Why Rural Matters:  
The Rural Impact of the Administration’s FY06 Budget Proposal

Presented by the National Rural Network

March 15, 2005  
2:30 – 3:30  
Room HC-9 United States Capitol

National Rural Network  
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The National Rural Network is a coalition of over 50 nongovernmental national organizations, working to create awareness and understanding of public policies that enhance the vitality of rural America.

NRN Membership

American Academy of Family Physicians
American Academy of Nurse Practitioners
American Academy of Nursing
American Academy of Pediatrics
American Association of School Administrators
American Association of State Colleges and Universities
American Psychological Association
American Public Health Association
American Public Works Association
American Short Line and Regional Railroad Association
American Water Works Association
Aspen Institute Community Strategies Group
Association of Educational Service Agencies
Center for Rural Affairs
Child Welfare League of America
Communicating for Agriculture and the Self-Employed
Easter Seals
Farm Credit Council
Federal Housing Finance Board
Housing Assistance Council
Innovations in Civic Participation
Institute for Agriculture and Trade Policy
League of Rural Voters
Midwest Sustainable Agriculture Working Group
National Association of Community Health Centers
National Association of Counties
National Association of Development Organizations
National Association of Federally Impacted Schools
National Association of Regional Councils
National Association of Resource Conservation and Development Councils
National Association of Towns and Townships
National Catholic Rural Life Conference
National Conference of State Legislatures
National Congress for Community Economic Development
National Congress of American Indians
National Cooperative Business Association
National Council of Farmer Cooperatives
National Education Association
National Education Knowledge Industry Association
National Farmers Union
National Grange
National Organizations of State Offices of Rural Health
National Rural Education Advocacy Coalition
National Rural Electric Coop
National Rural Funders Collaborative
National Rural Health Association
National Telecommunications Cooperative Association
Partners for Rural America
Regional Airline Association
Rural Assistance Center
Rural Coalition/Coalición Rural
Rural Community Assistance Partnership
Rural Community College Alliance
Rural Local Initiatives Support Corporation
Rural Policy Research Institute
The Council of State Governments
The Rural School and Community Trust
Washington Business Group on Health
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Opening Statement

On February 7, 2005, President Bush released his FY06 budget proposal. An administration's budget reflects its priorities, its values, and its vision for our nation. This budget is no exception.

However, because of the significant cuts proposed in this budget, it has received more than the usual attention. Many sectors, interest groups, and constituencies have already expressed their concerns with this budget’s implications. Today, the National Rural Network, a coalition of over 50 organizations working together to address the concerns of rural America, releases this analysis of the specific rural impacts of the Administration’s FY06 budget.

For many years, the common line in D.C. has been that the reason rural America gets so little attention is because its diverse organizations have never been able to speak with one voice. With this document, that all changes! Our diverse organizations, representing all of the sectors working to sustain and revitalize rural America, today raise that voice. While each of our sectors is a vital component of rural America, we each recognize that if our rural communities do not thrive, no one sector will. We are only as healthy as our rural communities themselves.

It is also important to note that these organizations are not solely rural. Many of us are broad-based national organizations, with constituencies in urban, suburban and rural America. However, we all believe in one America, which is best strengthened when all of America is strong. This is our concern. We recognize the fiscal challenges before this Congress are real, and spending cuts within this budget are widespread. However, we also know that rural people and places have long suffered a differential federal funding disadvantage, as we outline below. Unfortunately, this budget proposal does not improve this situation. Instead, the priorities, values and vision reflected in this budget present an even deeper challenge for rural America.

Sadly, this budget further exacerbates an existing structural imbalance. The Consolidated Federal Funds Report for 2001 (the most recent reported data) shows that the federal government returned $6,131 on a per capita basis to urban areas, while returning only $6,020 to rural areas. This results in over a $6.5 billion annual federal disadvantage to rural areas.

However, an equally challenging issue is the difference in the nature of these federal funds. In rural areas, 71% of these funds are transfer payments sent to individual citizens, such as Medicare, Social Security, and Farm Commodity Program payments. In urban America, only 48% of these federal funds are transfers. This 23% differential funding builds much of the community capacity and infrastructure of urban and suburban America. Therefore, with each passing year, these dynamics further disadvantage rural jurisdictions and organizations, who are forced to compete with their metropolitan counterparts on an increasingly uneven playing field, without benefit of the professional staff, technical assistance and planning resources which this funding secures.

These capacity disadvantages are stark, and additive. Each year from 1994-2001, the federal government spent two to five times as much, per capita, on urban than rural community development, and one third as much on community resources in rural areas, an annual $16.5 billion rural disadvantage.

This trend continues in this budget, despite the fact that rural median family income is 25% lower, and rural poverty rates 28% higher than metro areas. In fact, rural counties now comprise 88% of the persistent poverty counties in the United States.

This document includes specific budget analyses from 16 NRN member organizations, chosen for the diversity of their interests, and the unique rural community disadvantage which will result in their sector,
should this budget proposal successfully move through the Congress. The rural implications of this budget are pervasive, and many significant rural concerns are not addressed in this document. For example, most are aware of an earlier analysis and common position developed by nearly 100 commodity and agribusiness associations, as well as the significant budget reductions proposed for our nation’s Land Grant University system. Many of the NRN member organizations not presenting today have also done individual budget analyses, which may be accessed through their websites. All NRN members are actively addressing the needs of rural America and the impacts of this Administration’s budget proposal.

We live in a society in love with quick fixes. Rarely do we commit to anything for the long haul, yet that is exactly what will be required to bring about positive change in much of rural America. Places where poverty has persisted for decades, where populations have been declining for a half century, where private sector growth has been minimal, and where local schools, hospitals and churches are often only a memory of its aging residents. There is no quick fix for rural America. Only the long-term investment of money, ingenuity and hard work will lead to success.

However, where these investments are evident, miraculous renaissance is occurring. Unique institutional innovations and public and private entrepreneurship are building a renewed commitment across rural America. A new rural governance is forming. A new spirit of discovery and collaboration is emerging, along with a new commitment to place-based development, sensitive to culture, heritage and history. All are informed by a new understanding of the essential importance of an asset-based, regional development framework. These hopeful developments must not be lost, they must be nurtured.

We, the members of the NRN, urge this Congress and this Administration to rethink the priorities, values and vision reflected in this budget, and recommit to a vibrant and vital rural America.

American Association of School Administrators
American Public Works Association
Aspen Institute Community Strategies Group
Center for Rural Affairs
Communicating for Agriculture and the Self-Employed
Easter Seals
Housing Assistance Council
League of Rural Voters
Midwest Sustainable Agriculture Working Group
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National Rural Health Association
National Telecommunications Cooperative Association
Partners for Rural America
Regional Airline Association
Rural Coalition/Coalición Rural
Rural Community Assistance Partnership
Rural Community College Alliance
Rural Local Initiatives Support Corporation
Rural Schools & Community Trust
Rural Telephone Finance Cooperative
The Council of State Governments
## Rural America in the FY 2006 Budget: By the Numbers*

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2003 Final (in millions)</th>
<th>FY 2004 Final (in millions)</th>
<th>FY 2005 Budget (in millions)</th>
<th>FY 2005 Final (in millions)</th>
<th>FY 2006 Budget (in millions)</th>
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<td>$750 million</td>
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<td>$820 million</td>
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</table>

* Aggregate numbers under each program area reflect summaries outlined by each NRN member organization, as a component of their analysis. Therefore, aggregate totals should not be summed.
Analysis of the Department of Education’s Budget Impact on Rural America

Purpose of Program

The Department of Education was initially created to equalize opportunity between high-poverty students and their more economically advantaged counterparts. Over the years, the equalization priority has been increased to focus not only on poverty but also on issues of federal lands and geographic isolation. Nationwide, federal funding of K-12 education equates to 8 percent of local school district budgets, on average. Most of the funding that rural districts receives is through federal formula grants.

Rural school districts are placed at an additional disadvantage because they often do not have the staff availability in order to apply for competitive grants at the federal level. Teachers are often instructing multiple grade and subject areas and superintendents are often also serving as principals and in some cases, bus drivers.

Within the federal education budget, there are several programs of note to rural America. Most of these programs fall under the Elementary and Secondary Education Act (ESEA), known as No Child Left Behind. Title I provides funding to school districts via one of several formulas based on the number of poor students. Title V, Part B is the Rural Education Achievement Program. This is the first federal education program dedicated to helping rural districts overcome the financial barriers of geographic isolation. Title VIII is known as Impact Aid and provided a guarantee for any school district that can show a substantial financial impact due to the presence of federal property to receive supplementary federal funding. In addition, the Perkins Vocational Education Act provides funding for schools to provide career and technical education opportunities for their districts. Finally, the Individuals with Disabilities in Education Act (IDEA) provide additional dollars to school districts to help meet the needs of special education students.

Impact of FY2006 Budget Proposal

The Administration’s FY 2006 budget offers the first cut to education in over a decade and reverses the trend of increasing federal investment in education. The cuts proposed in the Administration’s budget will have a severe effect on school districts across the country, but most especially in rural America. Though, the President proposed a $603 million increase for Title I, he targeted that increase only to school districts that can show they have concentration of poor students. While rural schools often have very poor students, they will not benefit from this increase because the poor students do not come in high numbers. In addition, the President proposes to eliminate or severely cut most of the other formula grants, such as eliminating Education Technology funding, Safe and Drug Free Schools and the 50 percent reduction under the Innovative Block Grant under ESEA leaving most rural districts across the country with a net loss in federal education funding, while the mandates under ESEA are increasing. The President calls for level funding Impact Aid, but as a major source of funding for affected districts, it does not keep up with inflationary increases putting increased pressure on over 800 local school districts serving rural populations.

The President did call for level funding of the Rural Education Achievement Program. While funding is a good first step, dollars must increase for this program to help rural districts offset the costs of the other proposed cuts. NCLB authorized funding for this program at $300 million annually but the Administration’s FY 06 budget proposes only $167 million.

Additionally, the Administration proposes the elimination of the $1.3 billion Perkins Vocational Education Program. This program is vital to rural America as it gives rural students training and exposure to many of the industries around their schools. Elimination of this funding will prevent districts from offering course in agriculture, engineering, health sciences and others.
Finally, the Administration fails to maintain a commitment to fully funding IDEA. In 1975, Congress promised to pay 40 percent of the National Average per Pupil Expenditure for every child in special education. In December, Congress passed and the President signed the reauthorization which called for full funding by 2011. The Administration’s budget is $3.6 billion below the number for this year and therefore forcing districts to cover the $11 billion federal shortfall.

<table>
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**Impact of the Program in the Community**

The Preston Community School in Preston, Iowa, currently serves 350 students from kindergarten to 12th grade. Serving a small number of students in rural America presents difficult challenges. A math teacher costs the same here as it would in a suburban district; however, they only teach a small number of students. This often puts a serious financial strain on the district.

The Preston Community School District received $30,586 in new funding under the Small and Rural School Achievement Program for the 2004-05 school year. With increased program flexibility and new dollars, the district was able to update their technology with more computers in the classroom and training for their teachers on integrating the technology into the classroom. They are able to match these technology dollars with their local dollars. This was critical for their district because over the past two years Iowa has eliminated all state funding for technology. The other half of the funds were spent on professional development and efforts to reduce class size. The REAP dollars combine with state and local monies are able to help Preston maintain class sizes of 15 students or less in grades K through 3. REAP dollars are allowing Preston, as a rural district, to compete educationally and professionally with its larger rural, suburban and urban counterparts.

**Description of Organizations & Missions**

Founded in 1865, the American Association of School Administrators (AASA) is the professional organization for more than 14,000 school superintendents and local educational leaders across the United States and Canada. [www.aasa.org](http://www.aasa.org)

The National Association of Federally Impacted Schools (NAFIS) is an organization representing the interests of more than 1,500 school districts, which receive funds from Title VIII of the Elementary and Secondary Education Act. Impact Aid. [www.sso.org/nafis](http://www.sso.org/nafis)

The National Education Association (NEA) was founded in 1857 to elevate the character and advance the interest of the teaching profession and to promote the cause of public education in the United States. NEA membership currently stands at 2.6 million. [www.nea.org](http://www.nea.org)
Community Development Block Grant Funds

Purpose of Program
CDBG programs provide funding to communities for job creation, expansion of business opportunities, public infrastructure improvements, and affordable housing. CDBG funding is vital for revitalization and economic development in cities throughout the nation.

Impact of FY2006 Budget Proposal
Rural America would lose at least one-third of its federal economic and community development resources. The result would be a major shift of development costs to state and local resources. This especially impacts rural communities with limited tax bases, leaving many small jurisdictions without resources for vital projects modernizing their infrastructure and developing their economies for the future.

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<td>$4, 330.85</td>
<td>$4, 150.03</td>
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Impact of Program in the Community
The CDBG program has become the mainstay for Lindsey, CA in providing funding to help families with low-cost housing and community infrastructure projects such as sidewalks. Without this type of funding, small communities like Lindsey lack sufficient resources to meet all the needs of their population.

Essential Air Service Programs

Purpose of Program
The Essential Air Service program provides critical funding support to small community airports to maintain air service.

Impact of FY2006 Budget Proposal:
Without small community airports to provide connection service, several rural residents are left without any connection service, forcing people to drive, in some cases, over five hours to get to an airport.

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<td>$102.0</td>
<td>$50.0</td>
<td>$102.0</td>
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Community Example:
Cutting the Essential Air Service program, from $102 million to $50 million, would jeopardize air service to the Nebraska communities of Alliance, Chadron, Grand Island, Kearney, McCook, North Platte and Scottsbluff. Without them, Grand Island, for instance, would have to come up with $120,000 to keep its airline service. That
type of fundraising for a small airport is very difficult and without federal aid, it is unlikely that several small community airports in Nebraska and other states would be able to maintain adequate service to their customers.

**USDA - Rural Community Advancement Program**

**Purpose of Program**
The USDA Rural Community Advancement Program (RCAP) promotes strategic development activities and collaborative efforts to maximize the impact of Federal assistance through consolidating and coordinating funding programs and designing and addressing the varied needs of rural communities.

**Impact of FY2006 Budget Proposal**
Rural communities depend on the funding streams in USDA’s Rural Community Advancement Program (RCAP) to help with small business expansion, infrastructure improvements, and other community and economic development opportunities. Specifically, funding cuts to the Rural Utilities Service Water/Sewer Programs and the Empowerment Zone/Enterprise Communities (EZ/EC) programs will substantially impact rural communities’ abilities to maintain and improve their public infrastructure.

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**Impact of the Program in the Community**
Through the RUS sewer long-term, low interest loans, Gunnison County, CO has been able to provide new sewers to a community with a decrepit system that endangered the water quality to the county. This is the only long-term loan of its kind and without these resources, it is questionable that the county would have been able to complete these much needed improvements. In addition, USDA funding was essential for the City of Lindsay, CA in completing a sewer and water expansion that would not have been possible by any other means. It was essential to meet cease and desist orders for capacity issued by the local Regional Board.

**About the American Public Works Association**
*Working in the public interest, the 27,000 members of APWA design, build, operate and maintain transportation, water supply, sewage, and refuse disposal systems, public buildings and other structures and facilities essential to our nation’s economy and way of life.*

For more information about APWA, visit: [www.apwa.net](http://www.apwa.net)
MicroLoan Program, Small Business Administration

Purpose of Program
The MicroLoan Program provides loans and technical assistance to start-up and growing businesses with five or fewer employees. Funds are provided to nonprofit community-based intermediaries who, in turn, make funds available to eligible borrowers. Intermediaries are also required to provide business training and technical assistance to borrowers.

Impact of FY2006 Budget Proposal
The SBA MicroLoan program assists individuals and families that other SBA programs do not. The MicroLoan program serves individuals and families that banks are not eager to serve and for which credit is not readily available. MicroLoan borrowers generally lack business experience and are in need of training and technical assistance – other SBA programs generally provide services to experienced businesses with significant collateral. Nearly 75% of job growth in rural communities in the Midwest and Great Plains comes from microbusinesses, and rural household and family incomes are generally lower than non-rural incomes. The niche that the MicroLoan program serves is significant in rural areas and necessary for rural economic development, and would not be served by other small business credit programs.

<table>
<thead>
<tr>
<th>FY2003 Final (in millions)</th>
<th>FY2004 Final (in millions)</th>
<th>FY2005 Budget (in millions)</th>
<th>FY2005 Final (in millions)</th>
<th>FY2006 Budget (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$29 – MicroLoan</td>
<td>$20 – MicroLoan</td>
<td>$0 – MicroLoan</td>
<td>$15 – MicroLoan</td>
<td>$0 – MicroLoan</td>
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<tr>
<td>$15 – MicroLoan TA</td>
<td>$15 – MicroLoan TA</td>
<td>$0 – MicroLoan TA</td>
<td>$14 – MicroLoan TA</td>
<td>$0 – MicroLoan TA</td>
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</tbody>
</table>

Impact of Program in the Community
Betty Vermeer owns and operates a Hilltop Greenhouse and Floral in Sterling, Nebraska, and is an SBA MicroLoan client. After being rejected by banks and small business experts, Betty started her business with only one employee – herself. After obtaining SBA MicroLoan capital and technical assistance, 10 years later she has five employees, has added two greenhouses to boost retail sales and supplies community groups with bedding plants for fundraising activities.

Value-Added Producer Grant Program/Value-Added Agricultural Product Market Development Program, USDA

Purpose of Program
This program provides grants for planning and working capital for value-added agricultural enterprises. The goals of the program are to create jobs and self-employment opportunities in rural areas and to enhance the farm/ranch share of the food system profit. The program was authorized to receive $40 annually in mandatory spending in the 2002 Farm Bill.

Impact of FY2006 Budget Proposal
Value-added agricultural enterprises serve to strengthen the farm and rural economy. Together with small business development, value-added enterprises form the best hope for viable rural development in many parts of the nation. Greater opportunities for more farmers and ranchers to be involved in value-added enterprises will provide higher rural incomes and increased rural job creation.
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<tr>
<th>FY2003 Final (in millions)</th>
<th>FY2004 Final (in millions)</th>
<th>FY2005 Budget (in millions)</th>
<th>FY2005 Final (in millions)</th>
<th>FY2006 Budget (in millions)</th>
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<tr>
<td>$40 mandatory</td>
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<td>$40 discretionary</td>
<td>$15 discretionary</td>
<td>$15.5 discretionary</td>
<td>$15.5 discretionary</td>
<td>$15.5 discretionary</td>
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**Impact of the Program in the Community**

Small Farms Cooperative, a group of seven Nebraska farmers and ranchers raising natural beef, was a recipient of a grant under this program. As a result of their grant, they established relationships with the European Union; in 2003 and 2004, the cooperative has sold natural beef to the EU in an amount resulting in nearly $600,000 in income to members of the cooperative.

**Resource Conservation and Development (RC&D), USDA**

**Purpose of Program**

The RC&D program focuses on natural resource conservation, rural economic and community development in multi-county areas designated by the Secretary of Agriculture. RC&Ds employ an unique administrative system with community volunteers controlling the RC&D Council boards while developing private-public partnerships. RC&D Council members include local volunteers, local business owners, and local appointed and elected officials. Each RC&D Council selects projects that meet the needs of the area and its communities.

**Impact of FY2006 Budget Proposal**

The budget proposal would terminate all federal support to 189 RC&D Councils, with at least one such RC&D in each state. Many of these Councils are located in low-income rural areas without the local, state and national public and philanthropic means to replace the federal funds. The projects and partnerships created by the RC&D Councils through the years will not have the resources to continue.

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<tr>
<th>FY2003 Final (in millions)</th>
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<th>FY2005 Budget (in millions)</th>
<th>FY2005 Final (in millions)</th>
<th>FY2006 Budget (in millions)</th>
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</thead>
<tbody>
<tr>
<td>$51.0</td>
<td>$51.95</td>
<td>$ 50.8</td>
<td>$51.64</td>
<td>$25.6</td>
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</table>

**Impact of the Program in the Community**

The North Central Nebraska RC&D Council and local communities, businesses, and individuals joined together to create the Nebraska Outback Initiative. The Nebraska Outback Initiative is a comprehensive economic and community development project that provides services to regional communities and projects to obtain and leverage local, state and federal resources. RC&D staff provides grant writing and other services to small, rural communities that would not otherwise have access to such services.

**Description of Organization & Mission**

Established in 1973, the Center for Rural Affairs is a private, non-profit organization working to strengthen small businesses, family farms and ranches, and rural communities. More information on the impact of the FY 2006 budget to rural economic and community development can be found at [www.cfra.org](http://www.cfra.org).
Rural Community Advancement Program

Purpose of Program
Established in the 1996 farm bill, the Rural Community Advancement Program is the umbrella program for USDA’s rural utilities, rural business and rural community facilities grant and loan programs. RCAP resources are aimed at providing critical infrastructure, such as water, sewer, advanced telecommunications, as well as business development and community facilities in rural communities.

Impact of FY2006 Budget Proposal
The FY2006 budget proposes cutting RCAP by $195 million to $521 million. Of this amount, $450 million is for water and wastewater grants and loans, $28 million for community facilities and $44 million for rural business programs. Several important programs within the Rural Business Cooperative Service that would be eliminated include the Rural Business Opportunity Grant and the Rural Business Enterprise Grant. These programs would be incorporated into the broader Strengthening America’s Communities Initiative within the Department of Commerce. In addition, within the Rural Utilities Service the administration proposes zeroing out funding for the rural broadband telecommunications grant and the Distance Learning and Telemedicine loans.

<table>
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<tr>
<th>FY2003 Final (in millions)</th>
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<th>FY2005 Budget (in millions)</th>
<th>FY2005 Final (in millions)</th>
<th>FY2006 Budget (in millions)</th>
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</thead>
<tbody>
<tr>
<td>$907.73</td>
<td>$757.42</td>
<td>$541.98</td>
<td>$716.05</td>
<td>$521.69</td>
</tr>
</tbody>
</table>

Rural and small metropolitan counties and regional development organizations rely on USDA’s Rural Community Advancement Program to update aging critical infrastructure and build capacity on the local level. Cutting RCAP by $195 million seriously impairs their ability to obtain the necessary capital for these improvements and places rural communities at a disadvantage in today’s global marketplace.


Purpose of Programs
The Public Works Program empowers distressed communities to revitalize, expand, and upgrade their physical infrastructure to attract new industry, encourage business expansion, diversify local economies, and generate or retain long-term, private sector jobs and investment. The Economic Adjustment Program assists state and local interests to design and implement strategies to adjust or bring about change to an economy. The program focuses on areas that have experienced or are under threat of serious structural damage to the underlying economic base. Partnership Planning programs help support local organizations (Economic Development Districts, Indian Tribes, and other eligible areas) with their long-term planning efforts and their outreach to the economic development community on EDA’s programs and policies.

Impact of FY2006 Budget Proposal
The budget eliminates program funding for the Economic Development Administration (EDA), including the economic development district planning program, the public works program and the economic adjustment program as part of a consolidation of 18 “duplicative” federal economic and community development programs into a new unified formula grant program within the US Department of Commerce. While the combined annual budgets of the 18 existing programs exceed $5.5 billion, the president is recommending only $3.71 billion for new unified formula program. The administration recommends only $26.5 million in personnel costs to monitor and administer existing
EDA projects and grants.

The new $3.71 billion “Strengthening America’s Communities” program would distribute formula grants to states and local communities. The primary eligibility criteria focus on job loss, unemployment levels and poverty. Grantees would need to meet specific accountability measures to continue receiving funding. These measures include increased job creation and business development, in addition to improvements in homeownership rates, commercial development and private sector investments.

Without the vital funding that EDA grants provide, many small and rural communities will be unable to continue to address the economic development issues of their region, stalling their business expansion, planning and revitalization efforts.

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<tr>
<th>FY2003 Final (in millions)</th>
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<th>FY2005 Budget (in millions)</th>
<th>FY2005 Final (in millions)</th>
<th>FY2006 Budget (in millions)</th>
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</thead>
<tbody>
<tr>
<td>EDA Total: $320.76 million</td>
<td>EDA Total: $318.67 million</td>
<td>EDA Total: $320.32 million</td>
<td>EDA Total: $257.42 million</td>
<td>EDA Total: $26.58 million</td>
</tr>
</tbody>
</table>

**Community Development Block Grant**

**Purpose of Program**
The Community Development Block Grant (CDBG) within the Department of Housing and Urban Development is a flexible community development program that is used by local governments for a variety of purposes including public works projects, public services, rehabilitation of public buildings and planning. Current FY2005 spending for CDBG is $4.1 billion, of which 70 percent goes directly to metropolitan cities and counties and the remaining 30 percent—$1.23 billion in FY2005—is sent to the states to be disbursed to small metropolitan and rural communities.

**Impact of FY2006 Budget Proposal**
The FY2006 budget proposes to eliminate CDBG and its 30-year record of success. Along with the elimination of CDBG and the Administration is proposing to eliminate 17 other federal community and economic development programs and incorporate them into a smaller program within the Department of Commerce. The new program called the “Strengthening America’s Communities Initiative” would be funded at $3.7 billion annually rather than the $5.5 billion that these individual programs now receive.

Rural communities stand to lose over $1 billion in CDBG funding that currently assists local governments in maintain vital community and economic development activities.

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<tr>
<th>FY2003 Final (in millions)</th>
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<th>FY2005 Budget (in millions)</th>
<th>FY2005 Final (in millions)</th>
<th>FY2006 Budget (in millions)</th>
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<tbody>
<tr>
<td>$4,367</td>
<td>$4,356</td>
<td>$4,330</td>
<td>$4,150</td>
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</table>

**Description of Organization and Mission**
The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. NACo is a full-service organization that provides an extensive line of services including legislative, research, technical and public affairs assistance. Furthermore, with approximately two-thirds of the 3,066 county governments nationwide considered rural, NACo recognizes the unique challenges facing rural county officials and is committed to serving rural America.

**Contact:** Joe Dunn, Associate Legislative Director, (202) 942-4207, jdunn@naco.org

The National Association of Development Organizations (NADO), formed in 1967, provides training, information and representation for regional development organizations serving small metropolitan and rural America. Building on nearly four decades of experience, the association offers its members exclusive access to a variety of services and benefits -- all of which are crafted to enhance the activities, programs and prospects of regional development organizations.

**Contact:** Amy Linehan, Legislative Representative, (202) 624-8177, alinehan@nado.org
Department of Homeland Security: State Homeland Security Grant Program

Purpose of Program
The State Homeland Security Grant Program provides direct funding to state and local governments to support homeland security planning efforts, first responder training, and equipment purchases. Under current law each state receives .75% of total yearly appropriations with an 80% pass-through requirement to local governments.

Impact of FY2006 Budget Proposal
For the second consecutive year, the administration is pursuing a major policy shift that would target most of the first responder and homeland security money to the areas deemed to be at highest risk for a terrorist attack. As part of this effort, the president is proposing a significant reduction in the State Homeland Security Grant program. Funding for this important planning and preparedness program would be reduced by $280 million to $820 million.

In addition to reducing the overall budget for state homeland security grants, the president is proposing a major change to the allocation formula. The new plan would set the state minimum at 0.25 percent of total funding, down from the current percentage of 0.75. The remaining funds would be allocated based on assessments of risk and vulnerability, as well as the needs and priorities identified in state and regional homeland security plans.

Because many small state and rural areas do not receive additional homeland security funds through the Urban Area Security Initiative, the MMRS program or Urban Search and Rescue grants, the change in formula would potentially cost small states and rural areas millions in homeland security dollars.

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<tr>
<th>FY2003 Final (in millions)</th>
<th>FY2004 Final (in millions)</th>
<th>FY2005 Budget (in millions)</th>
<th>FY2005 Final (in millions)</th>
<th>FY2006 Budget (in millions)</th>
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<tbody>
<tr>
<td>$2.3 billion</td>
<td>$1.7 billion</td>
<td>$750 million</td>
<td>$1.1 billion</td>
<td>$820 million</td>
</tr>
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NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
400 NORTH CAPITOL ST., NW, SUITE 390, WASHINGTON, DC 20001
(202) 624-7806   FAX (202) 624-8813
EMAIL INFO@NADO.ORG
WEB SITE WWW.NADO.ORG
Clean Water State Revolving Fund

Purpose of Program
Low interest loans for water/sewer infrastructure; funding for alternative approaches to reduce pollution into water/sewer systems, streams; provides funding to regional councils, others for water quality planning, technical assistance to local governments.

Money goes back to states to capitalize loan fund.

Impact of FY2006 Budget Proposal
Program is reduced by $350 million to $750 million.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Final (in millions)</th>
<th>Budget (in millions)</th>
<th>Final (in millions)</th>
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<tbody>
<tr>
<td>FY2003</td>
<td>$1.35 billion</td>
<td>$850 million</td>
<td>$1.1 billion</td>
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<td>FY2004</td>
<td>$1.35 billion</td>
<td>$850 million</td>
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<td>FY2005</td>
<td>$1.35 billion</td>
<td>$850 million</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>FY2006</td>
<td>$1.35 billion</td>
<td>$850 million</td>
<td>$1.1 billion</td>
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Impact of the Program in the Community
Further reduction in needed water infrastructure improvements

The current estimate is that nearly $54 billion is needed simply to repair water and sewer systems in the United States. Programs providing grants for water and sewer are being reduced and, in rural development, replaced with larger loan programs. The CWSRF is a low, and in some instances, no interest loan program that focuses primarily on smaller units of government. The same program provides money back to regional organizations for water quality planning and for technical assistance to local governments that have to comply with many federal and state regulations regarding wet weather programs.

Workforce Development

Purpose of Program
Provides funding back to states through block grants to train youth, adults and displaced workers for new jobs.

Impact of FY2006 Budget Proposal
The budget significantly reduces funding for workforce development. The end result is that fewer people can be trained for jobs or trained for advancement into other fields of employment.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Final (in millions)</th>
<th>Budget (in millions)</th>
<th>Final (in millions)</th>
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<tbody>
<tr>
<td>FY2003</td>
<td>Adult training: $896 million</td>
<td>$997 million</td>
<td>Dislocated Workers: $1.5 billion</td>
</tr>
<tr>
<td></td>
<td>Youth Training: $997 million</td>
<td>$996 million</td>
<td>Dislocated Workers: $1.5 billion</td>
</tr>
<tr>
<td>FY2004</td>
<td>Adult training: $891 million</td>
<td>$996 million</td>
<td>Dislocated Workers: $1.5 billion</td>
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<tr>
<td></td>
<td>Youth Training: $996 million</td>
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<tr>
<td>FY2005</td>
<td>Adult training: $891 million</td>
<td>$996 million</td>
<td>Dislocated Workers: $1.5 billion</td>
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<td></td>
<td>Youth Training: $996 million</td>
<td>$996 million</td>
<td>Dislocated Workers: $1.5 billion</td>
</tr>
<tr>
<td>FY2006</td>
<td>Adult training: $866 million</td>
<td>$950 million</td>
<td>Dislocated Workers: $1.35 billion</td>
</tr>
<tr>
<td></td>
<td>Youth Training: $950 million</td>
<td>$950 million</td>
<td>Dislocated Workers: $1.35 billion</td>
</tr>
</tbody>
</table>
Rural Community Advancement Program

Purpose of Program
Funds rural water and sewer grants; community facilities

Impact of FY2006 Budget Proposal
Greatly reduces the number of grants available to small local governments; major reduction in rural community facilities. Water and sewer grants have dropped from $567 million in ’04 to a proposed $377 million in ’06

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<tbody>
<tr>
<td>(in millions)</td>
<td>$757.4 million</td>
<td>$716 million</td>
<td>$521.7 million</td>
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</tbody>
</table>

Description of Organization and Mission

The National Association of Regional Councils represents the interests of councils of government, planning commissions and development districts throughout the United States. NARC’s membership ranges from the largest regional council (California) to the smallest (Vermont). The association’s purpose is to promote regional approaches and intergovernmental cooperation in all areas that would be better served with a multi-jurisdictional approach. NARC is a public interest group governed by a board of local elected officials. The Executive Directors Committee also has major input into the board of directors regarding policy and legislative priorities.
Resource Conservation and Development Program (RC&D)

Purpose of Program:
The purpose of the RC&D Program is to encourage and improve the capability of volunteer local elected and civic leaders in designated RC&D areas to plan and carry out projects for resource conservation and community development. Program objectives focus on “quality of life” improvements achieved through natural resources conservation and community development. Such activities lead to sustainable communities, prudent land use, and the sound management and conservation of natural resources.

The RC&D program pulls together people, communities, Indian tribes and grassroots groups that unite in shared purpose and pool resources to get work done. More than 20,000 volunteers are serving on RC&D councils. They are committed to revitalizing and sustaining their communities through the RC&D program. To date 375 areas across the Nation (including the Caribbean and Pacific Basin) have been designated by the Secretary of Agriculture as RC&D areas. They serve more than 85 percent (2,709) of U.S. counties and over 80 percent of the U.S. population.

Impact of FY2006 Budget Proposal:
The FY2006 budget calls for substantial cuts to the RC&D Program from FY05 levels, from $51 million to $26 million. The cut in funding will eliminate federal assistance to 189 RC&D areas that have been in existence for 20 years or more regardless of their record of accomplishment. The majority of these RC&D areas scheduled for elimination are rural. Program activity and accomplishments would be cut in half. Leveraged funds to primarily rural communities would be reduced by over $100 million.

<table>
<thead>
<tr>
<th>FY2003 Final (in millions)</th>
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<th>FY2006 Budget (in millions)</th>
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<tbody>
<tr>
<td>$50.6</td>
<td>$51.9</td>
<td>$50.7</td>
<td>$51.6</td>
<td>$26</td>
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</tbody>
</table>

Impact of the Program in the Community
New York’s Venison Donation program: This is an official NY Federation of RC&D councils’ project and all eight of New York’s RC&D Councils have been involved in this initiative to one degree or another. In the program's five years 327,300 pounds of venison have been processed & distributed.

As a direct result more than 1,309,200 individuals in need have been served by this RC&D initiated program.

Under the Administration’s budget proposal all rural RC&D councils in New York will be eliminated.

Emergency Home Repair Project

Last year, First State RC&D Council volunteers donated approximately 25,680 hours completing repairs on 279 homes in Kent and Sussex Counties, Delaware assisting approximately 600 Delawareans. Over forty percent of the homes repaired were minority-owned. Individuals with disabilities owned 30 percent of the homes. Since the project's inception in 1991, repairs have been made to more than 3,000 homes.
Volunteers, both individuals and groups, came from within and outside the state, with one group coming from New York. The RC&D Council works with other nonprofit organizations, professional and fraternal organizations, banks and local businesses, churches, state agencies, government employees, and others in the community. This project and its major funder have been recognized on the local and national level. Volunteers: During FY 2004, more than 500 volunteers donated over 25,680 hours to the RC&D Emergency Home Repair Project for a value of $441,000 (Source: Independent Sector).

Several informational brochures were developed for the Home Repair Project. One brochure (translated into Spanish) targets the growing Latino population. A second brochure focuses on soliciting funding and volunteers. A third brochure is for potential clients. An Emergency Home Repair Project specific newsletter was published.

In February (2004), the Kent County Intensive Learning Center (ILC) Ramp Project received the National Association of RC&D Council’s Youth Involvement of the Year Award. ILC is a nontraditional school setting for students in grades 9 through 12. Along with standard courses, the students receive instruction in technical areas such as plumbing, masonry, carpentry, and computer skills. Since partnering with RC&D, ILC students have worked almost 5,000 hours completing and installing 47 ramps.

A few of the organizations that have recognized the project:
Points of Light Foundation
Paul Newman Foundation
USA Weekend Magazine
Make A Difference Day Honorable Mention
Delaware Association of Nonprofit Agencies
NARC&DC
NRCS Earth Team

Under the Administration’s budget proposal support to First State RC&D council would be eliminated.

Description of Organization & Mission
National Association of Resource Conservation and Development Councils Inc.

Our Vision: RC&D Partnerships Serving America's Communities.

Our Mission: The National Association of Resource Conservation and Development Councils serves as an advocate for local Councils. We assist local Councils to identify, address and solve challenges to sustain and improve quality of life in their own communities.

Over 40 years ago, Congress established a unique program within the U.S. Department of Agriculture that empowered rural people to help themselves. The USDA focus was to assist local people by providing tools and technical support to stabilize and grow their own communities while protecting and developing natural resources. To carry out the RC&D concept, diverse groups of local volunteers (The RC&D Council) are brought together in a unique partnership to find solutions to their problems. Local people are best able to determine needs and create solutions for their Community. The focus on local direction and control has made RC&D one of the most successful rural development programs of the Federal Government. The focus of the program provides for the sustainability of local economies and resources.

The National Association of Resource Conservation and Development Councils (NARC&DC) was established in 1988 to represent America’s 375 local Resource Conservation and Development Councils. The local councils deliver coordinated resource conservation and rural development assistance throughout rural America. By working together on local RC&D Councils; communities, all levels of Government, and grassroots organizations work together to develop and implement solutions to widespread problems and to develop opportunities that will help sustain rural communities, local economies, and natural resources. For more information contact us at: 202 434-4780 or at www.rcdnet.org
Rural Utilities Service Electric Loans

Purpose of Program
Loans to eligible cooperatives, from the U.S. Department of Agriculture’s Rural Utilities Service (RUS), represent approximately 25 percent of total co-op financing. RUS financing remains an essential component of the co-op utility sector’s loan portfolio. This stable source of financing keeps the electric infrastructure in 75% of the nation strong and viable today. Infrastructure constructed with RUS loans is held to uniform and high engineering standards and is a critical piece of the U.S. electric system.

RUS program funding in the budget is for loans that are paid back with interest.

Impact of FY2006 Budget Proposal
The FY06 budget proposal calls for Rural Utilities Service (RUS) electric loan levels totaling $2.52 billion, a reduction from the $3.32 billion appropriated by Congress for FY05. The $2.52 billion proposal breaks down to $100 million Hardship loans, $100 million Municipal loans, $700 million Treasury Rate loans, and $1.62 billion in Federal Financing Bank guarantees.

The FY06 budget also states that the Department of Agriculture will propose rule changes to require recertification of rural status for RUS borrowers on the first loan received in or after 2006 and the first loan received after each subsequent Census. This represents a significant departure from RUS’s “Once Rural, Always Rural” policy, which maintains access to RUS financing for electric cooperatives whose service territory has experienced population growth.

The relatively small federal investment in the RUS electric loan programs over the years, coupled with efficient management of the cooperative businesses, makes the rural electric infrastructure strong and viable. NRECA is asking Congress to ensure that rural consumers continue to have access to safe, reliable, and at-cost supplies of power from electric cooperative utilities by fully funding the RUS electric loan program to reduce a backlog of pending RUS loan applications.

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<tr>
<th>FY2003 Final (in millions)</th>
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<th>FY2005 Final (in millions)</th>
<th>FY2006 Budget (in millions)</th>
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</thead>
<tbody>
<tr>
<td>$4,021.00</td>
<td>$4,090.00</td>
<td>$2,640.00</td>
<td>$3,320.00</td>
<td>$2,520.00</td>
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</table>

Power Marketing Administrations

Purpose of Program
The Power Marketing Administrations (PMAs) are federal agencies housed within the U.S. Department of Energy that have responsibility for marketing electric power primarily from multiple-purpose water projects operated by the Bureau of Reclamation and the Corps of Engineers. The four federal PMAs are important sources of power for electric cooperatives in 34 states. NRECA supports maintaining federal ownership of the Power Marketing Administrations, the “preference” clause and cost-based rates for PMA power -- cornerstones that keep electric rates for rural Americans affordable.
Impact of FY2006 Budget Proposal
The FY06 budget proposes to charge market rates for Power Marketing Administration power by “very gradually” increasing PMA rates 20 percent per year until they reach market rates. The higher rates for cooperative consumer-owners would cause severe damage to the economies of regions that depend on PMA power. This is a $12 billion back-door tax increase to solve the federal deficit, even though PMAs operates “at cost” to federal Treasury.

Congressional reaction has been negative. Senate Energy and Natural Resources Committee Chairman Pete Domenici (R-NM) called the proposal “untenable.” During a hearing on the Administration’s energy budget, House Energy and Commerce Committee members Charles Norwood (R-GA), Edward Whitfield (R-KY), Barbara Cubin (R-WY), Greg Walden (R-OR), Butch Otter (R-ID) and Jay Inslee (D-WA) expressed serious concerns about the proposal to Energy Secretary Samuel Bodman. Those concerns were reiterated by several others during a PMA customer hearing of the House Resources Water and Power Subcommittee.

Clean Coal Technology and Renewable Energy

Purpose of Program
The Department of Energy budget has money for research, development, and demonstration of clean coal technologies. This money will accelerate the development of these technologies to meet environmental, energy efficiency, and cost standards while ensuring that coal remains part of the nation’s diverse fuel supply. Clean coal will allow rural areas to keep using plentiful coal instead of switching to costly, less available fuels such as natural gas.

Impact of FY2006 Budget Proposal
Clean coal technology is proposed at $351 million, slightly below the $352.1 appropriated in FY05. The Administration emphasis remains on Integrated Gasification Combined Cycle technology development, for which the budget seeks an increase of $10.65 million at the expense of Advanced Combustion and Advanced Research programs that would further development of low-emission and efficient advanced combustion technologies. For the second year, the Administration requested only $50 million for the Clean Coal Power Initiative (CCPI), down from $168 million in FY04. CCPI is an energy program in which companies demonstrate promising new technologies at commercial scales and work out the bugs. Under the Agriculture Department budget, renewable energy/energy efficiency (Section 9006) funding is listed at $10 million, down from $23 million in FY05.

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<td>$352.10</td>
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Description of Organization and Mission
The National Rural Electric Cooperative Association (NRECA) is the Arlington, VA-based association of the nation’s 900 not-for-profit, consumer-owned private electric systems in 47 states. Electric cooperatives comprise a unique component of the industry. Consumer-owned, consumer-directed electric cooperatives provide their member-consumers the opportunity to exercise control over their own energy destiny. As the electric utility industry restructures, the electric cooperative will be an increasingly important option for 37 million consumers seeking to protect themselves from the uncertainties and risks of the market.
Strengthening America’s Communities Initiative

Purpose of Program
The FY 2006 budget proposes eliminating eighteen federal community and economic development programs and replacing them with the “Strengthening America’s Communities Initiative”. Among the programs to be eliminated are:

- Portions of the Community Development Financial Institutions (CDFI) Program, which invests seed capital in special-purpose financial institutions that serve emerging domestic markets. The CDFI Fund is a proven success which leverages every $1 it invests in the economy with more than $21 in non-federal investment. Under the president’s proposal, the CDFI Fund would continue to administer only the New Markets Tax Credit program and Native Initiative, with its budget reduced to $7.9 million from $55 million in 2005.

- Rural Business Enterprise Grants/Rural Business Opportunity Grants, which support training and technical assistance for new entrepreneurs in rural areas. These programs are critical to building the business-know-how, cooperative buying and selling arrangements, and market development that help rural entrepreneurs be successful.

Impact of FY2006 Budget Proposal
While creating a unified community and economic development program is a laudable goal, two aspects of the Administration’s recommendation would likely have a significant negative impact on rural America:

- When totaled, the funding for development in rural America provided through existing programs will be reduced at least 1/3. Significant increases in state and private investment are unlikely to occur in the face of such an overwhelming withdrawal on the part of the federal government. Thus, this withdrawal drastically reduces the ability of innovative rural development initiatives, already existing on shoe-string budgets, to survive. Critical infrastructure including water and sewers, housing, opportunities in education and business are essential to the development of thriving rural communities and families.

- Rural regions often provide unique opportunities for investment that do not fit easily in grant categories. Many regional leaders have strong relationships with HUD, USDA and HHS that allow those regions to get funding which is responsive to their action-plan for development. Department of Commerce has not had much experience working with community and nonprofit efforts. Unless the department is willing and able to actively engage community leaders, much of the innovation that arises from responsiveness within the various federal programs will be lost.

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<th>FY2003 Final (in millions)</th>
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<td>5310(^3)</td>
<td>3710(^4)</td>
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\(^1\) From an analysis by National Congress for Community Economic Development, approximate cumulative funding of programs proposed for elimination.

\(^2\) Approximate 2004 appropriations for programs proposed for elimination.

\(^3\) Figure generated by Office of Management and Budget based on 2004 spending for eliminated programs.

\(^4\) President’s proposed budget for the new Strengthening America’s Communities Initiative.
Impact of the Program in the Community

South Carolina, largely rural and economically challenged, is expected to suffer greatly from these changes. Although the state has begun to bounce back from the recession, per capita income remains 81 percent of the national average. Research by Harvard professor Michael Porter noted that entire sectors of South Carolina - primarily African American and rural communities – suffer from entrenched poverty and distressed economic conditions. Despite the significant challenges, the picture in South Carolina within the last half decade has been more hopeful. Many rural and distressed communities have not succumbed to further economic depression thanks to strategic investments made by federal community and economic development programs, which have leveraged additional investments in the State. The South Carolina Association of CDCs alone has been able to attract over $4 million dollars to the state’s most distressed areas as a result of strategic investments from HUD, HHS, and USDA. And these communities are beginning to develop the capacity to attract investments from the state, financial institutions and the private sector. But they have only just begun. New housing, businesses, workforce re-training, and individual savings programs that have emerged from strategic federal investment are transforming lives and communities across the state and are critical to rural South Carolina’s renaissance.

Of the 29 Appalachian counties in Ohio, ten counties are considered economically distressed - a criteria based on 150% of the U.S. employment rate, 150% of the U.S. poverty rate, and 67% or less of per capita income. Four additional counties are on the margin of this definitional standard. Yet many of these counties are developing new economies, based on the rich cultural and natural resources of the region. Rural Business Enterprise Grants (RBEG) and Rural Business Opportunity Grants (RBOG) have helped fund an innovative national model for entrepreneurship and enterprise development. The organizations leading this effort work with over 100 growing businesses annually, providing training, marketing, mentoring and networking opportunities throughout the region. One RBOG grant launched a major change in the economy of the small town of Nelsonville, Ohio, where 16% of residents were unemployed. With this grant, innovative regional non-profits helped local artisans develop businesses, apply for small business loans, and utilize economies of scale through joint purchasing and marketing. The town now has a thriving arts community with a monthly fair that draws residents from throughout the region and generates significant income for the community. Nelsonville is now working with other communities throughout the region to encourage tourism, exposing people to this unique and beautiful rural area.

Description of Organization & mission:
The National Rural Funders Collaborative (NRFC) is a partnership of private foundations, innovative regional not-for-profits, and federal agencies working to expand resources for rural communities and families facing persistent poverty. NRFC’s goal is to leverage $100 million in resources to strengthen and sustain regional strategies for rural community transformation and to build the field by strengthening rural practices, expanding philanthropy, and advancing policy change. For more information, please visit our website, www.nrfc.org or contact:

Allison Van
National Rural Funders Collaborative
400 N. Capitol St. NW
Suite 390
Washington, DC 20001
Rural Hospital Flexibility Grant Program

Purpose of Program

- This program focuses on supporting the 1050 Critical Access Hospitals (CAHs) in the country through financial performance analysis, network development, quality improvement and integration of emergency medical services.

Impact of FY2006 Budget Proposal

The Administration recommends eliminating this program.

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Rural Health Outreach/ Network Development Grant Program

Purpose of Program

- The Congress created these grants in 1996 because of a belief that given the isolation of rural providers and the limited resources in rural communities, it is essential that providers work together to improve health care services.
- While Outreach grants focus on actual service delivery, the Network Development and Network planning grants focus on getting rural providers to work together to build better systems of care.

Impact of FY2006 Budget Proposal

The Administration recommends effectively eliminating this program.
Small Hospital Improvement Program

Purpose of Program
- Established by the Congress in 1998, this grant program assists rural hospitals (with fewer than 50 beds) in their efforts to upgrade their medical technology infrastructure.

Impact of FY2006 Budget Proposal

The Administration recommends eliminating this program.

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<th>FY2003 Final (in millions)</th>
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Community Access Program

Purpose of Program
- CAP assists health care providers develop integrated, community-wide systems that serve the uninsured and underinsured. CAP grants are designed to increase access to health care by eliminating fragmented service delivery, improving efficiencies among safety net providers, and by encouraging greater private sector involvement.

Impact of FY2006 Budget Proposal

The Administration recommends eliminating this program.

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<th>FY2006 Budget (in millions)</th>
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<td>$10</td>
<td>$83.6</td>
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Description of Organization & mission:
The National Rural Health Association is a member-driven national organization whose mission is to improve the health and well-being of rural Americans and populations through appropriate and equitable health care services as well as to assist its members in providing leadership on rural issues through advocacy, communications, education and research. www.nrharural.org
Government Funding for Airline Security

Purpose of Program:
The government currently levies a $2.50 security fee on passengers for each segment of air travel.

Impact of FY2006 Budget Proposal:
The aviation security fee would increase by 120 percent to $5.50, capped at $8 for one-way travel and at $16 for round-trips under the budget proposal. This tax increase jeopardizes airline jobs and flights to small and medium-size communities. Passengers traveling to rural communities would be disproportionately impacted because regional flights mean multiple flight segments and more tax occurrences. The new tax would raise the cost of air travel rise by an estimated $1.5 billion a year and would bring the total federal security tax on airlines to $4.7 billion. Airlines lack pricing power and are unable to pass all of these taxes through to travelers. This diverts further resources away from airlines, already struggling to provide service to small and rural communities. This tax increase will raise fares for travel to rural communities and makes this service even more expensive for carriers, putting air service to rural communities at risk.

Essential Air Service Program

Purpose of Program
The Essential Air Service program was established by Congress in 1978 to ensure that communities with commercial air service before airline deregulation could continue scheduled flights. Without EAS, many rural communities would have no commercial air service at all, and residents of smaller cities would have to travel great distances for flights. The Essential Air Service Program currently ensures commercial air service to approximately 100 communities in thirty-six states plus 36 additional communities in Alaska. Because of increasing costs and the continuing financial downturn in the aviation industry, about 37 additional communities have been forced into the EAS program since 9/11/2001.

Impact of FY2006 Budget Proposal
The Administration’s budget would cut the Essential Air Service (EAS) in half by establishing a $50 million cap and would strip the program of its entitlement status. The administration would create three community categories based on hub airport distance and would establish cost-sharing criteria that would likely dismantle the program. EAS Communities within 100 miles to large hub airports, 75 miles to small-hub airports, or 50 miles to airports with jet service would lose commercial air service and receive only 50 percent of previous funding for surface transportation use only. Communities less than 210 miles to a large or medium hub would receive a 25 percent cut funding cut (subject to fund availability). Communities more than 210 miles would experience a 10 percent funding cut (subject to fund availability).

The FY06 Budget Request would severely cut and potentially dismantle the EAS program.

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<td>$113</td>
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### Community Impacts:

**EAS communities within 100 miles of large hub airport:**

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<th>Community</th>
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<tr>
<td>Oil City/Franklin, PA</td>
<td>Johnstown, PA</td>
<td>Bradford, PA</td>
<td>Lancaster, PA</td>
</tr>
<tr>
<td>Jackson, TN</td>
<td>Jonesboro, AR</td>
<td>Lebanon, NH</td>
<td>Hana, HI</td>
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<tr>
<td>Enid, OK</td>
<td>Ponce, PR</td>
<td>Athens, GA</td>
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**EAS Communities within 75 miles of small hub airport:**

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<th>Community</th>
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<tbody>
<tr>
<td>Joplin, MO</td>
<td>Watertown, NY</td>
<td>Hot Springs, AR</td>
<td>Kamuela, HI</td>
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<tr>
<td>Rutland, VT</td>
<td>Muscle Shoals, AL</td>
<td>Visalia, CA</td>
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<tr>
<td>Augusta, ME</td>
<td>Merced, CA</td>
<td>Pueblo, CO</td>
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**EAS Communities within 50 miles of an airport with jet service:**

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<th>Community</th>
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<tr>
<td>Jamestown, NY</td>
<td>Springfield, IL</td>
<td>Chisholm/Hibbing, MN</td>
<td>Kingman, AZ</td>
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<tr>
<td>Decatur, IL</td>
<td>Owensboro, KY</td>
<td>Staunton, VA</td>
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**EAS Communities less than 210 miles to a large or medium hub:**

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<tbody>
<tr>
<td>Alamogordo, NM</td>
<td>Rockland, ME</td>
<td>Kirksville, MO</td>
<td>Manhattan, KS</td>
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<tr>
<td>Beckley, WV</td>
<td>Salina, KS</td>
<td>Laramie, WY</td>
<td>DuBois, PA</td>
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<tr>
<td>Watertown and Brookings, SD</td>
<td>Kearney, NE</td>
<td>Grand Island, NE</td>
<td>Ponca City, OK</td>
</tr>
<tr>
<td>Pendleton, OR</td>
<td>Ephrata/Moses Lake, WA</td>
<td>Laurel/Harrisburg, MS</td>
<td>Quincy, IL</td>
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<tr>
<td>Alamosa, CO</td>
<td>Vernal, UT</td>
<td>Fort Leonard Wood, MO</td>
<td>Mayaguez, PR</td>
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<tr>
<td>Gulkana, AK</td>
<td>Bluefield, WV</td>
<td>Victoria, TX</td>
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<tr>
<td>Burlington, IA</td>
<td>Show Low, AZ</td>
<td>Cape Girardeau, MO</td>
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<tr>
<td>Rock Springs, NY</td>
<td>Fort Dodge, IA</td>
<td>Marion, IL</td>
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</table>

**85 communities 210 miles or further from large or medium hub airport**

- 36 Alaska Communities
- Liberal, KS
- Guyvnon, OK
- Ogdensburg, NY
- Plattsburgh, NY
- Manistee, MI
- Moab, UT
- Harrison, AR
- Ely, NV
- Saronac Lake, NY
- El Dorado, AR
- Escanaba, MI
- Greenbrier/White Sulfor
- Springs, WV
- Ironwood, MI
- Ashland, WI
- Clovis, NM
- Silver City, NM
- Scottsbluff, NE
- West Yellowstone, MT
- Chadron, NE
- Riverton, WY
- Thief River Falls, MN
- Garden City, KS
- Massena, NY
- Carlsbad, NM
- Iron Mountain, MI
- Page, AZ
- Huron, SD
- Hays, KS
- North Platte and McCook, NE
- Great Bend, KS
- Bar Harbor, ME
- Cortez, CO
- Alliance, NE
- Dodge City, KS
Source: *U.S. Department of Transportation, February 2005*

**Regional Airline Association:** [www.raa.org](http://www.raa.org)

The Regional Airline Association (RAA) represents U.S. regional airlines and the suppliers of products and services that support the industry, before the U.S. Congress, Federal Aviation Administration, Department of Transportation and other federal and state agencies. RAA member airlines transport between 90 percent and 95 percent of all regional airline passengers.

Regional airlines provide short and medium-haul scheduled airline service connecting smaller communities with larger cities and hub airports operating 9 to 68 seat turboprops and 30 to 100 seat regional jets.

For more information please contact Faye Malarkey, Vice President of Legislative Affairs, at [malarkey@raa.org](mailto:malarkey@raa.org).
President Bush’s Strengthening America’s Communities Initiative seeks to “strengthen America’s transitioning and most needy communities, [through] reforming and restructuring many of the existing Federal economic and community development programs” (OMB 02/03/05).

While the summaries of the Administration’s budget do not mention water and wastewater, these are critical basic resources for public health, environmental wellbeing, and thus the basis for socio-economic development in transitional and rural communities. Rural water and sanitation systems are expensive and human resource intensive. Many rural communities, because of isolation, have had to rely on Federal government funding to ensure that they can afford the cost of implementing and upgrading these systems. The reality of infrastructure cost vis-à-vis available rural community resources is not likely to change. Initiatives such as regionalization and asset management are likely to solve a relatively small portion of the problem for communities.

Obtaining and maintaining these resources over time requires basic local management capacity. This includes recognition of water and wastewater problems, compliance with health and environmental regulations, identification of solutions for the problem, obtaining funding from the multiple funding sources, financial management, negotiating with engineering, construction and other services, and decision making, planning and development so that the water investments yield broader community development opportunities. Intermediary organizations currently utilize government resources to provide technical assistance to rural communities, which is critical to building these capacities. Water and waste services are critical to local business expansion, attracting new or start up businesses, encouraging new housing, and attracting other amenities that make communities viable and sustainable.

There are several programs that provide funding for rural community water and wastewater. It is notable that the Strengthening America’s Communities Initiative would eliminate the Department of Housing and Urban Development CDBG, more than 30 percent of which goes to water and wastewater initiatives, the Environmental Protection Agency Clean Water State Revolving Fund (CWSRF), 15 percent of which has been designated to support small water systems, the Department of Health and Human Services Community Services Block Grant (CSBG), and the grant portion of the USDA Rural Utilities Service (RUS) Water and Waste Program. Taken together, these cuts could undermine the resources and support services that have provided the foundation for improved public health, enhanced environment and socio-economic development in rural American over the last several decades.

The tables below describe the cuts to the Clean Water SRF, the grant portion to the USDA Rural Utilities Service (RUS) Water and Wastewater Program, and the Department of Health and Human Services (HHS) Community Services Block Grant. The impacts of cutting CDBG are discussed in other attached summaries.

**Clean Water State Revolving Fund (SRF)**

**Purpose of Program**
The EPA’s CWSRF provides long-term, low-interest loans to community water systems for sewage plant construction and upgrades, as well as non-point source pollution control and watershed management.

**Impact of FY2006 Budget Proposal**
CWSRF has served as the nation’s largest water quality funding source. The FY2006 Budget reduces funds by $310 million—a cut of approximately one-third. CWSRF offers low interest rates and flexibility crucial for low-income communities. Communities who receive CWSRF loans may simultaneously access funds through other sources, allowing funding multiplicity for costly but essential infrastructure development. Very small rural communities (3,300 or less) have already been experiencing a gap between their share of reported need and the share of SRF funding they receive. The proposed FY2006 budget cut will only increase that gap, further alienating small rural communities.
Impact of the Program in the Community

Three adjacent communities in Louisa County, Iowa, were experiencing cases of untreated sewer discharge. Many of the roughly 2,500 residents are low-income. Individually, the communities had few affordable wastewater treatment options. The three cities decided to regionalize. Each community constructed a wastewater collection system, and pumped the wastewater to a treatment facility at Columbus Junction, the largest community with a population of 1,900. Fredonia and Columbus City leveraged approximately $200,000 each in funds from CWSRF. While these funds were only a portion of the total funds leveraged to complete the project, it allowed them to access a considerably large amount of money at low interest rates, while also accepting other grants and loans. The project successfully managed to protect public health, improve financial ratings, and promote leadership, financing and collaboration techniques for the three small communities.

The USDA Rural Utilities Service Water and Waste Disposal Programs

Purpose of Program

Rural Utilities Service Water and Waste Disposal program provides loans, guaranteed loans, and grants for water, sewer, storm water, and solid waste disposal facilities in cities and towns up to 10,000 people and rural areas. Grants may be provided when necessary to reduce user costs to a reasonable level. They may cover a maximum of 75 percent of eligible facility development costs.

Impact of FY2006 Budget Proposal

The budget proposal would continue a trend of decreasing the grant proportion of this fund (which was more than $500 million through the year 2000), even as it provides a slight increase in loan dollars. By diminishing the grant portion, the Administration’s proposal does two things: 1) it decreases the amount of resources available to communities to ensure that the user costs remain at a reasonable level even as states estimate that the demonstrated need for rural communities as much as 70% greater than existing resources; 2) it eliminates the fund out of which technical assistance is granted. In particular, the proposed budget would cut specified technical assistance grants within this program.

Impact of the Program in the Community

Lohn Water Supply Corporation serves a rural agricultural community of 66 households 18 miles north of Brady, in McCulloch County, TX. The WSC is required to upgrade water distribution lines installed in 1963, and to improve water pressure with either an elevated water tank or new pressure tank. System improvements may allow the addition of 15-20 customers. They appealed to Southern RCAP to help them with an income survey so that they could qualify for USDA Rural Development funding. The WSC is in the pre-application stage with USDA RD for the $1,250,000 project and is eligible for up to 45% grant assistance, due to a $25,192 MHI for the county subdivision. The WSC service area is substantially smaller than the census area, and the board thinks the MHI for Lohn WSC may be lower than $24,700, qualifying the WSC additional RD grant funds. So far, they have had a low response rate to the income survey. If the USDA RD survey is not successful, the WSC and engineer will need to examine the scope of the project and financing alternatives, as the system is sufficiently small that the 66 customers may have difficulty servicing the RD loan on the planned project. As financing and scope of project are determined, Southern RCAP will assist with a review of WSC rates and budget.

The HHS Community Services Block Grant, Section 680 A 3B, Rural Infrastructure
Purpose of Program
The CSBG is provides critical technical assistance resources for a range of programs to build capacity in disadvantaged communities. Under Section 680 A 3B, Rural Infrastructure, the Office of Community Services has provided roughly more than $7 million dollars specifically for water and wastewater technical assistance since 1998.

Impact of FY2006 Budget Proposal
Eliminating the CSBG would undermine the technical assistance and capacity development services that are currently available to communities. The Community Action Programs, Community Development Corporations, and the Rural Community Assistance Partnership, among others. Removing this level of support would leave many rural communities without necessary support to address water, wastewater and other critical development needs.

Impact of the Program in the Community
The City of Beaver Bay, MN is a small town of 175 people, with a median household income of $30,000 that is located on the north shore of Lake Superior and is being impacted by new development along the lake shore. The city has been put on notice by MN Pollution Control Agency (MPCA), that in order to meet the demands placed by development, the city must expand on wastewater treatment. With funding from the CSBG Rural Community Facilities program, staff of the Midwest Assistance Program (Midwest RCAP) has worked with the community, the USDA Rural Development office in Minnesota and the MPCA to assist the city to meet the demands of the new development planned for the lake-shore adjacent to the city.

Description of Organization & Mission
RCAP operates as a national service delivery network of six regional partners and a national office in Washington, D.C. Every year, more than 200 RCAP specialists provide technical assistance, training, and financial resources to more than 2,000 small rural communities in all 50 states, Puerto Rico, and the U.S. Virgin Islands.

RCAP and its regional partners help to connect rural communities, as well as Native American and tribal communities, with the resources they need to obtain the quality of life they want and to meet the requirements of federal laws and regulations. RCAP and its partners also offer information on what resources are available and how other communities have solved similar problems. RCAP partners provide hands-on technical assistance to rural communities as they work to meet their needs. RCAP also serves as the rural community's advocate in regulatory proceedings and in rural associations and coalitions.

The RCAP national office engages in applied research, policy development, public education, and advocacy on rural issues, especially with respect to community infrastructure. The national office also supports the work of the network by obtaining financial support, sharing knowledge and best practices across the network, and by promoting dialogue on the changes that will enable rural communities to promote public health, protect the environment, and create wealth. It does this by representing the partnership in rural associations, networks, regulatory committees and coalitions. See our web site at http://www.rcap.org.

Sources:
- Department of Health and Human Services Office of Community Services http://www.acf.hhs.gov/programs/ocs/csbg/html/1.htm, accessed 3/1/05
- Yearly budgets (FY2006 listed here):
Community Development Funding

Purpose of Program
Community development funding is critical to achieving an “Ownership Society.” This collection of 18 programs helps millions of low and moderate income people each year, and serves as a vital resource to develop thousands of distressed communities and neighborhoods. If these programs are cut: poor people will suffer and their opportunities will shrink, communities that are turning around will lose momentum, and states and localities will be bombarded with demands that they will not be able to meet without raising taxes.

Impact of FY 2006 Budget Proposal
The Administration’s proposal for “Strengthening America’s Communities” would consolidate 18 community development programs into one, cut funding by almost $2 billion, from $5.61 to $3.71 billion, and shift these programs from US HUD and other agencies to the Department of Commerce. Rather than strengthening communities, it will undermine them. The Center for Rural Affairs calculates that rural communities will be hit especially hard, losing more than one-third of their funding for development activities, including infrastructure, other public works, affordable housing and community facilities development, brownfields reclamation, economic development loan guarantees and microenterprise lending. Because they have access to far fewer private resources to fill the gap, rural communities and community developers will fall further behind their urban counterparts. In addition, the Department of Commerce does not have the internal resources to manage even the much reduced version of these programs that the Administration proposes. As of March 3, 2005, a bipartisan group of 55 Senators has signed a letter petitioning the Senate Budget Committee not to cut, consolidate or move most of these programs, the ones currently administered by US HUD.

It is important to note that the Administration’s budget proposal also cuts many programs in other agencies which provide crucial resources for rural community development. These include affordable housing and business development programs in USDA and the Community Services Block Grant, Economic Development, Rural Community Facilities and Jobs programs in US HHS. Making both sets of cuts at the same time will magnify their negative impact.

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Impact of the Program in the Community

CDBG Improves Rural Housing

“For most of the 20th century, substandard quality was the primary rural housing problem. In the Central Valley, as in the rest of the country, there have been many gains in rural housing quality, largely because of federal programs. But substandard housing still exists, especially in rural areas and central cities. Fully 12 percent of low-income households in nonmetro areas live in physically inadequate housing, and poor housing conditions are disproportionately more common among renters and minority households than among owners and whites.
“It is CDBG that makes it possible for local communities to turn the tide. The town of Woodlake backs up to the foothills of the Sierra Nevada. A town of 6,600 residents, it is one of the poorest cities in California with a 36.8% poverty rate and a $23,000 median household income. With a low tax base and minimal sales tax revenues, the city struggles to provide basic municipal services like police and fire. Forty-six percent (46%) of the city’s housing stock is over thirty years old. When the CDBG program came into existence, the city jumped at the opportunity to obtain resources to improve its infrastructure and its housing stock. In the years that followed, it has competed for and received millions of dollars that have aided the City not only in maintenance but growth. Over 350 homes have been repaired or rebuilt in an effort to overcome deterioration of City neighborhoods. The City has also used CDBG funds to encourage homeownership, improve streets, control flood and expand water and sewer facilities.

“Josie Leon, an 82-year-old woman with Social Security as her only income, owned a home that was in such bad condition that it put her health and safety at risk. She couldn’t afford more than the most basic repairs, and the city was facing the prospect of condemning the house and forcing her out of the only home she knew and the only asset she owned. Funded by CDBG, the city and Self-Help Enterprises worked together to assist her in making desperately needed repairs and retain ownership of her home. Without the CDBG Program, the home would have continued to deteriorate. Eventually, it would have been red-tagged, another property blighting a community that is working hard to improve.”

Statement by Peter Carey, Executive Director, Self-Help Enterprises, at U.S. Senate Briefing, March 1, 2005