



# RURAL DEVELOPMENT

Part of the Federal Resource Guide Series for Arts Organizations

## SNAPSHOT

Resource Guide 8  
2007

### Legislation:

*Consolidated Farm and Rural Development Act, as amended, Section 306, Public Law 92-419, 7 U.S.C. 1926.*

### Type of Assistance:

Competitive grants, direct loans, and guaranteed loans.

### Who May Apply:

Loans, guarantees, and grants are available for cultural and educational facilities in municipalities, counties, and special-purpose districts, as well as to nonprofit corporations and tribal governments. The locality must have a population of less than 20,000 according to the last decennial census.

### Activities Funded:

Grant and loan funds may be used to construct, enlarge, or improve community facilities. This can include costs to acquire land needed for a facility, refinance existing debt, pay necessary professional fees, and purchase equipment required for its operation.

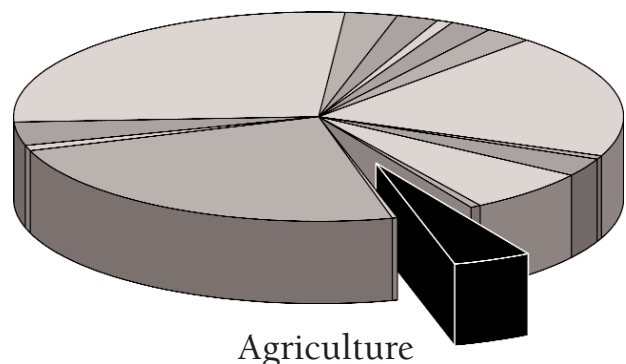
### FY 2007 Appropriations:

\$611 million in Housing and Community Facilities Program budget.

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FY 2007 Federal Budget





## BACKGROUND

Community Programs, a division of the Housing and Community Facilities Program, is part of the U. S. Department of Agriculture's Rural Development mission area. Community Programs administers programs designed to develop essential community facilities for public use in rural areas. These facilities include schools, libraries, child care, hospitals, medical clinics, assisted-living facilities, fire and rescue stations, police stations, community centers, public buildings, and transportation. Through its Community Programs, the Department of Agriculture is striving to ensure that such facilities are readily available to all rural communities. Community Programs utilizes three financial tools to achieve this goal:

1. Community Facilities Guaranteed Loan Program
2. Community Facilities Direct Loan Program
3. Community Facilities Grant Program

In FY 2006, Rural Development made 569 Community Facilities Direct Loans (\$394 million), 75 Community Facilities Guaranteed Loans (\$164 million), and 503 Community Facilities Grants (\$16 million)—for a total of \$574 million.

Since its inception, Community Programs has invested \$1.2 billion in rural communities. Of the \$1.2 billion in the loan portfolio, 33 percent is invested in rural healthcare, 12 percent in public services, 27 percent in public safety, 9 percent in cultural and educational facilities, and 4 percent in transportation services.

Eligible projects are focused on the creation, acquisition, or rehabilitation of *essential facilities*. Essential facilities, which include cultural facilities, provide an essential public service to the local community. The service is one that should be typically provided by a local unit of government as well as needed for the orderly development of the rural community and considered a public improvement. Eligible projects do not include private, commercial, or business undertakings and must include significant community support. According to Rural Development, essential cultural and education facilities include:

Eligible projects are focused on the creation, acquisition, or rehab of *essential facilities*, which include cultural facilities.

- All-Purpose Buildings/College Campuses
- Colleges
- Educational Camps for Physically & Mentally Impaired
- Libraries
- Museums
- Outdoor Theaters
- Public Schools
- School Maintenance & Equipment Service Centers
- Vocational Schools
- Community Centers (as part of the Community Support Buildings & Improvements category)

## EXPLANATION OF COMMUNITY FACILITY LOAN PROGRAM

*Community Facilities Guaranteed and Direct Loan Program*—Community 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 guarantees are available to public entities such as municipalities, counties, and special-purpose districts, as well as to nonprofit corporations and tribal governments.

Loan funds may be used to construct, enlarge, or improve community facilities for healthcare, public safety, and public services. This can include costs to acquire land needed for a facility, pay necessary professional fees, and purchase equipment required for operation of a facility. See examples of essential community facilities listed above. Refinancing existing debts may be considered an eligible direct or guaranteed loan purpose if the debt being refinanced is a secondary part of the loan, is associated with the project facility, and if the applicant's creditors are unwilling to extend or modify terms in order for the new loan to be feasible.

For the direct loan program, there are three levels of interest rates available, (poverty, intermediate, and market) each on a fixed basis. The poverty rate is set at 4.5 percent. The market rate is indexed to the eleventh bond buyers rate as determined by the U. S. Treasury Department. The intermediate rate is set halfway between the market and the poverty rates. Eligibility for these different interest rates is determined by the median household income (MHI) of the area being served and the type of project. The intermediate and market interest rates are adjusted quarterly.

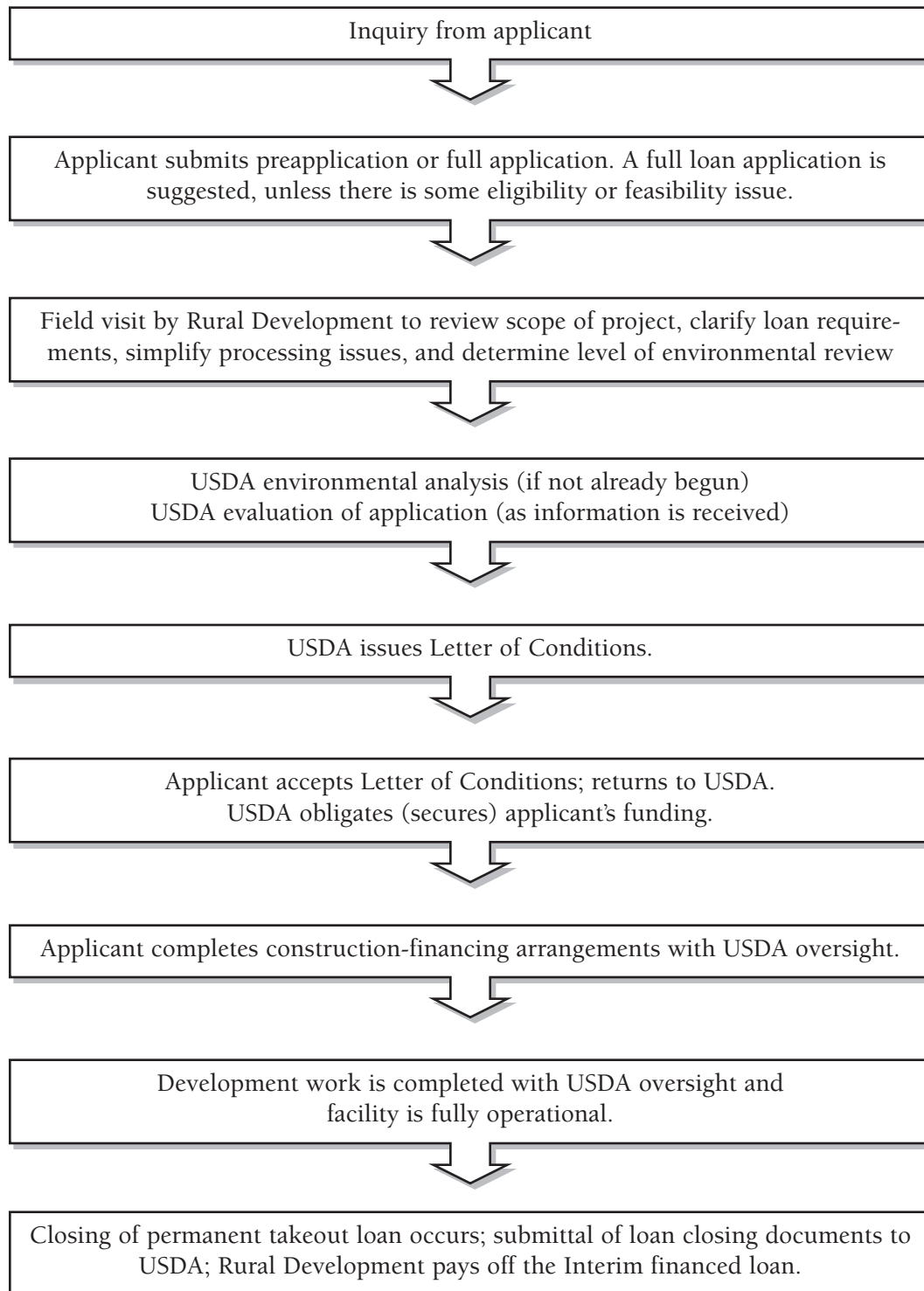
For the guaranteed loan program, the interest rate is the lender's customary interest rate for similar projects. The interest rates for guaranteed loans may be fixed or variable and are determined by the lender and borrower, subject to Rural Development review and approval.

Loans and guarantees are available to public entities such as municipalities, counties, and special-purpose districts, as well as to nonprofit corporations and tribal governments.

## EXAMPLES OF DIRECT & GUARANTEED LOANS

- *Lyles Station, IN*, the state's last remaining African-American settlement, was founded by freed slaves in the 1800s. Residents and others interested in its unique history wanted to preserve the school and use it as a "heritage classroom" and community center. The preservation group working on Lyles Station school project in Gibson County, IN raised \$1.1 million to restore the school including nearly \$800,000 in Community Facilities funds from Rural Development.
- *The Sandpoint Charter School, Inc. in Sandpoint, ID*, was opened in 2000 and was the tenth publicly funded nonprofit charter school formed in Idaho. The school outgrew its existing facilities and was in need of a larger building. The project involved the purchase and remodel of a vacant 28,800-square-foot commercial building in Sandpoint. The project was made possible with a \$900,000 loan from a local bank guaranteed by a Community Facilities Loan Guarantee and a \$650,000 Community Facilities Direct Loan.
- *The North Central Nevada Historical Society* needed to finish the interior of its museum located in Winnemucca, NV. The museum needed space to display its mammoth bone exhibit that had been discovered in the nearby Black Rock Desert. They had previously received funds to construct the building and part of the lower level, but lacked the necessary funds to finish the interior of the building and display space. Rural Development approved a \$400,000 Community Facility Direct loan to complete the interior of the museum. The museum board of directors requested and received a tax set aside from the Humboldt County Commissioners to provide funding for the museum. This—along with gifts, donations, and gift store proceeds—would provide the necessary debt repayment.
- *Wheatland Township, MI*, was in need of a new home for its library. The current library building was nearly 100 years old, lacked adequate space, and also was not accessible for people with disabilities. Wheatland Township received a \$255,780 Community Facilities Loan from Rural Development. When completed, the library will serve about 2,717 rural residents.

# COMMUNITY FACILITY LOAN PROCESS FLOWCHART



Note: This flowchart is an example of Nevada's Community Facility Loan process. Rural Development Offices in other states may follow a similar but somewhat differing procedure.



## COMMUNITY FACILITIES GRANT PROGRAM

Community Programs provides grants to assist with the development of essential community facilities in rural areas and towns of up to 20,000 in population. 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 nonprofit corporations and tribal governments.

### General Guidelines

1. The applicant must certify they are unable to finance the proposed project from their own resources, or through commercial credit at reasonable rates and terms or other funding sources.
2. All projects must be based on satisfactory sources of revenues. The amount of grant assistance must be the minimum amount sufficient for the overall economic feasibility of the purposed project. The applicant must demonstrate they have sufficient revenues to provide for facility operation and maintenance, reasonable reserves, and debt repayment. The applicant's available excess funds must be used to supplement eligible project costs.
3. Grant funds are awarded on a graduated scale according to the Median Household Income (MHI) of the area where the project will be located or the entire impacted area, as well as the need for the project. Grants are scored such that lower population communities receive more points. Additional points are awarded if the project is related to public safety or healthcare. The chart below (an example from the Nevada Rural Development Office) indicates the grant percentage amount allowed on eligible project costs based on MHI:

Nevada MHI	Calculation %	Local MHI Cannot Exceed	Grant % of Eligible Project Costs
\$44,930	90%	\$40,437	15%
\$44,930	80%	\$35,944	35%
\$44,930	70%	\$31,451	55%
\$44,930	60%	\$26,958	75%

4. Grant funds *cannot* be used to:
  - Pay any annual recurring costs, including purchases or rentals that are generally considered to be operating and maintenance expenses
  - Construct or repair electric generating plants, electric transmission lines, or gas distribution lines to provide services for commercial sale
  - Pay costs to construct facilities to be used for commercial rental where the applicant has no control over tenants and services offered
  - Construct facilities primarily for the purpose of housing state, federal or quasi-federal agencies
  - Finance recreational facilities or community antenna television services or facilities
5. The match requirement can be from other federal sources as long as the total federal grant funds do not exceed 75 percent of total project costs. Match requirements are a cash match.

## EXAMPLES OF COMMUNITY FACILITY GRANTS

- Under the Community Facilities program, Rural Development provided a \$35,000 grant from FY 2000 funds to the Franklin Museum of New Athens, OH, to replace the obsolete coal-powered heating system and remove asbestos. Through collaboration with other state and local partners, Rural Development funds were leveraged with \$20,000 of county Community Development Block Grant funds, \$10,000 of Appalachian Regional Commission funds, \$7,000 in Ohio Department of Development funds, and \$5,000 raised by the museum's board of trustees through donations.
- Maxton, a rural community in North Carolina, was without fire protection service or a presence of local law enforcement, which was needed due to incidences of high crime. They were also in need of a community center to be used for meetings and educational training. Rural Development provided a long-term, low-interest loan for the construction of a fire station/community center. The building is 3,148-square-feet and consists of two bays, an office, public bathrooms, a kitchen, a multipurpose meeting room, and a room for the sheriff department's substation. Space is provided for a computer lab/educational center and meeting room for planned community services. Rural Development also provided grant funds sufficient to purchase a computer to be used in this facility. The department will provide Internet access and initiate training programs in collaboration with the local education system, Robeson Community College, and UNCP.

## ADDITIONAL RURAL ENTERPRISE BUSINESS & COOPERATIVE PROGRAM FUNDING SOURCES

*The following grant programs are designed for small rural businesses, which can include artists and creative firms.*

### **Rural Business Enterprise Grants (RBEG)**

The USDA provides Rural Business Enterprise Grants (RBEG) to foster economic development in rural areas (in this case, localities under 50,000 in population, not 20,000 like the Community Facilities programs) and to provide rural residents with the financial tools needed to create business ventures and expand their local economies. Eligible entities for the RBEG funding are rural, private, nonprofit corporations, rural public bodies, (towns, communities, state agencies, and authorities) and Indian tribes.

The RBEG program provides grants for rural projects that finance and facilitate development of small and emerging rural businesses. While not a pass through grant program, RBEGs may fund a broad array of activities to assist with business development.

To assist with business development, RBEGs may fund a broad array of activities.



## ADDITIONAL RURAL ENTERPRISE BUSINESS & COOPERATIVE PROGRAM FUNDING SOURCES (CONT.)

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The RBEG program is a broad-based program that reaches to the core of rural development in a number of ways. Examples of eligible fund purposes include:

- acquisition and development of land, easements, and rights of way;
- construction, conversion, and renovation of buildings, plants, machinery, equipment, access streets and roads, parking areas, and utilities;
- pollution control and abatement;
- capitalization of revolving loan funds, including funds that will be used to provide financial assistance to third parties for start-ups and working capital;
- training and technical assistance;
- distance adult learning for job training and advancement;

Any project funded under the RBEG program should benefit small and emerging private businesses in rural areas. Small and emerging private businesses are those that will employ 50 or fewer new employees and have less than \$1 million in projected gross revenues.

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During FY 2007, approximately \$40.8 million was available for the RBEG program.

*Example of Rural Enterprise Development Grants*—The Crow's Shadow Institute of the Arts, the only reservation-based print studio in the Pacific Northwest, was founded in 1992 on the Umatilla Indian Reservation in Pendleton, OR, in the historic Saint Andrew's Mission schoolhouse. The Rural Business and Cooperative Service of USDA Rural Development has awarded at least four Rural Business Enterprise Grants to Crow Shadow, Inc for a total of \$230,000. Some of the funds have been used to remodel several rooms in the schoolhouse for use by artists and students. Grant money purchased state-of-the art and specialized machinery and equipment for Crow's Shadow, Inc. The printmaking studio contains one lithographic printing press, two etching presses, workspace, art materials, and a matting/framing laboratory.

### Business & Industry Guaranteed Loan Program

The purpose of the Business & Industry (B & I) Guaranteed Loan Program is to improve, develop, or finance business, industry, and employment and improve the economic and environmental climate in rural communities. The B & I Guaranteed Loan Program achieves its purpose by bolstering the existing private credit structure through the guarantee of quality loans that will provide lasting community benefits. It is not intended that the guarantee authority will be used for marginal or substandard loans or for relief of lenders having such loans.



## ADDITIONAL RURAL ENTERPRISE BUSINESS & COOPERATIVE PROGRAM FUNDING SOURCES (CONT.)

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A borrower may be a cooperative organization, corporation, partnership, or other legal entity organized and operated on a profit or nonprofit basis; an Indian tribe on a federal or state reservation or other federally recognized tribal group; a public body; or an individual. A borrower must be engaged in or proposing to engage in, a business that will:

- provide employment;
- improve the economic or environmental climate;
- promote the conservation, development, and use of water for aquaculture; or
- reduce reliance on nonrenewable energy resources by encouraging the development and construction of solar energy systems and other renewable energy systems.

*Example of Business & Industry Loan*—Pennsylvania’s City of Meadville (and area) did not have a multiplex movie theater. USDA Rural Development provided a \$4,500,000 Business & Industry Loan to finance Meadville Cinema’s 10 screen multiplex movie theater project. Acquisition of a seven-acre parcel was made; site improvements including storm water management and parking were made; and construction of a 34,614-square-foot, 10-screen multiplex movie theater finished in 2005. The theater complex has become a community asset with numerous events (other than movies) scheduled.

### Rural Economic Area Partnership Zones

The USDA advocated a pilot concept for rural revitalization and community development called Rural Economic Area Partnership (REAP) Zones. The REAP Initiative was established to address critical issues related to constraints in economic activity and growth, low-density settlement patterns, stagnant or declining employment, and isolation that has led to disconnection from markets, suppliers, and centers of information and finance.

Through local efforts in strategic planning and community action, millions of dollars in state, federal, private, and nonprofit assistance can be made to flow into these areas by:

- improving economic viability, diversity, and competitiveness of the local economy and enhancing its participation in state, national, and global markets;
- assisting local communities to develop cooperative strategies that will maintain and expand essential community functions, basic infrastructure, education, healthcare, housing, and telecommunications;
- assisting families with crises resulting from displaced employees and joblessness; and
- providing financial and technical assistance to implement a citizen-built strategic plan.

In 1995, two zones in North Dakota were initially designated to participate in the REAP Initiative. Subsequently in 1999, two areas in upstate New York were added as the third

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## ADDITIONAL RURAL ENTERPRISE BUSINESS & COOPERATIVE PROGRAM FUNDING SOURCES (CONT.)

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and fourth zones. In 2000, an area in Vermont was designated as the fifth zone. Both the North Dakota zones and the Vermont zone are multicounty areas, while the two in New York are, for the most part, single counties. Each REAP Zone developed a strategic plan for economic revitalization in their respective geographic areas.

*Example of REAP Zone project*—The Northeast Kingdom Arts Council (NeKArts) in the town of Hardwick, Vermont leases their building from the town. They filed a joint application to USDA Rural Development for a \$20,000 Community Facilities Grant.

NeKArts and the town had a collaborative approach to restoring the 1860s opera house as it is the headquarters for NeKArts, where cultural, educational and entertaining programs are held for the community, (approximately 3,500 population). The building had an antiquated wood/oil combination heating system that no longer worked. REAP funds were used for the installation of a new heating system and the building of handicap accessible restrooms.

The building is also used by the town for town meetings, candidate forums, etc. The building, once in complete disrepair, is now used year round and hosts the local high school and elementary school drama programs, movies, music, historical society lectures, and other cultural programs.

### **Public Television Digital Transition Grant Program**

As many local arts organizations partner with their local public television station, this grant may be of interest.

Public Television Digital Transition Grants assist public television stations serving substantial rural populations in transitioning to digital broadcast television transmission, as mandated by the Federal Communications Commission. Grant funds may be used to acquire and install facilities and software necessary for the transition.

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Eligible uses of the public television grant funds include:

- digital transmitters and translators
- transmitting antennas
- new towers or improvements to existing towers necessary for antenna installation
- digital master control equipment to allow local control over digital content and programming

In 2006, 10 public television stations in nine states received a total of \$4.97 million in funding. Oregon Public Broadcasting received \$138,106 to install a digital TV translator to serve Baker City, a former frontier gold mining community of fewer than 10,000 residents in the eastern part of the state. The translator will allow the public broadcasting system to provide improved educational opportunities to the community.

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## ADDITIONAL RESOURCES

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- USDA Rural Development, Community Facility Program  
[www.rurdev.usda.gov/rhs/cf/cp.htm](http://www.rurdev.usda.gov/rhs/cf/cp.htm)
- USDA Rural Development, Business & Cooperative Program  
[www.rurdev.usda.gov/rbs/busp/bprogs.htm](http://www.rurdev.usda.gov/rbs/busp/bprogs.htm)
- USDA Rural Development Public Television Digital Transition Grant Program  
[www.usda.gov/rus/telecom/public-tv.htm](http://www.usda.gov/rus/telecom/public-tv.htm)
- Links to USDA State Offices  
[www.rurdev.usda.gov/recd\\_map.html](http://www.rurdev.usda.gov/recd_map.html)
- National Rural Development Partnership  
[www.rurdev.usda.gov/nrdp/index.html](http://www.rurdev.usda.gov/nrdp/index.html)
- Rural Local Initiatives Support Corporation  
[www.ruralisc.org/index.htm](http://www.ruralisc.org/index.htm)
- Dana Foundation–Rural Initiative in Arts Education  
[www.dana.org/grants/rural/default.aspx](http://www.dana.org/grants/rural/default.aspx)



## QUESTIONS

For more information about the *Federal Resource Guide Series for Nonprofit Arts Organizations*, please contact Director of Federal Affairs **Narric Rome** at [nrome@artsusa.org](mailto:nrome@artsusa.org).

## RESOURCE SERIES

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## ABOUT AMERICANS FOR THE ARTS

Americans for the Arts is the nation's leading nonprofit organization for advancing the arts in America. With more than 45 years of service, it is dedicated to representing and serving local communities and creating opportunities for every American to participate in and appreciate all forms of the arts. With offices in Washington, DC, and New York City, and more than 5,000 organizational and individual members across the country, Americans for the Arts is focused on three primary goals: 1) to foster an environment in which the arts can thrive and contribute to the creation of more livable communities; 2) to generate more public- and private-sector resources for the arts and arts education; and 3) to build individual appreciation of the value of the arts.

In 2004, Americans for the Arts launched **Americans for the Arts Action Fund**, a 501(c)(4) nonprofit organization, to serve as its political advocacy arm and a national voice for the arts. With more than 20,000 citizen members and 70,000 online activists, the Arts Action Fund is significantly expanding arts advocacy outreach in America to help make certain that arts-friendly public policies are adopted at the federal, state, and local levels.

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