

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

March 8, 2002

The President's 2003 Budget and Rural America

Dear Democratic Colleague:

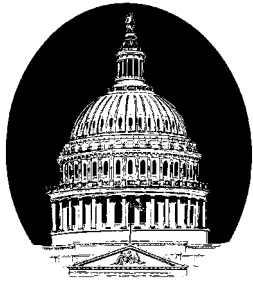
Attached is an issue brief, "The President's 2003 Budget and Rural America," that analyzes the President's rural budget proposals. For a detailed look at the President's entire budget, please look at "Return to Red Ink: Back to Budget Deficits" on our website at: http://www.house.gov/budget_democrats.

The President released his budget on February 4, and while Democrats strongly support the war on terrorism at home and abroad, we do not support the budget's cuts in vital domestic discretionary programs, its insistence on tax cuts paid for by the Social Security surplus, and its omission of a real Medicare prescription drug benefit. Overall appropriations for domestic programs — non-defense, non-homeland security, non-international programs — are \$12.4 billion (3.4 percent) below the 2002 level. The budget targets many of these cuts on the very areas the government has the most responsibility to help: low-income and vulnerable populations, environmental clean-up and conservation, and our future economic security.

The House Budget Committee is scheduled to mark up a budget resolution next week and to send it to the floor before the Spring District Work Period on March 25. I hope you find this information helpful as we move forward in this process. Please call me or the Budget Committee Democratic staff at 6-7200 if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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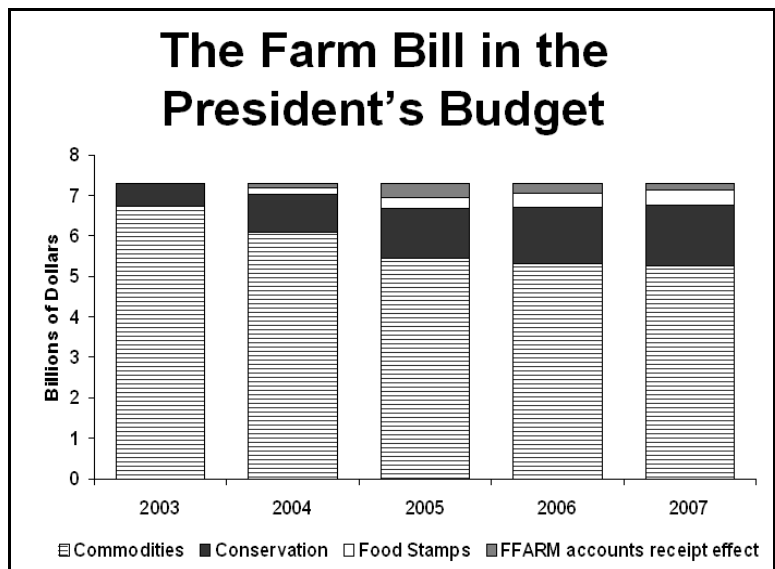
The President's 2003 Budget and Rural America

In 1997, 54.3 million people lived in non-metropolitan areas, accounting for over 20.3 percent of the nation's population. While rural America represents one-fifth of the nation's people and 83 percent of the land area, the President's budget treats rural America harshly, cutting core programs and reducing crucial assistance. The budget provides for a new Farm Bill, which is critically important to rural areas, but only 6.3 percent of rural Americans live on farms.

Revitalization of rural America is hindered by low-wage jobs, poor educational attainment, and lack of access to basic child care, transportation, health care, and housing services. Of the 250 poorest counties in America, 244 are rural counties. In rural America, 2.1 million children have no health care and fewer young adults in rural American have a high school diploma than in urban and suburban regions. In spite of these needs, rural communities will find cuts to economic development, education, child care, transportation, health care, and housing in the President's 2003 budget.

Agriculture

The President's budget reflects the likely \$73.5 billion increase needed to reauthorize the Farm Bill. The budget spreads the \$73.5 billion over the 2003-2012 period across three budget functions: \$13.5 billion for Function 300 (Natural Resources and Environment) for conservation programs; \$54.1 billion for Function 350 (Agriculture) for commodity programs, credit programs, crop



insurance, and other items; and \$4.2 billion for Function 600 (Income Security) for changes to the food stamp program.

The amount provided in the budget is consistent with the House- and Senate-passed bills. At this writing, a conference agreement has not yet been reached. While the House and Senate bills provide different amounts for commodity, conservation, and nutrition programs, the amounts in the budget are reasonable estimates.

But rural America is more than farms.

Economic Development

Half of farm families have significant off-farm income.¹ Farming accounts for only 7.6 percent of rural employment, and 90 percent of rural workers have non-farm jobs. Services and retail trade are the largest employment sectors in the rural economy.

How the Budget Responds

- ***Community Development Block Grant (CDBG) Program Cut*** — Community Development Block Grants provide funds for programs and activities that promote economic development in low- and moderate-income communities. The budget provides \$4.7 billion for CDBGs, a \$379 million (7.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level. The budget reduces grants to the top-earning one percent of eligible communities to fund development in Colonias, which are communities along the United States and Mexican border.
- ***Economic Development Administration Cut*** — The budget provides \$317 million for Economic Development Assistance programs, a \$24 million (7.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Rural Community Advancement Cut*** — The budget provides \$791 million for the Rural Community Advancement program, a \$7 million cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.
- ***Cuts to Digital Divide Program*** — The budget eliminates funding for Technology Opportunities Program (TOP) grants of the National Telecommunications and Information Administration that help to bridge the digital divide by building information infrastructure in underserved communities.

¹Data about rural America comes from the Rural Policy Research Institute (RUPRI) and the Economic Research Service at the U.S. Department of Agriculture.

- ***Aid for Water Infrastructure*** — For 2003, the President’s budget provides \$1.2 billion for the Clean Water State Revolving Fund (SRF) Program, \$138 million (10.2 percent) less than last year. For the Drinking Water SRF Program, the budget freezes funding at the 2002 level of \$850 million. Finally, the budget zeroes out \$344 million in Congressional earmarks but fails to reinvest this money in other water infrastructure programs. Overall, the cut to water infrastructure aid totals \$482 million from the 2002 freeze level.
- ***Small Watershed Program Eliminated*** — The budget eliminates PL-566, the Small Watershed Program in the Department of Agriculture. Last year, the Administration requested \$100 million for the program, and appropriators provided about \$107 million. The backlog of approved Small Watershed Program projects stood at \$1.6 billion at the beginning of October. The Small Watershed Program funds cooperative efforts among the federal government and states and localities to: prevent erosion, floodwater, and sediment damages; further the conservation, development, utilization, and disposal of water; and further the conservation and proper utilization of land in authorized watersheds.

Employment

There were 1.2 million unemployed persons in non-metropolitan areas in 2001. The rural unemployment rate in 2001 was 4.9 percent, but 4.7 percent in metropolitan areas.

How the Budget Responds

Despite some selected small increases, such as an increase of \$73 million (5.0 percent) for Job Corps, the budget cuts funding for employment and training programs by \$686 million (12.1 percent) from the 2002 enacted level of \$5.7 billion.

- ***Cuts Dislocated Workers*** — The budget cuts funding to help dislocated workers by \$166 million (10.7 percent) from the 2002 enacted level of \$1.5 billion.
- ***Decreases Adult Training*** — The budget also decreases state grant funding for employment and training for low-income adults by \$50 million from the 2002 level of \$950 million.
- ***Cuts Youth Training Activities*** — The budget cuts \$363 million for youth training services that prepare low-income youth for academic and employment success. The budget includes an increase of \$73 million for Job Corps, providing \$1.5 billion for 2003.

- ***No Real Unemployment Solution*** — The budget includes several new spending proposals for the Unemployment Insurance (UI) program as part of the Administration’s economic security package and a long-term “reform” package that would radically reduce federal payroll taxes and devolve responsibility for financing unemployment benefit administration to the states, but does not appear to offer a federal response to serious issues of limited access to the program among low-income workers and to the value of benefits.

Poverty

In 1997, the poverty rate was 15.9 percent in nonmetro areas compared with only 13.2 percent in metro areas. Rural children have a higher poverty rate than urban children: in 1996, 24 percent of nonmetropolitan children lived in poverty compared with 22 percent of metro children.

How the Budget Responds

- ***Freezes Most Welfare Funding; Restores Programs the Administration Let Expire in 2002*** — For the entire 2003-2012 period, the budget freezes most funding for the Temporary Assistance for Needy Families (TANF) program at the 2002 enacted level of \$16.7 billion. The budget converts the current \$100 million out-of-wedlock-birth reduction bonus into a new fund for research and technical assistance aimed at strengthening marriage and family formation. The budget allows the limitation on transfers to SSBG from TANF to fall from 10 percent to 4.25 percent in 2003.

The budget increases other TANF spending relative to current law by \$46 million in 2003 and by \$3.1 billion over 10 years. This increase results from the restoration of two TANF components — Supplemental Grants (\$319 million annually) and the Contingency Fund for states experiencing economic hardships (up to \$2 billion) — that the Administration allowed to expire in its 2002 budget.

- ***Reduces SSI and Medicaid Spending by \$903 Million*** — The budget establishes a standard for reviews and accuracy in Supplemental Security Income (SSI) disability awards that parallels a policy within the Social Security Disability Insurance Program. This provision reduces 2003 - 2012 spending in the SSI and Medicaid programs by \$262 million and \$641 million, respectively.

Child Care

Rural areas have fewer trained professionals and regulated child care options than urban areas. Rural families depend more on child care given by relatives and friends. Rural families travel greater distances to obtain child care than urban families

How the Budget Responds

- ***Freezes Funding for Child Care*** — The budget freezes funding for the Child Care and Development Fund at the 2002 enacted level of \$4.8 billion, providing \$2.1 billion in discretionary funding for the Child Care and Development Block Grant (CCDBG) and \$2.7 billion for mandatory child care programs. This cuts funding for CCDBG by \$40 million compared with CBO's estimate of the amount necessary to maintain purchasing power at the 2002 level. The budget freezes mandatory funding at the 2002 enacted level through 2012, eroding purchasing power further in each year.
- ***Freezes Head Start Enrollment*** — The budget provides \$6.7 billion for Head Start, an increase of \$130 million (2.0 percent). That is not enough to allow Head Start to offer services to any additional children.
- ***No Increase for Social Services Block Grant (Title XX)*** — The budget freezes funding for the Social Services Block grant at the 2002 enacted level of \$1.7 billion. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, employment services, and prevention and intervention programs.
- ***Cuts Community Services Programs by 13 Percent*** — The budget provides \$616 million for community services programs, \$98 million (13.3 percent) below the 2002 enacted level and \$113 million (15.0 percent) below the amount needed, according to CBO, to maintain purchasing power at the 2002 level.

Educational Attainment

Rural students are less likely to graduate from high school or to attend college than urban students. In 1998, slightly more than 15 percent of the rural population 25 years and older had a four-year college degree, compared with nearly 28 percent of the urban population. Among rural adults, 20 percent have no high school diploma, compared with 15 percent of urban adults.

How the Budget Responds

- ***No Increase in Maximum Pell Grant*** — The budget freezes the Pell Grant maximum award at the 2002 level of \$4,000. However, because more eligible students are expected to apply, the budget provides another \$549 million for Pell Grants for 2003.

- ***Freezes Campus-Based Postsecondary Assistance*** — The budget freezes funding at the 2002 level for all the campus-based postsecondary education programs (Supplemental Educational Opportunity Grants, Work Study, and Perkins Loans).
- ***Decreases Postsecondary Student Assistance*** — The budget freezes funding at the 2002 level for all the programs that provide assistance to postsecondary students (such as TRIO and GEAR-UP) except for the two that it eliminates entirely (Thurgood Marshall Legal Educational Opportunity Program and B.J. Stupak Olympic Scholarships).
- ***Eliminates Rural Education Programs*** — The budget eliminates two Department of Education programs, funded at \$162 million for 2002, that give rural school districts additional funding for elementary and secondary education activities. The budget rationalizes these cuts by noting that the new No Child Left Behind Act directly addresses the needs of rural districts. However, the budget cuts funding for the Act by \$90 million from the 2002 level.

Health Care

Nonmetro areas have a higher proportion of the uninsured and individually insured than metro areas. In 1996, almost 10.5 million rural residents were uninsured. In the first half of 1996, 19.8 percent of the rural population was uninsured compared with 16.3 percent of the urban population. Approximately 2.1 million rural children have no health insurance, 67 percent of whom fall below 200 percent of the poverty threshold.

As of June 1996, nearly 22 million rural residents lived in federally designated Health Professions Shortage Areas or Medically Underserved Areas. As a whole, rural America is underserved by primary care physicians and many health services (including referrals, diagnostics services, and home health services) are less available in rural areas than in urban areas.

Medicaid covered a higher percentage of the urban poor than the rural poor. In 1993, Medicaid covered 49 percent of the urban poor and only 45 percent of the rural poor.

How the Budget Responds

- ***Eliminates State Planning Grants*** — The budget eliminates state planning grants for 2003, a cut of \$15 million. These grants are used by states to develop designs for providing access to health insurance coverage to all people in a state.

- ***Cuts Health Professions Training Programs*** — For 2003, the budget cuts health professions training by \$278 million (71.6 percent) below the 2002 enacted level. Nursing programs are not included in the overall reduction.
- ***Eliminates Community Access Program (CAP)*** — The budget eliminates the community access program for 2003, a cut of \$105 million. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Slashes Telehealth Activities*** — For 2003, the budget cuts telehealth activities by \$33 million, 84.6 percent, below the 2002 enacted level.
- ***Slashes Rural Health Activities*** — Rural health activities are cut by \$54 million, 41.9 percent, below the 2002 enacted level.
- ***Extends Transitional Medicaid Assistance (TMA)*** — The budget increases Medicaid spending by \$350 million in 2003 to extend TMA for one year only. This program provides health coverage for former welfare recipients as they enter the workforce and is an integral part of welfare reform. When Congress extends the current welfare law, it is likely to extend TMA for more than one year.

Medicare

The Medicare population is overrepresented in rural areas. In 1996, while 20 percent of the rural population lived in rural areas, over 23 percent of Medicare beneficiaries resided in rural areas. Partly due to lower reimbursement rates in rural areas and lower use of health care services by rural citizens, Medicare spends less money on rural beneficiaries than on urban beneficiaries. In 1996, Medicare spent an average of \$4,375 per beneficiary in rural areas compared with \$5,288 in urban areas.

What the Budget Does for Medicare

- ***Unspecified Medicare Reform and Inadequate Prescription Drug Coverage*** — The President's 2003 budget includes \$190.2 billion over ten years (2003-2012) to reform Medicare and provide immediate assistance to states providing prescription drug coverage to low-income seniors. Of the \$190.2 billion included in the budget, \$77.1

billion is for state-sponsored prescription drug programs. Last year's Republican budget resolution included \$300 billion for these purposes. Like the Administration's budget last year, this one does not outline the planned Medicare reforms and fails to provide a Medicare prescription drug benefit to all seniors.

The budget includes immediate funding in 2003 for the prescription drug assistance to the states. The funding for the undefined reform and modernization plan is not available until 2006.

- ***Fails to Provide Relief to Physicians or Home Health Agencies*** — In addition to recommending increases in managed care payments, MedPAC (Congress' Medicare Advisory Commission) made two other recommendations on provider payments: 1) an increase in physician payments because the current formula (the sustainable growth rate) is flawed; and 2) the elimination of the scheduled 15 percent cut in payments for home health agencies required under current law. The budget is silent on both of these provider payment formulas, which stem from the Medicare revisions in the Balanced Budget Act of 1997.

Housing

Housing stock in rural areas has grown at a slower rate than that in urban areas (5.2 percent in rural vs. 7.7 percent in urban). According to the 1993 American Housing Survey, 27 percent of all rural households have a major housing problem, including inadequacy, overcrowding, or high cost burdens. In 1995, 6 percent of rural welfare recipients lived in homes with physical deficiencies, 5 percent were overcrowded and 13 percent had multiple problems.

Nearly 1 in 10 rural households spent over half of its income on housing, and 2 of every 5 rural welfare households paid more than 30 percent of income for housing.

The average yearly expenditure on all major energy sources for urban households was \$1,275 compared with \$1,309 per year for rural households. For equivalent units of electricity, on average, urban households pay \$12.15 per BTU while rural households pay \$12.50 per BTU.

How the Budget Responds

- ***Cuts to Rural Housing Programs*** — For three rural housing loan programs in the Department of Agriculture, the budget will result in 2003 loan levels that are lower than for 2002. For Section 502 direct loans for single-family housing, the budget supports \$957 million in loans for 2003, \$123 million (11.4 percent) less than for 2002. For Section 502 guaranteed loans for single-family housing, the budget supports \$2.8 billion

in loans for 2003, \$388 million (12.4 percent) less than for 2002. For Section 515 direct loans for rental housing, the budget supports \$60 million in loans for 2003, \$54 million (47.4 percent) less than in 2002.

- ***Eliminates Rural Housing and Economic Development*** — The budget eliminates this \$25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.
- ***Cuts LIHEAP Formula Funding by 17.6 Percent*** — At a time of recession and high unemployment, the budget cuts funding for the Low-Income Heating and Energy Assistance Program (LIHEAP) program by \$300 million (15 percent) compared with the 2002 enacted level, providing \$1.4 billion in regular and \$300 million in contingent (emergency) funding. Because the entire \$300 million reduction comes out of regular LIHEAP funds (which fall from the 2002 enacted level of \$1.7 billion), the budget cuts these formula grants to states by 17.6 percent compared with the 2002 enacted level.
- ***Cuts Funding for Critical Repairs to Public Housing, Again*** — Continuing the practice of cutting funds for critical repairs to public housing begun in its 2002 budget, the Administration cuts the Public Housing Capital Fund to \$2.4 billion, \$417 million (14.7 percent) below the 2002 enacted level. Public housing — home to 1.2 million families, over 40 percent of whom are elderly or disabled — faces a \$20 billion backlog of unmet repair needs and an additional \$2 billion in needs accruing each year. The budget includes legislation to begin a Public Housing Reinvestment and Finance Reform that would permit housing agencies to seek private sector financing for capital improvements while converting properties to project-based Section 8 vouchers.

Transportation

3.1 million miles of the 3.9 million total US public highway network are located in rural areas. Almost half (40 percent) of all rural residents live in an area with no form of public transportation, another 28 percent live in areas with very low levels of service provision, and nearly 80 percent of rural counties have no public bus service.

How the Budget Responds

- ***Highway Funding Cut Drastically*** — The President's budget cuts 2003 federal-aid highway funding to \$23.2 billion, a cut of \$8.6 billion (27.0 percent) from the 2002 enacted level of \$31.8 billion. This dramatic cut in 2003 highway funding is consistent with a provision in the Transportation Equity Act for the 21st Century (TEA-21) that

links highway funding levels with actual and expected highway use tax collections. The cut results from lower-than-expected gas tax collections in 2001 and a downward revision in projected collections for 2003. Such a dramatic decline in federal aid could force states to abandon or postpone many highway projects and result in the loss of thousands of highway construction jobs while the nation is still recovering from the recession. The President's budget makes no attempt to remedy this steep drop called for under the provisions of TEA-21.