

Focus on Function 450 – Community and Regional Development

Function 450 (Community and Regional Development) includes programs to improve community economic conditions and promote rural development. Programs in this function also assist in natural disaster response and preparation.

Table 1: Function 450 Spending, 2019
(In billions of dollars)

Discretionary BA	21.9
Discretionary Outlays	33.7
Mandatory Outlays	<u>1.0</u>
Total Outlays	34.7

Note: Estimates assume 2018 emergency funding is one-time only.

The largest discretionary programs in Function 450 are disaster assistance at the Federal Emergency Management Agency and other agencies, Community Development Block Grants, and the operation of certain programs for American Indians.

The major mandatory programs in this function are flood insurance, the Gulf Coast Restoration Trust Fund, certain programs for American Indians, bioenergy programs, and rural development grants.

According to the Congressional Budget Office (CBO) spring 2018 baseline excluding emergencies, budget authority (BA) for all discretionary programs in Function 450 for 2019 will account for 2 percent of total discretionary funding for that year. Discretionary funding subject to regular discretionary caps (not including emergency or disaster spending) accounts for 1 percent of total regular funding. Outlays for mandatory programs in Function 450 for 2019 will account for less than 1 percent of total non-interest mandatory spending excluding undistributed offsetting receipts.

DISCRETIONARY

Federal Emergency Management Agency (FEMA): Most of the FEMA funding in Function 450 is for the Disaster Relief Fund (DRF). The DRF responds to Presidentially declared major disasters and emergencies through assistance to individuals and households, public assistance, and hazard mitigation assistance. Funding designated as disaster response or emergency can be provided outside the regular non-defense discretionary funding cap. The DRF also includes a small portion of regular discretionary funding (subject to the cap) for costs associated with emergency declarations, pre-disaster surge activities, fire management assistance grants, projected yearly disaster readiness, and support costs. The amount in Table 2 includes \$7.5 billion for funding under the disaster cap. (Note that \$73.0 billion in emergency funding was provided to FEMA for 2018 but is assumed to be one-time only.)

Table 2: Discretionary BA in Function 450, by Major Program, 2019
(In billions of dollars, excluding emergency funding)

Federal Emergency Management Agency.....	12.4
Community Planning and Development.....	3.4
Bureau of Indian Affairs and Bureau of Indian Education.....	2.0
Rural Utilities Service.....	1.8
Management and Administration.....	0.6
Other.....	<u>1.8</u>
Total.....	21.9

Community Development Fund: A major component of the Community Development Fund is the Community Development Block Grant (CDBG) program. CDBGs are flexible grants that provide resources to local communities for a wide range of unique needs, including Meals on Wheels, housing programs, and community infrastructure improvements. CDBG funds can also leverage additional investment from other sources, multiplying possible benefits for neighborhoods. The Community Development Fund also includes Indian Community Development Block Grants and CDBG Disaster Recovery.

Bureau of Indian Affairs and Bureau of Indian Education: Function 450 includes a wide range of services and benefits provided to Indian Tribes, including expenses associated with tribal government, human services, trusts for natural resources management and real estate, education, public safety and justice, community and economic development, and executive direction and administrative services. It also includes funding for construction related to education, public safety and justice, resource management, telecommunication systems, and other facilities. Funding for contract support costs covers payments to tribes for the administrative costs associated with executing tribal self-determination contracts and compacts and includes payments for unemployment taxes, workers compensation insurance, and other costs.

Rural Utilities Service: This agency provides infrastructure or infrastructure improvements to rural communities, including water and waste treatment, electric power, and telecommunications services. Within this agency, the water and waste disposal program funds direct and guaranteed water and waste disposal loans, water and waste disposal grants, emergency community water assistance grants, and solid waste management grants. There is a small mandatory component of this program as well. Water and waste disposal loans and grants develop water and waste disposal systems in rural areas and towns with populations of less than 10,000. Emergency community water assistance grants fund construction, repair, maintenance, and related costs for water systems. Solid waste management grants reduce or eliminate pollution of water resources, and improve planning and management of solid waste disposal facilities.

MANDATORY

Table 3: Mandatory Outlays in Function 450, by Major Program
(In billions of dollars)

	<u>2019</u>	<u>2019-2028</u>
Programs for American Indians (including receipts)	0.1	1.3
National Flood Insurance	0.7	2.0
Gulf Coast Restoration Trust Fund	0.2	2.6
Rural Business-Cooperative Service	0.1	0.7
Other	-*	-1.4
Total	1.0	5.3

Programs for American Indians: Function 450 programs within the Bureau of Indian Affairs include funds that manage Indian land and money held in trust by the federal government, as well as settlements for certain lawsuits. This function also includes miscellaneous permanent appropriations for the Bureau of Indian Affairs and the Bureau of Indian Education for claims and treaty obligations, certain irrigation and power systems, and the Alaska resupply program.

National Flood Insurance: The National Flood Insurance Program (NFIP) provides government insurance for flood losses and seeks to reduce the nation’s comprehensive flood risk through floodplain management standards. The day-to-day operation of the program is handled by private insurance companies, although FEMA provides management and oversight. As of September 2017, the NFIP had about 5 million flood insurance policies providing more than \$1 trillion in coverage. Authorization for the flood insurance program is currently extended through July 31, 2018.

Gulf Coast Restoration Trust Fund: This fund receives 80 percent of the civil and administrative penalties collected from the *Deepwater Horizon* oil spill. Funding will be used to restore and protect the ecosystems and economy of the Gulf Coast region. Current estimates for the fund represent known settlement amounts; additional funds may become available through future court judgments or settlements.

Rural Business-Cooperative Service: This agency supports rural business development and job training opportunities. Some of its programs are authorized through the Farm Bill, such as: the **Rural Energy for America** program, which provides guaranteed loan financing and grant funding for renewable energy systems or energy efficiency improvements. Farmers or rural small businesses can use the funds for renewable energy systems such as biomass, geothermal, hydropower, hydrogen, wind, and solar. Other Farm Bill programs include the **Bioenergy Program for Advanced Biofuels**, which pays agricultural producers to expand production of biofuels, the **Repowering Assistance Program**, which encourages biorefineries to use renewable biomass fuel systems for heating or power at their facilities, or to produce new energy from biomass, and the **Biorefinery Assistance Program**, which provides loan guarantees for the development, construction, and retrofitting of commercial-scale advanced biorefineries. The Rural Business-Cooperative Service also provides **Rural Economic Development Grants** to

promote rural economic development and job creation projects, including funding for project feasibility studies, start-up costs, incubator projects and other expenses for the purpose of fostering rural development. Funding for this program is provided from the interest differential on Rural Utilities Service borrowers' "cushion of credit" accounts. It also provides **Value-Added Marketing Grants** for producers of agricultural commodities, which can be used for planning activities and for working capital for marketing value-added agricultural products. The **Rural Microenterprise Investment Program** provides entrepreneurs with the skills necessary to establish new rural microenterprises, and supports these types of businesses with technical and financial assistance. The program provides loans and grants to intermediaries that assist microentrepreneurs.

TAX EXPENDITURES

There are eight tax expenditures related to this function. The three largest are:

Qualified opportunity zones: The Opportunity Zones program is a new federal tax incentive program enacted in the 2017 Tax Act (P.L. 115-97) to spur investment in poor and undercapitalized communities. The investors of qualified activities and projects in the opportunity zones receive one or more tax benefits, including permanent exclusion of taxable income on new gains, higher basis on the original investment, and temporary deferral of capital gains.

New markets tax credit: The New Markets Tax Credit program incentivizes community development and economic growth through the use of tax credits that attract private investment to distressed communities.

Exclusion of interest on state and local government qualified private activity bonds for sewage, water, and hazardous waste facilities: The tax code permits state and local governments to finance certain projects by issuing bonds whose interest payments are exempt from federal income taxes. As a result, those bonds pay lower rates of interest than they would if the interest payments were taxable.

RELEVANT AGENCIES AND CONGRESSIONAL COMMITTEES

Table 4: Discretionary BA in Function 450, by Agency, 2019

(In billions of dollars, excluding emergency funding)

Department of Agriculture	2.1
Department of Commerce	0.3
Department of Homeland Security	12.6
Department of Housing and Urban Development	4.3
Department of the Interior	2.0
Department of the Treasury	0.3
Appalachian Regional Commission	0.2
Neighborhood Reinvestment Corporation	0.1
Other	<u>0.1</u>
Total	21.9

Table 5: Mandatory Outlays in Function 450, by Agency

(In billions of dollars)

	<u>2019</u>	<u>2019-2028</u>
Department of Agriculture.....	0.1	0.6
Department of Homeland Security.....	0.7	2.0
Department of Housing and Urban Development.....	0.0	0.2
Department of the Interior.....	0.1	-0.1
Department of the Treasury.....	0.1	2.6
Other.....	*	*
Total.....	1.0	5.3

Table 6: Discretionary BA in Function 450, by Appropriations Subcommittee, 2019

(In billions of dollars, excluding emergency funding)

Agriculture, Rural Development, FDA, and Related Agencies.....	2.1
Homeland Security.....	12.6
Interior, Environment, and Related Agencies.....	2.0
Transportation, Housing and Urban Development, and Related Agencies.....	4.5
Other.....	<u>0.8</u>
Total.....	21.9

Table 7: Mandatory Outlays in Function 450, by Committee
(In billions of dollars)

	<u>2019</u>	<u>2019-2028</u>
Agriculture.....	0.1	0.9
Financial Services.....	0.6	2.1
Natural Resources.....	0.1	-0.1
Transportation and Infrastructure.....	0.1	2.6
Other.....	<u>-0.1</u>	<u>-0.2</u>
Total.....	1.0	5.3

* Less than \$50 million.