

June 16, 2020

The Honorable Russell Vought
Acting Director
U.S. Office of Management and Budget
725 17th St., NW Washington, DC 20503

Dear Mr. Vought:

We are rural development practitioners with on-the-ground perspective about the damaging impacts that COVID-19 is having on rural people, places and firms. Over the past two months, we have gathered input from our networks and colleagues about their experience with federal COVID-19 response programs. Their message is clear: **More must be done, and in smarter ways, to ensure rural and tribal communities have the resources and flexibility they need both to respond to the immediate crisis and to build back better in the longer run recovery.**

Rural places, resources and people are significant contributors to the nation's progress and well-being. [More than two-thirds of the nation's 3,143 counties](#) are rural, and so are the vast majority of incorporated places. Most of [the 574 federally recognized tribes](#) in the U.S. have significant presence in rural regions of the country. Ninety-seven percent of the landmass of the United States is rural and [one in five Americans](#) lives in a rural area. Rural entrepreneurs start businesses at higher rates than their urban counterparts and have higher five-year business survival rates, and these mostly small businesses play a particularly vital role in rural America, creating [roughly two-thirds of new jobs](#) and supporting the economic and social well-being of their communities.

Despite the importance of rural people and places – and the critical goods and services they provide to the nation – many federal programs that are *meant* to help both urban and rural places are structured with only urban experience and conditions in mind. But what works for Los Angeles, Chicago and New York City rarely works as well for Pikeville, Kentucky, and Coahoma County, Mississippi. Key rural and tribal challenges include low population density; geographic isolation and distance from critical infrastructure and resources; revenue and fiscal constraints; limited institutional capacity; and, in some places, persistent poverty and/or at-risk economies. Numerous urban-focused design elements make it extremely difficult, if not impossible, for rural communities and rural-serving organizations to use many of the federal community and economic development programs to improve their local economies.

That is why, even in the midst of a pandemic, it is essential for federal policy to move from a one-size-fits-all approach toward a more tailored model that considers the assets, needs and local priorities of different kinds of communities. As the leaders of intermediary organizations driving innovation and progress in rural communities and regions, we write to share our design priorities for **how existing federal programs and policies can be modified to better serve rural and tribal communities' development needs** in future federal COVID-19 response and recovery action. While more thoroughgoing systems change is required over the longer term, we recommend these six high-impact changes that would make a big difference in rural places now.

- 1. Provide ample relief and recovery funds to state and local governments.** Providing direct federal support to municipalities – regardless of size – would be a game-changing step. It would make solid strides towards ensuring that local governments can continue to provide essential services and take steps toward making recovery more than simply “salvaging what was.” An infusion of direct federal support for local governments is particularly important in rural communities where public lands may limit the tax base, where income tax is the primary source of revenue, and in places where local revenue and income is disproportionately tied to a single industry hard-hit by COVID-19, such as agriculture or tourism. As you consider the parameters of this support, working with Congress as needed, the Administration should:

 - a. Ensure smaller and lower-capacity places do not have to vie for funding against larger places that have staff fully dedicated to seeking and applying for development resources; similarly, tribal nations should not have to vie for funding or navigate complex bureaucratic processes to receive financial relief. Executive branch agencies and Congress should ensure all places, regardless of size, receive support without needless red tape.
 - b. Include provisions that provide local governments with the authority, along with encouragement and incentives, to use these funds to contract and sub-contract, as needed, with local intermediaries and institutions, such as a community college, local business association, community foundation, community development financial institution, other non-profit, or any combination of those. Maximizing local flexibility and encouraging collaboration is important in the many rural places where civic-sector intermediaries are essential service providers and critical partners for local governments that have limited ability to take on risk or to innovate to get the job done.
- 2. Provide equity, not debt.** Small businesses are the heart and the “big business” of the rural economy. They provide the vast majority of rural jobs and anchor rural communities, but many operate on thin margins. Many that had existing debt prior to the onset of COVID-19 chose not to take on an additional loan through the Paycheck Protection Program (PPP) despite the potential for forgiveness. Others reviewed the Economic Injury Disaster Loan (EIDL) and the Employee Retention Credit (ERC) and opted out because the programs did not offer enough flexibility in the use of funds. With global uncertainty, businesses are rightfully reluctant to obligate themselves to payroll counts that they are unsure they can meet – or to take on additional debt to float them through an indefinite timeframe. Increasing their debt load will only lead these businesses closer to closing. Businesses need equity in the form of grant funds or investments to help them offset lost revenue, stay current with operating costs, and make future purchasing decisions. Bottom line: In providing additional funding, the Administration should work with Congress to prioritize providing grants and investments over loans.
- 3. Maximize flexibility for Federal grantees.** From food pantries in church basements to small business assistance providers, organizations across the country are working overtime to meet the basic needs of families and help small businesses remain afloat. Meeting on-the-ground needs during this crisis requires organizations to flex – and often that means hiring additional staff, subcontracting for unanticipated services or service loads, or making unexpected purchases, such as personal protective equipment. An OMB Circular governs the rules federal grantees must use for accounting purposes, and that guidance includes a *de minimis* indirect cost rate of 10%. Indirect costs are those that cannot be attributed to a specific organizational program or function and typically include fixed costs, such as rent, heat, water, supplies and also staff time spent on planning and administration, rather than on a specific “program” or “activity.” As it is, a 10% indirect cost rate is very low in good times; in these unsettled times, when maximum flexibility is essential, that low rate is a deterrent to accepting federal funds, especially for small organizations without sophisticated financial management systems. Working with Congress as needed, the Administration should:

- a. Modify Paragraph D.1.b of Appendix VII to 2 C.F.R. 200, the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards and set the *de minimis* indirect cost rate at 18%, starting with the Public Health Emergency, for an organization that has never received a federally-approved indirect cost rate or for an organization without a “cognizant” agency.
 - b. Review provisions within 2.C.F.R. 200 that currently require the federal agency that first negotiates an indirect cost rate with an organization to serve as its “cognizant” agency in perpetuity; instead, prompt the executive branch to centralize this function within OMB, GSA or another agency with sophisticated and centralized management capabilities, as part of long-term recovery.
- 4. Waive barriers to participation.** Remove unrealistic, burdensome statutory and regulatory barriers that prevent rural agencies and organizations from applying for programs and assistance. For example, working with Congress as needed, executive branch agencies should:
- a. Waive or modify rules governing the non-federal match obligations that local organizations are required to provide to be eligible for federal dollars, especially at this time when every available local government or philanthropic dollar is already devoted to COVID-19 response. If match rules cannot be waived, allow in-kind services and goods to qualify as non-federal match in rural regions, and/or negotiate a lesser match ratio, longer timeframe or other factors in the match compact (USDA Intermediary Relending Program and EDA Economic Adjustment Assistance).
 - b. Defederalize the EDA Revolving Loan Funds (RLF) by specifying that the **Secretary shall release the Federal Government’s interest in connection with a grant after seven years**. Currently, EDA RLF operators must report on funding received from EDA “in perpetuity,” even on loans they made decades ago. This requirement significantly decreases the efficiency of this program, and likely dissuades local RLF operators from being willing to administer increased funding during this emergency.
 - c. Also, waive or revise required performance measures – such as “new jobs created” or “new business starts” – that are ill-fitting during this economic crisis (HUD Community Development Block Grant).
- 5. Strengthen local organizational capacity and technical assistance.** Capacity building and technical assistance describe a wide-ranging set of activities that ensure organizations have access to outside expertise they need and to build the skills, governance processes, and finances to become stronger and more sustainable organizations. These investments in people and organizations are central to improving outcomes and yet, currently, a very small portion of federal funds goes toward these essential activities. For example, HUD’s 2021 budget proposal was for \$47.9 billion, of which only \$27 million was for low-income community technical assistance and capacity building. We strongly urge you to direct 5% of agency program funding for community and economic development (including infrastructure investments) or for long-term recovery to support technical assistance and capacity building. There are numerous ways agencies could meet this threshold, for example, via staff that work directly with communities, via support to national and regional intermediary organizations that would provide these services or via grants to local organizations that seek technical assistance or capacity building support. Increasing Federal commitment to technical assistance and capacity building demonstrates significant support for the civic-sector rural and regional intermediary organizations that are playing a tremendous role in everything from service delivery and business development to driving innovation across rural regions. Working with Congress as needed, other ways the Administration can ensure technical assistance and capacity building funds are to:
- a. Allow quasi-governmental entities and nonprofits, such as rural and regional intermediaries, to be eligible for stimulus funds.

- b. Ensure that all federal agencies involved in community and economic development have ample flexibility and/or well-funded programs specifically designed to support national and regional intermediary technical assistance providers that have experience working in rural communities and with tribal nations. For example, with leadership from the Administration, Congress could significantly increase funding for programs such as the HUD’s Rural Capacity Building for Community Development program, the Rural Community Development Initiative and the Rural Economic Development Innovation Initiative within USDA Rural Development, among others. Throughout government, tribal capacity building programs should also be well-funded and considered essential.
- c. Direct agencies to write guidance making it easy and efficient for recipients of federal funds to sub-contract with other providers and to prioritize organizational long-term capacity building in addition to the core uses of the funds (e.g., the \$1.5 billion provided to the Economic Development Administration in the CARES Act).
- d. Prompt USDA and other agencies to make use of the 2016 Office of Management and Budget’s Memorandum of Understanding on Interagency Agreements. This MOU was intended to facilitate federal agencies working together and coordinating their programming and funding streams to provide distressed communities with technical assistance to solve locally identified problems. Previous efforts that this MOU made possible include Local Foods, Local Places and Cool & Connected, which brought federal support to over one hundred rural communities; USDA, EPA and several other co-sponsoring agencies were involved.

6. Prioritize places of persistent poverty and at-risk regions. While the need is great across the country, evidence shows that the virus has hit – and may yet hit – some places harder than others. For example, persistent poverty regions,¹ and rural places with tourism, manufacturing and agriculture concerns, or high minority populations, among others, may be at special risk or will fall further behind without focused attention. We recommend you regularly track rural areas facing particularly devastating or deepening stress from the crisis and ensure that they receive priority attention in the distribution of resources. Specific proposals for mitigating disproportionate impacts include:

- a. Increase the flow of targeted funding into **persistent poverty areas to expand the “10-20-30” approach** to all federal agencies. This “formula” does not require additional funding; it simply stipulates that at least 10 percent of an agency’s appropriated programmatic funds be invested in persistent poverty communities.
- b. **Work with Congress to add \$1 billion to Treasury’s CDFI Fund** to drive capital into areas that are underserved – or *not* served – by traditional financial institutions. Many such “bank deserts” are in rural places. Community Development Financial Institutions, Minority Depository Institutions and other revolving loan funds address this gap by providing below market-rate loans in these places and, in many cases, coupling those loans with tailored technical assistance and coaching to help small businesses succeed. In response to COVID-19, these institutions are now managing a burgeoning volume of loans; they need more staffing to originate and service new loans, and to assist both their new and their existing business loan customers through the crisis period. Provide CDFIs and other non-traditional financial institutions with additional operating capital so they can bring on additional staff capacity, make more loans, expand their rural coverage, and provide the ongoing TA that will help their small business customers stay afloat through the crisis and regain viable footing – else the loans may never be repaid.

¹ *Persistent poverty*: Of the 395 persistent poverty counties in the United States, [80% are rural](#) – that means 15% of all rural counties have experienced poverty rates in excess of 20% in each decennial Census since 1980. And the majority (60%) of people living in persistent poverty counties are people of color.

- c. **Regional Commissions such as** Appalachian Regional Commission (ARC), Northern Border Regional Commission (NBRC), Delta Regional Authority (DRA) and the Denali Commission have been important intermediaries for and allies with rural communities. Actively support full funding and confirmation of Federal co-chairs for other previously authorized commissions that were intended to serve high-poverty, high-minority regions: the Southeast Crescent Regional Commission and the Southwest Border Regional Commission.
- d. **Prioritize high-risk communities** in recovery and response. Criteria for determining which communities qualify as “high-risk” should consider persistent poverty as well as industry sectors that are critical or growing and have been particularly vulnerable during COVID-19. (For example, recreation and tourism has been an increasingly important and growing sector in parts of rural America.)

We also want to underline rural urgencies that have become clearer than ever during this pandemic – and that others have raised with you. The fragility of **rural hospitals and health care systems** and the lack of affordable, reliable access to high quality **broadband** stand out as critical economic building blocks – and as current vulnerabilities – to rural economic progress. We join with others to support major investments and systemic redesigns, based on ideas spearheaded by other rural-serving organizations, including the National Rural Health Association and the myriad of voices pushing for significant federal investment in universal rural broadband, along with smart policy changes that ensure affordability, competition and enable local communities to provide broadband as a municipal service.

COVID-19 has only underscored this: Ensuring competitiveness and resilience for the United States requires unlocking the full potential of – and advancing opportunity in – rural and tribal communities. Toward that end, we believe that acting on our recommendations as soon as possible will help rural leaders use federal funds efficiently and effectively to speed critical rural recovery now, and advance the redevelopment efforts that follow in the months and years to come.

We stand ready and welcome any opportunity to answer questions or discuss in depth any of the issues raised in this letter. For further conversation or questions, please contact the Rural Development Innovation Group, in care of Nils Christoffersen at nils@wallowaresources.org.

Sincerely,

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** *Indicates Member of Rural Development Innovation Group* - Convened in 2016 by the [Northern Forest Center](#), the [U.S. Endowment for Forestry and Communities](#), and the [Aspen Institute Community Strategies Group](#), the **Rural Development Innovation Group** is made up of rural development practitioners, intermediaries and others who have been deeply involved in advancing rural community and economic development through wealth-building approaches that add value to local assets, create jobs and build regional and local capacity to adapt to changing conditions.

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