakers and practitioners to see the intrinsic linkage between USDA missions, and between USDA missions and the communities they serve. This linkage can also be seen in the impact the programs have on each other, as we see in the following section.

[10] Rogers, Carolyn. *Dimensions of Child Poverty in Rural America. Amber Waves.* USDA Economic Research Service. November, 2003

USDA's Policy Footprint in Rural Communities

Illustration 1 is a simple way of seeing USDA's policy footprint in low wealth rural communities across the nation. Agriculture per capita direct subsidies are higher than cash distributions for nutrition and grants for rural development ($1,040 vs. $730 vs. $66).

Illustration 1: The Current Policy Footprint of USDA Program Strategies for Low Wealth Rural Counties

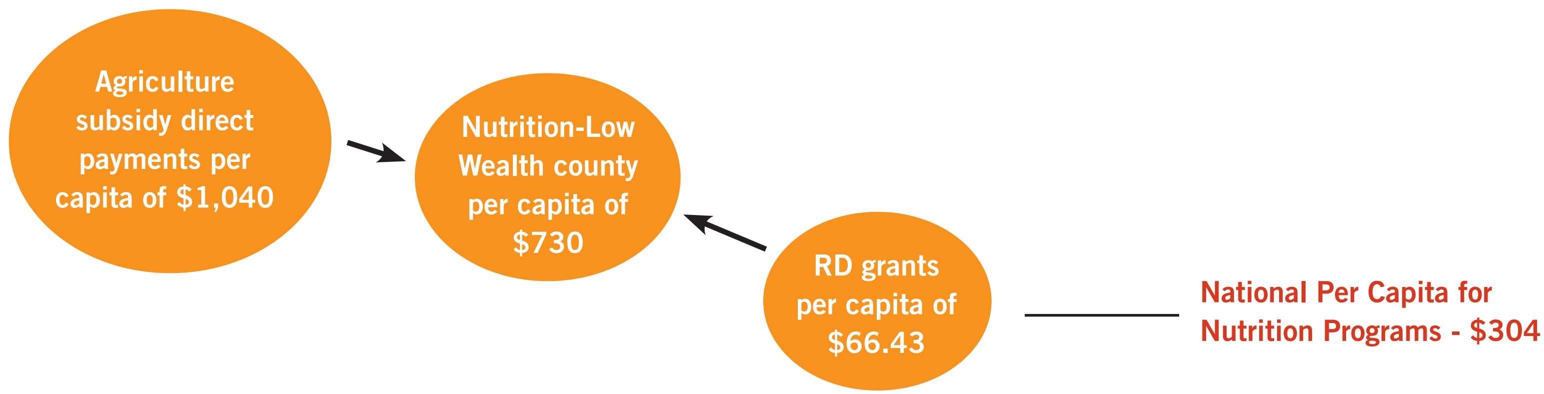
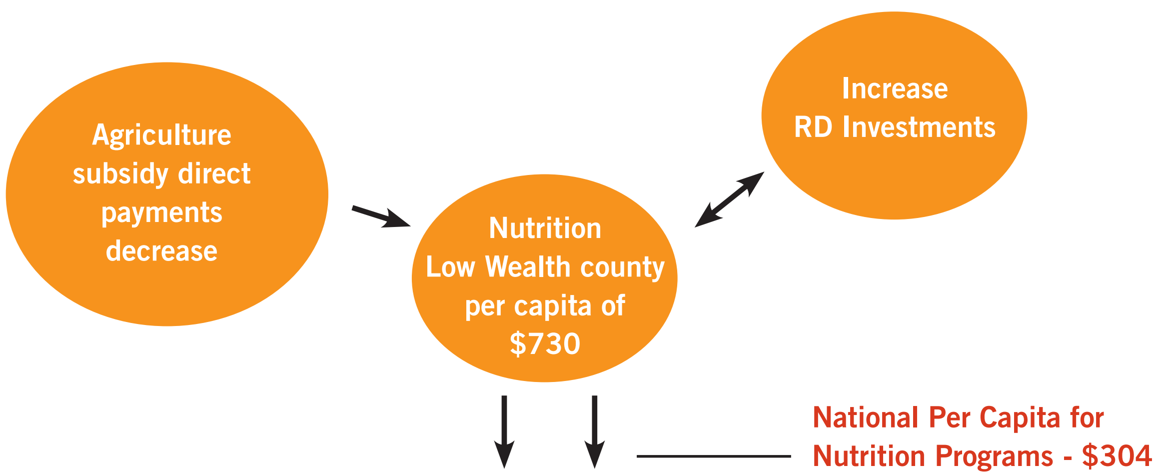


Illustration 2 shows how the USDA's three mission areas are inextricably linked at the community level and how reshaping the relationship produces different results over time. Increased investment in rural development, appropriately done, can reduce a locality's demand for USDA nutrition supports, thus driving the per capita value of nutrition funding in the poorest rural places closer to the national average.

Illustration 2: Realign Program inputs for Healthier Rural Communities and Effective Policy Systems



Nutrition as the Key USDA Program Indicator of Children's Needs

SRDI suggests that USDA nutrition programs serve as the key community needs indicator – and a strong indicator of the needs of children. USDA nutrition programs, because of their income guidelines, are reliable indicators of household and community economic need – thus making them a useful program benchmark within the USDA. Key nutrition programs include the School Lunch Program, the Women Infant and Children program, and Food Stamps, just to name the largest three – and children are major recipients of all three. Given the huge allocation and mission importance of nutrition programs in rural America, they can be a useful guide to align, measure, and evaluate the community impact of USDA agriculture and rural development programs in the poorest counties.

Table 9 (page 22) poses a new way of seeing the relationship between agriculture, nutrition, and rural development. Here, we have divided the agriculture and rural development totals and subtotals by the nutrition programs total. In effect, we are giving a programmatic and policy equivalent of calculating per capitas based on a county's low-income population rather than on the total population. This is the calculation that puts children, via the nutrition programs, at the center of the policy pivot. Our key points are:

- In the 364 low wealth counties, USDA allocates only 9 cents in rural development grants per each nutrition program dollar, while spending $1.43 in commodity subsidy direct payments per each nutrition program dollar. Even using the total rural development expenditure allocation of 61 cents for every nutrition dollar still yields an enormous discrepancy with agricultural commodity direct payment subsidies.

- The low ratios for the poorest tier of counties at the top of Table 9 suggest how limited the rural development investment is relative to community need.

- Because nutrition expenditures are income means tested, as opposed to many agriculture and rural development programs, high values resulted in the tier with the lowest poverty rates. This explains why the least poor counties received 20 cents in rural development grants per nutrition dollar vs. 9 cents for the poorest tier of counties.

- All rural development programs excluding guaranteed loans, as well as total rural development allocations, are well below the value for agriculture and the two largest agricultural commodity subsidy programs across all county tiers.

This program ratio comparison is a practical way to begin making the policy systems linkage between these three major missions of USDA – a linkage that can only be beneficial to rural communities.

Table 9. USDA Allocations Through the Lens of Its Nutrition Expenditures

For Every Nutrition Program Dollar (Food Stamps plus all other Nutrition Programs), how much does USDA allocate for the following?

	Agriculture and Natural Resources						Rural Development					
Nonmetro Counties by Poverty Rate	Total	Grants	All Direct Payments	Direct Loans	Gauranteed Loans	2 Largest Commodity Direct Payments Subsidies	Total	Grants	All Direct Payments	Direct Loans	Guaranteed Loans	All RD Programs Minus GL
Greater than 20% (364)	3.56	0.19	2.11	1.07	0.20	1.43	0.61	0.09	0.07	0.14	0.31	0.31
10-19.9% (1,361)	4.15	0.25	2.90	0.67	0.32	1.80	1.23	0.11	0.10	0.26	0.77	0.46
Less than 10% (327)	12.04	0.20	7.93	3.12	0.78	5.91	2.40	0.20	0.17	0.47	1.57	0.83
Nonmetro Total	**$4.70**	**$0.23**	**$3.14**	**$1.01**	**$0.33**	**$2.07**	**$1.16**	**$0.11**	**$0.10**	**$0.24**	**$0.71**	**$0.45**

A RURAL COMMUNITY ASSETS FRAMEWORK

Effective rural communities use a broad array of strategies and tools to respond to their challenges and opportunities. Similarly, a USDA community assets framework requires an equally rich set of policies and programs. Currently, the agency's Rural Development portfolio includes many programs and strategies consistent with a community assets framework, such as supporting business, housing and infrastructure development. These programs, however, have minimal resources relative to the great need across rural America for strategic investments. A renewed and invigorated national policy supporting community asset building would amplify these programs; put added emphasis on small scale income generation especially for women, entrepreneurship, and community energy efficiency; and invest in those community assets critical to community viability – schools, medical facilities, and critical infrastructure.

In addition to funding, USDA can play two other critical roles – research and leadership. The Environmental Protection Agency has estimated a $34 billion need over 20 years for small, mostly rural, drinking water systems.[11] A similar assessment is needed within a broad rural community assets framework. What investments are needed in education and workforce development, quality of life enhancements, sustainable development and other activities? These benchmarks of need should guide USDA funding priorities and evaluate measurable program success. In addition, though USDA is not the sole federal partner to rural America, it is the dominant one. It needs to take a leadership and advocacy role on behalf of rural America – a role that no other federal agency can claim. For example, the importance of rural children to the future of rural communities calls for a stronger USDA leadership role to support not just educated children, but educated places that can compete in a global economy.

[11] 2003 EPA Drinking Water Infrastructure Needs Survey and Assessment: Third Report to Congress. 2005

Low wealth rural communities share a common characteristic of having terrific educational challenges.[12] USDA leadership, partnerships, and advocacy with other federal agencies, such as the U.S. Department of Education must be stronger and more coordinated. *Until USDA puts rural communities, with a special emphasis on the well-being of children, as the pivot that guides and directs its policies and resources, it will continue to forfeit its opportunity to be the essential federal partner of rural America in the 21st century.*

REPORT METHODOLOGY – AND A QUICK GUIDE TO UNDERSTANDING FEDERAL FUNDS DATA

This report's narrative emerged from dozens of data reports generated by a custom query interface developed initially by SRDI consultants and then by the phenomenally talented staff of the Community Information Resource Center affiliated with the University of Missouri's Rural Policy Research Institute. With the release of this report SRDI and RUPRI make public the online custom query database that generated the data consolidated into the report's tables. With this online database users can replicate data generated in this report, or query other federal agencies for the FY 2001-2003 period. We believe this is a robust tool that has many practical applications. We will update this database with 2004-2006 data as resources become available to do so.

SRDI and RUPRI also make public a more recently designed USDA county summary interface that generate county specific data similar to the structure of the analysis made in this report and compares it to national and nonmetro values. http://circ.rupri.org/srdi

The two database interfaces noted above are designed for wide angle policy analysis. The original version of the SRDI Federal Funds Analysis database was designed as a platform for rural policy education and is accessible on the SRDI website at http://www.srdi.org/srdi/transf/FederalFundsIntro.htm

This interface is the one to use if you want to get a broad portrait of federal funding present and not present in a given county, and to compare your findings to two other counties, along with other insights. SRDI uses this interface for day-long community learning sessions. Contact us if you wish to learn more about this convening process.

How was the custom query database interface designed?

Tracking federal expenditures and obligations is the responsibility of the United States Office of Management and Budget. OMB in turn contracts with the United States Census Bureau to collect funding data from federal departments and agencies, organize it, and make it available to the public.

Tracking the distribution of federal expenditures is no small task. In FY 2003 the federal government made over $2 trillion of expenditures and obligations through hundreds of programs and agencies. There are grants, direct payments, procurement contracts, loans, and insurance payments. The size and scope of federal government's spending is astounding.

The Census Bureau releases federal funding data in three ways: As a massive written document titled *The Consolidated Federal Funds Report*, which is generally released a year to 18 months after the fiscal year it covers; and two online data retrieval systems. All three ways of retrieval are accessible at this location on the Census Bureau's website at http://www.census.gov/govs/www/cffr.html.

[12] *The Role of Education: Promoting the Economic and Social Vitality of Rural America.* A special report issued by the Southern Rural Development Center, USDA Economic Research Service and the Rural School and Community Trust. 2005. This is an excellent collection of research and commentary on the central role of education in rural economic and social progress.

The source data for SRDI's federal funds database is Census Bureau Consolidated Federal Funds Reports. This data reports the program identification code, and program name, and assigns an "object code" that identifies the type of program fund: a grant, direct loan, direct payments of various kinds, guaranteed loan, insurance, and government salary and wages.

The Economic Research Service of USDA for a period of years did its own analysis of Census Bureau Consolidated Federal Funds Reports and developed coding that further specified the program's function and assessed the reliability of it being traced to the county level. The last year their analysis is available is 2001. SRDI uses the function code classification assigned by ERS staff. SRDI currently use ERS assignments of a given program being able to be reliably traced to the county level. This is important as key programs such as the Depart of Housing and Urban Development's Small Cities CDBG program goes first to the state before going to counties on a competitive application basis. ERS analysis filters out this major program, as well as the HUD HOME program, even though the Census Bureau's Consolidated Federal Funds Reports records them at the county level. For USDA programs, the most significant fund that ERS deems not traceable to the county level is the School Breakfast Program.

We extrapolated the FY 2001 ERS assignments on function and disposition to the FY 2002-2003 data. Where new programs were found we consulted with ERS staff on making a consistent assignment on their function and disposition.

The custom query interface also includes county classification identifiers. Each county's OMB status as either Metropolitan or Nonmetropolitan is included. Also included is a newly developed county classification system, the Rural-Urban Density Code that classifies all counties, metro and nonmetro along a continuum of rural to urban. Finally, we added 2000 Census data on county poverty rates, and the percentage of the county's population that is nonwhite, what we term community of color.

Notes on the Rural-Urban Density Codes

This county typology developed by Dr. Andrew Isserman of the University of Illinois, Urbana is designed to separate rural and urban populations in a more effective manner. Our interest was to capture in Tables 1-3 the rural populations and counties that are within designated metropolitan regions. The metropolitan designation simply indicates economic labor sheds. Counties that look and feel rural get designated metropolitan if 25 percent or more of the county's labor force commutes to a metro central county to work. Typically (including our own research) we simply define metropolitan as urban and nonmetropolitan as rural. This does not adequately capture the reality of the ground.

The break out of Rural-Urban Density typologies for metro counties includes four classifications:

- **Rural county:** The county's population density is less than 500 people per square mile and 90 percent of the county population is in a rural area or the county has no urban area with a population of 10,000 or more.

- **Urban county:** The county's population is at least 500 people per square mile and 90 percent of the county's population lives in urban areas. Finally, the county population in urban areas is at least 50,000 or 90 percent of the county population.

- **Mixed-rural county:** The county meets neither the urban nor the rural county criteria and its population density is less than 320 people per square mile. This is two acres per person.

- **Mixed- urban county:** The county meets neither the urban nor the rural county classification and its population density is at least 320 people per square mile.

By crossing these classifications by the OMB designation of metro or nonmetro we know that there are 304 rural metro counties (95 of whom have no urban population), 467 mixed-rural counties, 147 mixed-urban counties, and 171 urban-metro counties.

Notes on Guaranteed Loan Obligations

Guaranteed loans, when they truly leverage private financing that otherwise would not have been made, are a good community development finance tool. Our concern, however, is that in general policy discussions and data presentations, guaranteed loans are lumped in with other funding streams. But the guaranteed loans are not expenditures; they are obligations. Much like an insurance program they are a promise of payment when certain conditions are met. For this reason we believe that a more accurate picture of rural development allocations would segregate the guaranteed loan programs – obligations – from other program expenditures for a more realistic portfolio picture.

The Census Bureau's Consolidated Federal Funds Reports has two funding categories classified as Obligations: Guaranteed Loans and Insurance programs, such as flood and crop insurance. In our database we exclude the insurance program obligations as they are such huge programs they would seriously distort the total if included. The Census data does, however, designate when a claim is paid against crop or flood insurance. These expenditures get coded as a direct payment and can be traced to the county level. For USDA guaranteed loans, however, there is no comparable way to trace payments to private lenders when a guaranteed loan obligation defaults and expenditure is made. Analysis of guaranteed loan programs become more complex when assessing for each program what constitutes an at risk loan that merits federal underwriting. This is an area worthy of additional research.

Notes on the SRDI Online USDA County Summary Data

The USDA county summary page is created by custom queries that extracts and summarizes data at the county level.

Nutrition programs include all USDA nutrition programs except the School Breakfast Program, which USDA ERS staff did not designate as traceable to the county level. The three largest programs are included:

- Food Stamps
- National School Lunch Program
- Special Supplemental Food Program for Women, Infants and Children

And two smaller programs:

- Community Food Projects Program
- Food Distribution Program on Indian Reservations

Allocations
Total USDA Agriculture and Rural Development spending is referred to as "Allocations." This is all programs including both expenditures and obligations, which for USDA are loan guarantees. Expenditures include the actual transfer of financial resources of some kind: a grant, a direct payment, or a loan. Obligations are a promise of payment, in the case of guaranteed loans, for a certain percentage of the value of a private loan that is deemed to be a high risk loan that would not have been otherwise made.

Hard Expenditures
SRDI defines hard expenditure as grants and direct payments that are not repaid by the community to the federal government.

Major Agriculture Commodity Direct Subsidies
This calculation includes the two largest commodity direct payment programs because they comprise 43 percent of total USDA agriculture allocations over this period. The two programs are:

- **Program 10.051:** Commodity Loans and Loan Deficiency Payments (we include here only the direct payment component, not the loans) and

- **Program 10.055:** Production Flexibility Payments for Contract Commodities.

Nationally, the USDA spent slightly over $50 billion more on these two direct payment subsidies from FY 2001-2003. These programs are exclusive of the wide range of other USDA agriculture programs such as farm purchase or operating loans, market assistance, agriculture extension grants, research, conservation programs, or crop disaster payments.

A QUICK GUIDE TO UNDERSTANDING FEDERAL FUNDS DATA

The availability of federal funds data is not generally well known as it resides in an out of the way corner of the Census Bureau's website. The two online data retrieval systems used by the Census Bureau are quite different. The first allows a user to retrieve data for a given year for a single government unit (state or county). A county report can be given by agency, individual programs, or all programs. The report is an easy to read and helpful snapshot. There is, however, no way to compare or contrast with other counties, or easily aggregate data.

The second online retrieval system allows a user to download data for an entire state's units of governments. This is a comprehensive data set but is considerably more difficult to understand and use for someone lacking skill in working with large datasets generally, or federal funding codes specifically.

The Federal Government's Classification of Funds

The SRDI Federal Funds Database adopts two common descriptors of funds used by the federal government, *Object Codes* and *Function Codes*. Object Codes describe what kind of fund it is, such as a grant, a loan, or agency salary. Function codes assign intended uses, such as Community Resources, Defense, and Income Security. Major Function areas are then subdivided into sub-functions. Below are the Object Codes used by the Census Bureau.

Object Codes

The expenditures and obligations of the federal government are different kinds of funds. Some are grants; others are direct loans or guaranteed loans. The Object Codes also suggest the type of recipient. These classifications are:

- ***DR - Retirement and Disability Payments***
  All forms of social security are in this category. These are payments to individuals.

- ***DO - Other Direct Payments for Individuals***
  Medicare is the biggest program here, but also includes the Food Stamp program and other smaller programs

- ***DX - Direct Payments Other than for Individuals***
  This category is dominated by agricultural programs that directly fund, via income subsidies or loans, farm operations. The commodity support program is found here, as is the Conservation Reserve Program.

- ***GG - Grants***
  This includes a vast number of individual programs from Medicaid (the largest by far) to smaller programs for practically every department and agency of the federal government.

- ***PC - Procurement Contracts***
  This is what the federal government purchases – from toilet paper to B2 bombers.

- ***SW - Salary and Wages***
  This identifies expenditures for wages to both uniformed (military) personnel and civilian employees of the federal government.

- ***DL - Direct Loans***
  The federal government is a direct program lender in housing, infrastructure, agriculture and economic development.

- ***GL - Guaranteed Loans***
  In recent years the federal government has created a variety of guaranteed loan programs for agriculture, mortgage home insurance, housing, and economic development that secures loans made by private financial sources.

- ***II - Insurance***
  Two major programs are flood and crop insurance.

The SRDI database design follows the advice of staff at the Economic Research Service of USDA and excludes insurance programs from our calculations and analysis. The reason for this is that the insurance programs represent obligations, not actually expenditures. Their presence in the calculations significantly skews the data. On the other hand, insurance payments made, for example for crop damage, do show up in the database because they have a DX object code and are an actual expenditure.

Function Codes

The federal agency that has looked most closely, to our knowledge, at the distribution of federal funds to rural America is the Economic Research Service of the United States Department of Agriculture. Their work has inspired and informed our own. ERS has in the past published several reports analyzing the distribution of federal funds in certain regions of the nation[13]. They have also developed a "Function Code" system that assigns to each federal program a code that denotes the general intended use of the fund. We use this ERS system in organizing our database. The ERS system has six major function areas. In turn, there are sub-functions nested within each major function area. The major function areas are:

- Income Security
  - o Medical and Hospital Benefits (Medicare/Medicaid)
  - o Public Assistance and Unemployment Compensation
  - o Retirement, Disability and Survivors Social Security
- Agriculture and Natural Resources
  - o Agriculture Assistance
  - o Agriculture Research and Services
  - o Forest and Land Management
  - o Water and Recreation Resource Programs
- Community Resources
  - o Business Assistance
  - o Community Facilities

[13] You can see the range of research articles by Economic Research Service staff on federal funds at the ERS website, located at: http://www.ers.usda.gov/Briefing/FederalFunds/.

- o Community and Regional Development
- o Environmental Protection
- o Housing Other than Vets
- o Housing for Vets
- o Native American Programs
- o Transportation Programs

- Human Resources
  - o Elementary and Secondary Education
  - o Food and Nutrition
  - o Health Services
  - o Social Services
  - o Training and Employment
- Defense and Space
  - o Aeronautics and Space
  - o Defense Contracts
  - o Defense Payrolls and Administration
- National
  - o Criminal Justice and Law Enforcement
  - o Energy
  - o Higher Education and Research
  - o All Other Federal Funds Programs Excluding Insurance

SRDI's database adopts this function system. Their assignment system is well thought out but not perfect – some assignments seem non-intuitive. There are, for example, programs assigned to Income Security that we believe most people would consider putting in Community or Human Resources, but this is a minor issue.

The Challenge of Tracing Federal Programs

The Consolidated Federal Funds Report and datasets are accurate enough to be highly insightful for policy purposes. The data is not perfectly accurate in capturing every program, assigning it the right coding, and then tracing where it goes. Significant programs, for example the Federal Pell grant and loan program for higher education show up at the location of the administering university, not the home county of the recipient. There are numerous smaller programs. We benefit from analytical research conducted by staff at the Economic Research Service who has determined whether a program is reliably traceable to the county level for the FY 2001 data. We adopted their standard for FY 2002 and 2003 data, and had ERS staff make function code assignments.

Another challenge is programs that first go to state government who then regrant to localities, a good example of this is the HUD CDBG program (non entitlement) and the HOME program. While these programs may make up only 2 or 3 percent of total grants made by the federal government, they represent bigger portions of grants made for community development or social services. Over time SRDI will add value to the Consolidated Federal Funds Report process by filing a Freedom of Information Act request to retrieve and geocode fund allocations for programs critical to rural communities.

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Jason Gray
SRDI Research and Policy Director
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Raleigh:

128 East Hargett Street, Suite 202

Raleigh, NC 27601

T 919-829-5900

Asheville:

20 Battery Park, Suite 211

Ashville, NC 28801

T 828-285-9230

www.srdi.org