

## **RURAL DEVELOPMENT**

### **Statement of Gilbert G. Gonzalez, Acting Under Secretary before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies**

Mr. Chairman, Members of the Committee, it is a pleasure to present to you the President's FY 2005 Budget request for USDA, Rural Development.

This is my first opportunity to appear before you as Acting Under Secretary of Agriculture for Rural Development. I am honored to serve in this position, and to have the opportunity to work with you to carry out Rural Development's fundamental mission to increase economic opportunity and improve the quality of life in rural America.

Everyday, we bring people and resources together.

As Secretary Veneman recently testified, a primary component in USDA's efforts to better serve rural Americans is through greater customer service and efficiency in the delivery of our programs. At Rural Development we are seeking to accomplish these objectives through better marketing of our programs to qualified applicants and through developing a consistent structure of operation that lends itself to better customer service and improved outreach.

I believe that given the opportunity, Americans will create strength through investments in their own economic future. And I believe it is our role at Rural Development to support these efforts in ways that will maximize the benefits of rural economies.

With the assistance of this subcommittee, the Bush Administration has established a proud legacy of accomplishments in rural areas.

The Bush Administration has committed over \$37 billion in rural development investments in the last three years to support rural Americans' pursuit of economic opportunities and an improved quality of life.

Rural Development delivers over 40 different loan, loan guarantee, and grant programs enhancing business development, cooperative development, housing, community facilities, water supply, waste disposal, electric power, and telecommunications, including distance learning and telemedicine. Rural Development staff also provide technical assistance to rural families, and business and community leaders to ensure the success of those projects. In addition to loan-making responsibilities, Rural Development is responsible for the servicing and collection of a loan portfolio that exceeds \$86 billion.

Rural Development is the only Federal organization that can essentially build a town from the ground up through investments in infrastructure, homeownership and job creation through business development programs. We help rural Americans achieve their part of the American Dream.

To further support these efforts, we are working to build a collaborative group of Federal agencies that will act to strategically put Federal resources in place to serve as a catalyst for private investment. Partners in this effort include: Rural Development; Housing and Urban Development (HUD); the Small Business Administration; the Economic Development Administration; and the National Credit Union Association. In addition, we are working to increase the ability of faith-based organizations that partner with Rural Development to also support rural communities and their economic development efforts.

Successful economic development in rural areas is driven by local strategies where communities take ownership and focus on developing

leadership, technology, entrepreneurship, and higher education opportunities.

This new direction of collaborative effort follows the model the President established with the successful minority homeownership initiative he unveiled two years ago. This initiative is yielding tangible positive results and creating achievements we all take pride in.

### **Responsibilities**

Rural Development provides rural individuals, communities, businesses, associations, and other organizations with financial and technical assistance needed to increase economic opportunities and improve the quality of life in rural America. This financial and technical assistance may be provided solely by Rural Development or in collaboration with other public and private organizations promoting development in rural areas.

### **Vision**

To achieve our dual mission of creating greater economic opportunities and improving the quality of life for rural citizens, we understand the need to structure the delivery of Rural Development programs so that those who are most qualified receive investment assistance. Reaching maximum efficiency and utilization also requires that Rural Development do a better job of outreach and education on the programs that are available. Last year, during our testimony before this Committee, we stated that the marketing of Rural Development programs is a critical component in better serving rural areas. Today, we have embarked upon an aggressive outreach and marketing effort focused on the programs receiving appropriations rather than on the names of individual agencies receiving the appropriations. This effort is a key priority and we believe it will help ensure greater utilization of program

investment dollars by those who are most qualified.

Over the last three years (FY 2001-FY 2003) with your assistance Rural Development has delivered over \$37 billion in loans and grants to rural Americans. Through this infusion of infrastructure investment and local area income stimulus, many rural areas are primed to attract an increase in private sector investment. We expect to see these Federal investments returned many times over in the form of new private ventures, with their associated multiplier effects on household incomes and local quality of life.

Other primary goals include:

Homeownership:

The bedrock of this Administration's commitment to rural America is homeownership and you are key to fulfilling this commitment. A safe, secure home is the foundation for the family unit and owning a home is the oldest and best form of building equity. I am proud of the fact that Rural Development has invested over \$10.2 billion in the last three years in single family housing, which supports the President's minority homeownership goal.

Entrepreneurship:

I believe there are two key economic drivers for building competitiveness in rural communities. One is our ability to grasp and utilize the power of technology. The Internet, and the technology that has flowed from it, has resulted in the free flow of capital and easy access to knowledge across borders. It has made it possible for competition to develop and build production and value-added systems. The second economic driver is supporting the growth of small businesses in rural communities.

That is why we are focusing our energies on implementing a new low-documentation Business & Industry guarantee loan program, implementing the Rural Business Investment Program, underwriting broadband loans, and employing other new economic development tools to make the most of these key economic drivers.

### **Rural Development Budget Request**

The President's commitment to rural America remains strong, and our request will support a total program level of \$11.6 billion in loans and grants. This program level is very close to the FY 2004 budget request, in spite of elevated priorities in other areas and the increased interest costs of our credit programs.

I will now discuss the requests for specific Rural Development programs.

### **Rural Utility Programs**

Through the Rural Utilities Service, USDA Rural Development provides financing for electric, telecommunications, and water and waste disposal services that are essential for economic development in rural areas. The utilities program requests a total loan level of \$4.9 billion, which is comprised of \$2.6 billion for electric loan programs, \$495 million for rural telecommunication loans, \$25 million for Distance Learning and Telemedicine grants, \$331 million in loans for broadband transmission, over \$1 billion for direct and guaranteed Water and Waste Disposal loans, \$346 million for Water and Waste Disposal Grants, and \$3.5 million for Solid Waste Management Grants.

The Rural Telephone Bank (RTB) was established in 1972 to provide a supplemental source of credit to help establish rural telephone companies.

This has proved to be remarkably successful, and efforts have been underway to privatize the bank. In 1996, the RTB began repurchasing Class "A" stock from the Federal government, thereby beginning the process of transformation from a Federally funded organization to a fully privatized banking institution. The Fiscal Year 2005 budget reflects the Administration's commitment to a fully privatized RTB that does not require Federal funds to finance the loans it makes.

I would like to underscore two points in our Rural Utilities budget request. With the broadband program, we are building on over \$2 billion in mandatory and discretionary loan funding that was provided over the last two years. To date, approximately 90 applications totaling \$1.1 billion have been received and are in the review pipeline. Of those received, \$134 million in loans have been approved. Due to the uniqueness of this new program, from evaluating the pricing mechanism and ever-advancing technology component, to the ongoing subsidy debate associated with the prerequisite level of equity requirements, and the built-in commercial nature of the lending competition associated with this program, review of the applications has not been as swift as we would have hoped. However, we do believe that careful deliberation of these elements is required if we are to ensure the credit worthiness and soundness of the loans we make, especially since many of these companies are start-ups. This Administration is firmly committed to developing rural technology infrastructure and we are working hard to meet the expectations of the Congress and the public. For FY 2005, we are requesting \$9.9 million in discretionary budget authority, which will sustain an additional \$331 million of loans. This level of funding, coupled with the remaining balances from prior years, will provide ample support for the continued expansion of broadband services in rural areas.

Second, we are able to support the funding of water and wastewater infrastructure through heavier reliance on loans rather than grants due to

more affordable interest rates which allow rural communities to assume a greater portion of the infrastructure debt.

### **Rural Business-Cooperative Programs**

Since 2001, USDA Rural Development has provided over \$3.3 billion for rural business development in the form of loans, grants and technical assistance.

The Rural Development business and cooperative program budget request for FY 2005 is about \$738 million, the bulk of which is comprised of \$600 million for the Business & Industry loan guarantee program.

As I stated earlier in my testimony, creating economic opportunities is a primary pillar supporting the Rural Development mission. One of my priorities, which I have personally been working to implement, is the Rural Business Investment Program, authorized in the 2002 Farm Bill. This program is being developed in partnership with the Small Business Administration and is critical to economic growth in rural areas. Further, we are working to create a low-documentation version of the business and industry guarantee loan program that has less reliance on paperwork and more flexibility in providing smaller loan amounts to help more smaller businesses access much needed capital.

We are requesting \$40 million for the Rural Business Enterprise Grant program, \$3 million for the Rural Business Opportunity Grant program, over \$34 million for the Intermediary Relending Program, \$25 million for Rural Economic Development loans, \$5.5 million for Rural Cooperative Development grants, \$10.8 million in discretionary budget authority for renewable energy loans and grants, and \$15.5 million of discretionary funding for the Value-

Added grant program.

The \$10.8 million of discretionary budget authority for renewable energy loans and grants will assist in fulfilling the President's Energy Policy that encourages a clean and diverse portfolio of domestic energy supplies to meet future energy demands. In addition to helping diversify our energy portfolio, the development of renewable energy supplies will be environmentally friendly and assist in stimulating the national rural economy through the jobs created and additional incomes to farmers, ranchers, and rural small businesses. The allocation of this budget authority among direct loans, guaranteed loans, and grants is not determined at this time. Once the subsidy rates for the loan programs are finalized we will determine the distribution of loans and grants. This is important for rural communities and our country's ability to rely less on imported energy. I am committed to this program and the benefits it holds for America.

Rural Development has administered the value-added grant program since its inception as a pilot in FY 2001. Over that time, we have concentrated on improving outreach to assist in stimulating the most effective projects, and improving the application review process to ensure an empirically based, evenhanded review. We instituted a contract effort with highly educated and experienced academicians to make certain the scoring was unbiased. Geographic dispersion was not included as an evaluation criterion. However, I am concerned that the distribution of the latest awards does not reflect the breadth of innovative talent that I know is spread across rural America. I am instituting a review of our outreach and technical assistance provisions, to determine if improvements are needed in Rural Development's assistance to potential applicants. I have also initiated a review of project results. We would like to identify the characteristics of successful projects, and what benefits are accruing to rural areas.

As we stated during our testimony last year, one of our top priorities is to review the current cooperative service delivery structure. I am committed to completing this review and ensuring that we have a program that not only meets the current cooperative needs, but also focuses on helping new generations of cooperatives develop structures that will increase bottom lined profitability and allow them to be more competitive in domestic and global markets.

### **Rural Housing Programs**

The budget request for USDA Rural Development's housing programs totals \$5.3 billion in loan and grant funds. This funding commitment will improve housing conditions in rural areas, and continue to promote homeownership opportunities for minority populations. In support of the President's homeownership initiative, Rural Development's goal is to increase minority participation in housing programs by ten percent over the next few years.

The request for single-family direct and guaranteed homeownership loans exceeds \$3.8 billion, which will assist almost 42,800 households, who are unable to obtain credit elsewhere.

The housing program request maintains the program level for housing repair loans and grants, \$35 million for housing repair loans and almost \$32 million for housing repair grants, which will be used to improve 10,000 existing single-family houses, mostly occupied by low-income elderly residents.

This budget maintains Rural Development's commitment to focus on repair, rehabilitation, and preservation of multi-family housing projects. We have

placed a very high priority on completing review and development of a comprehensive strategy for delivering this important program. I am committed to seeing this review completed as quickly as possible. Additionally, we are working to complete the promulgation of revised multi-family housing regulations that we believe will increase program efficiency. We are proposing a multi-family housing request of \$60 million for direct loans, \$100 million for guaranteed loans, \$42 million for farm labor housing loans, \$17 million for farm labor housing grants, and \$592 million in rental assistance. Rural Development has an existing multi-family housing portfolio of \$12 billion that includes 17,800 projects. Many of these projects are 20 years old or older, and face rehabilitation needs. In the face of the demands for repair/rehabilitation and preservation of existing projects, and our ongoing study of program alternatives, we are deferring requesting new construction funding this year. I would add, however, that we are working with the secondary market to increase utilization of the guaranteed loan program, for which the Administration has requested \$100 million for new construction needs.

This budget sustains the farm labor-housing program at an aggregate level of \$59 million - \$42 million of loans and \$17 million of grants. Maintaining this level is necessary to support agriculture's need for dependable labor to harvest the abundance produced by rural farms, and provide housing to the poorest housed workers of any sector in the economy.

Rental Assistance payments are used to reduce the rent in multi-family and farm labor housing projects to no more than 30 percent of the income of very low- income occupants (typically female heads of households and the elderly, with annual incomes averaging about \$8,000). The budget includes \$592 million for Rental Assistance, which will be delivered through four-year agreements. This level of funding will provide rental assistance to almost

45,000 households, most of which would be used for renewing expiring contracts in existing projects. With the FY 2004 reduction in contract term to four years, the appropriations act allows Rural Development to utilize unliquidated balances at the end of that contract term for many other eligible multi-family housing purposes. For the history of this program, unliquidated balances remained with the contract, and continued to be expended on that contract until exhausted. This budget reflects a return to that arrangement. We are concerned that providing this extra program flexibility to Rural Development may, in fact, reduce the confidence of future Section 515 participants that necessary Rental Assistance will be provided in the future.

The Community Facilities request totals \$527 million, including \$300 million for direct loans, \$210 million for guaranteed loans, and \$17 million for grants. A portion of the direct loan program will be directed to homeland security health and safety issues in rural areas. Community facilities programs finance rural health facilities, childcare facilities, fire and safety facilities, jails, education facilities, and almost any other type of essential community facility needed in rural America. We intend to target \$100 million to homeland security uses, such as first responders.

#### **Administrative Expenses**

Delivering these programs to the remote, isolated, and low-income areas of rural America requires administrative expenses sufficient to the task. From FY 1996 through FY 2003 Rural Development's annual delivered program level increased by 89 percent. Over that same period Rural Development's Salaries and Expenses appropriation increased only 16 percent. Rural Development has the staff and the dispersed distribution mechanism to reach the ambitious program targets outlined above, but adequate administrative support must be made available.

With an outstanding loan portfolio exceeding \$86 billion, fiduciary responsibilities mandate that Rural Development maintain adequately trained staff, employ state of the art automated financial systems, and monitor borrowers' activities and loan security to ensure protection of the public's financial interests. Limited S&E funding could jeopardize our ability to provide adequate underwriting and loan servicing to safeguard the public's interests.

For 2005, the budget proposes a total of \$665.6 million for Rural Development S&E, or an increase of \$38.9 million over FY 2004. Of this increase, \$11.6 million will fund pay costs and related expenses; and \$13 million is for increasing Departmental charges (Greenbook and Working Capital Fund increases) and funding to continue to support the move of St. Louis staff to the Goodfellow facility. An additional \$14 million will support Information Technology (IT) needs, including data warehousing, continued expansion and upgrading of systems supporting the multi-family housing program, enhancement of the Rural Utilities Loan Servicing system to meet rural utilities program needs, e-Gov requirements, and IT security needs.

Mr. Chairman and Members of the Committee, this concludes my formal statement. We would be glad to answer any questions you may have. Thank you for the opportunity to appear before you to discuss the Rural Development budget request.