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EXAMINING THE UNITED STATES DEPARTMENT OF AGRICULTURE'S RURAL DEVELOPMENT PROGRAMS

HEARING

BEFORE THE

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EXAMINING THE UNITED STATES DEPARTMENT OF AGRICULTURE'S RURAL DEVELOPMENT PROGRAMS

Tuesday, June 20, 2006

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,
Washington, DC.

The Committee met at 10:36 a.m., in room SR–328A of the Russell Senate Office Building, the Honorable Saxby Chambliss, chairman of the committee, presiding.

Senators present: Senator Chambliss, Senator Lugar, Senator Thomas, Senator Talent, Senator Harkin, Senator Lincoln, Senator Salazar.

OPENING STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM GEORGIA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman CHAMBLISS. Good morning. This is a full committee hearing to examine the rural development programs of the U.S. Department of Agriculture. We welcome all of you here this morning. I appreciate our witnesses and members of the public being here to review this very important topic as well as those who are listening through our website.

From the beginning of Farm Programs in the 1930's to the present day, Federal agriculture policy has been focused primarily on the well-being of rural areas across the country. Much like their urban counterparts, rural cities and counties have changed much over the last 80 years. The challenges faced in the last century have evolved and, in many cases, become more complex.

Unlike the past, today rural households depend more on all-farm income. For example, in 1950 four out of every ten rural people lived on a farm and almost a third of the nation's rural workforce was engaged directly in production agriculture. Today, less than 10 percent of rural people live on a farm, and only 14 percent of the rural workforce is employed in farming.

While the face of rural America may look different, the challenges confronting our small towns and communities haven't changed fundamentally. Infrastructure and public services are often the core of every economic plan.Telecommunications, electricity, water and waste disposal systems, and transportation infrastructures are essential for a community's well-being.

Investment in rural infrastructure not only enhances the well-being of community residents, it also facilitates the expansion of existing business and the development of new ones.

This hearing is the second in a series designed to review the Rural Development Programs at the Department of Agriculture. We hope to learn more about implementation of the Rural Development Title of the 2002 Farm Bill. We also hope to better understand the new challenges and makeup of rural America so we can buildupon our past success.

We must be mindful that USDA is the only Federal agency with a mandate to provide comprehensive assistance to America's rural areas. The Department has done a good job of performing this function with limited resources available to it and the large demand for its services.

In addition, while the rural economy has shifted from a dependence on farm-based jobs, agriculture is still a major source of income. It will be impossible for us to divorce the two, and I am convinced that the future success of rural America will be integrally connected with the success of the U.S. agriculture sector.

In my home state of Georgia, 23 counties are farm-dependent, the largest of any state outside of the Great Plains. While four out of five rural counties are dominated by non-farm activities, those areas that are farming dependent may require more attention, since they are limited by remoteness from major urban markets and by low population densities.

Our overriding goal should be to ensure that rural areas share in the nation's economic prosperity and we have the proper policy options for the future. Over the next few months, this Committee will be hearing firsthand from farmers and ranchers across the country as we begin preparation for the next farm bill.

I expect to hear a great diversity of opinions as we travel from region to region. However, I also expect to hear a common sentiment throughout each and every comment regarding the desire to create new economic engines in both the farm and rural economies.

Finally, we must be bold and creative in this task, for the next farm bill provides us with a unique opportunity to put together a more cohesive and coherent Federal effort to close the gap between rural and urban areas.

Before we proceed, I will obviously turn to my Ranking Member, Senator Harkin, for any comments you might have to make.

[The prepared statement of Hon. Saxby Chambliss can be found in the appendix on page XXX.]

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA, RANKING MEMBER, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Mr. HARKIN. Mr. Chairman, thank you very much. I really appreciate you holding this hearing to allow us to examine the Rural Development Programs of the Department of Agriculture to understand better what is working as well as where there may be need for improvement. This hearing will also be valuable, as you say, as we move toward writing the Rural Development Title in the next farm bill.

Rural America contributes tremendously to the greatness of our nation. It offers many advantages to those of us who live there. Yet, in an increasingly competitive global economy, rural communities face huge challenges.

Incomes continue to trail those in urban America. Poverty is higher. Rural communities find it harder to grow existing businesses or attract new ones; and, as a result, jobs and wages lag.

Too often a potential employer will simply strike a rural community off the list for lack of vital service or resource: broadband, for example; or it could be transportation, too; or it could be adequate water. While some costs may be lower in rural areas, others may be higher because of fewer paying customers per square mile.

I am very concerned that USDA assistance falls far short of the needs of rural communities for basic, essential services such as electricity, telephones, water, wastewater treatment. Of course, broadband Internet access is no longer merely a desirable option, it is absolutely vital for businesses to operate productively and competitively as well as for the education of our children and a host of other activities in rural communities.

Living in a small community myself, I have seen what happens when a business wants to maintain itself, but they can't get broadband and then they have to move to a larger city. There goes a few jobs. It may be only six or seven jobs, but in a small community those can be vital jobs.

Or, a small school in a country setting in Iowa where they can't get AP courses, and they are denied advanced placement courses, but they can get them over broadband. We have AP online for kids. But if they don't have it, they can't get it.

So there are a lot of things that we need to address. USDA ought to do more to support daycare centers to foster rural employment, proper childcare; it needs more to promote assisted living facilities.

The fact of the matter is hundreds of millions of dollars that we dedicated to rural economic development in the farm bill have been taken away as a result of President Bush's budgets and congressional action. It wasn't just the president's budget; it was congressional action, too. So if we expect USDA's Rural Development Programs to work, we have to provide a reasonable level of resources.

USDA has to do, I think, a better job of helping to get investment dollars, equity capital, to rural areas. USDA has a number of programs aimed at helping provide capital to businesses.

In regard to venture capital, I have to be honest to say that there was a real failure to carry out the farm bill's rural business investment program. The rules created excessive burdens and most of the funding, I understand will disappear by October 1st of this year.

We also put in the farm bill a new mechanism that has generated a large amount of capital for investment in the Rural Economic Development Loan and Grant Program, REDL&G, but again much of that money sits idle. I will be interested to find out why.

Funding for grants to producer-owned, value-added enterprises has also been cut well below the mandatory funds that we dedicated in the farm bill. Yet, it is the value-added enterprises many times of the small communities that provide those needed jobs. Yet, as I said, the funding has been cut below the mandatory funds that we put in the farm bill.

Despite the concerns I have just expressed, I see a lot of opportunities. I see a better future in rural America. Poll after poll shows if people are given a choice they would rather live in a heavily, densely urban area or in a lesser populated rural area. All things being equal, they would rather live in a rural area. But if they don't have healthcare and education and clean water and transportation and economic opportunity, they are forced to live somewhere else.

Now, so I think we have tremendous potential for economic growth and new jobs, especially when we are getting into renewable energy and bio-based products. This could kind of usher in a whole new golden age of agriculture and rural development.

I would say that obviously most of the funding will have to come from the private sector. But we need a creative vision for economic growth to make sure that while the private sector and the funds and the capital can come in, that they know that there is going to be an underpinning— as I always call it, the "veins and arteries"— of commerce that the government can provide in terms of transportation and water and communications and things like that. That is where this part of the USDA is going to be so vital in the years to come.

Mr. Chairman, I just want to associate myself with your remarks also, that in rural America today fewer and fewer people are living on the farms. Fewer and fewer people in rural America are getting their income from farms, so we have to be looking at other areas, other ways, of providing that economic growth. Hopefully, through this hearing and through the next farm bill we can kind of come up with some of the creative vision.

Thank you very much, Mr. Chairman.

Chairman CHAMBLISS. I will turn to our members who are here for any opening comments.

Senator, Lugar, do you have any?

Mr. LUGAR. Mr. Chairman, I look forward to the testimony. I second the thoughts that Senator Harkin expressed about the energy title and how it may affect USDA and development, just very specifically: methane digesters, windmills, biofuel production facilities.

It is a potential golden age for Rural America. All of this cannot be provided by the Federal Government, but the spurs of the development people we are to hear from today could be very helpful for private investment.

Chairman CHAMBLISS. Senator Salazar.

Mr. SALAZAR. Thank you very much, Mr. Chairman and Senator Harkin, for holding this hearing on this really important topic. I associate myself with both of your comments.

I do believe that there is a lot of work that we have to do out there in rural America to make sure that this reality of two Americas is one that we can deal with and provide the kinds of opportunities to rural America that we see occurring for Americans who live in urban America. I very much look forward to this hearing and the testimony of the witnesses.

Chairman CHAMBLISS. Senator Lincoln.

Ms. LINCOLN. Thank you, Mr. Chairman. I just want to associate myself with all of my colleagues who have indicated to Secretary Dorr how important rural development is our state. It is critically important. We are certainly all aware that since the 2002 Farm Bill appropriators have limited rural development dollars.

Although I wholeheartedly agree with Senator Lugar that private industry has got to be the real engine that moves the development of biofuels and other things in rural America, government is truly the seed dollars that attract that private capital in there. Without those seed dollars, we just won't see anything happen.

The recent reconciliation in the proposed budget, I think have seen very disproportionate cuts in rural development. It is of great concern to me. We look forward to your testimony and, hopefully, a visit from you in Arkansas. We have been trying to get you down there. We hope we can get you down there.

Thank you, Mr. Secretary, and thanks, Mr. Chairman.

Chairman CHAMBLISS. It's a great place to visit, Mr. Secretary.

[General laughter.]

Chairman CHAMBLISS. Senator Talent.

Mr. TALENT. We hope you will stop in Missouri on your way to Arkansas.

[General laughter.]

Mr. TALENT. I, too, am grateful for the hearing. Mr. Chairman, I am going to have to step out for a little bit, but I hope I am back to ask about a couple of issues, and if not, I will put the questions in the record.

One of them is the Value-Added Development Grants, which I was the sponsor of when I was in the House, and I think have been very effective. But I know your priorities have been on-farm projects, and this has made it difficult to use those grants for ethanol, biodiesel, renewable type issues. I wanted to know what you thought of in terms of whether we should be more flexible?

Also, I have so many communities complaining about median household income is figured for the purposes of the census and how that affects their eligibility for grants. I think that is something we need to look at, at some point. don't know whether to do it administratively or legislatively or whatever.

However we fund the grants—and I tend to agree that the appropriators have overlooked the important partnership role that the government can play, if this stuff is done appropriately. But if we are defining median household income in a way that excludes a lot of rural America, we are really defeating our own purposes.

Also, it is good to get some of these communities and help them before they absolutely hit bottom. I mean, it is actually easier to keep them from falling all the way down than it is to restore them.

But the way these regulations are interpreted now means they have to be absolutely so low before we help them that it just makes the problem more difficult. So these are the kinds of issues that I am hoping we can address today. I'm glad to have you here, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman CHAMBLISS. Senator Thomas.

Mr. THOMAS. Thank you, Mr. Chairman. I don't have a statement. I am glad you are having this hearing. This is a very important program to us all. Certainly we are interested in looking at how we might, as we go through the next farm bill, if it's possible, restructure.

I know there are some 40 programs here. Maybe there are ways to make them more efficient. Maybe there are ways to do some things in their funding, getting the councils involved, so that there is local participation and so on.

So thank you very much, sir.

Chairman CHAMBLISS. OK. Our first panel today consists of Mr. Thomas Door, undersecretary, United States Department of Agriculture here in Washington.

Tom, we are always pleased to have you come back to visit with us, and we look forward to your testimony and your response to questions today.

So, welcome.

STATEMENT OF THOMAS DORR, UNDERSECRETARY, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. DORR. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, thank you for the opportunity to testify today concerning USDA Rural Development's mission and its program. As we approach the next farm bill, all of us recognize that there are difficul choices to be made.

For USDA Rural Development, however, the bottom line is that technology and markets are creating extraordinary new opportunities for economic growth and wealth creation in rural America.

Our job is to help provide the leadership, the technical support, the investment capital, and the business models that allow rural entrepreneurs in rural communities who need these to realize their potential.

We administer over 40 programs covering: infrastructure, housing, community facilities, and economic development. This year we will, in fact, deliver approximately $17.4 billion in program level driven by a budget authority of just $1.96 billion. By themselves, however, the individual programs are just a toolkit. The important thing is accomplishing the mission. On that score, let me very briefly touch on some key points.

First, we recognize that rural policy is much broader than just farm policy. Roughly, 60 million people live in rural America, most of them don't farm, as you've indicated this morning, and 96 percent of rural income is non-farm.

In addition, the great majority of farm families rely heavily on off-farm income. As the Farm Bureau put in their "MAAPP Report" "Farmers are more dependent on rural communities than rural communities are dependent on farmers."

It used to be that the surrounding farms kept the small towns alive. Today, the jobs in towns keep small family farms viable, and that is a big difference. The viability of America's small towns and the strength of the rural economy, off- as well as on-farm, are therefore vital issues for the next farm bill.

Second, sustainable development must be—it must be—market-driven. If we don't leverage private investment, if we sit back and rely on a program-driven model, we are wasting in my view a historic opportunity.

Third, to unleash entrepreneurial development, we need to leverage the resources that we already have. The nation's Farm Balance Sheet, in my view, is illustrative. According to USDA's February

2006 estimates, farm equity, free and clear equity, in the United States today exceeds $1.45 trillion. That dwarfs any amount of money government could conceivably provide for rural development.

We need business models that harness these resources to a strategy for sustainable development and wealth creation in rural communities and entrepreneurs to make it work. The key for us is to encourage partnerships and leveraging, and we are shifting our funding emphasis from grants and direct loans to loan guarantees to leverage these investments.

We are also focused on building partnerships with state and local governments, tribal entities and private investors to bring non-Federal dollars to the table. In terms of "bang for the buck," therefore in my view we punch well above our weight.

In the 2007 budget, rural development is 1.5 percent of USDA's budget authority but 11.5 percent of USDA's program level. That is just the leveraging from loans and loan guarantees not including the private investment dollars that our private partners bring to the table.

Finally, we are working harder to do even better. We have a very active program delivery task force, which is working to standardize the application process. We are moving important functions online and reducing costs and we are looking for ways to reduce stovepiping and cross-train our field staff to improve the efficiency of our local offices. This is a never ending process, and it is one we take very seriously.

So in closing, Mr. Chairman, let me express my appreciation for the very generous support President Bush and the Congress have given USDA Rural Development. Rural America enjoys extraordinary opportunities from biobased products to ethanol, biodiesel, wind, and other new energy sources to broadband-driven manufacturing and service businesses. These are opportunities we cannot afford to miss. We are committed to helping realize that potential, and I know that you are as well. We look forward to working with you.

Thank you and I'll be happy to take or answer any questions that you may have for me.

[The prepared statement of Mr. Dorr can be found in the appendix on page XXX.]

Chairman CHAMBLISS. Thank you very much for that positive statement.

Last month, the Committee held a hearing on the Broadband Loan and Grant Program. One of the most controversial aspects of the program is the program's ability to lend into service areas with one or more existing providers. The ability to lend into competitive markets is in contrast to the traditional telecommunications program.

To what extent has the Department sought to ensure that priority for all loans already made and currently pending serve areas unserved or underserved. Do you believe that lending into markets where service already exists is the most appropriate use for Federal dollars in rural areas?

Mr. DORR. That is a broad question and a very timely question that concerns everyone. First of all, we are in complete concurrence that broadband and deployment of broadband to rural America is key for rural America's ability to survive and actually grow and grow aggressively. We think it can happen.

The broadband program has been a complex and complicated program to deliver largely because we were provided the opportunity to deploy these assets into competitive environments and simultaneously understanding that the basic charge is to develop while deliver broadband to the unserved areas.

The difficulty, though, unlike to when we electrified rural America, is that we do not have a monopoly environment in which we can string wire or broadband into an environment in which we are the only provider.

Second, these technologies are evolving at a very rapid pace, so everything from fiber to the home, wireless to WiFi to WiMax to cellular technology is something that we need and have been considering.

We are in the process of reworking a set of rules. They are in the administrative review process. I cannot at this point, according to general counsel's advice, go into that information at this point.

But we think in the long run with the help of a gentleman from your state, Mr. Jim Andrew, who is doing a terrific job for us over therein that program, trying to get his arms around it think that we will address a number of these issues. I am not sure that answers specifically everything that you want, but I'll be glad to follow up.

Chairman CHAMBLISS. Well, obviously this issue arose when we had Administrator Andrew up. I see Jim is with you today, and I think he is doing an excellent job over there. But I think that this is a complex issue, and I appreciate your response. It is often difficult to serve unserved areas without going through served areas. I think that is a lot of what the issue evolves around.

Jim and I grew up in the rural electric co-op industry in our state. My home county first had electricity in 1934. I have talked to residents firsthand about their experience of electricity coming into unserved areas. I liken that a lot to where we are with broadband today, because everybody now has electricity. If we are going to continue to grow both economically and otherwise in rural America, it is important that we put broadband in place in unserved areas.

So I do think it is a very complicated policy you have to deal with. I know it is in good hands with you and Jim, and we are going to continue to dialog with you about this as we work through this very sensitive area.

The Rural Electric Utility Loan and Guarantee Program recently received an adequate rating from the Office of Management and Budget. It notes that RUS has developed new performance measures and baselines to show the impact the loan funding is having on rural electrification.

Can you detail what improvements are being made to the program and how the focus of the program is shifting as rural areas confront aging infrastructure and new demands for improved service?

Mr. DORR. Well, I'm not sure that I have a specific response for you, but let me simply put it this way. We have looked at the lack of growth that has occurred in both the development of generation and transmission after the peak growth period in the late seventies and the early eighties. It is a concern that the utilities organization at Rural Development, including Mr. Andrew and others,is evaluating very closely, and they are anticipating a great growth in demand for these programs.

In my view, they are substantially above what we have historically been dealing with over the last several years along with growth in transmission. Rural Utilities is in the process of evaluating how best to deal with that now.

I know that Jim, as well as myself, have been reaching out and discussing with interested parties, the NRECA and others, as to what is the most appropriate approach to take to this. The interesting thing that I think we are beginning to deal with is the fact that in these new energy models much of what is evolving in the technology is distributed in nature.

Distributed energy production, whether it be wind or whether it be ethanol or biodiesel, required different kinds of regulations and different kinds of investment in models and tax structures in order that they be integrated into the legacy models.

That is something that we are looking at closely. We are trying to figure out now how best to research so that we understand better how to do this, but that is an underlying theme that I think we have to be very attentive to.

Chairman Chambliss. The U.S. Department of Agriculture and the Department of Energy collaborate through the Biomass Research and Development Initiative to coordinate and accelerate all Federal biobased product and bio-energy research and development. How does Rural Development coordinate with the initiative, and how does the initiative's vision and efforts affect Rural Development's work?

Mr. Dorr. It is a very interesting initiative and one that is very effective. Obviously, it was authored by Senator Lugar and Senator Harkin back, I believe, in 2000. At that time we were directed, or the administration then was directed, to collaborate between USDA and DoE.

They have put together the Federal Advisory Committee. They have been involved in delivering or taking the research applications, defining the issues, and defining a road map as to how to get to a much more biobased energy model.

One of the things that came out of that was, quite frankly, a realization that this collaboration between DoE and USDA was effective to the extent that when the energy title was passed in the 2002 Farm Bill, specifically Section 9006, the energy efficiency and renewable energy package.

At the time I was serving as undersecretary, I made a very direct effort to engage DoE to collaborate with us so that Rural Development uses DoE in the development of the kind of technical expertise to evaluate these grant and loan applications. It has worked very well. I think it has been a good partnership, and we anticipate continuing it.

Chairman Chambliss, let me just conclude by saying that Senator Lugar makes an excellent point in that we need to continue to do our part from the Federal level relative to providing funds for service, particularly of unserved areas, on these critical issues like alternative energy as well as broadband.

But by the same token, we need to incentivize the private sector to invest in not only unserved areas but underserved areas. As you think through the policies that we need to continue to modify USDA, I hope you will remember that I think all of us want to make sure, No. 1, that our constituents are well served with all of the quality of life issues that we have talked about, but at the same time that in a lot of instances it is better if the government gets out of the way and lets the private sector operate.

So we look forward to continuing to work with you on this.

Senator Harkin.

Mr. DORR. Thank you.

Mr. HARKIN. Thank you, Mr. Chairman.

Mr. Secretary, I just want to follow up a little bit on the broadband issue. I will just make this statement. I think RUS made some fairly substantial errors when they set up the programs in terms of applications are expensive, waits are long, cash requirements are too onerous. We had a whole dearth of applications occur for a considerable time; some loan capacity was lost.

I understand the USDA now may lose the ability to make up to $900 million in low-interest loans if the money is not obligated by September 30th. Is USDA going to be able to obligate those funds for good projects?

Mr. DORR. There were a number of issues that you described that are being addressed in this new regulation that I talked about. Again, I am not at liberty to go into the details, but we are doing everything we possibly can to make that program a strong and viable program, very sensitive to the issues of not only making the loans, but of the opportunity that broadband does bring to rural areas—particularly vibrant, growing rural regions of the country.

Mr. HARKIN. Mr. Secretary, the GAO indicates that considerable broadband loans went to clearly suburban areas. Have you put procedures in place so that this doesn't happen in the future?

Mr. DORR. We are addressing a number of these issues through the new regulation, and, hopefully, we will have that handled appropriately.

Mr. HARKIN. Is that imminent?

Mr. DORR. It is in administration review at this point. We are doing everything we can to move this along very quickly.

Mr. HARKIN. Well, that's good. Again, on this whole issue of broadband, I know that some of the players in the private sector who have been involved in taking broadband to some rural communities have been hard to deal with on this issue.

But in many cases where they say they are serving a community, we looked into that. We found that they may be serving the downtown area, the small downtown, but they are not serving the people out and around the town. And so therefore they say, "Well, we're providing that service."

Some time ago, I did a little study on the rural electrification program, Mr. Chairman. Literally, there were debates at that time on the floor of the Senate and in the news media of the fact that power companies were quite capable of getting electricity out to farms.

If the farmers want to pay for it, they will string a line out there. The fact is they couldn't pay for it. There was no way that it could be done. A lot of power companies were opposed to the Rural Electrification Program on that basis. The Congress went ahead and passed it, and I think the rest of history.

I think we have to see the same thing here in broadband, that yes there are going to be people out there opposed to it, because if they just hold out long enough, maybe they can squeeze people to pay enough for it.

Well, that is going to hinder economic development in rural areas. That is why I think we need to be more aggressive in reshaping the rules and regulations—I don't think we ever intended for this to serve suburban areas—— but also to get out to rural areas and those small communities where they may have a service but not everybody gets it.

We need to be more aggressive, I think, in getting the funds out to do that. So I hope that this new regulation you talked about will do that. I haven't seen it, but I hope it will do that.

Second, I just want to talk a little bit about REDL&G and again trying to get funds through the Rural Economic Development Loan and Grant Program, called "REDL&G." I'm concerned that there is a lot of money in this account that is not being put to use.

In fact, the administration, I understand they are asking it to be rescinded. If that isn't so, correct me if I'm wrong on that. So I would ask: why isn't Rural Development working to promote the use of these funds rather than seeking a rescission, if they are seeking rescission? I'm told they are.

Mr. DORR. I think we have watched that program with interest. Quite honestly, I believe in the FY 07 budget that Rural Development presented we have increased our proposed usage of REDL&G monies of about $10 million. I believe we have increased the—well, let me check here. I had that number here someplace. I think we are going to end up with about $30, excuse me——

Mr. HARKIN. Mr. Dorr, can I interrupt?

Mr. DORR. Sure.

Mr. HARKIN. I have staff to tell me that the president's budget recommended a rescission of, roughly, $80 million from the REDL&G Program.

Mr. DORR. I believe that's correct. I believe that's correct, and we are proposing in our FY 07 budget approximately thirty-two million dollars in loans and about $10 million in grants.

We have not been able to use all the grant money. We have not had an adequate number of applicants for the grants, and as a result we are considering a different way to do a better job of marketing that program so that we do acquire more applicants for those grants.

Mr. HARKIN. Do you feel that you are putting out enough information that these funds are available? I just know that in Iowa these funds have been used for everything from medical and childcare facilities, manufacturing plants to industrial parks. I think it has been put to good use.

Mr. DORR. They have been put to good use. Let me just back up a moment. When I first became the undersecretary during my recess appointment in 2002, it became fairly apparent that Rural Development was an amalgamation of program areas after the reorganization process in the mid-nineties when we had Farmers Home Administration, Rural Electrification Administration, and we had the Rural Business Co-op Service.

It was a time of difficulty within the organization. The programs were trying to figure out who they were. There were the "brands". For example the Farmers Home Administration had been lost.

Consequently, we spent a fair amount of time trying to develop a better branding or marketing or outreach initiative, if you may. It isn't perfect, but we have made a lot of progress. We are aggressively devolving down to the state level and to the people within the organization in a way to give them more authority so that they are doing a better job of advocating for these programs that we have, getting the information out at the state level.

Have we done everything perfectly? Perhaps not, but I think we have made a lot of progress in making people more aware of our programs. I think that is self-evident in the context that we have gone from approximately $9 billion in program delivery to this year nearly $17 billion. We haven't gotten everything right, but we're sure working on it, and we are going to continue.

Mr. HARKIN. I appreciate your candor on that, and I just hope that they get more information, more word out on that. Just last, very briefly, the Value-Added Development Grant Program, the 2002 Farm Bill expanded this and we provided mandatory funds every year for this. The administration has regularly requested that the program be cut off by 60 percent. Our appropriators follow that.

Could you just address yourself to the Value-Added Development Grant Program and how you see this as a part of our Rural Development Program, the Value-Added Development Grant Program?

Mr. DORR. I think the Value-Added Development Grant Program in conjunction with a program of similar ilk, Section 9006 Energy and Efficiency Program, are terrific programs.

These sorts of things ebb and they flow in the context of utilization of financing and how they work, but the remarkable thing about this program is that it has provided some up-front cash on a matching basis to folks who are particularly interested in developing new value-added ventures within their farming and rural communities. We have seen a great deal of success in that program, and we think it is a strong program. We would anticipate it to continue that way. I think we are on the right track.

I would make one other added comment. When I became the undersecretary again late last summer and looking at the program, it became evident that there were a number of small applicants that perhaps ought to be addressed. We this year set aside $1.5 million to that program to be utilized for small grants, $25,000 and under, so that we would particularly make an effort to get small producers engaged in this process and make it an easy and applicable effort to get to. We announced that funding source, I think, last week and we would expect that to be a successful component of this program as well.

Mr. HARKIN. OK. Mr. Secretary, I appreciate that. Just if you have any advice or suggestions on what we need to do in the next farm bill, because biobased products are going to be big, as we have all talked about, in rural economic development.

It seems to me that we want to help promote that in terms of the value-added part of it. This could be a real key to providing that kind of economic growth for the biotech, biobased products and value-added products from agriculture, especially in the energy area.

Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman Chambliss. I am told that we are going to have a vote at 11:15 on the Dorgan Amendment, but we are going to go as long as we can here, and then we will come back after that vote.

Senator Lugar.

Mr. LUGAR. Well, thank you very much, Mr. Chairman.

Mr. Dorr, already the investments in corn ethanol are coming along well, and we wish more production could occur sooner.

But I took a look at a plant in Rensselaer, Indiana, a small county. Here, about 40 million gallons of ethanol are going to be produced each year. At current prices, that is a $100 million to $120 million coming into that county quite apart from about 100,000 to 110,000 bushels of corn that will be purchased locally from farmers there.

The impact of that kind of money as something coming into that county is going to be dynamic. Now, how well either rural people or the small town people or whoever deals with this remains to be seen, I think. But, nevertheless, it is a happy prospect. This is not going to be a backwater.

I was intrigued with, Senator Harkin, I heard a professor from Dartmouth College last week at an Aspen Institute breakfast discussing cellulosic ethanol. In addition to being a professor, he is also apparently a part of a startup of a cellulosic ethanol situation, an entrepreneur.

We were querying him about this, because our president has talked about cellulosic ethanol due to the fact that it could probably be produced in all 50 of the states whereas corn ethanol probably is going to be restricted to 15 states or so in our part of the country.

But he pointed out that it would require a different kind of grass to grow in the North, in the South, and the middle regions and the various, which is a new twist on this. We hear of switchgrass frequently, but there are all sorts of grasses in this country.

As a matter of fact, there are about 34 million acres in set-aside. A lot of those acres have been growing grass for a long time. I mention all this because all sorts of things happen when people get big ideas.

For example, the suggestion that our cornland is going to be overtaken by energy production, as if there were not a lot of acres out there somewhere that are not being utilized, that we have set aside really to protect or restore pricing in the past, for example.

I am just curious, I'm not asking you how programs are working now in Rural Development, but what sort of capacity do you have in the Department to be thinking through this process?

My guess in the corn ethanol area, here private enterprise, as the financial pages point out every day, is very active. Therefore, the loan guarantees are less required, and in some cases they are not going to be required at all. People will simply go into it. But in the cellulosic ethanol business, here things go very tediously.

Now, in my conversation with Secretary Bodman, they are working through the loan guarantees so that a Canadian firm, Iogen, might conceivably start a plant in Idaho this August. That seems less and less likely because whatever the bureaucratic function is it seems to be taking quite a while, even though our last farm bill sort of set those guarantees up, and so I am not optimistic about this.

I have called Al Hubbard at the White House and suggested they had better get moving on it. If this is something the president really wants, that bureaucrats don't move that rapidly. But I'm just curious, you have mentioned a collaboration with Energy.

The cellulosic thing, nothing seems to be happening very fast, and yet the urgency of this seems to be apparent for states, not just 15. My guess is still the research, there is a legion of problems there that USDA has been working on for some time, but it's not really clear where this is coming to the fore. I just want some assurance of somebody being in charge.

Who has enough vision to understand what is occurring out there and begin to organize it in a way which all of us will not be in a frustration every time we have a hearing as to why nothing is happening when we all have a pretty good idea of what ought to be happening, and if we were administering it, we would make it happen? Can you offer us any assurance?

Mr. DORR. Well, I would love to offer you lots of assurance. I think the thing about the entire new bioenergy arena, even though many of us like yourself, like Senator Harkin, and several others have been heavily involved in this industry since 1975—I was on the first Checkoff Board in Iowa, the board of directors of the corn growers, and we passed the first checkoff.

But I think it's important to remember, although this perhaps doesn't give us any solace, but it is important to remember, that as this evolved it was actually three farmers that worked out the dry-milling process on the ethanol basis: the Broins out of Minnesota, the Fagans out of Minnesota, and the VanderGriends out of Sheldon, Iowa.

It was three farmers that put this thing together. It was a family business owner, Tony George, who committed to putting ethanol into his Indy racing as a premium fuel. It is these kinds of independent things that tend to happen if you provide the right kind of incentives.

I don't know what the perfect package of incentives is, but I do know that DoE is clearly interested, and they have visited with us on the loan guarantee programs. To the extent that we can be of any help and any assistance in that, we will.

I also know that cellulosic research is evolving probably in a more rapid manner than we expect, although I don't know how many years it is going to take. But we do have to bridge this "death valley," if you may, going from precommercialization to commercialization. That is a tough shot for people.

The underlying part of this, in my view, it gets back to what I said earlier, there is $1.45 trillion of equity in rural America. We are looking at the possibility in cellulosic ethanol of taking corn-based ethanol on a per acre basis from maybe 450 to 460 gallons per acre to using some of the cellulose out of the stober (phonetic) up to 1,000 gallons per acre, which is a tremendous gain. If we can get the right mix of these things, I think it will happen pretty fast.

But the bottom line, we are building a brand new industry. It is a brand new industry that has its own distribution challenges. It has its own pricing challenges. it has all of those things that you end up with in a new business.

I don't have the perfect answer. I don't know how to give you that perfect answer. But I will tell you that, from a private sector point of view, in my estimation, we will make rather lightening progress when all of the things click, and we will wonder why it didn't happen earlier.

Mr. LUGAR. Thank you. We will stay in touch. Chairman Chambliss. Senator Salazar.

Mr. SALAZAR. Thank you very much, Undersecretary Dorr. Staying on that same line of thinking from Senator Lugar and others concerning the bioenergy future of rural America, yesterday we had a panel of experts on the Energy Committee who talked about cellulosic ethanol, and they are determined to get us to a point where we can actually commercialize cellulosic ethanol within 6 years. It is part of the president's initiative, and the experts at DoE tell us that we will get there within 6 years.

Yet, some of the witnesses from the biodiesel industry who also talked about moving into a greater diversification of the feed stock so that we not only use soy, but we start using canola and trying to push further in that direction because of the oil content of canola.

I would imagine that most of us who are sitting on this Committee are going to be looking at this energy title of this farm bill as a great, golden opportunity and a new chapter of opportunity for rural America.

My question to you is: as we anticipate those things happening in the life of this next farm bill, what is it that we ought to be doing differently in terms of anticipating some of those opportunities and needs out in rural America?

I looked at your testimony last night, and I saw that from 2001 to 2005 there were 89 ethanol projects that were supported by USDA, mostly loan guarantees, but a total of $84 million.

If you were to take us from where we are today at 2006, looking out ahead and 6 years and the reality of cellulosic ethanol, tell us what kinds of things we could be doing as a policy out of this Committee, out of this Congress to help incentivize this successful wave that I think is coming toward us?

Mr. DORR. Certainly. I don't know that I have any better sense than, frankly, anyone else does. I mean, as I have already indicated, this is an evolving industry and an evolving market. But I would go back to something I said earlier, and that is that these are largely distributed energy production business models that are primarily rural focused.

In that context, it is going to require a different set of regulations. For example, to incorporate 20–megawatt wind generation farms into larger, more traditional regulated generation transmission structures, if that becomes economically viable, it is going to require different kinds of tax structures or investment vehicles.

I would even suggest that disclosure requirements to make it possible for small investors in these rural communities to participate in these programs are critically important. For example, if you are going to build a $150 million ethanol facility and you want to raise 40 percent equity, it is very easy right now to go to New York or Chicago or someplace and get one check for $60 million.

Now, I would be the last guy to suggest that we impose movement on capital, but I would also tell you that as a farmer and a rural person I would love to see this wealth, this equity wealth, be manifested and kept in the rural area.

The simple fact of the matter is if you are going to raise $60 million in my hometown of Marcus, Iowa, instead of taking one transaction, it is going to take 3,000 transactions. How do you mitigate that problem? Does that mean that we shouldn't do it? No, absolutely not.

What it does mean is we should look at ways to develop investment vehicles to maintain the governance, the transparency, and the clarity to make it possible for the plumber, the school bus driver, the school teacher, the tenant farmer, and the landowner to invest in these as equity vehicles so that when the developer comes in and is looking for equity money he can go get it from that source and not necessarily having to go to Chicago or Des Moines or Omaha or New York. That is going to require that we address disclosure issues and other things that are involved with the SEC.

Now, these are far beyond my expertise. But I would just simply submit that we do have technology. We do have computer technology. We do have the ability to track things quickly. We ought to be able to somehow devise a fix so that the local people in our rural communities can invest in these. That is a big issue that I think we could all use a lot of help on. I don't know that I've got the answers to that.

Mr. SALAZAR. Let me just say, Mr. Secretary, I very much look forward to working with you on that issue, and I know that members of this Committee do as well. Because with the bioenergy revolution I think out in rural communities, I think all of us share the concern of wanting to make sure that some of that ownership and some of that benefit remains there at the local level. I very much look forward to working with you on that.

Can I ask just one more quick question? I know my time is up, Chairman Chambliss.

Chairman CHAMBLISS. (Moving head up and down.)

Mr. SALAZAR. The president's budget looking ahead, as I recall—this has been some time ago when I looked at the detail—indicated that there was going to be, the proposal was that we were cutting about $318 million, as I recall from Rural Development Programs.

Whatever the amount is, I don't know if that $318 million is correct but it's close to that amount, what impact is it going to have in a practical way on your ability to deliver the Rural Development Programs that are currently authorized?

Mr. DORR. I'm not certain of that number. I am, quite frankly, certain that we are not losing three hundred and some million dollars of budget authority. I do know that our programs, as I said earlier, ebb and flow. Yet, there has been a continual pattern of growth in these programs, and a very consistent one.

The loss that you reflect on right now may be as a result of the aggregate number that is a result of the supplemental for Hurricane Katrina, so there may be some reduction in that. I think that we have strong programs. I think that we have a strong delivery mechanism.

I would simply point out that we have 800 offices throughout the United States, and we have over 5,000 people in the field. Our people, our local people, live, they eat, they go to church, they educate their kids with the people in those communities.

We take a lot of pride in the fact that they are very sensitive to what is going on and help foster and develop and "bubble up" economic development opportunities in the rural communities. We are going to continue to push that, and I think we will be successful at it.

Will we always have enough money in every individual program? I suspect not. But will we in the long run? Because the market is sensitive to what the demands are and address most of them in one way or the other? I think, likely.

Mr. SALAZAR. Thank you, Mr. Chairman.

Chairman CHAMBLISS. We've got less than 5 minutes left in the vote, so we want to break for that. Mr. Dorr, there may be other questions afterwards. We are going to ask you to stick around. But before we go, Senator Harkin has one request.

Mr. HARKIN. Just following up, Mr. Secretary, on the Value-Added Grant Program and the Market Development Grant Program, just in order to inform us as to where we are in this and looking ahead to the next farm bill, Mr. Chairman, I would like to ask if we can get the figures, for the record, on the number of applications that have come in and the share of them that have been approved and funded?

Mr. DORR. Yes, sir.

Mr. HARKIN. I just think there is a lot more that have come in. I think it might inform us as to what the demand is out there for it.

Mr. DORR. Certainly.

Mr. HARKIN. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

Chairman CHAMBLISS. Have you voted?

Ms. LINCOLN. I have not voted. I've got constituents in the hallway. Is there at least 11 minutes left in the vote?

Chairman CHAMBLISS. No. We've got about 3 minutes left, yeah.

Ms. LINCOLN. Well, I have two questions for Mr. Secretary, or three, and I will just submit them for the record. Is that all right?

Chairman CHAMBLISS. Or, you can come back after the vote, whichever. We are going to come right back.

Ms. LINCOLN. OK.

[Recess.]

Chairman CHAMBLISS. Well, Mr. Dorr, it looks like you're off the hook here.

[General laughter.]

Chairman CHAMBLISS. I don't think any of my colleagues are going to be coming back that want to inquire of you. There will be some questions I know that will want to be submitted for the record.

Let's see, is Blanche's staff here?

[No response.]

Chairman CHAMBLISS. Her questions will be submitted to the record, then, for the record.

Thank you very much for being here. We look forward to staying in touch and, again, discussing a dialog on the complex issues we have talked about.

Mr. DORR. Thank you, Mr. Chairman. I appreciate your counsel.

Chairman CHAMBLISS. Our next panel consists of three individuals: The Honorable Glenn English, chief executive officer of the National Rural Electric Cooperative Association located in Arlington, Virginia; Ms. Jane Halliburton, supervisor of Story County, Iowa, from Nevada Iowa; and Ms. Mary McBride, executive vice president, Communications and Energy Banking Group, CoBank, Denver Colorado. Welcome to all three of you.

Glenn, we are always glad to see you back on the Hill and to see you on this side. We will look forward to hearing your testimony. Glenn, we will start with you, go to Ms. Halliburton, and Ms. McBride. Welcome all of you.

STATEMENT OF THE HON. GLENN ENGLISH, CHIEF EXECUTIVE OFFICER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, ARLINGTON, VIRGINIA

Mr. ENGLISH. Thank you very much, Mr. Chairman. I want to commend you and the Committee for holding these hearings. Rural development is an extremely important topic, particularly as far as rural electric cooperatives are concerned. We have been creating value, as far as infrastructure is concerned, for rural communities for over years now.

Mr. Chairman, I think that it is best summed up in a meeting that I had earlier this year at Homeland Security in discussions that we were having there regarding Rita and Katrina and kind of doing in the aftermath on what could be done differently. One of the senior officials at Homeland Security made the point to us that the one thing that they found is that recovery was impossible until they got the electric power back on.

Virtually everything that they were doing required some kind of electric power. Whether it was a clean water supply or whether it was telecommunications or healthcare, they all required electricity. I think far too often that is something that is underappreciated and misunderstood until we don't have it.

I was pleased to see that Homeland Security recognized that and also we tried to make sure that they understood the breadth and the scope of electrical operatives. I think a lot of people don't appreciate and understand that as well.

We cover, roughly, three-quarters of all the land mass of the United States. While we serve the fewest number of people, about 12 percent of all the folks in the country that are being served, we do have a huge land mass, and it requires an infrastructure that takes up 43 percent of all the electric utility industry.

Over the next few years, we are going to have an even greater impact in growth, I think, as electric cooperatives continue to increase in their size. We right now serve about 40 million people across this country. We are growing about twice as fast as other sectors of the electric utility industry.

Also, we have a new billing cycle that is going to be underway, Mr. Chairman. In 2001, Vice President Cheney made the point that the capacity that we have as far as generation of electric power in this country had pretty much been consumed, and to meet the future economic needs of the country there is going to have to be a considerable amount of growth in the entire electric utility industry.

What the vice president was pointing out, that we were only going to require between 1,300 and 1,900 new power plants over a 20–year period. That certainly affects electric cooperatives in the same fashion as it affects the rest of the industry.

We expect that we are going to need somewhere in the neighborhood of $28 billion in new construction of power plants in order to meet the needs of our members, even over the next 10 years. Obviously, that is a major amount of growth.

Over the past 5 years, roughly, 60 percent of all the financing for electric cooperatives has come from the private sector, and about 40 percent has come from the Rural Utility Service.

However, as we move forward to meet these new needs in constructing this new generation and making certain that we are doing our part to help keep the economy of this country moving, we would expect that there will even be a bigger percentage of the financing that will be necessary to come from the Rural Utility Service.

Now, we have seen an increasing growth, as you are aware in your native state of Georgia, in some of the more suburban areas of the country, and that is where a lot of this new financing has gone.

However, we will serve the rural areas of the country, and we obviously are going to need a huge amount of resources in order to meet that need. We anticipate over and above what the president has requested electric cooperatives in order to build this generation is going to need somewhere in the neighborhood of $6 billion, which is $2.2 billion over and above what the president's budget request was this year.

Now, what this cost of this financing is, roughly, $25 million a year for the Rural Utility Service. We are prepared to make certain that, for budget purposes, we don't increase that impact as far as the Federal budget is concerned. So we will be doing our part to help pick up the cost of financing that $6 billion that is anticipated that we will need. Mr. Chairman, I want to thank you again for the opportunity to appear here, and I will be happy to answer any questions that you might have for me.

[The prepared statement of Mr. English can be found in the appendix on page XXX.]

Chairman CHAMBLISS. Well, thank you. We are always glad to have you here.

Ms. Halliburton, we will look forward to hearing from you.

STATEMENT OF JANE HALLIBURTON, SUPERVISOR, STORY COUNTY IOWA, NEVADA IOWA

Ms. HALLIBURTON. Thank you, Chairman Chambliss and Ranking Member Harkin, for allowing me to appear this morning on behalf of the National Association of Counties and the National Association of Development Organizations on the importance of a strong rural development in our next farm bill.

My name is Jane Halliburton, and I am a county supervisor from Story County, Iowa. I currently serve on the NACo Board of Directors. NACo is the only national organization that represents county governments. NADO represents regional development organizations nationwide.

As you know, rural America is a diverse and constantly changing place. This morning I would like to make three key points on the state of rural development programs and then make some recommendations on the upcoming farm bill reauthorization.

First, rural communities need Federal development assistance programs and policies that allow them to identify, address, and meet local needs.

Second, Federal rural development policies need to build on the genuine intent but unfulfilled promise of the 2002 Farm Bill.

Third, USDA rural development programs should support the basic needs of local communities such as water and wastewater systems, telecommunications, and housing while also tapping into the rural competitive advantage for innovation, entrepreneurship, and alternative solutions such as renewable energy.

When examining the different types of assistance targeted to urban versus rural areas, an alarming trend is discovered. While urban communities receive a substantial amount of direct Federal grant funding for infrastructure development such as HUD's Community Development Block Grant and the DOT's highway and transit programs, the bulk of rural assistance is in the form of loans and transfer payments such as social security and AG payments and competitive grant programs.

The Kellogg Foundation calculated this disparity in a July 2004 study and found that the Federal Government spent from two up to five times as much on metropolitan versus rural community development.

By funneling billions of dollars in grants each year to urban areas, a distinct advantage over our rural communities, while urban areas are building the communities and industries of tomorrow, rural areas are forced to make do with the economies and legacies of yesterday.

Federal rural development policies need to build on the genuine intent but unfulfilled promise of the 2002 Farm Bill. Passage of the bill was a landmark event for rural development, because it allocated $1 billion worth of mandatory funding to a variety of programs within the rural development title.

However, several of the most innovative programs were not implemented. For example, the Rural Strategic Investment Program was an attempt to build local capacity within regions by bringing the public and private sectors together.

The underlying goal was to place rural regions and communities in the driver's seat to chart their future. It represented one of few

Federal incentives to promote regional collaborations and public/private investments, but the program was never fully implemented and the funding was later rescinded.

Last, critical public infrastructure such as water and wastewater and telecommunications are still sorely needed in numerous communities throughout rural America. In 2004, NADO conducted an E-forum with 200 regional development professionals and local government officials. When asked, "What is the major roadblock to economic development in your region," the highest rated response was: "Inadequate public infrastructure."

Private sector investors and businesses expect and demand that local governments and communities have the public infrastructure in place before they will locate in a community.

For rural America to fully compete in today's global economy, there must be greater deployment of high-speed broadband capacity. A recent study found that rural America continues to lag behind urban areas in broadband adoption. Specifically, the study found that only 24 percent of rural Americans have high-speed connections compared to 39 percent of urban Americans.

A recent "Des Moines Register" article showed what happens when individuals have Internet capacity and an entrepreneurial spirit. In Soldier, Iowa, a town of 207, a family owned bookstore is now selling 95 percent of its inventory online. We would urge the Committee to look for ways to further close the digital divides so other small businesses can succeed online.

I would again like to thank Chairman Chambliss and Ranking Member Harkin for the opportunity to appear, and we stand ready to work with you in crafting a farm bill that develops our rural communities. I would be happy to respond to any questions.

[The prepared statement of Ms. Halliburton can be found in the appendix on page XXX.]

Chairman CHAMBLISS. Thank you very much, Ms. Halliburton. Ms. McBride.

STATEMENT OF MARY McBRIDE, EXECUTIVE VICE PRESIDENT, COMMUNICATIONS AND ENERGY BANKING GROUP, CoBANK, DENVER, COLORADO

Ms. MCBRIDE. Thank you. Thank you, Chairman Chambliss. My name is Mary McBride. I am executive vice president for the Communications and Energy Banking Group, for CoBank. CoBank provides financial services to 2,400 customers throughout the United States.

These customers are also CoBank's member owners and include: rural electric cooperatives, farmer-owned cooperatives, rural water systems, and rural telecommunications companies. In 2005, we extended over $26 billion in loans and leases to help capitalize these rural-focused businesses.

We currently have relationships with about 200 other lenders including over 100 commercial banks where we work together to meet the credit needs of rural America and agriculture.

CoBank and our members are involved in a number of programs under the USDA Rural Development Program. Let me briefly mention six areas of interest: the first one is the USDA Rural Utility Service.

An important part of CoBank's mission is serving the needs of our customers in the area of electric distribution and power supply. CoBank currently provides approximately $7 billion in loans to rural electric cooperatives.

Many of our rural electric cooperative customers have borrowing relationships with both RUS and CoBank. The need for financing for baseload power plants and stronger transmission systems is increasing substantially. CoBank anticipates increasing our lending for baseload generation to help meet this demand.

We also agree with NRECA that RUS will need additional funding for baseload generation. We look forward to working with RUS and other lenders in joint efforts to address the emerging needs for generation for rural electric cooperatives. CoBank also anticipates increased lending to rural telecommunications companies. We currently provide $2.9 billion in capital to these rural businesses.

Although not part of the jurisdiction of this Committee, I would be remiss if I did not mention the importance of the Universal Service Fund to rural communities. Most rural telecommunications businesses serve sparsely populated areas, and therefore have higher costs than those serving urban and suburban areas. Maintaining a strong USF is essential to rural communities and rural telecommunications businesses.

Second, the second issue is value-added agricultural grants. The Value-Added Producer Grants Program authorized in the farm bill has been used by a number of agricultural cooperatives. The program is helpful in supporting feasibility studies and providing startup working capital.

Unfortunately, while the 2002 Farm Bill authorized $40 million annually for this program, it has been funded at significantly lower levels. We believe that full funding of the Value-Added Producer Grants Program is important to encouraging new ventures relating to rural development.

The third area of interest is rural business investment companies. The 2002 Farm Bill provided for the creation of rural business investment companies to encourage equity investments in rural America. This RBIC provision could be more successful if the regulations allowed for a streamlined process for establishing non-leveraged RBICs that are seeking no guarantees from the Federal Government.

Fourth, the USDA Cooperative Development Program: the USDA has a long history of providing research, technical and educational assistance to farmer cooperatives. Continued support for this assistance will help new cooperative enterprises to me developed.

Fifth, the USDA Business and Industry Loan Guarantee Program: in order to facilitate credit for some CoBank customers, we do at times work with certain customers to obtain B&I loan guarantees from USDA. The guarantee can be very helpful for agricultural cooperatives with low equity.

While we have found the USDA staff involved with this program to be knowledgeable of the agricultural industry and to possess good credit skills, rigid program guidelines and procedures create difficulties in dealing with fluid situations that exist with many borrowers.

Last, would be biofuels initiatives: CoBank is the leading lender to the biofuel sector in the country. New biofuel facilities are creating new jobs and economic activity in rural communities. The tax and other incentives provided to the biofuels sector are of utmost importance as this industry progresses. We look forward to working with this Committee on further actions to strengthen the biofuel sector in the next farm bill.

Thank you for the opportunity to testify, and I am certainly willing to answer any questions that you might have.

[The prepared statement of Ms. McBride can be found in the appendix on page XXX.]

Chairman CHAMBLISS. Thank you.

Mr. English, you note in your testimony that over the next decade we are going to need $28 billion in capital to keep up with the future demand for power generation and transmission. If the current funding at RUS for electric programs continues as projected, will there be a shortfall in lending? I think you have already answered that question.

Will the private sector be able to meet the additional demand for that capital over and above what we know is going to be coming out of RUS?

Mr. ENGLISH. Well, Mr. Chairman, a portion of this obviously is going to have to come from the private sector, no question about that. But keep in mind that in the private sector you are going to have a huge demand by other segments of the electric utility industry, particularly investor-owned utilities.

We are going to need, particularly as far as that generation that is going to apply to the most rural and the poorest areas of this country, we are going to need the Rural Utility Service to be a major player in this area as they have traditionally been. That is the reason that we are very hopeful that we will be able to acquire funding at $2.2 billion above what the president included in his budget—I should say the loan levels.

To that point, the actual cost of this program, as I mentioned before, and the budget impact we expect to continue to be in the $25 million area as it has been traditionally, or has been in the last few years.

Chairman CHAMBLISS. Are co-ops around the country finding it difficult to borrow money in the private sector, or is that something that has eased off in the last several years?

Mr. ENGLISH. Well, the credit rating of electric cooperatives right now is very, very good. We over the past decade, unlike so many in the electric utility business, did stay home, did take care of business, did focus on the membership that we had in delivering the service they needed. That turned out to be a very wise business decision as well as our job, so I think at this particular point we are in very good shape.

But as I said, that is not to say that RUS won't be needed and needed greatly by the electric cooperatives to meet this task. This is a huge task. Mr. Chairman, we are going to have to increase generation by a third over the next 10 years, and that is a huge increase for us, in order to meet the needs of rural America.

Chairman CHAMBLISS. As I recall from my experience, there was a phasing out of the lending of funds to co-ops that started out in rural areas like IBMC in my state and now we have been overwhelmed by urbanization. Has that, in fact, happened now? In other words, are co-ops that serve primarily urban areas ineligible for current loan funds from RUS?

Mr. ENGLISH. Well, we have the "once rule, always rule", rule, Mr. Chairman, that has been in place for some time. What we have found, as I mentioned, is that there is more private funding taking place as far as electric cooperatives.

A lot of it is focused into the suburban areas and the growth that has taken place there, but it has been primarily because of the needs are such that they need that money very rapidly. Given the time that it takes to go through and get an RUS loan, many times that has discouraged them. There has been that.

There have been some other practices by the Federal Government that has encouraged them to go elsewhere for some funding. But for the last 5 years, 60 percent of the funding has come from the private sector as opposed to percent by the Rural Utility Service.

Chairman CHAMBLISS. Well, every region of the country will be different. Overall, what sectors of the rural economy are experiencing the greatest level of growth and demand for power and what sectors of the rural economy do you expect will be driving the need for additional generation?

Mr. ENGLISH. Well, there was a discussion earlier today, Mr. Chairman, about renewables. We expect that there will be growth. We are all very hopeful we will be able to reduce our dependence on foreign energy and produce more of that energy here at home. This should be a new industry for rural America.

As I mentioned, since we provide power for three-quarters of rural America or three-quarters of the geographic area in this country, that includes nearly all of the areas that are going to be producing this new energy.

That is going to require a good deal of power, and it puts additional responsibilities on us not only to build a generation to make sure that power is going to be available, but it also puts us in a position of making sure that that power is the most cost-effective we can. Namely, we want to try hold those rates down. Any beginning business, startup business, is at risk.

As you heard Secretary Dorr talking about earlier, it is their hope that we will see a lot of local rural communities investing in these new businesses. We want to try to help keep those costs as low as we can. That is going to be the job that we undertake.

Obviously, financing plays into that. Depending upon what interest rates are, depending on whether we can acquire that money to build what is going to be very expensive generation for the future, that will play a big role I think in what the open costs are for these new startup businesses.

Chairman CHAMBLISS. Ms. Halliburton, you note a recent survey of NADO members citing inadequate public infrastructure as a leading roadblock to economic development in rural regions. Do you believe that private sector venture capital is available but only once localities address infrastructure needs, or once infrastructure development is addressed will localities need assistance to access that venture capital?

Ms. HALLIBURTON. Well, of course my flip answer to that would be yes, sir, because it does vary from region to region. But our experience has demonstrated that it is very, very important to have a solid infrastructure in place to be able to attract new development into that area.

When I say "infrastructure," I'm talking not only about what is currently in place and trying to repair and maintain that in the rural areas, but then to develop new—whether it is telecommunications or renewable energy. To attract that venture capital, can sometimes be very difficult. That is going to vary from region to region.

Chairman CHAMBLISS. How significant is the availability of broadband access to economic development in your county and those in close proximity? And, what is the greatest impact that broadband access will have on rural areas in your opinion?

Ms. MCBRIDE. Oh, it is highly significant particularly, I mean, across the country, but I can give you some examples in my very own county. In the county seat of Nevada, we have a business that has started up that is really a family owned business. They have quilting supplies. But because they do have the availability of broadband, that business has expanded rapidly. The majority of their business is now done over the Internet. There is the example I gave you of a tiny community of just over 200 where they are having, again, significant success.

The accessibility and the reliability are not at all consistent, so this varies greatly from one area of the country to another, from one area of a state to another. We find that rural people, they have this great entrepreneurial spirit, and they will take advantage of every opportunity they have. But the assistance to make sure that that access is there is of primary importance, and I think that will only continue to increase.

Chairman CHAMBLISS. Ms. McBride, in your written and verbal statements, you note that CoBank works with commercial banks to meet the needs of rural business. In Washington, we often hear about the disagreements involving farm credit and the commercial banking trade organizations. Tell us how CoBank has an interworking relationship with commercial banks relative to rural development?

Ms. MCBRIDE. Certainly. In a number of our loans, which would be in agribusiness, communications and on the energy side, we work with commercial banks in a risk—— sharing capacity. When loans get extremely large and they are too large for our individual balance sheet or for the individual balance sheets of the commercial banks, we syndicate those loans and we share the risks in those various transactions. As noted in the testimony, we work with, roughly, about a hundred commercial banks in that capacity.

Chairman CHAMBLISS. In your statement, you note that CoBank is the leading lender to the biofuels industry. Why is that, and how long has CoBank been involved in financing ethanol plants?

Ms. MCBRIDE. CoBank has been involved in financing ethanol plants since about 1992. Many of these ethanol plants were begun by farmers and essentially by farmer-owned cooperatives back in the early nineties.

Owing to our close relationship with those farmer-owned cooperatives, we began to fund those plants as they were started up, and that led to us increasing funding over the past several years. Now we are the largest lender to the ethanol industry in the country.

Chairman CHAMBLISS. Are you seeing more and more activity coming into your institution?

Ms. MCBRIDE. Yes. I mean, I would say we probably get four to five calls a day on ethanol plants. What we are seeing that has principally changed from the early 1990's is that in the early 1990's these were farmer-owned entities; they were locally controlled. Now we are seeing increasingly Wall Street firms and international firms coming in to set up ethanol plants.

Chairman CHAMBLISS. What about biodiesel? Are you getting a lot of inquiries relative to construction of that type of facility?

Ms. MCBRIDE. Yes. Yes, we are. We've got, I believe, four biodiesel facilities that we have financed to date, and we are seeing increasingly more areas in biodiesel and moving further along into other biomass transactions also.

Chairman CHAMBLISS. In your statement, you talk about the increased need for financing of baseload generation. Could you expand on how CoBank might work with RUS to finance baseload generation facilities?

Ms. MCBRIDE. Certainly. We work very closely with RUS. As I mentioned also in the testimony, we are looking at increasing our capacity for lending for baseload generation. Through frequent meetings with RUS, we try to determine where they have needs and gaps and see if we can fill in those gaps, whether it is for interim financing or for longer-term financing.

I would also state that we agree with Mr. English here that the needs that this industry is facing are so vast that they are going to need more than what RUS can lend currently and what CoBank and others in the industry can lend currently.

Chairman CHAMBLISS. What about nuclear generation facilities, do you get many inquiries relative to proposals regarding construction of nuclear generation facilities?

Ms. MCBRIDE. We are beginning to hear a little bit about that. We have heard from a couple of our cooperative customers who were beginning to express some interest there. It has not gotten as far with us yet to a loan application or down the road that far, so we are beginning to hear something on that and know that it is an area that we need to start spending some time on.

Chairman CHAMBLISS. Mr. English. I know we in Georgia are looking at expanding VAGL, which our co-ops certainly have a large stake in. What about nuclear generation facilities around the country? Are you seeing more and more interest from co-ops relative to that?

Mr. ENGLISH. There is, Mr. Chairman. Normally, what we will see from electric cooperatives that we will try to do a joint venture usually with one of the investor-owned utilities. Those are very expensive propositions. We may very well see some partnering between electric cooperatives in building some new generation.

However, also I should mention that as well as the Rural Utility Service and CoBank that we have the Cooperative Finance Corporation that also plays a big role as far as electric cooperatives are concerned in helping finance the needs of electrical cooperatives, and I expect they will play a big role in building this new generation as well. But it is going to take all this financing to undertake something of this size.

In fact, it has been estimated that the costs may, and I'm not talking about lending but the total costs of the program, be in the neighborhood of $35 billion or more just for electric cooperatives alone. This is a lot of money that is going to be needed in a very short period of time if we are going to achieve this objective and meet the needs of our country.

Chairman CHAMBLISS. Well, let me thank all three of you for being here today and presenting testimony. We are going to leave the record open for 5 days for any questions, written questions, that may be submitted. We would ask that you address those promptly and get your answers back to us. Again, thanks all of you for being here. We look forward to staying in touch with you.

This hearing will be concluded.

[Whereupon, at 12:22 p.m., Tuesday, June 20, 2006, the hearing was adjourned.]

APPENDIX

June 20, 2006

Statement
Chairman Saxby Chambliss
June 20, 2006

I welcome you to this hearing to review the Rural Development Programs of the U.S. Department of Agriculture. I appreciate our witnesses and members of the public being here to review this very important topic as well as those who are listening through our website.

From the beginning of farm programs in the 1930s to the present day, federal agricultural policy has been focused primarily on the well being of rural areas across the country. Much like their urban counterparts, rural cities and counties have changed much over the last 80 years and the challenges faced in the last century have evolved and in many cases become more complex.

Unlike the past, today, rural households depend more on off-farm income. For example, in 1950, four out of every ten rural people lived on a farm and almost a third of the nation's rural workforce was engaged directly in production agriculture. Today, less than 10 percent of rural people live on a farm and only 14 percent of the rural workforce is employed in farming.

While the face of rural America may look different, the challenges confronting our small towns and communities haven't changed fundamentally. Infrastructure and public services are often the core of every economic plan. Telecommunications, electricity, water and waste disposal systems and transportation infrastructures are essential for community well-being. Investment in rural infrastructure not only enhances the well-being of community residents, it also facilitates the expansion of existing business and the development of new ones.

This hearing is the second in a series designed to review the rural development programs at the Department of Agriculture. We hope to learn more about implementation of the rural development title of the 2002 farm bill. We also hope to better understand the new challenges and makeup of rural America so we can build upon our past success. We must be mindful that USDA is the only federal agency with a mandate to provide comprehensive assistance to America's rural areas. The Department has done a good job of performing this function with the limited resources available to it and the large demand for its services.

In addition, while the rural economy has shifted from a dependence on farm-based jobs, agriculture is still a major source of income. It will be impossible for us to divorce the two and I am convinced that the future success of rural America will be integrally connected with the success of the U.S. agriculture sector.

In my home State of Georgia, 23 counties are farm-dependent, the largest of any state outside of the Great Plains. And while four out of five rural counties are dominated by non-farm activities, those areas that are farming-dependent may require more attention since they are limited by remoteness from major urban markets and by low population densities.

Our overriding goal should be to ensure that rural areas share in the nation's economic prosperity and we have the proper policy options for the future. Over the next few months, this Committee will be hearing first hand from farmers and ranchers across the country as we begin preparations for the next farm bill. I expect to hear a great diversity of opinions as we travel from region to region. However, I also expect to hear a common sentiment throughout each and every comment regarding the desire to create new economic engines in both the farm and rural economies. Finally, we must be bold and creative in this task, for the next farm bill provides us with a unique opportunity to put together a more cohesive and coherent federal effort to close the gap between rural and urban areas.

For Release by the
Senate Committee on Agriculture, Nutrition and Forestry
June 20, 2006

Statement of Thomas C. Dorr, Under Secretary for Rural Development on the Department of Agriculture's Rural Development Programs

Mr. Chairman, Members of the Committee. Thank you for the opportunity to testify today concerning USDA Rural Development's mission and programs.

As we approach the next Farm Bill, all of us recognize that there are difficult choices to be made. Last year, USDA conducted over 50 listening forums around the country to invite the broadest possible participation in this debate. A summary of the nearly 5,000 comments we received has been posted on the USDA webpage. I know that many members of this Committee have participated in similar hearings themselves. Interest is high, the discussion has been spirited, and there are, again, some very difficult choices to be made.

This will be a lengthy and collaborative process, and we want it to be as open as possible. At this point, USDA is developing theme papers outlining major policy issues and possible responses. The first two of these, 1) Risk Management and 2) Conservation and Environment, has already been published on our website. We would appreciate your comments and suggestions as this process continues to unfold, and we look forward to working with you over the next year to craft a Farm Bill that responds credibly and effectively to the challenges and opportunities presented by the public in those thoughtful comments.

I cannot prejudge the outcome. However, from the standpoint of USDA Rural Development, let me say that rural America enjoys enormous opportunities, and it is a privilege to work with you to foster economic development and improve the quality of life in rural communities.

USDA Rural Development administers over 40 programs. We provide technical assistance and funding for rural infrastructure, single and multi-family housing, community facilities, and business development. Indeed, USDA Rural Development can -- as we often remark in passing -- literally build an entire community from the ground up.

In FY 2006 we will provide approximately $17.4 billion in investments driven by approximately $1.96 billion in budget authority. This $17.4 billion includes two significant non-recurring expenditures: supplemental funding for hurricane relief and funding for the guaranteed underwriting program.

Absent these two factors, the President's budget request for 2007 proposes $1.44 billion in budget authority and a program level of $13.7 billion. This is comparable to our average program level during the first five years of the Bush Administration and represents a significant increase over the investments of the preceding five-year period. I deeply appreciate the continuing commitment of President Bush and Congress to our mission and the confidence demonstrated by this generous level of support.

The numbers, however, do not tell the whole story. Our success is measured by water lines laid, hospitals built, and broadband connections made. Success is businesses started and jobs created. It is families moving into new homes, and affordable rental housing in small towns. Whether it is an ethanol plant or industrial park, a day care center, a critical care medical facility, or a mainstreet business, the investments made by USDA Rural Development are building a better future for all rural Americans.

Overview

With over 40 programs to discuss, I will not attempt to address each of them at length today. I have attached to my written statement a very brief summary of our programs. I would instead like to take my time with you today to discuss some broader strategic principles and opportunities confronting USDA Rural Development.

Rural America faces both challenges and dramatic new opportunities. As we approach the next Farm Bill, it is particularly important to recognize how rural America has changed. Traditional U.S. farm policy originated during the Great Depression and was oriented primarily toward farm stabilization, supply management, and commodity price supports. That model has evolved over time but -- at least with regard to commodity programs -- the basic template has remained largely in place. In the meantime, however, everything else in rural America has changed: rural electrification; mechanization and farm consolidation; dramatic productivity gains; the green revolution and the globalization of commodity agriculture; heightened competition; modern communications, and the erosion of rural isolation.

From the standpoint of USDA Rural Development, I want especially to note the historically unprecedented and continuing diversification of the rural economy. Today, rural no longer means just farm.

As we enter the 21st century, therefore, rural policy has been redefined. Whatever Congress ultimately chooses to do in the next Farm Bill with regard to commodity programs, trade, and other potentially contentious issues, we should keep in mind that the role of USDA Rural Development has already changed significantly. A generation ago, our predecessor agencies were often perceived as the lender of last resort in financially underserved markets. Today we are oriented to new growth opportunities and function as an investment bank in a globally competitive market. We are guided by several strategic principles:

- First, we recognize that rural policy today is much broader than farm policy. Approximately 60 million people live in rural America. Most of them do not farm. Further, the great majority of farm families are dependent on off-farm income. The implications are clear:

- As the American Farm Bureau recently commented in its Making American Agriculture Productive and Profitable (MAAPP) report: "*Farmers are more dependent on rural communities than rural communities are dependent on farmers.*"

- Or as the Farm Credit Council's January 2006 report, 21st Century Rural America: New Horizons for Agriculture phrases the point: *"The overwhelming majority of all farmers, but especially small operators, rely on off-farm employment to stay in agriculture."*

Farm policy can no longer stand in isolation. For USDA Rural Development, strong rural businesses, the availability of jobs, and small towns able to attract and retain young families are core policy concerns.

- Secondly, sustainable rural development must be market driven, not program driven. Government's resources are limited. While government programs can play a role, entrepreneurial drive, private investment, and local ownership are essential to sustainable development and wealth creation in rural America.

We must therefore find ways to unleash and empower the untapped human and equity resources that exist in rural America. The nation's Farm Balance Sheet is illustrative. According to USDA's February 2006 estimates, farm sector equity in the United States is expected to exceed $1.45 trillion this year, with a debt to equity ratio of just 15.1 percent.

Clearly, rural America commands significant financial resources. What is needed are investment opportunities and business models that harness these resources to a strategy for sustainable development and wealth creation in rural communities -- and entrepreneurs to make it work.

From an economic development perspective, we recognize that rural America enjoys significant comparative advantages rooted in a lower cost of living, a high quality of life, and a clean environment. There are also significant emerging opportunities such as energy, biobased and value-added products, and broadband.

We are, therefore, leading from a position of strength, not weakness. The future is bright. Our mission is to provide technical assistance and investment capital to assist rural entrepreneurs in seizing these new opportunities for economic opportunity and wealth creation.

Our funding emphasis continues to shift from grants and direct loans to loan guarantees. These generate a multiplier on the taxpayers' investment and allow us to serve more people at any given level of budget authority. This year, for example, $1.96 billion in budget authority that provides $17.4 billion in program level implies a Rural Development-wide multiplier of almost 900 percent.

Similarly, in the President's FY 2007 budget request, Rural Development represents just 1.5 percent of USDA's total budget authority but generates nearly 11.5 percent of

USDA's projected program level. Clearly, in terms of budget authority, guaranteed loans allow USDA Rural Development to punch well above our weight.

Our investments in rural America alone are not enough for rural communities to be successful. Rural Development's role is greatly enhanced by partnerships and leveraging with the private sector. This private capital input fosters the development of local leadership that is essential for sustainable development.

- Finally, USDA Rural Development's 40-plus programs should be viewed as a toolkit, not as ends in themselves. Most of them are relatively small in terms of budget authority. Collectively, however, they provide a highly flexible portfolio of management strategies and funding options with which to address the unique circumstances of the individuals, businesses, communities, and non-profit organizations we serve. USDA Rural Development's program matrix is sequential in nature:

Grant programs play an important role in providing initial encouragement to entrepreneurs, technical assistance, feasibility studies, and marketing research. They also provided needed assistance to very low-income individuals and communities.

Once beyond the exploratory stage, however, most economic development projects should be expected to graduate from grants to USDA Rural Development's direct and, especially, guaranteed lending programs.

The ultimate goal -- the true test of success -- is the ability of our partners to operate without government intervention.

Vision

With these considerations in mind, let me offer some brief observations about the opportunities facing rural America today.

Rural America is incredibly diverse. It includes some of the most rapidly growing jurisdictions in the country, areas gripped by long-term decline, and everything in between. One size does not fit all. In general, however, it is clear that the evolution of modern technology has opened unprecedented new opportunities for rural development.

Broadband

From the beginning, the President has recognized the importance of broadband technology to our rural communities. The President stated, "...we must bring the promise of broadband technology to millions of Americans... and broadband technology is going to be incredibly important for us to stay on the cutting edge of innovation here in America."

Broadband is creating the most radical decentralization of information since the invention of the printing press. No longer do large organizations need everyone in the same building to communicate. Administrative structures, manufacturing, and distribution can be decentralized. Both businesses and individuals have unprecedented mobility. The spatial organization of America is being re-engineered.

This process is still in its early stages, but it is clear that rural communities are becoming potentially more competitive than they have been in many decades. Let me offer two polar examples. The Havasupai Tribe, who live in the Grand Canyon, is the last community in the continental U.S. to get its mail by pack mule. Last year, however, we presented a Community Connect broadband grant to provide wireless broadband service. This will enhance medical, educational, and recreational options for the community and will permit tribal businesses to go online.

At the other end of the size scale, the recent growth of the ethanol industry has been explosive. A recent study conducted by Informa Economics for USDA Rural Development demonstrates that information technology, especially the Internet, has been a critical factor in enabling this growth. The information revolution has lowered the cost of obtaining management expertise and access to market information. It has also made it possible to develop distributed control systems that allow small and mid-size plants to slash administrative costs and benefit from economies of scale in technical support and process controls.

What is emerging in ethanol -- thanks to information technology -- is in fact a franchise model that offers significant opportunities for local investment, ownership, and wealth creation in rural communities.

One could multiply such examples many times over. From the Havasupai of the Grand Canyon, with a population of 503, to the fast-growing biofuels industry and everything in between, broadband is leveling the playing field. When business can be conducted virtually anywhere one has access to a modem, traditional barriers of time, space, and rural isolation will indeed be a thing of the past.

Energy

A second great opportunity for rural America today is energy. Oil at $70 a barrel is an enormous challenge for both consumers and industry. But it is also an invitation to innovation and investment. Alternative energy has been a recurring priority for the Congress and Administrations of both political parties for over 30 years. The barrier, however, has always been price. Oil at $70 a barrel dramatically changes the equation.

Ethanol, biodiesel, wind, solar, geothermal, hydrogen, and expanded production of conventional fuels are all part of the emerging new energy economy. Ethanol is perhaps the most familiar example.

Ethanol, incidentally, provides an excellent illustration of the flexible nature of USDA Rural Development's program "toolkit." We have extended support for the development of ethanol from across nearly the full range of our business lending programs:

USDA Rural Development: Investments in Ethanol FY 2001-05		
Programs	**Number**	**Amount**
Business and Industry Guaranteed Loans	7	$66,160,923
Value Added Producer Grants	61	$12,644,133
Section 9006	6	$2,800,000
Rural Economic Development Loans	4	$2,100,000
Rural Business Enterprise Grants	9	$631,900
Rural Business Opportunity Grants	2	99,900
Total	**89**	**$84,436,856**

Apart from the role of USDA Rural Development, however, ethanol is also an important case study because it is an inherently distributed resource. The feedstock is an agricultural product, usually locally owned. Transportation costs and the need to avoid excessive impacts on grain prices create a structural bias toward moderate-sized plants, with localized sourcing. This, in turn, is facilitated by the franchise model made possible by advances in information technology.

While ethanol represents an important new market for corn -- and a few years hence, other feedstocks as well -- the more important issue is ownership and wealth creation. The real return on ethanol is not just an extra 5 or 10 cents a bushel to the farmer, welcome though that is. The greater return is from the value added downstream, and this accrues to the investor/owner of the plant. A key question for rural America, therefore, is whether we will develop investment vehicles and business models that encourage local ownership and control, with the purpose of creating wealth and economic opportunities in the local community.

This is a subject that we are beginning to explore in some detail within USDA Rural Development. I have suggested it as a research topic, and it is an issue I have voiced in many meetings around the country. It is certainly a subject about which I look forward to a continuing conversation with you. The potential of the new energy economy for rural America is immense. Wind, solar, biodiesel, and biomass fuels are, like ethanol, inherently distributed resources. This is an opportunity for investment, economic growth, and wealth creation that rural America cannot afford to miss.

Congress recognized this opportunity in 2002 when it created the first-ever Energy Title in a Farm Bill. We have aggressively implemented the Section 9006 Renewable Energy and Energy Efficiency Program. We have, in addition, made energy development a priority in our conventional business and cooperative programs as well. We look forward to working with you to sustain this progress in the years ahead.

Place

Finally, Mr. Chairman, rural America is again becoming a destination of choice for millions of our fellow citizens.

The urban-rural balance has shifted repeatedly in the past. The great cities of today are not immutable; they were built from the late 19th through the mid-20th centuries largely as a product of the transportation economies of the railroad and steamship age. Then, after the Second World War, the internal combustion engine produced a great wave of decentralization that is continuing today.

Through all these shifts, rural communities retained certain comparative advantages: a lower cost of living; peace and quiet; a clean environment; a saner pace of life. These are not mere abstractions; they are tangible, marketable advantages. The countervailing factors, however, have traditionally been rural isolation, the lack of jobs, and lack of access to "urban" amenities. As a result, until recently, rural communities have on balance steadily lost ground.

As I noted before, however, modern transportation and communications are again shifting this balance in ways highly favorable to rural communities. Rural communities that can provide jobs and a future for young people, quality health care, good schools, shopping, and recreation are great places to live.

Yet another important part of our mission, therefore, is providing the infrastructure and community facilities that rural communities need to compete: electric, telecommunications, and broadband service; critical access health care; water and wastewater systems; fire and emergency services; day care; and distance learning. These improve the environment for business investment and economic growth. They enrich the lives of residents. They level the playing field and leverage the natural assets of rural communities -- and over time, the impact will be significant.

The test is clear. Many members of this Committee have roots in rural communities. As you know, one of the longstanding problems has been the inability of rural areas and small towns across America to retain young people, particularly those with advanced educations. In my own case, I was one of the very few -- perhaps the only -- college graduate in my class to return to Marcus to a family farm. I suspect several members of this Committee have shared a very similar experience.

If there is a single, irreducible test of our success or failure as an economic and community development organization, it is this: can we build rural communities to which our own children are eager to return? If we can do that, Mr. Chairman, we will have accomplished something very significant indeed.

I know that you share my commitment to the future of rural communities, and I look forward to working with you to seize the many opportunities that rural America enjoys today. This concludes my prepared statement, and I will be happy to answer any questions you may have.

Thank you.

Mr. Glenn English
Chief Executive Officer
National Rural Electric Cooperative Association

June 20, 2006

The Committee:

My name is Glenn English, and I am the Chief Executive Officer of the National Rural Electric Cooperative Association (NRECA). As a former member of the House Agriculture Committee, I fully appreciate your responsibility to oversee the programs of the Department of Agriculture. I am honored to be invited to add my perspective here today on a variety of programs involving the Department of Agriculture and challenges facing electric cooperatives. It is no revelation to this Committee that electric cooperatives have been creating value for their communities for more than 70 years. The nation's 930 consumer-owned, private electric cooperatives generate, transmit, and distribute electric energy in 47 states. Electric cooperatives' lines and poles span more than 75 percent of the nation's landmass, and account for more than 2.4 million miles of distribution line amounting to 43 percent of the distribution line miles in the United States. Electric co-ops serve an average of seven consumers per mile of line with annual revenues of $10,565 per mile of line. In comparison, investor-owned utilities average 35 customers per mile of line and collect $62,665 in revenue per mile of line, and publicly owned utilities, or municipals, average 47 consumers and collect $86,302 in revenue per mile of line. The importance of the electric utility industry cannot be overstated. Earlier this year, I met with the Department of Homeland Security to discuss hurricane planning for electric cooperatives. A high-ranking official at DHS remarked that the lives of those affected by Katrina and Rita only started to improve when the electricity was restored. Electricity fuels modern life – our clean water supply, our telecommunications, and our healthcare. Those of us in the electric utility industry have an obligation to meet the future needs of our consumers, and we take that responsibility very seriously. What our consumers will need in the future, above all, is additional generation and access to affordable transmission.

The Advent of a New Building Cycle

In a 2001 speech, Vice President Dick Cheney pointed out that the overall demand for electric power is expected to rise by 43 percent over the next 20 years. Meeting this additional demand would require between 1,300 and 1,900 new power plants. That averages to more than one new power plant per week, every week, for the next 20 years. "We all speak of the new economy and its marvels," he said, "sometimes forgetting that it all runs on electric power." When generation and transmission (G&T) co-ops embarked on their first major building surge in 1975 to meet member needs, Gerald Ford was President, a gallon of gas cost 57 cents and electric co-ops served 20 million consumers. Ten years later, G&T co-ops had invested $43 billion and added some 20,000 megawatts of power online. Like the first expansion, what drives the need for more generation is consumer growth. Some cooperative service territories have experienced tremendous growth. For instance, in central Florida, loads have climbed for years around 4.5 percent annually. A recent NRECA survey of G&Ts found they conservatively need $28 billion over the next decade to build generation plants, add transmission lines and install pollution-control equipment to make older plants comply with state and federal environmental regulations. This is a massive undertaking that will involve a wide range of financing options, including the Rural Utilities Service (RUS).

The Importance of the Rural Utilities Service

In the past five years, more than 60 percent of electric cooperative financing has come from private sector sources. Loans to eligible cooperatives from the United States Department of Agriculture's Rural Utilities Service (RUS) represent approximately 40 percent of total co-op financing. However, this financing from the RUS remains an essential component of the co-op utility sector's loan portfolio. Some cooperatives have seen a portion of their service territories transformed into suburban areas. However, for the most part, electric co-ops are the sole providers of electricity to sparsely populated areas with below-average income levels. For these reasons, the RUS mission of financing new electric infrastructure and maintaining the current electric infrastructure in rural America must be preserved. The long-term partnership between the RUS and electric cooperatives brought electricity to rural America and the partnership is still vital to rural America's economic well-being. The Administration clearly recognizes the increased demand for electricity infrastructure. However, their loan level request is not adequate to meet the growing needs for investments, especially in transmission and generation. So, electric cooperatives will work closely with the U.S. Congress to fund the RUS electric loan programs for FY 2007 at the $6 billion level – a $2.2 billion increase over the President's budget request. It is important to note that the RUS electric loan programs will cost the federal taxpayers less than $25 million to help capitalize a rural electrical infrastructure that is the envy of the world. NRECA anticipates that an expanded program will not add new costs. The small federal investment in the RUS electric loan programs, coupled with efficient management of the cooperative, helps maintain a strong and viable rural electric infrastructure. NRECA is asking Congress to ensure that rural consumers continue to have access to safe, reliable, and affordable power from electric cooperative utilities by fully funding and expanding the RUS electric loan program to reduce a backlog of pending RUS loan applications.

REDLG: A Partnership for Rural America

Electric cooperatives meet community needs other than electrification through their economic and community development efforts. These efforts create jobs and opportunity in the community and are facilitated largely through USDA's Rural Economic Development Loan and Grant (REDLG) program. This program provides zero-interest loans and grants through electric cooperatives to work in partnership with business and community leaders for all types of economic development projects – business incubators, medical and educational facilities, water systems, emergency vehicles, value-added agriculture processing, manufacturing sites, etc. in some of the most rural areas of the country. According to USDA, the REDLG program has provided more than $330 million in zero-interest loans or grants to help finance these projects, and has leveraged well over $2 billion in private funds to invest in rural communities while creating or retaining approximately 34,000 jobs. These are strong numbers, but they could be stronger. Our electric cooperative members have been faced with some challenges in the past in utilizing the program, but we are working with USDA in hopes of making the REDLG program easier to access and more user-friendly.

Electric Cooperatives: Leaders in Affordable Renewable Generation

America's member-owned electric cooperatives strongly support and encourage passage of resolutions, introduced recently in both Houses of Congress, establishing the goal of producing 25 percent of our nation's energy supply from renewable sources by 2025. Co-ops, for more than a decade, have been strong proponents of increased integration of renewable fuels into our nation's energy supply. In fact, members of the national network of electric cooperatives currently receive 11 percent of their power from renewable resources. By increasing the country's use of renewable energy, cooperatives understand that we can improve our national security by reducing dependence on foreign oil and can reduce negative effects on the environment. Further, NRECA believes that renewable energy projects should be produced in a prudent and cost-effective manner. Historically, electric cooperatives have been tied to agricultural regions that are now playing important roles in the development of a new renewable, ag-based fuel industry. By providing safe, reliable electric power at the lowest possible cost, electric co-ops can lend stability to the fledgling rural bio-fuels industry. We are also developing innovative programs to meet the needs of our consumers without additional federal mandates. In the Chairman's home state of Georgia, cooperatives have developed a program to acquire the renewable energy they sell to their member-owners. Seventeen cooperatives banded together in 2001 to create Green Power EMC – an entity that exists to provide renewable energy to its member cooperatives for sale to end-users. Eleven more co-ops have joined since then, and together the 28 Green Power member co-ops now offer renewable energy to approximately 1.2 million households in Georgia. Green Power EMC entered into a long-term power purchase agreement with a for-profit developer who constructed generation facilities based on methane gas reclamation at two of three landfills that will be able to generate 13 MW of power when fully operational. In addition, Green Power EMC has entered a similar arrangement for a 2.3-MW small hydro facility. To further diversify its portfolio, Green Power EMC will erect a wind measurement tower in northwest Georgia to study the economic potential for advanced wind turbines, and it is working with a local school in each co-op's service territory on the installation of a small photovoltaic system as an interactive educational tool to help teach science and math principles.

We appreciate the continued leadership of this Committee and the United States Department of Agriculture on electric cooperative issues. This Committee, the Department of Agriculture and the electric cooperative program have worked together for many years to anticipate and to meet the needs of our rural citizens. We look forward to working with you in the future.

I would like to thank the Committee for the opportunity to testify here today. I look forward to answering any questions you may have.

NACo National Association of Counties

Counties Care for America

NADO NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Statement of The Honorable Jane Halliburton
Supervisor, Story County, Iowa

Before the

United States Senate
Committee on Agriculture, Nutrition & Forestry

on behalf of the

National Association of Counties (NACo) and the
National Association of Development Organizations (NADO)

Review of Rural Development Programs

June 20, 2006

NACo-NADO Statement Before the
Senate Committee on Agriculture, Nutrition and Forestry

Thank you Chairman Chambliss, Ranking Member Harkin and Members of the committee. My name is Jane Halliburton, I am a County Supervisor from Story County, Iowa. I have served as a County Supervisor in Story County since 1987. Today, I have the opportunity and privilege to represent NACo, as well as the National Association of Development Organizations (NADO).

About the National Association of Counties
Established in 1935, the National Association of Counties (NACo) is the only national organization representing county governments in Washington, DC. Over 2,000 of the 3,066 counties in the United States are members of NACo, representing over 85 percent of the population. NACo provides an extensive line of services including legislative, research, technical, and public affairs assistance, as well as enterprise services to its members. The association acts as a liaison with other levels of government, works to improve public understanding of counties, serves as a national advocate for counties and provides them with resources to help them find innovative methods to meet the challenges they face. In addition, NACo is involved in a number of special projects that deal with such issues as the environment, sustainable communities, volunteerism and intergenerational studies.

NACo's membership drives the policymaking process in the association through 11 policy steering committees that focus on a variety of issues including agriculture and rural affairs, human services, health, justice and public safety and transportation. Complementing these committees are two bi-partisan caucuses—the Large Urban County Caucus and the Rural Action Caucus—to articulate the positions of the association. The Large Urban County Caucus represents the 100 largest populated counties across the nation, which is approximately 49 percent of the nation's population. Similarly, the Rural Action Caucus (RAC) represents rural county elected officials from any of the 2,187 non-metropolitan or rural counties. Since its inception in 1997, RAC has grown substantially and now includes approximately 1,000 rural county officials.

About the National Association of Development Organizations
The National Association of Development Organizations (NADO) provides training, information and representation for regional development organizations serving the 82 million residents of small metropolitan and rural America. The association, founded in 1967 as a national public interest group, is a leading advocate for a regional approach to community and economic development.

NADO members—known locally as councils of government, economic development districts, local development districts, regional planning commissions and regional councils—provide valuable professional and technical assistance to over 2,000 counties and 15,000 small cities and towns. They also administer and deliver a variety of federal and state programs, based on local needs. Programs include aging, census, community and economic development, emergency management, small business financing, transportation and workforce development. Each region is governed by a policy board of elected officials, business leaders and citizen representatives. Associate members of NADO include state, county, city and town officials; educational and nonprofit organizations; utilities; and businesses and individuals.

NACo-NADO Statement Before the
Senate Committee on Agriculture, Nutrition and Forestry

This morning, I would like to make three key points on the status of rural development programs in the farm bill:

- **First, rural communities need federal development assistance programs and policies that allow them to identify, address and meet local needs.**

- **Second, federal rural development policies need to build on the genuine intent but unfulfilled promise of the 2002 farm bill.**

- **Third, USDA rural development programs should support the basic needs of local communities, such as water and wastewater systems, telecommunications and housing, while also tapping into the rural competitive advantage for innovation, entrepreneurship and alternative solutions such as renewable energy.**

First, Mr. Chairman, rural communities need federal development assistance programs and policies that allow them to identify, address and meet local needs, whether they are basic infrastructure, education, health care, small business development, telecommunications or transportation related. As the following data demonstrates, rural America is a diverse, complex and constantly evolving place. That is why federal rural development policy is most effective when it is flexible and responsive to evolving and shifting local needs and priorities.

Home to almost one-third of the nation's population (equivalent to the urban population), small town and rural America is a diverse and constantly changing place. Rural America compromises 2,187 of the nation's 3,066 counties (counties of 50,000 and below), 75 percent of all local governments and 83 percent of the nation's land.

Rural communities are dealing with many of the same challenges as suburban or metropolitan centers such as economic development, increasing healthcare costs, aging infrastructure and growing methamphetamine epidemic. However, in rural America these challenges bring added dimensions.

While the common perception is that rural Americans only live in the South, Midwest and Great Plains, more rural Americans live in Pennsylvania, for example, than rural Idaho, Montana, Nebraska, Nevada, North Dakota, South Dakota, Utah and Wyoming combined. States with the largest total rural populations include Pennsylvania, Texas, North Carolina and Ohio.

While no one industry dominates the entire rural economy, the service sector now accounts for almost 50 percent of employment, with manufacturing employing twice as many people as all natural resource production activities combined, including agriculture, forestry, fishing and mining. While still an important fabric of rural life, farming represents less than eight percent of rural jobs and 50 percent of farm families rely heavily on off-farm income.

Demographic trends also suggest that rural Americans are proportionally older, more likely to live in poverty and less educated than their urban counterparts. However, individual rural communities are constantly changing and evolving, as many are becoming booming retirement destinations and tourist attractions, while others are struggling to diversify away from a one-industry town.

While USDA's rural development mission area has a comprehensive menu of much needed loan and grant programs for rural communities, it still lacks the scale, efficiency and innovation required to make annual and long-term funding investments in individual rural communities and regions. Under current federal policies and programs, our nation's urban communities can rely on annual federal grant funds and entitlements for transportation, economic and community improvement initiatives that are designed to enhance the area's competitiveness and quality of life. Meanwhile, the bulk of federal assistance for rural communities is concentrated on maintaining the status quo for citizens and communities through transfer payments and access to loans and loan guarantees for infrastructure upgrades.

As confirmed in a July 2004 study by the W.K. Kellogg Foundation, the federal government spent more than two times (and sometimes up to five times) as much per capita on metropolitan community development as it did on rural community development from 1994 through 2001. In addition, overall federal per capita spending is typically more than $100 greater each year for metropolitan citizens than non-metropolitan residents.

This is compounded by the fact that, according to the Rural Policy Research Institute, nearly 22 percent of total personal income in rural America comes from federal transfers, such as Social Security, Medicaid and agricultural payments. By comparison, only 13.6 percent of urban personal income is from federal transfer payments.

The U.S. Department of Housing and Urban Development's (HUD's) $3.7 billion Community Development Block Grant (CDBG) program is one of the largest federal domestic assistance programs. Under the program, approximately 1,111 of the nation's largest cities and counties divide over $3 billion each year in entitlement spending. This flexible and stable funding allows them to meet important local needs. Meanwhile, the other 30 percent of funding is distributed to states for the small cities program. While an essential and effective program, the nation's 14,000-plus rural communities must compete for one-time and sporadic assistance within their state for these CDBG funds.

Adding further to the discrepancy between urban and rural areas is the type of assistance available to rural communities. Many of the federal economic development programs targeted to urban areas are in the form of grant assistance, while many rural programs, including USDA rural development programs, rely heavily on loans and loan guarantees with minimal grant support. Urban communities typically also have more access to capacity building and technical assistance dollars from HUD and other agencies, whereas most rural economic development planning is funded through the U.S. Economic Development Administration's effective but small planning program.

Without a greater commitment by this committee and Congress to a stronger USDA rural development program, rural communities will continue to be at a marked disadvantage in trying to build and sustain viable local economies.

Second, federal rural development policies need to build on the genuine intent but unfulfilled promise of the 2002 farm bill.

NACo-NADO Statement Before the
Senate Committee on Agriculture, Nutrition and Forestry

We appreciate and recognize this committee's leadership in placing a new emphasis on rural development in the Farm Security and Rural Investment Act of 2002 by allocating a record $1 billion in mandatory funds for the rural development title. This funding reflected the changing face of rural America. However, much of this funding never materialized.

One of the most innovative and forward-thinking programs, the Rural Strategic Investment Program, was an attempt to build local capacity within multi-jurisdictional regions by bringing the public and private sectors together. The underlying goal was to place rural regions and communities in the driver's seat to chart their future. Planning grants would be given and then followed up by project funding to implement the plans. The Rural Strategic Investment Program was one of few federal incentives to promote regional collaborations and public-private investments.

Another example is the broadband loan and loan guarantee program. The 2002 farm bill committed $100 million of Commodity Credit Corporation funds for this program; however, much of the funding was either rescinded or repealed in later spending bills. This is in contrast to a recent study by the Pew Internet & American Life Project that showed that rural America continues to lag behind urban areas in broadband adoption. Specifically, the study found that only 24 percent of rural Americans have high-speed connections in their homes compared to 39 percent of urban Americans. The study further states that progress has been made in broadband adoption, as only 9 percent of rural Americans had broadband in 2003, but work must continue. A consequence of this gap in broadband capability is that rural Americans use the Internet less frequently and do not utilize the Internet's full potential.

When the Internet is available to rural communities, many residents will take full advantage of the opportunity. For example, a June 14 article in the Des Moines Register noted the success of rural online businesses. The article noted an entire building in Nevada, Iowa that is dedicated to quilting supplies. In Soldier, Iowa, a family owned bookstore called, Sheri's Book Treasures, now sells 95 percent of its inventory on the Internet to customers around the world. Another example is Prairieland Herbs, which is a company that sells herbal bath and body products. Prairieland Herbs is owned by a mother-daughter team that opened in 1998 and went online in 2000. They now attribute 75 percent of their sales to the Internet. The success of these businesses can be attributed to the connection between the necessary infrastructure in place and the entrepreneurial spirit of rural America.

As the committee looks forward to the farm bill reauthorization, we encourage you to place an emphasis on retaining and reshaping USDA rural development programs to address the basic community and infrastructure needs of rural America while also providing leadership, vision and resources for rural innovation, capacity, entrepreneurship and strategic planning.

Third, USDA rural development programs should support the basic needs of local communities, such as water and wastewater systems, telecommunications and housing, while also tapping into the rural competitive advantage for innovation, entrepreneurship and alternative solutions such as renewable energy.

All of these are essential building blocks for local economic development efforts, which eventually result in better paying jobs and an improved quality of life for local residents.

In August 2004, the NADO Research Foundation (with assistance from the W.K. Kellogg Foundation) conducted an eForum that was entitled the, "Pulse of Small Town and Rural America." More than 200 regional development professionals and local government officials, equipped with electronic keypads for instantaneous feedback, were led through a series of national and rural policy questions.

Of the audience members, 77 percent hailed from a small metropolitan or rural region. In addition, 30 percent of the attendees were executive directors of regional development organizations, 22 percent were local elected officials and 28 percent were staff of regional development organizations. I would like to detail several of the questions and the responses as they are illustrative of what is needed in rural America.

Most notably, attendees identified inadequate public infrastructure as the leading roadblock to economic development in their rural regions. Another highly rated response was limited access to venture capital. When asked the second leading roadblock to economic development, an even greater number answered inadequate public infrastructure. This reflects the fact that private sector investors and businesses expect and demand that local governments and communities have the public infrastructure in place before they will locate and remain at a business site or within a community.

This eForum confirmed other surveys conducted by NACo and NADO that concluded funding for critical infrastructure is of paramount importance. The overwhelming majority of a 2001 NACo survey sample of county elected officials from 20 states listed water and wastewater grants as a top priority. That same year, NADO conducted a survey of 320 regional development organizations serving small metropolitan and rural America about their existing programs, organizational structure and regional needs. Nationally, the overwhelming response for the area of greatest need was for water and wastewater improvements, with transportation and workforce development rounding out the top three. The other most commonly mentioned needs involved funding for capacity building and access to advanced telecommunications.

NADO members were also asked to identify the USDA rural development programs they use most frequently to assist their rural communities. The top three programs were: water and wastewater program, rural business enterprise grants (RBEG) program and intermediary relending program (IRP). Other key programs included: community facilities, rural business opportunity grants (RBOG), solid waste management and rural housing programs.

It is also important to note that the vast majority of rural local governments rely on regional development organizations to help them understand the complex menu of USDA programs, required matching requirements and, often times, burdensome paperwork. *(Note: Over 33,000 of the nation's 39,000 units of local government have populations below 3,000 and 11,500 employ no fulltime professional employees.)*

Therefore, it is essential that public non-profit entities, such as regional development organizations, and county governments remain eligible for the full range of USDA rural development programs. Over the years, local governments and regional development organizations have used the diverse portfolio of USDA rural development programs to improve community services, create quality jobs and pursue a strategic vision for their areas:

- In Minnesota, a partnership between, EDA and USDA rural development, the regional planning commission, a local rural electric cooperative and the City of Cambridge clearly demonstrates the power of planning and infrastructure development. The community has managed to preserve its small-town charm while attracting a healthy economic base. The historic downtown district supports an eclectic mix of shops, tech start-ups and service businesses – all catering to a growing population of 7,000 residents. It is now home to roughly 25 technology-intensive manufacturing companies and at the forefront of creating hundreds of new living-wage jobs in East Central Minnesota. At the core of the success story was the development of a cutting-edge industrial park with state-of-the-art energy and telecommunications infrastructure.

- The South Delta Development District in Leland, Mississippi recently received funds through USDA Rural Development, Economic Development Administration and the Delta Regional Authority to construct and operate the Delta Workforce and Business Innovation Center, which is located in the highly distressed Mid-Delta Empowerment Zone. The facility will provide critical workforce development, business formation and business incubator services to build and sustain quality jobs in an area plagued by double digit unemployment.

- In Alabama, the Alabama-Tombigbee Regional Council, headquartered in Camden, received a $28,000 RBOG grant to develop a strategic plan for their ten-county region. This project enabled local leaders to work together on a regional basis to identify their strengths and weaknesses. The end product was a strategic plan that is serving as the local roadmap for future development in this highly distressed region.

- In Maine, the policy board members of the Northern Maine Development Commission identified business development and retention as a top priority during their comprehensive development strategy planning. In response, USDA awarded them with a small RBOG grant to establish a technical assistance support center for small businesses. By addressing this locally identified need, the technical assistance center is investing in the start-up, retention and expansion of local businesses, all resulting in the creation of new jobs in this distressed and isolated rural region.

- Headquartered in North Fort Meyers, the Southwest Florida Regional Planning Council is leveraging a $95,000 RBOG grant to support a $250,000 regional strategic initiative for rural development. This multi-faceted program is helping the region assess the skills of the local workforce and identify areas of needed training; pinpoint new industries to complement the area and develop a marketing plan for attracting those new businesses; and establish a business development specialist in the local Small Business Development Center to assist local entrepreneurs.

- In Pennsylvania, the loan programs of the North Central Pennsylvania Regional Planning and Development Commission have helped create or retain over 3,000 jobs since 1984, including its highly successful IRP fund. The local company Gasbarre Products, for example, has used five loans over the past 12 years to expand from 55 employees to almost 300.

Additionally, renewable energy has shown great promise for many rural communities. Whether it is ethanol, bio-diesel, wind energy or geo-thermal, many in rural America view renewable energy as a key to economic development and a strategy to reduce reliance on foreign sources of energy. We have embraced renewable energy in Story County and it has been a huge success. For example, we have an ethanol plant in operation now which will produce 50 million gallons annually. Story County has also incorporated renewable energy technology into county buildings, such as the Human Services Building in Ames, the Justice Center in Nevada and the County Administration Building.

Another example of an ethanol plant is near Camilla, Georgia, where the Southwest Georgia Regional Development Center is assisting in the development of a 100 million gallon ethanol facility that will employ 60 people in this rural region. Working with the Mitchell County Development Authority, the regional development center has provided GIS and public infrastructure financing assistance. Specifically, the regional development center is working to secure a one million dollar federal grant to improve road access to the region's main north-south highway. The road is a critical component to ensuring the project's success. The regional development center's role underscores the necessity for regional public-private collaboration.

On the national level, NACo has endorsed the 25x25 initiative and its goal of having agriculture provide 25 percent of the total energy consumed in the United States by 2025 while continuing to produce abundant, safe and affordable food and fiber. This goal is aggressive yet possible.

In conclusion, I would like to reiterate the three key points that NACo and NADO feel are critical to future rural development programs. First, rural communities need federal development assistance programs and policies that allow them to identify, address and meet local needs. Second, federal rural development policies need to build on the genuine intent but unfulfilled promise of the 2002 farm bill. Third, USDA rural development programs should support the basic needs of local communities, such as water and wastewater systems, telecommunications and housing, while also tapping into the rural competitive advantage for innovation, entrepreneurship and alternative solutions such as renewable energy.

Again, I would like to thank you Chairman Chambliss, Ranking Member Harkin and members of the committee for the opportunity to testify on behalf of the National Association of Counties and National Association of Development Organizations on this critical issue of rural development.

STATEMENT TO THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

HEARING ON THE
RURAL DEVELOPMENT PROGRAMS
OF THE
UNITED STATES DEPARTMENT OF AGRICULTURE

June 20, 2006
Washington, DC

Presented by

Mary McBride, Executive Vice President
Communications and Energy Banking Group
CoBank

CoBank®
Rural America's Cooperative Bank®

STATEMENT TO THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

HEARING ON THE RURAL DEVELOPMENT PROGRAMS OF THE UNITED STATES DEPARTMENT OF AGRICULTURE

June 20, 2006
Washington, DC

Chairman Chambliss, Ranking Member Harkin and distinguished members of the Committee, my name is Mary McBride. I am Executive Vice President for the Communications and Energy Banking Group for CoBank. I appreciate the opportunity to present testimony on rural development programs provided for in the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) .

CoBank provides financial services to 2,400 customers throughout the United States. These customers are also CoBank's member-owners and include rural electric cooperatives, farmer-owned cooperatives, rural water systems and rural telecommunications companies. We also provide financing to support the export of agricultural products. CoBank is part of the federally chartered Farm Credit System and we, like the majority of our customers, are a cooperative. We are active members of a number of trade organizations including the National Rural Electric Cooperative Association (NRECA), the National Council of Farmer Cooperatives (NCFC) and the Farm Credit Council (FCC).

CoBank's exclusive focus is on rural America. The businesses that we finance, whether a rural electric cooperative, a local grain elevator or a new bio-fuels facility, are often the most important businesses in their rural communities. In 2005 we extended over $26 billion in loans and leases to help capitalize rural-focused businesses. These businesses are also working to make a difference by creating new business opportunities for rural residents and new markets for farmers.

CoBank often works with other lenders including other Farm Credit institutions and many local, regional and national commercial banks to meet the needs of our customers. We currently have relationships with about 200 other lenders, including over 100 commercial banks, where we work together to meet the credit needs of rural America and agriculture. The fact is that rural communities today are more diverse and rural entrepreneurs need investors and financial partners to fuel economic growth in rural communities. Collaboration by financial services providers will be increasingly necessary to meet future needs.

The programs addressed in the 2002 Farm Security and Rural Investment Act contain many effective provisions that have helped support agriculture, rural America and consumers in general. CoBank appreciates the efforts of this Committee in developing an effective and efficient Farm Bill.

CoBank and our members are involved in a number of programs under the USDA Rural Development Programs. Let me briefly mention six areas of interest:

1. USDA Rural Utility Service

An important part of CoBank's mission is serving the needs of our customers in the area of electric distribution and power supply. CoBank currently provides approximately $7 billion in loans to rural electric cooperatives. Many of our rural electric cooperative customers have borrowing relationships with both RUS and CoBank.

The need for financing for base-load power plants and stronger transmission systems is increasing substantially. To meet this need it will require increased lending by both the private sector and RUS. NRECA has highlighted the need for additional support for RUS as an important part of meeting future needs. CoBank anticipates increasing our lending for base load generation to help meet this demand. We look forward to working with RUS and other lenders in joint efforts to address the emerging needs for generation by rural electric cooperatives.

We believe opportunities exist for USDA to enhance its collaboration among private sector lenders and RUS. For example, the USDA Municipal Rates Loan Program requires a 30% private sector financing match. We have participated as a lender in this program and believe it has worked well to leverage the USDA's lending capacity.

We would also highlight one significant new effort by RUS relating to energy loans. The new RUS "lien machine" loan expediting program is a good example of revamping internal processes to provide better service to it customers. RUS staff developed this streamlined process that assists generation and transmission cooperatives to access significant capital at a low interest rate spread in a short time period. We have been able to utilize this program in recent transactions in Wisconsin and South Dakota to benefit rural electric cooperatives and their customers.

CoBank also anticipates increased lending to rural telecommunications companies. We currently provide $2.9 billion in capital to over 200 rural telecommunications companies. Obviously the future economic viability of rural communities is very dependent upon a modern telecommunications network allowing high-speed internet service.

We commend USDA for its efforts with the dissolution of the Rural Telephone Bank as an unnecessary lending program that was tying up significant levels of capital for many telecommunications companies. As we go forward we believe the private sector can continue to meet more of the needs of the rural telecommunications industry.

Although not part of Rural Development Title or this committee's jurisdiction, I would be remiss if I did not mention the importance of the Universal Service Fund (USF) to rural communities. Most rural telecommunications businesses serve sparsely populated areas and therefore have higher costs than those serving urban and suburban areas. Maintaining a strong USF is essential to rural communities and rural telecommunications businesses.

2. Value-Added Agriculture Grants

The Value-Added Producer Grants program authorized in the Farm Bill has been used by a number of agricultural cooperatives. The program is helpful in supporting feasibility studies and providing start-up working capital necessary for the development of new ventures that offer the potential to create markets for farmers and to enhance employment in rural America. At times, CoBank's Business Advisory Services group works with these businesses as they consider new ventures.

CoBank supports this program as a way to assist farmer-owned businesses seeking to enhance farm income and obtain a greater share of the consumer food dollar. These types of projects are often hard to fund on strictly commercial terms and this program is essential to encouraging new ventures. Unfortunately while the 2002 Farm Bill authorized $40 million annually for this program, it has been funded at significantly lower levels. The reduction in funding has also meant that USDA has reduced the amount of individual grants under this program, which has been detrimental to encouraging more ambitious projects. We believe that full funding of the Value-Added Producer Grants program is important to encourage new ventures relating to rural development.

3. Rural Business Investment Companies

The 2002 Farm Bill provided for a new Rural Business Investment Program and the creation of Rural Business Investment Companies (RBIC). The RBIC provision authorized commercial banks and Farm Credit institutions to create or participate in RBICs to encourage the investment of more equity capital into rural America. This program to date has not been as successful as had been anticipated in part because of limitations built into the current regulations.

The regulations relating to the RBICs have focused on those entities that are seeking government guarantees (leveraged RBICs). This RBIC provision could be more successful if the regulations also allowed for a streamlined process for establishing non-leveraged RBICs that are seeking no guarantees from the federal government. CoBank and other Farm Credit Systems institutions have made commitments to invest in RBICs that are currently under development.

4. USDA Cooperative Development

USDA has a long history of providing research, technical and educational assistance to farmer cooperatives. This can be especially helpful for start-up cooperatives. This is part of the Rural Business and Cooperative Services component of USDA. Continued support for this assistance will help new cooperative enterprises to be developed.

5. USDA Business and Industry Loan Guarantees

In order to facilitate credit for some CoBank customers we do, at times, work with certain customers to obtain B&I loan guarantees from USDA. The guarantee can be very helpful for certain agricultural cooperatives with low equity, although loans with B&I guarantees are a very small part of our lending portfolio.

The B&I program needs to be more flexible. For example, the program does not allow a guarantee for the start-up or construction phase of a new venture. Furthermore, a streamlined process is needed for approval of waivers and financial modifications, which are part of the normal lending process. The step-down in guarantee percentage as the deal size increases makes it difficult to use this program for larger capital intensive projects. Also the limitations on refinance of existing commitments should be revised. Finally the timetable for approval and funding is often longer than the marketplace will allow.

While we have found the USDA staff involved with this program to be knowledgeable of the agricultural industry and to possess good credit skills, rigid program guidelines and procedures create difficulties in dealing with fluid situations that exist with many borrowers.

6. Bio-Fuels Initiatives

CoBank is the leading lender to the bio-fuels sector in the country. New bio-fuels facilities are creating new jobs and economic activity in rural communities that previously had been declining. CoBank has provided or arranged for over $1 billion in loans to over 40 bio-fuel facilities. Other Farm Credit institutions are also involved in lending to the bio-fuels sector.

The tax and other incentives provided to the bio-fuels sector are of utmost importance as this industry progresses. We look forward to working with this committee on further actions to strengthen the bio-fuels sector in the next Farm Bill.

Thank you for the opportunity to testify. I would be pleased to answer any questions that you might have.

CoBank
P.O. Box 5110
Denver, CO 80217

With $34 billion in assets, CoBank has been the leading lender to some of America's most successful businesses since 1916.

Rural America's Cooperative Bank

With $34 billion in assets, CoBank has been a leading lender to some of America's most successful businesses since 1916. We provide financial services to cooperatives, agribusinesses, Farm Credit associations, energy and water systems, rural communications, and other businesses serving rural America. In addition, we finance agricultural exports and deliver international banking services.

Our Services

CoBank offers a broad range of flexible loan programs and specially tailored financial services to our customers. CoBank provides short-, intermediate- and long-term financing at variable and fixed interest rates. The bank offers CoLink® online financial solutions, CoTrade℠ electronic trade tool, letters of credit, interest rate risk management services and Business Advisory Services. We offer leasing through our wholly-owned subsidiary, Farm Credit Leasing Services Corporation (FCL). Through strategic alliances, we offer cash management services, private placements, equity sourcing, asset securitization services and tax-exempt bond financing. CoBank also finances agricultural exports and provides international banking services.

Our Ownership Structure

The bank is owned by its U.S. customer-owners, approximately 2,300 agricultural cooperatives, rural energy, communications and water systems, Farm Credit associations and other businesses that serve rural America. CoBank is governed by a board of directors elected by the cooperative owners of the bank. The board may appoint up to two additional directors (customer affiliation allowed) and must appoint at least two outside directors (independent of any affiliation), but not more than three. The bank operates on a cooperative basis and, historically, has returned a substantial portion of bank earnings to the bank's patronage customers in the form of patronage distributions.

Financial information as of Dec. 31, 2005

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Our Customers

CoBank's customers include local, regional and national agricultural cooperatives, rural communications, energy, water and waste disposal systems, Farm Credit associations and other businesses serving rural America.

Agricultural cooperatives process, market, transport and export products as diverse as fruits, vegetables, grains and fish. Others specialize in farm supply products, such as feed and fertilizer. Farm Credit associations or Agricultural Credit Associations (ACAs) provide financial services to agricultural and aquatic producers and rural homeowners. CoBank also finances agricultural exports.

In addition, we work with commercial banks and other Farm Credit institutions to syndicate loans, and we often act as an agent for these transactions. We buy and sell loan participations with other Farm Credit System banks and associations. We may also purchase interests in loans made by other financial institutions when they are related to agribusiness, ag trade, electric, telecommunications, water and waste disposal industries.

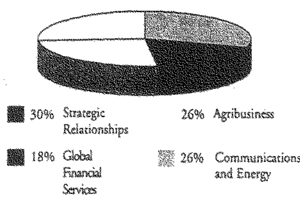
Our Funding

CoBank is part of the Farm Credit System, a $140-billion nationwide network of lending institutions created by Congress in 1916. The funds to finance CoBank loans and leases primarily come from the sale of Farm Credit System securities to investors in the national and international money markets. Because of the market acceptance and attractiveness of Farm Credit securities and the volume of funds raised, CoBank offers competitive interest rates.

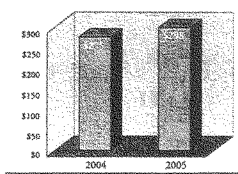
Our Office Locations

CoBank has banking centers across the United States and two international representative offices. Our national office is located in Denver, Colo., phone 1 (800) 542-8072 or (303) 740-4000. For more information, please visit *www.cobank.com.*

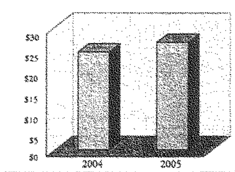
Loans/Leases Outstanding $26.3 Billion



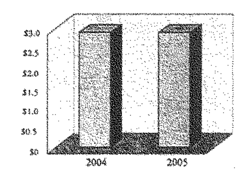
Net Income ($ in Millions)



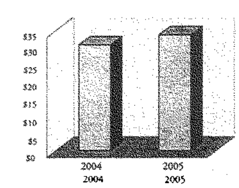
Loans/Leases Outstanding ($ in Billions)



Capital ($ in Billions)



Total Assets ($ in Billions)



CoBank Agribusiness Financing

Since 1916, some of America's most successful businesses have turned to CoBank as their primary source of financial services. Today, CoBank works with Farm Credit banks and associations as well as commercial banks to bring the benefit of that experience to all types of agribusinesses—small and large, cooperative and noncooperative, across all industries. Through these alliances, we offer a broad range of flexible loan programs and specially tailored financial solutions.

Our Customers Rank Among America's Best

Many of CoBank's top customers are names you see daily in business publications or on the shelves of your local grocery store. Among our well-known customers are Humbolt Creamery, Corn Plus, Gulf Compress, House of Raeford and Tennessee Farmers Cooperative. Some of our customers' branded products include Sunsweet, Calavo and Norbest.

CoBank values these strong customer relationships and works hard to deliver superior satisfaction, which is why we're so proud that the majority of our agribusiness customers have had relationships with CoBank for decades. We also work with other financial instititions to finance all types of agribusinesses.

More Than Just a Lender

CoBank offers short-, intermediate- and long-term financing at variable and fixed interest rates. In addition, we provide a wide range of products and services to meet the unique needs of our agribusiness customers. Some of these offerings include leasing services, online banking, cash management, business consulting services, international trade finance services, tax-exempt bonds, private placements and equity sourcing.

The Benefits of CoBank

Because CoBank specializes in providing financial solutions to agribusinesses and rural America, we have the experience and relationships in the capital markets to take you to the next step financially. You'll enjoy many benefits from working with CoBank.

- *Industry experience.* CoBank has a long history of serving agribusinesses and an ongoing commitment to your industry. We provide financing to a wide variety of agricultural industries including the following:
  - Agricultural financing
  - Cotton
  - Dairy
  - Biofuels
  - Fertilizers/chemicals/petroleum
  - Fruits/nuts/vegetables
  - Grain and farm supply
  - Livestock/poultry/fish
  - Oilseed products
  - Rice
  - Sugar/sweeteners
  - Wood/paper products
- *Competitive interest rates.* CoBank is part of the $140 billion Farm Credit System, created by Congress in 1916. Because of the market acceptance of our securities and the volume sold, CoBank is able to raise funds at competitive rates, which translates into competitive rates for our customers.
- *International expertise.* CoBank has established itself as the nation's premier financier of agricultural exports. We finance nearly $200 million in agricultural export sales each month and have financed more than $41 billion in agricultural exports since our first international loan in 1982. We maintain relationships with correspondent banks around the world.

Sound Financials

As of Dec. 31, 2005, CoBank had $26.3 billion in loans and leases outstanding, $33.8 billion in assets and $2.9 billion in capital.

CoBank's agribusiness customers include Sun-Maid, Norpac and Upstate Farms.

Wide Range of Services

- *Customized loan programs.* CoBank offers loans and other financial solutions tailored to the needs of agribusinesses. We provide flexible terms for a variety of purposes ranging from seasonal lines of credit to construction facilities and long-term loans. CoBank offers a variety of interest rate alternatives, including fixed and variable rates and customer-managed programs.
- *Online banking.* Through CoBank *Cash Manager,* we provide a full suite of online cash management services integrated with your CoBank loans and investments. These services will help you maximize the value of idle cash, increase financial control and save time. Services include controlled disbursement checking, ACH processing, account reconciliation, merchant card services, positive pay, lockbox, electronic check deposit service, commercial cards, check imaging on CD-ROM, detailed online reporting

Continued

Financials as of Dec. 31, 2005

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CoBank Agribusiness Financing (Cont.)

and AIM Institutional Money Market funds—each offered through alliances with some of the nation's leading financial providers. All activities are seamless and integrated using *CoLink*®, our Internet delivery channel. We also offer CoBank *Credit Manager* via *CoLink*®. This free service allows you to view investment rates, pay down your loan electronically, and initiate transfers and rate fixes online.

- *Leasing.* You can access leasing services through our wholly-owned subsidiary, Farm Credit Leasing (FCL), which specializes in leases for agribusinesses, rural communications and energy companies, and agricultural producers, many of whom are customers of Farm Credit associations. In total, FCL serves approximately 6,000 customers nationwide. Our experienced team of leasing experts understands agribusiness leasing needs. We've used our industry knowledge to create a broad range of flexible, easy-to-use leasing solutions—all targeted toward helping you achieve your financial objectives. Leasing is an excellent way to reduce costs, improve cash flow, avoid equipment obsolescence, free up capital and maximize tax advantages. We lease a wide range of equipment, including fleet vehicles, lift trucks, machinery and implements as well as buildings.
- *Business consulting services.* CoBank's *Business Advisory Services* team provides consulting services designed to help you better understand and act upon the possibilities for business success beyond tomorrow. We can help you gain market perspective with our industry assessments, assist you in evaluating investment decisions with asset and business valuations and help you position your organization to take real strategic action through our strategic business model approach.
- *Interest rate risk management solutions.* CoBank provides a variety of solutions that allow you to control interest rate risk and lock in acceptable rates. These include interest rate swaps, caps and collars, as well as forward rate fixing alternatives.
- *Letters of credit and commitment letters.* CoBank offers commitment letters to document the terms and conditions under which the bank will extend credit. These letters prove valuable in certain situations such as new construction or a major acquisition. In addition, the bank offers standby and commercial letters of credit. You can also use *CoTrade*SM, a specially designed electronic trade tool, to streamline letters of credit and collection operations.
- *Export financing.* We finance agricultural exports and provide international banking services for the benefit of U.S. agribusinesses from offices in Denver, Mexico City and Singapore.
- *Private placements.* We offer private placements through SPP Capital Partners, LLC, a specialty investment bank, as an additional way to raise debt or equity capital with institutional investors. SPP specializes in taking growing companies to private investors.
- *Tax-exempt bonds.* Through our alliance with W.R. Taylor & Co., LLC, CoBank coordinates tax-exempt bond financing for facilities and equipment related to industrial development or for facilities and equipment that handle or process agricultural by-products.

FINANCIAL SOLUTIONS FOR ENERGY AND WATER SYSTEMS

Since 1916, CoBANK has been rural America's trusted financial partner. Today, CoBANK is well-positioned to serve the financing needs of the rural energy and water industries. We offer a wide array of solutions that can enhance your company's bottom line.

Your industry demands capital for upgrades, to serve growing areas and to acquire new territories and business lines. CoBANK stands ready to work with financially sound organizations with solid business plans.

More than 400 rural energy, water and waste disposal companies across the U.S. work with CoBANK. We provide $7.3 billion in loan commitments to the energy and water industries. These sectors represent 17.6 percent of the total loans and leases outstanding to the bank's customers. CoBANK has a long-term commitment to these industries and continues to add resources to serve this important and growing market segment.

Meeting Your Capital Needs

CoBANK offers a broad range of flexible loan programs. Whether your business is small, large or somewhere in between, our relationship managers can design a loan structure to fit your organization's goals.

CoBANK offers a variety of interest rate alternatives—including fixed and variable rates—and alternative interest rate management and hedging tools. We provide short-term financing for working capital and general corporate purposes. Intermediate- and long-term loans can bring you the capital you need to construct new facilities, to remodel or expand existing facilities, to purchase land or equipment, or to finance other long-term assets including acquisitions and working capital.

Meeting the capital needs of a growing industry can be challenging—capacity is critical. As part of the $140-billion Farm Credit System, we work with other Farm Credit System institutions, as well as commercial banks, to bring you the level of capital you require.

Saving You Time and Money

CoBANK *Cash Manager* provides a full suite of cash management services integrated with your CoBANK loans and investments. These services help you maximize the value of idle cash, increase financial control and save time. Services include controlled disbursement checking, ACH processing, account reconciliation, merchant card services, positive pay, lockbox, electronic check deposit services, commercial cards, check imaging on CD-ROM, detailed online reporting and AIM institutional money market funds—each offered through alliances with some of the nation's leading financial providers. All activities are seamless and integrated using *CoLink*®, CoBANK's Internet delivery channel. CoBANK *Credit Manager*, a free online service, gives you the ability to view investment rates, pay down your loan electronically, and initiate transfers and rate fixes online.

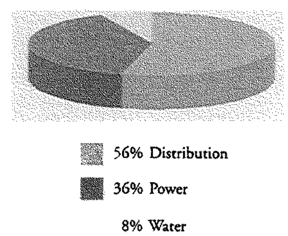
Saving Costs Through Leasing

Leasing can help you better manage cash flow, use capital more effectively, and avoid equipment obsolescence. CoBANK can meet your leasing needs through our wholly-owned subsidiary, Farm Credit Leasing Services Corporation (FCL). Our experienced team of leasing experts understands the leasing needs of energy and water systems. We've used our industry knowledge to create a broad range of flexible, easy-to-use leasing solutions—all targeted toward helping you achieve your financial objectives.

FCL leases a wide range of equipment that is essential in the business operations of our customers. We lease fleet vehicles or other transportation equipment, right-of-way and substation maintenance equipment, construction equipment including bucket trucks, trenchers and back-hoes, and information technology, SCADA and mapping systems.

Energy & Water

Commitments by Industry - $7.3 Billion



Forming Alliances to Bring You More

Beyond loans and leases, CoBANK can bring you a full range of other financial solutions you need to succeed, including private placements. We offer private placements through an alliance with an investment bank, providing an additional way to raise debt or equity capital.

Working With Your Industry

CoBANK works with the Rural Utilities Service (RUS) to meet the energy financing needs of rural America. We support the energy industry through numerous trade organizations, including the National Rural Electric Cooperative Association (NRECA) and regional and statewide organizations.

About CoBANK

For nearly a century, some of America's most successful businesses have turned to CoBANK as their primary source of financial services. Today, CoBANK provides $26.3 billion in loans and leases outstanding to more than 2,300 customer-owners across the U.S. The bank has $33.8 billion in assets and $2.9 billion in capital.

Since CoBANK is owned by its U.S. customers, the bank's customer-owners benefit directly from the bank's financial success.

Continued

Data as of Dec. 31, 2005

Solutions for Energy and Water Systems (Cont.)

In 2006, CoBank expects to pay customer-owners $171 million in cash for both stock retirements and cash patronage for the 2005 year. Patronage distributions for 2005 represent a 15.8 percent return on average invested capital for customer-owners.

CoBank specializes in energy, water, communications, agribusiness, cooperative, Farm Credit association, and agricultural export financing.

The funds to finance CoBank loans primarily come from the sale of Farm Credit System securities to investors in the national and international money markets.

Because of the market acceptance and attractiveness of Farm Credit securities and volume of funds raised, CoBank offers competitive interest rates.

For more information about CoBank, please call 1 (800) 542-8072, or please visit www.cobank.com.

Financial Solutions for Communications Companies

Since 1916, CoBank has been rural America's trusted financial partner. Today, CoBank is well-positioned to serve the communications industry's financing needs. We offer a wide array of solutions that can enhance your company's bottom line.

The rural communications industry demands capital for acquisitions, upgrades and new service offerings. CoBank stands ready to work with strong companies with solid business plans.

More than 200 rural communications companies across the U.S. work with CoBank. We provide $2.9 billion in loan commitments to the industry. CoBank is committed to meeting the financial needs of rural America's communications companies.

Meeting Your Capital Needs

CoBank offers a broad range of flexible loan programs. Whether your business is small, large or somewhere in between, our relationship managers can design a loan structure to fit your organization's goals.

CoBank offers a variety of competitive interest rate alternatives—including fixed and variable rates—and alternative interest rate management and hedging tools. We provide short-term financing for working capital and general corporate purposes. Intermediate- and long-term loans can bring you the capital you need to construct new facilities, upgrade or expand existing facilities, and make acquisitions.

Meeting the capital needs of a growing industry can be challenging—capacity is critical. As part of the $140 billion Farm Credit System, we work with other Farm Credit System institutions, as well as commercial banks, to bring you the level of capital you require. We enhance our own knowledge and experience by investing in loans made by other financial institutions to the communications industry.

Saving You Time and Money

CoBank *Cash Manager* provides a full suite of cash management services integrated with your CoBank loans and investments. These services help you maximize the value of idle cash, increase financial control and save time. Services include controlled disbursement checking, ACH processing, account reconciliation, merchant card services, positive pay, lockbox, electronic check deposit services, commercial cards, check imaging on CD-ROM, detailed online reporting and AIM institutional money market funds—each offered through alliances with some of the nation's leading financial providers. All activities are seamless and integrated using *CoLink®*, CoBank's Internet delivery channel. CoBank *Credit Manager*, a free online service, gives you the ability to view investment rates, pay down your loan electronically and initiate transfers and rate fixes online.

Saving Costs Through Leasing

Leasing can help you better manage cash flow, use capital more effectively, and avoid equipment obsolescence. CoBank can meet your leasing needs through our wholly-owned subsidiary, Farm Credit Leasing Services Corporation (FCL). FCL leases a wide range of equipment that is essential in the business operations of our customers. We lease fleet vehicles and other transportation equipment, switching and other central office equipment, broadband equipment, information technology systems, mapping systems and construction equipment including bucket trucks, trenchers and backhoes.

Working With Your Industry

CoBank plays an active role in more than 60 communications industry associations and other organizations nationwide. We participate in conferences, serve on committees and boards, and support industry programs that help us stay ahead of the curve on issues facing rural communications companies. CoBank is a member of the National Telecommunications Cooperative Association (NTCA), Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), United States Telecom Association (USTA), Rural Cellular Association (RCA), Rural Independent Competitive Alliance (RICA), National Cable Television Association (NCTA), each of the regional and state telecommunications associations and other industry organizations, such as the TELERGEE Alliance, Rural Telecommunications Group (RTG), American Cable Association (ACA), and the Coalition to Keep America Connected.

Communications

Commitments by Industry - $2.9 Billion

- 72% Local Exchange Carrier
- 19% Wireless
- 6% Cable Television
- 3% Competitive Local Exchange Carrier

About CoBank

CoBank specializes in communications, energy, water, agribusiness, cooperative, Farm Credit association, and agricultural export financing. For nearly a century, some of America's most successful businesses have turned to CoBank as their primary source of financial services. Today, CoBank provides $26.3 billion in loans and leases outstanding to 2,300 customer-owners across the U.S. The bank has $33.8 billion in assets and $2.9 billion in capital.

Since CoBank is owned by its U.S. customers, the bank's customer-owners benefit directly from the bank's financial success. In 2006, CoBank expects to pay customer-owners $171 million in cash for both stock retirements and cash patronage for the 2005 year. Patronage distributions for 2005 represent a 15.8 percent return on average invested capital for customer-owners.

For more information about CoBank, please call 1 (800) 542-8072, or visit www.cobank.com.

Data as of Dec. 31, 2005

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DOCUMENTS SUBMITTED FOR THE RECORD

June 20, 2006

Statement
Senator Charles E. Grassley
June 20, 2006

Thank you Mr. Chairman for holding this oversight hearing today on the issues confronting USDA's Rural Development.

I want to thank the witnesses for appearing today, and welcome the ones from Iowa. I want to take this opportunity and thank Mr. Dorr for all the good work he is doing down at the Department.

This hearing will allow the Committee to examine how existing rural development programs are functioning.

Plus we can examine on how to make improvements to existing programs and look at the formation of new ones when we write the next farm bill.

As more and more manufacturing jobs leave Iowa we need to continue our strong commitment to help small communities bring in businesses.

Many family farms have at least one spouse who works off the farm to get by.

There will be an increased need for innovative ways of providing public services to sparse populations, as well as new ways of integrating agriculture into changing rural economies.

Rural development programs should help small communities work together to bring forth new opportunities and solidify existing businesses.

We need to make sure that loans and loan guarantees for renewable energy sources are available in the next farm bill.

We have already witnessed the development of a tremendous revenue stream and employment base due to the establishment of biomass, ethanol, and bio-diesel plants in Iowa due to legislation passed through my Finance Committee. Any additional support will further solidify the future of renewable fuels.

There is real recognition that if rural communities are doing well then the surrounding farmers prosper. The role of the government and private sector being heard today can only help us examine on how to enhance economic development.

I look forward to hearing the testimony.

Thank you.

QUESTIONS AND ANSWERS

June 20, 2006

Senator Crapo

Question 1: Rural Development Councils– I work closely with our State Rural Development Council (SRDC) – the Idaho Rural Partnership. The Idaho Rural Partnership offers a good point of contact for us and serves as a strong resource in rural Idaho. One of the original intents of the State Rural Development Councils was that these councils would help coordinate efforts among federal, state and local government, the tribes and the private sector to address policy and regulatory issues. How is USDA utilizing this resource at the state and federal level throughout the country?

Answer 1:
Rural Development State Directors regularly convene meetings of their federal, state and nonprofit partners in each of their states. State Rural Development Councils (SRDC) are integral participants in this process.

Question 2:
How is USDA working to support SRDCs so they serve as a valuable resource in rural America? Would USDA benefit by having a strong network of state rural development councils in all states to serve as a coordinator with other divisions of government, the tribes and private sector?

Answer 2:
Since the establishment of the SRDCs in the early 1990's, Rural Development has provided over $36 million to help the Councils. These resources have come from funds provided to Rural Development for salary and expenses. We have also encouraged the Council to become broad-based and not dependent upon funding from any one organization. In the past few years our administrative funds have become increasingly limited and we have not been able to providing funding to the Councils. We informed the SRDCs in FY 2002 that we could not fund them beyond FY 2004. Those Councils that were successful in developing broad support have succeeded quite well. A broad-based Council is helpful in identifying issues within the state.

Question 3:
Through the National Rural Development Partnership (NRDP) section of the 2002 Farm Bill, USDA was instructed to create and support the National Rural Development Coordinating Committee (NRDCC). What has USDA done to accomplish that directive?

Answer 3:
While the NRDCC was authorized in the 2002 Farm Bill, no funds have been appropriated for it. However, USDA and Rural Development enjoy a good working relationship with many of our federal colleagues on specific issues. This is a process that we believe accomplishes the job in an effective and efficient manner. Our federal partners include EPA, HHS, Energy, HUD, Transportation, VA, Defense, Interior, Justice, and DOE. This partnership will continue.

Question 4:
The FY 2006 Agriculture Appropriations Conference Committee Report requested $2 million, or $50,000 per council, for the State Rural Development Councils. What is the status of USDA funding these SRDCs?

Answer 4:
Since the establishment of the SRDCs in the early 1990's, Rural Development has provided over $36 million to help the Councils. These resources have come from funds provided to Rural Development for salary and expenses. We have also encouraged the Council to become broad-based and not dependent upon funding from any one organization. In the past few years our administrative funds have become increasingly limited and we have not been able to providing funding to the Councils. We informed the SRDCs in FY 2002 that we could not fund them beyond FY 2004. Those Councils that were successful in developing broad support have succeeded quite well.

The following chart shows the sources of funding since FY 1990.

Sources of Funding for the National Rural Development Partnership

Updated 10/01/05

DOL	DOT	EPA	HHS	HUD	NRCS	SBA	USDA-RD	VA	Total Cash Contribution
$ -	$ 25,000	$ -	$ -	$ -	$ -	$ 50,000	$ 205,000	$ -	$ 330,000
$ -	$ 25,000	$ 50,000	$ 50,000	$ 50,000	$ -	$ -	$ 50,000	$ -	$ 275,000
$ -	$ 250,000	$ -	$ 500,000	$ 500,000	$ -	$ -	$ 2,600,000	$ 250,000	$ 4,100,000
$ -	$ 500,000	$ -	$ 500,000	$ -	$ -	$ -	$ 4,000,000	$ 250,000	$ 5,250,000
$ -	$ 500,000	$ -	$ 500,000	$ -	$ -	$ -	$ 3,500,000	$ 250,000	$ 4,750,000
$ 250,000	$ 500,000	$ -	$ 461,127	$ -	$ -	$ -	$ 3,500,000	$ 500,000	$ 5,211,127
$ 250,000	$ 500,000	$ -	$ 422,254	$ -	$ -	$ -	$ 2,651,000	$ 500,000	$ 4,323,254
$ 250,000	$ 500,000	$ -	$ 422,254	$ -	$ -	$ -	$ 2,584,725	$ 500,000	$ 4,256,979
$ 500,000	$ 500,000	$ -	$ 422,254	$ -	$ -	$ -	$ 2,602,000	$ 500,000	$ 4,524,254
$ -	$ 50,000	$ -	$ 422,254	$ -	$ -	$ -	$ 2,488,000	$ 500,000	$ 3,460,254
$ 250,000	$ 50,000	$ -	$ 422,254	$ -	$ -	$ -	$ 1,970,496	$ 500,000	$ 3,192,750
$ 250,000	$ 50,000	$ -	$ 422,254	$ -	$ -	$ -	$ 4,228,835	$ 500,000	$ 5,451,089
$ 197,000	$ 50,000	$ -	$ 422,254	$ -	$ 100,000	$ -	$ 2,000,000	$ 500,000	$ 3,269,254
$ -	$ -	$ -	$ 422,254	$ -	$ -	$ -	$ 2,000,000	$ 500,000	$ 2,922,254
$ -	$ -	$ -	$ 422,254	$ -	$ -	$ -	$ 1,875,000	$ 500,000	$ 2,797,254
$ -	$ -	$ -	$ 422,254	$ -	$ -	$ -	$ -	$ -	$ 422,254
$ 1,947,000	$ 3,500,000	$ 50,000	$ 6,233,667	$ 550,000	$ 100,000	$ 50,000	$ 36,255,056	$ 5,750,000	$ 54,535,723

B. In-Kind Contributions and Participants (Best Estimates)

DoC	1990-1991	Executive Director Salary (Approx. $75,000)
	1990	National Rural Economic Development Institute ($50,000)
	1991	National Governors Association ($74,714)
	1992	National Governors Association ($74,952)
USDA		
	1991	NRCS and USFS: Executive Director Salary (Approx. $50,000 each per year)
(non-R)	1993	NRCS: Desk officer to NPO (14 month detail)
DOT	1990-1991	Executive Director Salary (Approx. $70,000 per year)
SBA	1992	Desk Officer to the NPO (6 month detail)
ARC	1994	Desk Officer to the NPO (1 year detail)
TVA	1994-1998	Provide strategic planner for SRDC development process. No cash contribution.
Other		*Many participating departments have taken leadership positions on National Rural Development Council, including Steering Committee and task forces.*

Senator Grassley

Question 1:
It is my understanding that a new rule for the Value-Added Producer Grants program has been in process for some time. Can you tell me when it will be published and, if it will be published for public comment, how long the comment period is likely to be and when it might be finalized?

Answer 1:
The revised regulation is currently going through the USDA clearance process. Once that process is completed, the regulation will be sent forward to be cleared by the Office of Management and Budget (OMB). When this clearance process is completed, the regulation will be published as a proposed rule in the Federal Register and the public may submit comments. It is likely the comment period will be approximately 30-60 days. No time frame has yet been established for when the proposed rule will be published or when the rule will be finalized.

Question 2:
There have evidently been some reports from around the country suggesting that a fairly high percentage of Value-Added Producer Grant proposals that have been submitted in the 2006 grant round have been ruled technically incomplete or otherwise not eligible due to technical reasons. As I understand it, there is then a process by which the state offices can help producers bring their proposals into full technical compliance. Can you provide me with numbers as to the scope of the problem (how many or what percent of applications have not been ruled eligible for whatever reason) and also with information about how the process works to rectify any technical problems? Are there ways in which the agency can make the program more farmer-friendly so that it is easier to submit acceptable proposals without necessarily hiring expensive professional grant writers? What can the Rural Business Program do to help independent producers submit proposals that meet agency criteria?

Answer 2:
Although several applications submitted for the 2006 VAPG program were initially incomplete, applicants were given the opportunity to submit the missing items. We expect to announce VAPG awards by September. To assist applicants in assembling complete and eligible applications, Rural Development published an application guide, including a very comprehensive checklist, in fiscal year 2005. In FY 2006, an electronic application template was added. These tools are designed to be used by the applicants themselves so that they do not have to hire a grant writer in order to submit a successful application. Future plans for making the program more farmer-friendly include conducting an evaluation of application requirements to find ways to make them less burdensome and soliciting input from applicants on present requirements.

Question 3:
I would be interested in hearing your views on the relationship of the Value-Added Producer Grants program and the Section 9006 program (Renewable Energy and Energy

Efficiency grants program). Obviously VAPG includes, but is certainly not limited to energy-related projects, whereas 9006 is 100 percent for energy-related projects. I assume that not all projects that would be eligible for 9006 would also be eligible for VAPG. But I am curious whether in your view any energy project that would be eligible for VAPG would not also be eligible for 9006. Obviously there is going to be a set amount of funding available for these two programs, and I am considering whether we might want to make somewhat tighter eligibility rules in the future so that there are sufficient funds available for the full range of value-added projects. What are your thoughts on this issue?

Answer 3:
Rural Development programs provide a broad array of grant and loan programs. There are instances in which programs may complement or supplement purposes. This allows the end user, whether an agricultural producer, rural small business, public entity, or nonprofit, to utilize available funding to the best benefit of the project for which funding is sought. It also allows Rural Development to stretch its resources by allowing the applicant to determine the best funding for each phase of a project. The Value-Added Producer Grant (VAPG) program and the Renewable Energy Systems and Energy Efficiency Improvements (Section 9006) program are related to meet these ends.

Many projects are eligible to apply for both 9006 and VAPG funding. Both VAPG and Section 9006 funding may, for instance, be used to fund pre-project activities such as feasibility studies. Overall, the specific uses of funds for 9006 are much broader. Section 9006 funds may be used for actual construction of a renewable energy system or for installation of an energy efficiency improvement. VAPG funding may not be used for these purposes. Based on any number of variables, such as the availability of funds or the timing of the application calendar, the applicant may choose to fund the feasibility study from one program and the actual project from another. This works to the best advantage of both the applicant and the tax payer as funds can be concentrated where needed.

Question 4: In the 2002 Farm Bill we made a point of expressing congressional intent that the VAPG program emphasize projects that enhance the competitiveness and viability of small and medium size owner operated farms. It has been my assumption that this priority would be implemented by means of assigning a significant number of points in the evaluation and proposal ranking process to project proposals that clearly emphasize such farms. Is this in fact the way you have implemented congressional intent? If not, how is this priority being carried out?

Answer 4:
Rural Development has experimented with a couple of ways to target the Value-Added Producer Grant (VAPG) Program to small and medium sized farms. Unfortunately, we have discovered that it can be especially burdensome for these farms to prove that they fit the definition of a small or medium sized farm. Also, many applicants for the VAPG Program are LLCs or cooperatives that are composed of small and medium-sized farms, so it is important to look at the ownership and membership of the applicants in addition to the size of the applicant itself. In 2006, priority points will be awarded based on business

size and the project cost per owner-producer.

The priority points for business size are awarded as follows. Applicants who have less than $100 million in gross annual sales and businesses in operation less than a year receive an additional 10 points. Priority points for project cost per producer-owner are allocated using the following break-down: $1-$25,000 equals 2 points; $25,001-$50,000 equals 1 point; and over $50,001 equals 0 points.

The Renewable Energy Systems and Energy Efficiency Installments (Section 9006) loan and grants program also provides priority points based on the size of a project. Small agricultural producers with a gross market product value of less than $600,000 are awarded priority points. Those with a gross market product value of less than $200,000 are awarded a greater number of points. In addition, small producers who are also seeking funding for small projects (projects with total eligible cost of $200,000 or less) are also awarded additional points. Finally, projects primarily intended for on-site, self-use by the agricultural producers are eligible to receive additional priority points. Larger producers and larger projects are likely to score lower as the priority points are not available to them. As a result, small applications have increased over time. This year over 74.8 percent of received grant requests are from applicants seeking funding for small projects.

Question 5:
What can the government do to increase the volume of investment and successful enterprises in rural America?

Answer 5:
There are many things government can and should do, starting with maintaining a pro-growth tax and regulatory environment. Beyond that, we need to encourage a more entrepreneurial culture in rural America. Agriculture can't carry the entire load. Most people in rural America work in small towns. Most farm families depend on non-farm jobs. Anything that Congress does to enhance small business formation is good for rural America.

The particular opportunities vary greatly from one place to another. Looking at the national picture, however, it is clear that renewable energy is one of the most important emerging opportunities. Ethanol and biodiesel rely on agricultural feedstocks. Wind farms will be located primarily in rural areas. Solar is a little more versatile – cities have a lot of rooftops to put panels on – but a lot of the deployment will still be in rural areas. Accelerated research on new energy sources is good for national security and good for the environment, but it is also a strategic investment in rural America as well.

Senator Leahy

Question 1:
I work closely with our State Rural Development Council (SRDC) – the Vermont Council on rural Development. They offer a good point of contact for my office, provide leadership in coordinating rural policy, and are a strong resource to rural Vermont communities. One of the original intents of the SRDCs is to help coordinate efforts among federal, state and local government, the tribes and private sector to address policy and regulatory issues. How is USDA taking advantage of this resource at the state and federal level throughout the country?

Answer 1:
Rural Development State Directors regularly convene meetings of their federal, state and nonprofit partners in each of their states. State Rural Development Councils (SRDC) are integral participants in this process.

Question 2:
How is USDA working to support SRDCs so they remain a valuable resource in rural America, and, in particular, how is USDA Rural Development fulfilling the intent of the Congress that the National Rural Development Partnership be funded at the Fiscal Year 2004 level annually?

Answer 2:
Since the establishment of the SRDCs in the early 1990's, Rural Development has provided over $36 million to help the Councils. These resources have come from funds provided to Rural Development for salary and expenses. We have also encouraged the Council to become broad-based and not dependent upon funding from any one organization. In the past few years our administrative funds have become increasingly limited and we have not been able to providing funding to the Councils. We informed the SRDCs in FY 2002 that we could not fund them beyond FY 2004. Those Councils that were successful in developing broad support have succeeded quite well.

The following chart shows sources of funding since 1990.

Sources of Funding for the National Rural Development Partnership

Updated 10/01/05

DOL	DOT	EPA	HHS	HUD	NRCS	SBA	USDA-RD	VA	Total Cash Contribution
$ -	$ 25,000	$ -	$ -	$ -	$ -	$ 50,000	$ 205,000	$ -	$ 330,000
$ -	$ 25,000	$ 50,000	$ 50,000	$ 50,000	$ -	$ -	$ 50,000	$ -	$ 275,000
$ -	$ 250,000	$ -	$ 500,000	$ 500,000	$ -	$ -	$ 2,600,000	$ 250,000	$ 4,100,000
$ -	$ 500,000	$ -	$ 500,000	$ -	$ -	$ -	$ 4,000,000	$ 250,000	$ 5,250,000
$ -	$ 500,000	$ -	$ 500,000	$ -	$ -	$ -	$ 3,500,000	$ 250,000	$ 4,750,000
$ 250,000	$ 500,000	$ -	$ 461,127	$ -	$ -	$ -	$ 3,500,000	$ 500,000	$ 5,211,127
$ 250,000	$ 500,000	$ -	$ 422,254	$ -	$ -	$ -	$ 2,651,000	$ 500,000	$ 4,323,254
$ 250,000	$ 500,000	$ -	$ 422,254	$ -	$ -	$ -	$ 2,584,725	$ 500,000	$ 4,256,979
$ 500,000	$ 500,000	$ -	$ 422,254	$ -	$ -	$ -	$ 2,602,000	$ 500,000	$ 4,524,254
$ -	$ 50,000	$ -	$ 422,254	$ -	$ -	$ -	$ 2,488,000	$ 500,000	$ 3,460,254
$ 250,000	$ 50,000	$ -	$ 422,254	$ -	$ -	$ -	$ 1,970,496	$ 500,000	$ 3,192,750
$ 250,000	$ 50,000	$ -	$ 422,254	$ -	$ -	$ -	$ 4,228,835	$ 500,000	$ 5,451,089
$ 197,000	$ 50,000	$ -	$ 422,254	$ -	$ 100,000	$ -	$ 2,000,000	$ 500,000	$ 3,269,254
$ -	$ -	$ -	$ 422,254	$ -	$ -	$ -	$ 2,000,000	$ 500,000	$ 2,922,254
$ -	$ -	$ -	$ 422,254	$ -	$ -	$ -	$ 1,875,000	$ 500,000	$ 2,797,254
$ -	$ -	$ -	$ 422,254	$ -	$ -	$ -	$ -	$ -	$ 422,254
$ 1,947,000	$ 3,500,000	$ 50,000	$ 6,233,667	$ 550,000	$ 100,000	$ 50,000	$ 36,255,056	$ 5,750,000	$ 54,535,723

B. In-Kind Contributions and Participants (Best Estimates)

DoC	1990-1991	Executive Director Salary (Approx. $75,000)
	1990	National Rural Economic Development Institute ($50,000)
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TVA	1994-1998	Provide strategic planner for SRDC development process. No cash contribution.
Other	*Many participating departments have taken leadership positions on National Rural Development Council, including Steering Committee and task forces.*	

Senator Lincoln

Question 1:
Mr. Secretary, in my view, one of the most important aspects of rural development is finding innovative ways to retain the profitability of farmers, ranchers, small business owners, and other investors in rural communities. I think we all agree that one of the most exciting prospects is the development of biofuels. In Arkansas, we have plants operating and under construction, and we have many others who are interested in locating the capital necessary to make these important investments in rural America. To that end, my question involves USDA's renewable energy loan and grant program. Why are we seeing so few of these dollars going out, and what is USDA doing to get this money in the hands of those who want to build these plants in rural areas?

As a follow up, is there a role for USDA in helping expand the distribution system for renewable fuels?

Answer 1:

The Renewable Energy Systems and Energy Efficiency Improvements Loan and Grant Program (9006) is designed to provide financial assistance to agricultural producers and rural small businesses. Fuel production and distribution and reduction of consumption are the critical goals.

Implementation of the program began in Fiscal Year 2003 with the roll out of the grant program. During Fiscal Years 2003, 2004, and 2005 all available grant funds were expended for a total of more than $66.7 million. While the grant funding cycle is not yet complete for Fiscal Year 2006, over 600 grant applications have been received requesting approximately $57.5 million. Since 2003, the number of grant applications received annually has quadrupled from 149 in Fiscal Year 2003. In July, 2005 the guaranteed loan program was implemented. During Fiscal Year 2005, two loans in the total amount of $10,010,000 were made. In addition, two loans have been funded this fiscal year to date totaling $6.4 million. Both loans were for bio-fuel production.

In order to increase grant and loan assistance and improve the quality of applications, Rural Development is encouraging the development of State Energy Teams that provide a network and infrastructure for energy projects. These teams typically include commercial lenders, grant writers, the Farm Bureau, technical assistance providers, Rural Development staff, the state energy offices, stakeholders and other federal, state and local energy partners. States with existing State Energy Teams have experienced a significant increase in funding demand and quality of applications.

In addition, Under Secretary of USDA Rural Development designated Rural Energy Coordinators from each USDA Rural Development State Office to coordinate outreach, implementation and delivery of renewable energy programs and technologies.

Also, USDA Rural Development and DOE's Office of Energy Efficiency and Renewable Energy signed a key renewable energy agreement to support the development of renewable energy and energy efficiency systems to agricultural producers and rural small business. This agreement provides funding from USDA for support and consultation from DOE to assist in writing the technical requirements of the program, to develop streamlined tools to assist applicants in addressing the technical requirements, develop performance measurements and to assist in public outreach activities. In addition, USDA signed an Interagency Agreement with the Environmental Protection Agency to provide consultation, outreach, and technical support.

Finally, Rural Development has developed a series of web pages designed to increase program awareness, aid prospective applicants in determining basic eligibility requirements, and preparing applications. These tools are intended to be used in collaboration with renewable energy and energy efficiency interest groups to be used in public forums to increase program awareness.

Question 2:
Mr. Secretary, certainly a large part of attracting families to our rural areas is the ability to find affordable housing opportunities. I know in Arkansas, especially in the Delta region, there are many areas where housing remains substandard, and rental opportunities are especially scarce. Are there sufficient resources for low-income housing repair and preservation? Why does the Administration continue to request reduced funding for USDA's Sec 515 rental housing loan program?

Answer 2:
Rural Development and the Administration have a new vision for Multifamily Housing and proposed $74 million in the FY 2007 to achieve it. There are three policy goals that are being pursued: 1) protect tenants, 2) retain section 515 properties, and 3) increase new construction.

First, to protect the tenants when their housing is lost, the Administration proposed in FY 2007, to continue providing a new safety net for tenants. Major events in the life of a particular property, such as loan prepayment, can leave the tenants vulnerable to increased rents. The engineering study done in 2004 for USDA found that 10 percent of the properties (some 1,700) could be economically viable to prepay.

A portable housing voucher was first proposed in Rural Development's FY 2006 budget ($214 million for housing vouchers and multi-family housing revitalization). Congress responded with authority and funding for a demonstration program, which we are using this year.

For FY 2007, the Administration not only proposed funding for a housing voucher program, but continues to strongly back the passage of its Multi-Family Housing Revitalization legislation, the first section of which makes permanent the housing voucher program.

Secondly, to retain section 515 properties when possible, the Administration again proposed in FY 2007 to create a new source of funding to rehabilitate 515 properties. The engineering study done in 2004 for USDA found that 90 percent of the properties lacked sufficient cash and reserves to prevent economic obsolescence.

Already, over 100 properties are lost from the program each year. This number will rise quickly in coming years as deferred maintenance overtakes the 17,000 remaining properties in the portfolio. This is a much bigger threat to the portfolio than prepayment. Furthermore, in a few years loans will begin maturing; unless 515 property owners have equity in their property, many may be lost to the private market.

The Administration's Multi-Family Housing proposal allows property owners to restructure their loans. The restructuring is a simple deal: USDA will exchange debt service payments on the loan to provide cash for rehabilitation, and the property owner will sign up for another 20 year affordable. "Re-enlist for Rehab" might be a short way to describe the deal.

One way to look at this restructuring process is to view it as a "fix-up vs. build" decision: it costs $85,000 on average to build a new affordable housing unit, but only $20,000 per unit to rehabilitate what we currently have. The vision, then, is to secure the valuable national asset of a large affordable rural rental housing portfolio, for the longest period, at the lowest cost to the government, at the greatest benefit to tenants, owners, and communities.

The new restructuring tools that are key components in our proposed revitalization legislation will allow us to assure that resources are available to restructure the vast majority of properties in our portfolio where the owner elects to stay in the program. These restructuring tools, primarily the use of debt deferral, will create the opportunity to add additional debt to take care of immediate rehabilitation needs.

The "normal" Section 515 rehabilitation loan budget authority has thus been shifted to the "MFH Revitalization" line item: because a debt deferral provides much more leverage to the government than a direct loan, USDA Rural Development can provide MORE rehabilitation money to Section 515.

Lastly, to increase leverage in new construction, the Administration's FY 2007 Budget proposed more new construction for multi-family housing. It does this by doubling funds for Section 538 guaranteed loans, thereby increasing dramatically the loan amounts available.

If the same amount of budget authority had been left in the historical configuration, it would have produced less housing. We are aware that a segment of the development community prefers Section 515 because it is "easier": the subsidy is greater; fewer outside resources must be secured, etc. The result, though, is less affordable housing.

Similarly, we are aware that critics charge that Section 538 serves a different population. While the average incomes may appear different ($10,036/year adjusted income in Section 515 vs. $18,400/year gross income in Section 538), the aggregate number of families served in the very low income category is greater in Section 538.

The section 538 program works in partnership with other financing entities to create affordable housing. Guaranteed loans generate 10 times more loan funds for the same budget authority than do direct loans, and attract 2.5 times more private sector leveraged money. More than 90 percent of the closed loans in the portfolio have 9 percent tax credit dollars. Tax Credits require owners to achieve affordability targets, resulting in high percentages of low and very low income tenants. Many tenants in section 538 properties have section 8 vouchers which assist the tenants in paying rent. The program also offers interest credit subsidies that assist in lowering the interest rate throughout the term of the loan. The subsidized interest rate keeps rents low for tenants.

Senator Thomas

Question 1: It is my understanding USDA Rural Development administers over 40 programs. Could any of these programs be combined to eliminate redundancy and inefficiency?

Answer 1:
Each Rural Development program has its own unique authorizing statute, purposes and eligible constituency. The programs should be viewed as a toolkit, not as ends in themselves. Many of them are relatively small in terms of budget authority. Collectively, however, they provide a highly flexible portfolio of management strategies and funding options with which to address the unique circumstances of businesses, individuals, communities and nonprofits we serve. Many Rural Development programs are available to fund multiple eligible purposes; and some of these eligible purposes may be the same across programmatic areas. However, while some programs have overlapping purposes, they are distinct programs delineated by what is offered, how it is offered, for what purpose, and to whom. Each program has its role to play in increasing economic opportunity and improving the quality of life for all rural Americans.

Question 2:
The Wyoming Rural Development Council has been a highly successful program in my state and is now at risk for future operation because USDA has not followed through on its commitment to fund the National Rural Development Partnership. Last year's Agricultural Appropriations bill instructed USDA to fund the partnership. Where is USDA on funding for the NRDP?

Answer 2:
Since the establishment of the SRDCs in the early 1990's, Rural Development has provided over $36 million to help the Councils. These resources have come from funds provided to Rural Development for salary and expenses. We have also encouraged the Council to become broad-based and not dependent upon funding from any one organization. In the past few years our administrative funds have become increasingly limited and we have not been able to providing funding to the Councils. We informed the SRDCs in FY 2002 that we could not fund them beyond FY 2004. Those Councils that were successful in developing broad support have succeeded quite well. A broad-based Council is helpful in identifying issues within the state.

The following chart shows sources of funding since 1990.

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Question 3:
The original intent of the State Rural Development Councils is to help coordinate efforts in rural America among federal, state, and local government, the tribes and private sector. How is USDA taking advantage of this resource, and what efforts are you taking to support councils so they remain a valuable resource?

Answer 3:
Rural Development State Directors regularly convene meetings of their federal, state and nonprofit partners in each of their states. State Rural Development Councils (SRDC) are integral participants in this process.

Question 4:
The 2002 Farm Bill directed USDA to establish a National Rural Development Coordinating Committee, but this has not yet occurred. Where is USDA on announcing the members of the National Rural Development Coordinating Committee and associated funding?

Answer 4:
While the NRDCC was authorized in the 2002 Farm Bill, no funds have been appropriated for it. However, USDA and Rural Development enjoy a good working relationship with many of our federal colleagues on specific issues. This is a process that we believe accomplishes the job in an effective and efficient manner. Our federal partners include EPA, HHS, Energy, HUD, Transportation, VA, Defense, Interior, Justice, and DOE. This partnership will continue. No announcements are anticipated in the near future.