



South Dakota Legislative Research Council

Issue Memorandum 96-17

RURAL REHABILITATION FUND

Introduction

The Rural Rehabilitation fund was established in the 1930s. The money is used for a variety of programs that assist eligible South Dakota farmers, ranchers, and agricultural organizations. This issue memo will describe the history of the Rural Rehabilitation fund, explain the Use Agreement between South Dakota and the federal government that outlines how the money can be used, and review the programs funded with money from the Rural Rehabilitation fund.

History of the Rural Rehabilitation Fund

The Rural Rehabilitation fund began with the Federal Emergency Relief Act of 1933. This federal act provided a fund to help individuals affected by the economic depression and unemployment. The Rural Rehabilitation Corporation of South Dakota was formed in 1934 to distribute South Dakota's allotment of money from this federal act.

The Rural Rehabilitation Corporation of South Dakota administered the Rural Rehabilitation fund from 1934 to 1937. The Rural Rehabilitation Corporation of South Dakota transferred the fund's assets to the United States Government in 1937. In 1939, the Rural Rehabilitation Corporation dissolved, since the federal government was

administering the assets. For the most part, the federal government administered the assets from 1937 to 1974. There was a brief time during the 1950s when the state of South Dakota administered the assets. There was also a time during the early 1970s when the fund's assets were kept in the state treasury while the federal government administered the fund. In 1974, South Dakota signed a Use Agreement with the federal government. The Use Agreement relinquished administration and control of the fund to the state of South Dakota. Since 1974, South Dakota has administered the assets in the Rural Rehabilitation fund.

The statutes for the Rural Rehabilitation fund are codified in Chapter 38-6. Most of these statutes were included in HB 213 that passed during the 1951 Legislative Session. Section 38-6-8.1 of the South Dakota Codified Laws gives the South Dakota Secretary of Agriculture rule-making authority for administration of the Rural Rehabilitation fund trust assets. The administrative rules for the various programs funded by the Rural Rehabilitation fund are codified under Article 12:07 of the Administrative Rules of South Dakota (ARSD).

Use Agreement

The Use Agreement between the federal government and the state of South Dakota

outlines how the Rural Rehabilitation fund assets may be used. The Use Agreement was signed in 1974 and amended in 1974, 1984, and 1985. Any new program, not included in the current Use Agreement or amendments, would have to be agreed upon by the state of South Dakota and the federal government. Any new program may also require the South Dakota Secretary of Agriculture to write new administrative rules or amend existing administrative rules. The next segment of this issue memorandum will summarize much of the Use Agreement.

Eligibility - Section II of the Use Agreement explains eligibility. The two categories of eligibility are direct assistance and indirect assistance. Under direct assistance, funds may be granted or loaned to farmers or ranchers who reside in South Dakota if they are unable to provide financing from their own resources or obtain financing from conventional sources at rates they can reasonably be expected to meet. Through indirect assistance, funds may be granted or loaned to cooperatives, clubs, corporations, or other entities that indirectly provide assistance to South Dakota farmers or ranchers. The entity must be unable to provide financing from its own resources or be unable to obtain financing from conventional sources at reasonable rates.

Program Uses of Assets - Section III of the Use Agreement and the three amendments to the Use Agreement explain authorized uses of the Rural Rehabilitation fund assets. The five major programs are loans; reserve fund; grants; other rural rehabilitation purposes; and counseling, technical, and service assistance. Each of these program areas is described below.

Loans - Real estate loans may be made to individuals for acquisition of land or refinancing debt. Farm operating loans may be made to individuals to purchase livestock,

farm machinery, feed, seed, and other farm supplies. Other items covered under farm operating loans are cash rent payments, debt refinancing, and essential home equipment and furnishings. Youth loans may be made to organizations (i.e., 4-H, Future Farmers of America, etc.) for agriculturally oriented projects sponsored by the organization. Educational loans may be made to farmers and ranchers, or members of their families, to receive on-the-job training; attend vocational schools, colleges, or universities; and to improve skills in farm service employment. Loans may be made to farmers or ranchers to acquire membership or stock in cooperatives, corporations, or other legal entities to enable farmers or ranchers to carry on successful operations. Loans may be made to cooperatives to enable them to provide facilities or services to assist their farmer/rancher members or stockholders. Finally, loans may be made to conservation districts and weed and pest boards to provide services and equipment that assists farmers and ranchers.

Reserve Fund - This program allows the state to create a reserve fund that insures or guarantees loans made by banks or other lenders.

Grants - Youth and educational grants may be made to individuals eligible for youth and educational loans described above. Counseling, technical, and service grants may be made to cooperatives and other nonprofit organizations that provide counseling, technical, and other services that would improve an individual's farming or ranching operation. Grants may be made to help pay the cost of an annual South Dakota Agricultural Youth Institute. This would enable boys and girls from farm families to acquire knowledge and skills to assist them in providing input into agricultural development in South Dakota. Young farmer and rancher educational conference

grants may be made to pay the cost of conducting such a conference. Finally, grants may be made to 4-H Clubs, Future Farmers of America, and other organizations for projects that benefit farm or ranch families.

Other Rural Rehabilitation Purposes - This area covers using funds for new programs that South Dakota and the federal government agree upon.

Counseling, Technical, and Service Assistance - Funds may be used to train and employ agricultural finance and management counselors. These counselors would help farmers and ranchers that experience financial and management problems.

Current Programs

The Division of Agricultural Development in the South Dakota Department of Agriculture administers the programs that are funded with money from the Rural Rehabilitation fund. Attachment A is a copy of a brochure from the Division of Agricultural Development that explains each of the current programs administered by the division. There is a set of administrative rules for each of these programs. The administrative rules are codified in Article

12:07 of the ARSD. It should be noted that there may not be a current program for all the areas listed in the Use Agreement.

The Division of Agricultural Development is funded with money (interest from loans and investment income from the fund assets) from the Rural Rehabilitation fund. The Use Agreement allows the state of South Dakota to spend up to three percent of the Rural Rehabilitation fund's assets in any fiscal year for administrative purposes. The state must submit an annual report to the federal government at the end of each state fiscal year. The annual report explains how the assets were used during the previous twelve-month period, shows administrative expenses, and includes financial statements. Attachment B is a condition statement for the Rural Rehabilitation fund.

Summary

The Use Agreement governs how Rural Rehabilitation funds may be used. It is possible for the South Dakota Secretary of Agriculture and the federal government to amend the use agreement to use funds for programs not currently covered by the Use Agreement. Any new programs may also require new or amended administrative rules.

This issue memorandum was written by David L. Becker, Fiscal Analyst for the Legislative Research Council. It is designed to supply background information on the subject and is not a policy statement made by the Legislative Research Council.
