

Rural Development
Statement of Judith Canales, Administrator, Rural Business-Cooperative Service
United States Department of Agriculture
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Chairman Kingston, Ranking Member Farr, and Members of the Subcommittee, thank you for the opportunity to testify regarding the Administration's Fiscal Year (FY) 2012 Budget for the U.S. Department of Agriculture's (USDA) Rural Business-Cooperative Service (RBS). We are still in challenging economic times, but the programs and services of the RBS, in partnership with other public and private sector funding, are improving the economic climate of rural areas. These programs promote rural business employment opportunities and help close the opportunity gaps between rural and urban areas. The Administration's 2012 Budget requests \$181 million in budget authority for rural business and cooperative programs that will support over \$1 billion in direct and guaranteed loans and grants, which will assist in creating or saving over 81,000 jobs by providing financial assistance to thousands of businesses. I appreciate the opportunity to discuss the Administration's FY 2012 Budget, as well as the successes of the business programs today.

Administration Priorities

As outlined in Secretary Vilsack's testimony on March 1st, USDA will continue to engage public and private partners to revitalize rural communities by expanding economic opportunities and

creating jobs for rural residents to promote investment in building a greener economy and to build a link between local production and local consumption.

Capital Markets

To increase economic prosperity in rural communities, capital is needed to spur business expansion and promote new businesses. RBS administers several loan and grant programs that can be used to attract investment capital, including loan guarantee programs such as Business and Industry loans and the Biorefinery Assistance Program. Our employees are also key tools in creating capital markets, providing the skills and expertise to review business plans, identify tax incentives, and put together viable loan and grant combinations that can be used to spur capital investment in rural areas.

Renewable Energy

RBS has been a leader in promoting the creation and expansion of renewable energy in rural areas. Since the signing of the 2008 Farm Bill, the renewable energy programs authorized under Title IX of the Farm Bill have invested over \$460 million in biorefineries and renewable energy and energy efficiency systems through mandatory Farm Bill funding for grants, loan guarantees, and assistance payments. The President's 2012 Budget continues to provide support for renewable energy projects funded through the Rural Energy for America Program, the B&I Guaranteed Loan and the Value-Added Producer Grant programs.

Business Programs

Business development and job creation are at the foundation of our agency mission. In 2010 we invested about \$3 billion to ensure America's rural businesses maintain a competitive edge in today's global market place. The vast majority of this funding was provided through guaranteed loans. These guarantees leverage funding provided by the commercial lending community along with other private sector funding.

Guaranteed Business and Industry Loans (B&I)

Capital is the lifeline of businesses and rural businesses to maintain and create rural jobs. The FY2012 Budget requests \$53 million in budget authority to support \$823 million in loan guarantees for B&I. In 2010 we obligated 1,030 loans totaling over \$2.9 billion. Morris Manufacturing and Sales Corporation is a rural American success story under this program. In business since 1962, the company is one of Brazil, Indiana's (population 8,188) largest employers providing quality jobs in the community. The business specializes in the manufacturing of gears, rings and pins, used in automotive transmissions and drive trains. Their products are sold to major automotive companies. When major automakers closed down production and reorganized, the company was forced to lay off 100 employees and had a remaining staff of only 35. Rural Development was able to guarantee a loan from a commercial lender allowing for debt restructuring over longer terms and for the purchase of new machinery and equipment. The B&I loan guarantee assured that the business would continue as an automotive supplier. The company now has new contracts with major auto manufacturers for the development of new products. Employment has rebounded; all laid off workers have been

rehired, and the work force increased to 167 in 2010, supporting an average wage of \$15.99 per hour with benefits.

Rural Business Enterprise Grant Program (RBEG)

The Budget requests \$30 million for the Rural Business Enterprise Grant Program. A key aspect of this program is the flexibility it provides to grantees, local economic development entities, regarding the use of funds for a variety of purposes such as projects that finance and facilitate development of small and emerging rural businesses, provide technical assistance, help fund business incubators, and promote employment related to adult education programs.

Using a \$31,000 Rural Business Enterprise Grant, Idaho's Bounty Co-op, Inc. had been successful at creating a year round local foods market system between southern Idaho producers and consumers. Idaho's Bounty was faced with the challenge of trying to expand their markets to meet the demands of their customers, but did not have enough funds to purchase the equipment required to continue to grow. With funding provided through the Rural Business Enterprise Grant (RBEG) program, the grant recipient, Wood River Resource Conservation and Development (RC&D), was able to purchase a truck for lease to Idaho's Bounty that gives them access to an additional refrigerated truck to ensure safe transportation of cold-storage products from their warehouse. This project not only expanded their delivery capacity and service area, but also created a job through the immediate filling of a delivery driver position.

The growth of Idaho's Bounty has created an additional distribution channel for several previous recipients of the Value-Added Producer Grant (VAPG) program. Their customers included restaurants and local hospitals whose desire for locally produced goods exceeded their current transportation and cold-storage capacity. The grant immediately created 1 job while saving 12

others, and assisted at least 6 private business enterprises, expanding the opportunity to provide nutritious locally produced food to food banks, schools, and other commercial operators.

Rural Business Opportunity Grant (RBOG)

RBS will expand the Rural Business Opportunity Grant program, requesting an additional \$5 million to support the Secretary's Regional Innovation Initiative. In FY 2010, the RBOG program provided funding to seven identified regions to develop plans focused on supporting local food systems, renewable energy, and the utilization of natural resources to promote economic development through regional planning among Federal, State, local and private entities. By creating a regional focus and increasing collaboration with other Federal agencies, and other partners, our resources will have a larger impact, enabling greater wealth creation, quality of life improvements, and sustainability.

Intermediary Relending Program (IRP)

The FY 2012 Budget includes \$12 million in budget authority to support \$36 million in loans under the Intermediary Relending Program. We estimate that the proposed level of funding will assist 325 businesses in creating or saving approximately 26,000 jobs with the initial lending of this year's loans.

The Southern Illinois Coal Belt Champion Community Inc. (SICBCC) is one successful example of this loan program. Founded in 2002, Coal Belt was created to lead and support economic and community development work with the goal of poverty reduction and creation of greater employment opportunities.

In 2003, Coal Belt, in partnership with Rural Partners and Verizon, funded a three-county assessment of collaborative initiatives and broadband Internet access and usage in their three-county area. Pushing those themes forward became a central goal of Coal Belt. In 2005, the Southern Illinois Broadband Initiative was formed which, in 2006 became Connect SI. Today, Connect SI has evolved into a nationally recognized 20-county economic and community development initiative under the direction of the SICBCC partner Man-Tra-Con Corporation.

Rural Microentrepreneur Assistance Program (RMAP)

The Rural Microentrepreneur Assistance Program was implemented in 2010, is in its second year now and provides capital access, business-based training and technical assistance to the smallest of small businesses; businesses of less than 10 people. To support this important program the budget requests \$5.7 million in 2012, in addition to the \$3 million in mandatory funds to support a program level of \$35 million. In 2010 RMAP provided 73 grants totaling \$9.7 million to microlenders to provide technical assistance and established 63 rural microloan revolving funds, through loans to microdevelopment organizations that totaled a loan portfolio of \$37 million. Though new, this program is already showing results. Through a \$130,000 grant, the Rural Economic Development Center in North Carolina has conducted several meetings and conducted a workshop entitled “Understanding the Role of Credit” to explain the Microentrepreneur program. The workshop was very successful with approximately 50 participants in attendance. In December, a detailed tracking system was developed to monitor inquiries and follow up activities. The RMAP staff is in the process of developing a micro-loan “pre-application” for use, as a part of their program to assist microentrepreneurs to obtain microloans for startup and expansion of their enterprises.

Energy Programs

Rural Business Service administers four programs with the sole purpose of promoting biofuels and renewable energy. Over the last year applications were awarded through Notices of Funding Availability (NOFA). Additionally, the agency developed Interim Final regulations that were published in February 2011.

Rural Energy for America Program

The Rural Energy for America Program (Section 9007) is the most successful and competitive renewable energy program that RBS operates. Initially created under the 2002 Farm Bill, the program was reauthorized and expanded in the 2008 Farm Bill. The 2012 Budget requests about \$37 million to support a program level of \$45 million in 2012 in addition to the \$70 million in mandatory funding to support \$166 million in program level. In FY 2010 the program provided 2,400 grants and loan guarantees totaling \$159 million in support for energy audit projects, and energy efficiency and renewable energy projects that ranged from biofuels to wind, solar, geothermal, anaerobic digesters, hydroelectric, and biomass projects.

One successful \$117,000 grant/loan project was Gary's Super Foods in Nebraska. A grant/loan combination was awarded to improve the energy efficiency of Gary's grocery store. Today there is a heat reclaiming system that captures the heat from the store's refrigeration units and redistributes the heat through a duct work system to heat the building. Since the opening of the store in early 2009, the company has realized a significant energy savings.

Farm Bill Programs

Biorefinery Assistance Program

The Biorefinery Assistance Program (Section 9003) program provides loan guarantees to assist in the development of new and emerging technologies in the development of advanced biofuels.

An Interim Rule was published February 14th, 2011 and the NOFA was published March 11, 2011. Staff will continue to focus on providing the level of oversight necessary in reviewing and approving these large loans ranging up to \$250 million.

Repowering Assistance Program

The Repowering Assistance Program (Section 9004) provides payments to biorefineries who switch from using fossil fuels to produce heat or power to renewable biomass. These biorefineries have to have been in existence at the time the 2008 Farm Bill was passed. A notice of Interim Rulemaking was published February 11th, 2011 and a NOFA was published on March 11, 2011.

Bioenergy Program for Advanced Biofuels

The Bioenergy Program for Advanced Biofuels (Section 9005) provides payments to eligible producers to support and expand production of advanced biofuels. To date, almost \$30 million in assistance payments have been provided to 141 advanced biofuel producers. On February 11th, 2011, an Interim Final Rule was published, and incorporated a NOFA for the 2010 funding in the amount of \$80 million. A second NOFA for \$85 million was published on March 11, 2011 for the FY 2011 funding.

Value-Added Producer Grant Program

The 2012 Budget requests funding for the Value-Added Producer Grant Program at \$20.4 million. This level of funding allows RBS to maintain this important program which encourages producers to refine or enhance their products, increasing their value and their returns to producers. On February 23, 2011, a Final Rule was published incorporating changes made by the 2008 Farm Bill and expanding the types of eligible applicants. The programmatic changes associated with the regulation will provide additional opportunities to beginning and socially disadvantaged producers by helping owners of small and medium-sized family farms sell their products in local and regional markets, reserving 10 percent of the total funds available for projects to benefit beginning and socially disadvantaged farmers and mid-tier value chains. The successes of the Value-Added program can be seen throughout the United States. In Montpelier, Vermont, the Screamin' Ridge Farm received a grant for \$31,000 in 2009. The purpose of the grant is to create a plan and determine the feasibility of buying a local restaurant/commercial kitchen that will process farm-produced raw materials and make them into value-added products. These products will be sold in the restaurant and as wholesale items to other direct retail markets. In Cresco, Iowa, the owners of Plant Peddler, Inc. received a \$140,000 grant to expand its business by starting a new division, Stone Creek Farms. In northeast Iowa, Plant Peddler, a vegetable producer, is developing Stone Creek Farms to market locally produced vegetables to its target market.

Rural Cooperatives

Cooperatives are an important form of business model that is the cornerstone for business development in some rural communities. Cooperatives provide rural residents with new job

opportunities, enhanced educational and healthcare services, and products that enable them to compete with their urban and suburban counterparts. Opportunities are created locally and revenues are maintained and re-circulated locally.

Rural Cooperative Development Grant Program

The Budget requests \$9.2 million for the Rural Cooperative Development Grant. This program provides support to centers to develop new cooperatives and improve existing cooperatives. This program complements our national and state office technical assistance efforts by increasing outreach and developing feasibility studies and business plans for new cooperatives and assisting existing cooperatives in meeting the demands of today's ever-changing global economy.

Grants to Assist Small, Minority Producers and ATTRA

The Budget requests \$3.5 million to support cooperatives or associations of cooperatives whose primary focus is to provide assistance to small, minority producers. In support of the Local Food Systems Initiative, Hillside Farmers Co-op in southeastern Minnesota received an \$113,865 a grant to partner with Latino farmers in southeastern Minnesota who, together, are committed to producing sustainable foods and building healthier communities. The co-op pairs immigrant families with established farmers in the area who rent out their land for gardening and poultry production.

Conclusion

Thank you for your time, Mr. Chairman and members of the Subcommittee. The Rural Business –Cooperative Service is committed to promoting economic prosperity in rural communities

through our loans, grants, loan guarantees, and payment programs. With your help, we will continue working to bridge the opportunity gap between rural and urban areas.