

**House Committee on Agriculture**  
*Farm Bill Audit*

**1. Program Name**

Community Facilities (CF) Programs Direct and Guaranteed Loans and Grants

**2. Subprograms/ Department Initiatives**

CF Direct Loans

CF Guaranteed Loans

CF Grants

CF Economic Impact Initiative Grants

CF Tribal College and University Grants

**3. Brief History**

USDA's CF Programs are implemented under Rural Development's Rural Housing Service (RHS). The programs provide access to capital for critical civic infrastructure investments primarily in the area of rural health care, public safety, and educational facilities. These investments are creating jobs and economic growth and are also funding technology and infrastructure such as health information technology that will lay the groundwork for future economic growth.

In 1972, Congress amended the Consolidated Farm and Rural Development Act (Con Act) to authorize the CF direct loan program to address the need for an agency devoted to providing essential community facilities in rural areas. Other Federal agencies were located in metropolitan cities and historically most of their activities were within cities with populations far exceeding the size of rural communities. Authority to implement the CF Programs was delegated to the predecessor to RHS, the Farmers Home Administration, which had an established field staff based in rural communities with the capacity to address local rural issues and concerns, assist those communities in assembling applications and providing supervised credit.

All applicants must demonstrate that they are unable to obtain credit from commercial sources at reasonable rates and terms. Applicants are required to be units of government, Federally-recognized Indian tribes, or non-profit entities with significant community support and ties to the local community, which helps to assure that the services are affordable for low- and moderate-income rural Americans.

In 1990, the CF authority was expanded to include the capability to guarantee loans made by commercial lenders. Authority for the CF grant program was added in 1997. The direct and guaranteed loan repayment terms are limited to the useful life of the facility, State statute, or 40 years, whichever is less.

Since its inception, more than 40 percent of RD's CF Programs' portfolio is invested in rural health care facilities. Since 2009 to June 30, 2011, the CF direct and guaranteed loan and grant programs invested over \$3.1 billion in 4,207 essential community facilities. These investments are estimated to directly create 9,996 jobs and save 22,384 jobs. Of this amount over \$1.66

billion has been invested in 464 rural health care facilities which is estimated to create 4,124 jobs and save 10,319 jobs. The President's FY 2012 Budget proposes to fund the CF direct loan program at \$1 billion, more than triple the historic funding level. In addition, the budget proposes to eliminate funding for the CF guaranteed loan program which has had higher defaults than projected, making it more expensive than the direct loan program. The proposed increase in the CF direct loan program will mitigate any effects of ending the guaranteed loan program. The CF direct loan program has a negative subsidy rate in FY 2012. This means that the \$1 billion in CF direct loan assistance can be provided without the need to request subsidy budget authority. This is a win-win for taxpayers and rural residents working to strengthen their rural communities.

#### 4. Purpose/Goals

CF Programs direct and guaranteed loans and grants provide financing to units of local government, nonprofit organizations, or Federally-recognized Indian tribes for the development of essential community facilities in rural areas. Eligible purposes include:

- Health care facilities;
- Fire, rescue, and public safety buildings, vehicles, and equipment;
- Educational and cultural facilities;
- Town halls, community centers, and libraries; and
- Adult and child day care facilities.
- Public buildings and civic infrastructure.

#### 5. Success in Meeting Programmatic Purpose/Goals

CF Programs' performance includes:

Performance Measure	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Target
Percentage of rural population with new or improved:					
• Health Care	5.2	5.3	5.4	3.2	3.2
• Public Safety	2.7	2.8	5.0	3.2	3.2
• Educational facilities	N/A	N/A	3.5	3.8	3.0
Program Level (in millions)	\$755.0	\$672.0	\$639.3	\$948.4	\$488.3

#### 6. Annual Budget Authority (FY2007-FY2011)

Annual budget authority included:

CF Programs Direct and Guaranteed Loans and Grants (dollars in thousands)					
	2007	2008	2009	2010	2011
Direct CF Loans	11,130	16,369	16,871	3,864	3,856
Guaranteed CF Loans	322	7,596	6,358	6,626	6,613
CF Grants	16,714	20,373	20,373	20,373	14,970
Rural Community Development	8,021	6,256	6,256	6,256	4,990

Initiative					
Economic Impact Initiative Grants	17,123	13,902	10,000	13,902	6,986
Tribal College and University Grants	4,592	3,972	3,972	3,972	3,964

## 7. Annual Outlays (FY2007-FY2011)

Annual outlays included:

Account Name	Account Number	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Target
(Dollars in thousands)						
CF Program	1951	\$112,098 / 1	\$109,417	\$235,410	\$145,409	\$175,000

/ 1 Funded through RCAP.

**Note:** Outlays are not a one to one correlation with Budget Authority. Some programs disburse over numerous years. Undisbursed balances are carried forward for future year outlays. Also, outlays reflect non-Farm Bill Accounts as well.

## 8. Annual Delivery Cost (FY2007-FY2011)

Annual delivery costs included:

CF Programs Direct and Guaranteed Loans and Grants					
(dollars in thousands)					
	2007	2008	2009	2010	2011
Program Level	\$609,103	\$640,889	\$435,502	\$948,423	\$488,266
Budget Authority	77,397	78,199	56,921	69,455	41,379
S&E	114,578	113,299	117,408	119,993	119,993
Total Costs	169,630	191,498	174,329	189,448	161,372
FTE	1,079	1,012	970	1,028	1,028

## 9. Eligibility Criteria

CF Programs can make and guarantee loans to develop essential community facilities in rural areas and towns of up to 20,000 in population. Loans and guaranteed loans are available to public entities such as municipalities, counties, and special-purpose districts, as well as to non-profit corporations and tribal governments.

CF Programs provide grants to assist in the development of essential community facilities in rural areas and towns of up to 20,000 in population. Grants are authorized on a graduated scale. Applicants located in small communities with low populations and low incomes will receive a higher percentage of grants. Grants are available to public entities such as municipalities, counties, and special-purpose districts, as well as non-profit corporations and tribal governments.

## 10. Utilization (Participation) Data

- Number of Loans and Grants
  - FY 2011 to date – 1,032;
  - FY 2010 – 2,754;
  - FY 2009 – 2,377

- FY 2008 – 1,840;
- FY 2007 – 1,766.

### **11. Duplication or Overlap with Other Programs**

There are a broad range of essential community facilities which may be financed through the CF Programs, and there are other agencies that finance some of the same types of community facilities within that range that could be located in rural areas. HUD's CDBG grant program is the main program that funds similar types of projects, albeit not through Federal loans or loan guarantees and not specifically for rural areas..

The RD agencies were created by Congress specifically to serve rural communities. In those cases where there are shared interests, RD has developed partnerships. We have long standing partnerships with the Health Resources and Services Administration, the Economic Development Administration, and the Appalachian Regional Commission which have included Memoranda of Understanding that set forth the ways in which the agencies collaborate and leverage resources to improve access to critical health care, education, and public safety facilities.

At the RD State Office level, we have extensive partnerships with the individual State's economic development, health, and water and sewage treatment agencies. RD has also developed partnerships over the years with organizations representing some of our major constituency groups, including lenders, fire fighters, and rural hospitals. Newer relationships include those with the Delta Regional Authority and the Federal Interagency Partnership on the Southwest Border Region.

### **12. Waste, Fraud and Abuse**

There are numerous reviews performed on the CF program, such as State internal reviews, management control reviews, improper payments risk assessment, OMB Circular A-123 assessment, project reviews and reviews by external agencies such as the Office of Inspector General and the General Accountability Office. Senior management is also required to provide an annual assurance statement which is senior management's judgment as to the overall adequacy and effectiveness of internal control within the agency. CF has had no significant findings in any of the reviews or assessments. Effective internal controls are one of the CF program's main objectives to achieve results through improved accountability and to ensure the overall success of the program. .

CF Programs have established internal controls to ensure that: (1) obligations and costs are in compliance with applicable law; (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. These controls are effective in guarding against overspending, operational failure, fraud, waste, abuse, or violations of law. They provide a reasonable assurance of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations.

### **13. Effect of Administrative Pay-go**

None.