RURAL DEVELOPMENT PROGRAMS

HEARING

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SUBCOMMITTEE ON CONSERVATION, CREDIT, RURAL DEVELOPMENT, AND RESEARCH

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RURAL DEVELOPMENT PROGRAMS

THURSDAY, MARCH 30, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION, CREDIT,
RURAL DEVELOPMENT AND RESEARCH
COMMITTEE ON AGRICULTURE
Washington, DC.

The subcommittee met, pursuant to call, at 10:00 a.m., in room 1300 of the Longworth House Office Building, Hon. Frank D. Lucas (chairman of the subcommittee) presiding.

Members present: Representatives Moran, Osborne, King, Fortenberry, Goodlatte [ex officio], Holden, Cuellar, McIntyre, Etheridge, Case, Davis, Herseth, Butterfield, and Peterson [ex officio].

Staff present: Pete Thomson, Josh Maxwell, Tyler Wegmeyer, Jeremy Carter, Callista Gingrich, clerk; Lindsey Correa, Nona Darrell, Rob Larew, Russell Middleton, and Clark Ogilvie.

OPENING STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. LUCAS. The subcommittee will come to order.

Good morning and welcome to the subcommittee hearing. We are here to review the rural development programs, and more specifically to examine the rural development title of the 2002 farm bill and its effects on rural America.

In 2001, we met in this very same room to discuss the issues facing rural America. Five years later I find that we are facing some of the very same questions. For example, the committee must decide if it will continue to authorize mandatory spending for rural development programs or whether the programs would be better served through discretionary funding. That being said, I want to make it clear that the Appropriations Committee will not be able to increase funding for many of our programs and it will be up to the constituency groups to work to maintain those current funding levels.

We must also determine the best ways to implement programs to reach the rural constituency. It will be incumbent upon local leaders to work with their associations, in conjunction with the Federal Government, to determine how best to serve their communities. Current programs must be fair in meeting the goals of rural development while being flexible enough to meet the needs of a changing rural society. In terms of competitive grants and loan programs, small towns must be able to compete on a level playing field with growing cities.

There are also the challenges of mixed definitions as to what can be considered rural. Many small towns and farm communities have become incorporated with growing cities because of increasing urban sprawl. Should these urban areas be excluded from funding even though they have further development needs in their infrastructure to support that growing population? I believe we should work to find a consistent definition of the term rural that would apply to all programs across all agencies.

It is my not my intention to paint such a bleak picture because there have been many successes. The development of renewable fuels has brought increased entrepreneurship to our rural centers. The construction of new ethanol and biodiesel plants, many funded through USDA's Rural Business Cooperative Service programs, have helped to develop new markets for our producers, created 150,000 jobs and increasing economic activity in our rural communities.

The Value Added Program, which was reauthorized in the 2002 farm bill, has become a huge success with producers in finding new niche markets, increasing the value of their products, and helping to diversify income. We can use these programs as examples of success stories that help to close the economic growth gap that exists between rural and urban areas. Today we are going to hear about many new ideas and programs for the subcommittee's consideration.

Before doing so, I put forth the following considerations. Should we create new programs before securing adequate and consistent funding for existing programs, can we combine any of our current programs to broaden their constituency, and, finally, are these programs completing the mission of rural development by targeting and enhancing those financial and technical communities with the greatest needs? These are among the issues that will be under consideration, and I look forward with great enthusiasm to the testimony and the answers to the questions that we will hear.

With that, I would like to turn to my ranking member, Mr. Holden, from Pennsylvania for any statement he might have.

OPENING STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Mr. HOLDEN. Thank you, Mr. Chairman, for holding this important hearing. I hope it will provide a good review of the value of USDA's rural development programs. I look forward to hearing from our witnesses, especially Under Secretary Dorr, and Pennsylvania Deputy Secretary for Marketing and Economic Development Cheryl Cook, who is a former USDA Rural Development State Director.

As I am sure we all know, a vibrant rural community is a place of opportunity. A strong rural community is made up of individuals and businesses who are committed to their community, and who are active and willing participants in community efforts to undertake positive change. Yet, small size and remoteness are major constraints in rural development efforts. So how do we overcome these factors in generating positive change in rural areas?

My home State of Pennsylvania has one of the largest rural populations in the Nation, but only 18 percent of that population is employed in farming or farming-related jobs, a figure that is even lower across the country. Farming may have once been the mainstay of most rural economies, but that is no longer the case. Rural development now means supporting services to communities that are extremely diverse.

So while rural development programs become more important, and there are so many needs across the country, I am concerned that the administration's budget proposal for fiscal year 2007 ask rural development programs to take a disproportionate cut. We have also witnessed a limitation of mandatory funds and a decrease in discretionary dollars for rural development programs during the past several appropriations cycles. One major question we need to ask ourselves during the next farm bill is how do we protect crucial financial assistance to our rural communities?

USDA rural development importantly promotes economic development, supports essential public facilities and services, and helps communities undertake community empowerment programs. One thing I would like to mention, though, is that USDA rural development's interest rates may seem low, but in Pennsylvania, and I am sure in other States, they are not competitive with programs such as the PENNVEST infrastructure investment that helps Pennsylvania municipalities and some private entities fund sewer, storm water and drinking water projects that contribute to improving the environment and human health. I am sure other States have similar programs, and I think USDA has the responsibility to become more competitive.

I believe that when rural communities have adequate water treatment facilities and services, and when they can provide their citizens and businesses with electricity and telecommunication services, and when they have sufficient protection from crime and fire, when they can secure adequate health care and opportunities for education and recreation, and when they are able to offer businesses access to technical and financial assistance, they can attract industry to provide good jobs and ensure a high quality of life for their residents.

I believe USDA rural development programs help to provide this, and I look forward to hearing from our witnesses today, Mr. Chairman. Thank you.

Mr. LUCAS. The Chair thanks the gentleman from Pennsylvania, and now we are very pleased to have the ranking member from the full committee, Mr. Peterson, here.

OPENING STATEMENT OF HON. COLLIN PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and thank you and Mr. Holden for your leadership. Mr. Holden was one of our leaders in trying to get this process going back in the 2002 farm bill, and I think this hearing will help us focus as we get ready for the next farm bill. In my district since I have been elected, I have somebody out there working full time on economic development. A lot of that work has been through rural development, and we have done a lot of successful things.

But things are changing out there, and one of my concerns is that as we look at this that we focus in on some of the opportunities and what I think maybe are some of the challenges that are being actually created by those opportunities. As all of you know, the biofuels, ethanol, biodiesel thing is hotter than a pistol right now. It is the new hot thing. People on Wall Street and Fortune magazine and the Wall Street Journal that used to trash us a few years ago all of a sudden now discovered ethanol and it is the big hot investment thing out there in all of the business publications and so forth, which I guess is a good thing but I am a little bit concerned that in Minnesota we have been able to develop an industry because we have had a mandate and we have been a leader in this area.

The farmers, by and large, have owned the plants, but I see that changing. I see that all this money coming in and we are having plants built now where the farmers are basically told they can't buy any equity. And I am very concerned about that as we move ahead. I think we need to—I don't know how exactly we do it, but we need to try to make available at least some ability for farmers to buy into the equity of these plants that are in their area if we are going to make things work out into the future.

So that is one thing I think we need to focus on. But I think the biggest issue we have in ethanol is not so much building plants. I think that is going to happen, and some people are concerned we might build too much capacity in the short term, but I think the real issue there is the distribution system is where we really have a problem. Steve King and I were in Brazil last week with Senator Grassley. Of course, Brazil has an alcohol pump in every gas station in the country. We have 650 E–85 ethanol pumps out of 180,000 in the United States. That is a big problem. And that in my opinion is the biggest bottle neck we have in really growing this industry.

I don't know if there is something that we can do through rural development or through this committee to try to push that availability because every day I am being stopped by an urban Member of suburban Member of Congress asking me about ethanol wanting to know how they can get E–85 in Chicago or in New Jersey or wherever. So I think that this is an issue that we got to try to figure out some way. Even though these pumps are in the urban area they really in my opinion are going to benefit the rural areas. And this is a whole new situation compared to where we have been in looking at rural development.

So I think as we move ahead we need to explore some of these issues and some of these ideas that are out there. I don't know exactly, it is hard to change the whole system but I am working a bill right now, and I don't know if I can do this or not, to see if we can somehow or another mandate that everybody that sells gas in the United States has to have an E–85 pump. I know that is kind of a drastic idea but, you know, and maybe going along with that we will have to do some kind of financing but in my district we have gone out and worked with the gas stations, and they have converted their premium pumps to E–85, so it costs them hardly any money.

What they found out was they sold more E–85 than they ever sold premium so I mean the opportunities are out there, and, you know, I hope this committee can provide some leadership in trying to get this moved ahead and maybe rural development or that part of what we do in the farm bill can help us move it in that direction. So I appreciate your indulgence in letting me ramble around here.

I would also like to say we have a couple of leaders from Minnesota that are here today to testify, Colleen Landkamer from Blue Earth County, who has been a leader in Minnesota, and I think you are going to be the next president of NACO next year. She is here with us. She is from Congressman Gutknecht's district right south of my district.

And from my hometown of Detroit Lakes, we have Arlen Kangas, who is president of Midwest Community Development Corporation, who has been very active in working on rural development issues in my district along with my staff. He is here to tell you straight up about how they make things work out on the ground there. He is a Finlander and he is very direct so you will have to understand that when he gets up there, but he is a good guy and he I think can provide a lot of input in this hearing today. So thank you, Mr. Chairman, and Mr. Holden for your leadership. I look forward to the hearing.

Mr. LUCAS. Mr. Peterson, I cannot imagine anyone from your area that would not be to the point, which is appreciated. Thank you. The Chair would request that other Members submit their opening statements for the record so that the witnesses can begin their testimony and to ensure that we have ample time for questions.

And with that, we would like to welcome the first panel, the Honorable Thomas Dorr, Under Secretary for Rural Development, U.S. Department of Agriculture, accompanied by Mr. Russell Davis, Administrator for Housing and Community Facilities Programs, Rural Development, USDA; Mr. Jackie Gleason, Acting Administrator for Business and Cooperative Programs, Rural Development, USDA; and Mr. James Andrew, Administrator for Utility Programs, Rural Development, USDA. And, Mr. Secretary, whenever you are ready, please begin.

STATEMENT OF THOMAS C. DORR, UNDER SECRETARY, RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. DORR. Mr. Chairman, thank you very much, and, yes, his name really is Jackie Gleason. We aren't going to shoot Helen to the moon yet but we are delighted he is part of our team.

Mr. Chairman and members of the committee, thank you for the invitation to testify today. As we approach the next farm bill, all of us recognize that there are difficult 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, technical support, investment capital and business models that rural entrepreneurs and rural communities need to realize this potential. In rural development we administer more than 40 programs covering infrastructure, housing, community facilities and a lot of economic development. This year we will deliver approximately $17.4 billion in program level driven by a budget authority of just $1.96 billion.

That is a multiplier of almost 900 percent. By themselves, however, the individual programs are simply a tool kit. The important thing is accomplishing the mission, and 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 do not farm. Approximately 96 percent of all rural America's income is non-farm.

In addition, the great majority of farm families rely heavily on off farm income, and as the Farm Bureau puts it, farmers are more dependent on rural communities than rural communities are dependent on farmers. That is a quote out of their recently released MAAPP report. It used to be that 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 the farm are therefore vital issues for the next farm bill.

Second, and very importantly, is that sustainable development must be market driven. If we don't leverage private investment, if we sit back and rely on a program driven model then in my view we are wasting a historic opportunity. And, third, to unleash entrepreneurial development we need to leverage the resources we already have. For example, according to the USDA farm balance sheet, and these are February 2006 estimates, farm equity in the United States exceeded $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 as well as the entrepreneurs to make it work. The key for us is to encourage partnerships and leveraging. 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 it equates to 11½ percent of USDA's program level. That is just the leveraging from loans and loan guarantees, not including the private investment dollars our 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 on line and attempting to reduce costs. We are looking for ways to reduce stove piping and cross train our field staffs to improve the efficiencies of our local offices. This is a never ending process, and it is one that we take very seriously. In closing, Mr. Chairman, let me express my appreciation for the very generous support that President Bush and the Congress have given USDA rural development. Rural America enjoys extraordinary opportunities from bio-based products to ethanol, biodiesel, wind, and other new energy sources to broadband driven manufacturing and service businesses. These are all opportunities that we can ill afford to miss.

We are committed to helping realize that potential. I know that you are as well, and we look forward to working with you. Thank you very much. I will enjoy taking any of your questions.

[The prepared statement of Mr. Dorr appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you, Mr. Secretary. And we are also pleased to have the chairman of the full committee to participate in the hearing today.

I think now we turn to questions. One of the challenges, and you and I have discussed this before, Secretary, one of the challenges seems to be in our efforts in rural development is developing a consensus on the definition of what rural areas are and economic development and how best to achieve that. How does this some time seemingly lack of consensus or consistency in the definition of rural areas and economic development, how does that affect your role as an under secretary, sir?

Mr. DORR. Well, clearly, rural definitions are at the core of how we deliver our programs and to whom we deliver them. Most all of our programs with the exception of electric and some of the B&I programs are quantified around a rural definition of 20,000 or less. These definitions tend to change periodically by statute changes as well. I think it is important that we continue to gear our programs to serve those entrepreneurial activities in rural areas that clearly will be sustained by market opportunities.

Also, as I think I have indicated at other times that frequently these population challenges that we see are a result also of some success. I know that it is not always easy to accommodate but usually in many cases regional development evolves as a result of successful entrepreneurial activity and successful economic development in many of these communities so as a result people tend to migrate to these areas and consequently not every small rural community is sustainable. We recognize that, but we also find that we migrate toward regional areas which begin to challenge the 20,000 population definition.

I think that is a success, and I think we need to acknowledge it in that respect but we will have to work through these on a regular basis program by program and with Congress, and we will appreciate any input we can get from you as well.

Mr. LUCAS. One more question along that line with is the number of programs and initiatives is the continuality. Do you think that affects our efficiency, our ability to improve and enhance these programs we seem to over time start and stop? We refocus our attention. Is that an issue sometimes as you work through these things? I mean there are some efforts like rural electrification has gone on since the 1930's. In other areas we seem to not always be consistent in our initiatives. Is that frustrating? Do you have any advice on that, Mr. Secretary?

Mr. DORR. I don't know it is frustrating so much as it really relates to the evolving change of economic growth and development in rural areas. For example, on the rural electric issue, and this has been one that has come up on a very regular basis, our utility program staff have gone back and done an in-depth analysis, and we find that well in excess of 90 percent of our program loans go to these areas of 2,500 population and less, and so we believe that we comport very well with that statutory guideline.

On the other hand, when you look at new entrepreneurial developments that access producer capital and rural America capital such as an ethanol plant or a biodiesel plant, if you may, frequently these will be located near a population center for purposes of benefiting that business as it built itself out, and yet it may be well funded by lots of local rural producer money. In fact, that is what we hope because it does create wealth that is maintained in those communities.

These are challenges that we are just simply going to have to work through. I think what the intent of all of these programs are, and what I would hope they are, is to foster the development of wealth creation in these rural communities and maintain it in those communities. And if we focus this in that way I think we will do fine.

Mr. LUCAS. Thank you, Mr. Secretary. The Chair now turns to the ranking member for any questions he might have.

Mr. HOLDEN. Thank you, Mr. Chairman. Mr. Secretary, we all know since the last farm bill that the appropriators have limited our dollars, and we also know that the recent reconciliation and proposed budget have put forth what I think, as I mentioned in my opening statement, disproportionate cuts in rural development. I am just curious. Have these recent events limited your ability to accomplish your mission? Is there a backlog across the country on different projects being proposed and how are you dealing with these reductions in funding?

Mr. DORR. Well, there are obviously some backlogs. One that is a continual issue is the water and waste area. We know that. We all know that. And I am pleased to at least indicate that we are looking at some things. I am not at liberty really to go into a great deal of detail but we are looking at some creative ways to extend or leverage our resources in that area to help mitigate that. Interestingly enough, when you look at rural development program level from the time that rural development was first reorganized or became what it is today back in 1995 or 1996, our program level from 1996, I believe, or 1995 or 1996, was about $6.8 billion.

Today, on an apples to apples basis, it is now approaching $17 billion. And that includes some supplemental funds for the Katrina and related hurricane initiatives, but without supplemental funds, I believe we would be right at that $15 billion, $15.5 billion program level. Yes, one of the things that has helped us is that we migrated away from grants and direct loans to more guaranteed loans. That has allowed us to leverage things.

But, interestingly enough, in tracking those we find that because they are guaranteed loans, because they originated frequently with the local level, they seem to be very, very successful. Our default rates are considerably less than when they were direct loan programs. So we will work within these resource bases because frankly we are able to extend them, I think, farther than most people anticipated.

Mr. HOLDEN. Following up on our meeting that we had yesterday, Mr. Secretary, what concerns me, as I mentioned to you, was the decreasing amount of grant money that is available. In Pennsylvania, and I am sure across the country, we have so many municipalities that do not have public water or public sewer, and a lot of them in my district are lower income. And without the availability of grant money, it is almost impossible to try to move forward to get these plants up and running.

And just combining that because it would be a follow-up question to that, as we had a chance to talk yesterday, what concerns me about the loan program for USDA is the percentage is not competitive with the program that is available in Pennsylvania. And I am sure many other States have it too where the commonwealth offers 1 percent loan program and the USDA with grant money included but 4½ percent. It just isn't competitive to be able, I think, to accomplish your mission.

Mr. DORR. Well, let me take a stab at the last part of your question. We have made some modifications in our loan rates, as you are perhaps well aware, that our interest rate for these water and waste loan programs are predicated on a bond index. Up until this year we had a poverty rate that was locked in at 4½ percent because interest rates had typically been higher than that. When the market flip flopped, we became aware of the fact that we were going to have to modify how we handled that.

So I am not sure if that reg is done. I believe it is done, is it not? Yes, that regulation has been put in place but what we have done are using a bond index, the one that we have always used for the market rates, and then our intermediate and our poverty rates are I believe 50 and 100 basis points below that so the poverty rate will continually be lower than the market rate.

On the issue of the amount of grant money available frankly we are simply dealing with limited resources. We recognize that. We try to manage the program so that grants are front loaded and allow communities to work their way into these. We monitor very closely debt loads and debt service loads. I still feel fairly comfortable that they are manageable debt service levels that have not gotten substantially out of hand, and we will do the best we can with the resources we have.

Mr. HOLDEN. And I know you will, and that is an OMB problem. I know that. But unless we find more resources for grant money for these lower income municipalities I am afraid your ability to be successful is going to be limited. Thank you, Mr. Chairman.

Mr. LUCAS. Thank you. The Chair now turns to the chairman of the full committee for any questions he might have.

The CHAIRMAN. Thank you, Mr. Chairman. I appreciate your holding this hearing, and Secretary Dorr, welcome. We are delighted to have you with us. I appreciated very much the opportunity to meet with you the other day to talk about some of your initiatives, and I very much appreciate some of the things you have done. I especially appreciate the work that is done by rural development in the Commonwealth of Virginia. You work very well with our State and local governments on a wide array of economic development initiatives that have helped a number of rural communities in my congressional district and elsewhere in the State, and we very much appreciate that.

There are tremendous opportunities in rural America but also tremendous challenges. We are becoming increasingly the attention of many in the country as a potential source for renewable resources. We have a very high quality of life, which if we can bring high speed broadband services to rural communities means that you now can live in Rockridge County, Virginia or Shenandoah County, and do some of the things that you used to have to be on Wall Street or inside the Beltway or in some other major urban area. Now we can attract high paying jobs to rural areas if we bring that technology there.

So building wealth is essential to the future of rural America, and I wonder if you might tell us what types of investments from both the private and public sector are best suited for that objective, and in other words how do we enable citizens of rural America to access the opportunities available from alternative energy and broadband service.

Mr. DORR. Well, that is an excellent question, and it is an evolving one relative to the President's commitment to energy security in this country, and his recently announced very substantial commitment to bio-based energy development. What I like to say when we are out talking about this is that there are significant opportunities in rural America and you have identified all of them. And number 1 is place. It is a comparative advantage in many respects, and we think that if we approach it properly we are going to create the opportunities for families to actually stay there and raise their families in rural areas. And it is going to be a result of the deployment and placement of broadband in these rural areas that allow people to work and do the sorts of things that historically they would never have been able to access, either markets or capital or knowledge or a number of things.

And that, combined with now this new push toward energy security clearly levers rural America in ways that it hasn't had the opportunity for in some time. Almost all of these new energy opportunities whether they be bio-mass or bio-based, solar, geo-thermal, any one of a number of others that we are talking about, are largely agricultural in nature or at least rural in nature.

The interesting part about all of this is, we have had the chance to discuss this briefly, is that most of these are going to be distributed in nature, and because they are distributed in nature it means there are going to be different business models that are required, which means that there are going to be different tax structures and investment vehicles and ultimately regulatory structures to enable them to successfully be built out in these rural areas.

A classic example in my views is wind energy. The traditional and public utility regulatory regimens for electricity are designed to regulate the 200 to 1000 megawatt generation facility that allows the electricity to be transmitted or transferred and priced in a commercial residential regiment but doesn't necessarily reflect the ability to price distributed wind based on base pricing or avoided cost structures.

These are things that we are beginning to take a close look at rural development and try to bring some of the necessary resources and insight to bear on it, and, frankly, something we are going to have to work with all of you and a number of folks throughout the country to make sure that we identify these issues and address them in a way that makes sense.

The CHAIRMAN. Thank you. Let me ask you about in some respects the converse of this, and that is about the term capacity building, which we hear more and more here in the Congress. People come to us for funding for capacity building. It is a term frequently mentioned in rural development discussions. I would like to know what it means to you, and, more importantly, how do we insure that capacity building initiatives do not lead to dependence on programs and reluctance to embrace market signals in the rural economy. What mechanisms will enable rural communities to translate capacity building into real life successful initiative? Mr. Chairman, if I might have leave to allow the Secretary to answer that question although my time has expired?

Mr. LUCAS. Of course. Mr. Secretary.

Mr. DORR. I am not sure that I have a good answer for the issue of capacity building outside of the fact that I believe that markets drive everything. I feel quite strongly that if the markets are allowed to function in these rural areas and these rural communities utilizing these new technology tools and placing themselves in a position to exploit these new energy opportunities based on attaining energy security that what we will find is that people will move into. It will be attractive for people to want to live in these areas, to want to work in these areas.

A classic example is a 45 or 50 million gallon ethanol plant historically generates about 35 jobs that pay substantially more than the normal rural job does. That attracts people to return to these communities. It attracts people who are better educated. It attracts people who are more interested in their civic obligations, the cultural, the recreational opportunities in these areas, and that in turn becomes self-stimulating.

I think it is important to recognize that it is important to make sure that we don't do things that impede that, and in the long run I think that is what ultimately builds us our capacity. There are a lot of sociological and academic regimens to accomplish this, and I am not sure that I understand all of them or that I could pinpoint one that would necessarily get us where we wanted to be.

Mr. LUCAS. Thank you. The Chair now turns to the ranking member.

Mr. PETERSON. Thank you, Mr. Chairman. I will try to be brief. Thank you, Mr. Secretary, for being with us, and I too appreciated the chance to visit with you briefly. Sorry I had to run off but we will have to spend some more time one of these days. As I mentioned in my opening statement, I have concern about in the ethanol area primarily about the issue that we talked about with the farmers having the ability to be involved in the equity of these ethanol plants so I guess if you could just tell us what you thing is going on in that other area.

The other thing is my concern about the whole distribution system. In Brazil they are starting to build pipelines now for ethanol. We probably should be doing that here in the U.S. Is there a role in rural development to help us try to get that process moving?

And is there any role for rural development in trying to make E–85 fuel available across the country, primarily in urban areas where you can't get it now?

Mr. DORR. Well, clearly, I think good policy always has a role. I am not sure that I am smart enough to tell you exactly what always makes good policy at every given moment. Clearly, the Value Added development grant program, the 9006 Energy Program have been significant in the context that they fostered the build out now of ethanol in ways that I think 4 or 5 years ago we would never have imagined. And yet I think it is particularly interesting to reflect on what actually has occurred in the dry milling ethanol industry over the last 25 years.

I was on the Iowa Corn Growers board of directors in the early 1970's when we passed the first check-off in Iowa. And the interesting thing about that was that it was initially defined as a supply management program. We were trying to sell ethanol but clearly we wanted to get rid of corn. And yet by the same token by 1980 after we had gone through the original energy crisis people realized that there was some significant value to this other energy source, and yet most of the technology was with the wet millers, the technology driven by wet millers.

The dry milling industry was actually viewed as being almost Neanderthal. These guys that were dry millers were through of as guys that couldn't get their hands off the ground and they are walking around. And yet over the next 25 years a substantial number of farmers worked together and developed and put together in place a dry milling industry that I think frankly is a marvel of anyone who has looked at where they have come from and where they are today. They have gone from efficiency factors of a plant running 320 days a year to 360 or 365 nearly. The conversions have gone up. Their labor costs have gone down. Their capital costs have gone down, and they have been responsible for creating some of the most fascinating disruptive technology implementations of anything I have seen in any industry.

So I am not sure how responsible we can be for those and how we best go about it other than I do believe that these are distributed business models. This renewable energy is going to require plants built close to the raw resource, and I don't think we can change that, and that means that that creates substantial opportunities for rural citizens to invest in these and to keep that wealth in these communities.

As I believe I mentioned to you the other day, I attended a renewable energy finance forum in New York City last summer. There were 570 registered participants, almost all of them from around the country and financial centers. They represented $125 billion. They wanted to invest in what they call green energy. I think the most important thing we can do is to create the kinds of tax and regulatory regimens that make it easy for these distributed models to occur and then provide the education and provide the technical assistance, if we can, for those who want to invest and to build out and encourage local rural residents to be the ones to do so.

Mr. PETERSON. If I could just say that I agree with most of what you said but what I am concerned about and I just would like you to take under consideration is we have had some situations where we had one plant, for example, that was being put together as a co-op with local producers, and all of a sudden some other money came in and basically they took over the plant. The farmers were told they didn't have any ability to have any equity in it.

And that is just one example. We have got other examples of plants being built where this all is being done with private money from outside the area. And maybe there is not anything we can do about that but I just think if we are ever going to get to the point where we don't have to have subsidies in corn and soybeans and wheat and so forth this is one of the opportunities to get us off of that system, and we need to have the ability of these producers to have equity ownership. If they don't own the whole plant, at least they own some of it so that they can make some money out of the value added, and so whatever you can do to work with us on that, I would appreciate it.

Mr. DORR. I would be delighted to.

Mr. MORAN [presiding]. Mr. Secretary, I appreciate you being here today. I appreciate the opportunity we had to visit yesterday, and I commend you for your leadership and efforts at the Department of Agriculture. I think we are headed in the right direction when it comes to rural development. Many challenges out there, but I feel comfortable with you taking the role that you have assumed.

Yesterday when we visited we talked a bit about farm income, and one of the complaints I have had with USDA is the way they calculate what appears to be I guess a definitional issue, what is farm income. And the last several years up until this year the indications by USDA economists and therefore USDA reports was increasing farm income. And this year USDA reports indicate that farm income has declined, expected to be less.

I would like for you to have a bit of the discussion that we had yesterday afternoon for the record about the role that non-farm income or off the farm income plays in those numbers generated by USDA, and so maybe to start that is what percentage of farm income is what we would consider off the farm?

Mr. DORR. I am not sure that I can give you an exact number on that, and I think it is something I should get back to you on but we commonly suggest that in excess of 90 percent of all income in rural America comes from on or off farm sources. Those numbers perhaps are sometimes disconcerting, but when you realize that if you go back to the Farm Bureau's recent report and point out that 143,000 producers produce 75 percent of the food and fiber that is consumed domestically and exported and put those numbers up against GDB, they are not particularly astounding to me in the sense that I think they reflect the proportionate share of GDB that agriculture is involved in, and particularly those 140,000 some producers, but we can get the exact numbers for you.

Mr. MORAN. I do think that the economic reports issued by the Department of Agriculture really disguise the difficulty, often disguise the difficulty that farmers are having in regard to earning a living on the farm. And also I assume, and you may not have this number with you this morning, but I assume that there is a significant portion of our farmers in this country who earn their living not directly from farm income, and I raise these topics for a number of reasons but with you here this morning it to me highlights the importance of rural development, of job creation, because most of my farmers no longer earn their living solely from farming.

And so even if you care about farmers, you got to care about the opportunity for those farmers, the husband or wife or both, to be able to secure a job separate from the operations of their farm. Any response to that?

Mr. DORR. Certainly. And I think you have pretty precisely hit on the issue. I personally believe that we are on the cusp in a broad sense of some very potentially strong economic times in rural America because of the fact that broadband allows us to deploy knowledge, markets, access to capital in ways that it never occurred before. But the interesting thing is that when you look at these new wealth creation opportunities of rural America whether they be value added food products that are occurring on a regular basis by a number of producers or whether it be the bio-energy issue or wind farms or whatever, these are typically million dollar projects, and they require different kinds of financing.

They require different types of businesses, and as a result clearly no individual farmer is probably going to step up and put up a $4 million or $5 million or $6 million for a single investment in a wind farmer or whatever, so we have to re-evaluate how we identify some of these. I don't think there is any question——

Mr. MORAN. Mr. Secretary, before that light goes from amber to red, let me raise two other points, and this one I don't expect you to answer but perhaps you can point me in the right direction, and perhaps the next panel or two can point me in that direction or provide me information, but I think ultimately as an agriculture committee we got a decision to make. Do you put additional dollars into farm program, a so-called commodity title, or do you put additional dollars into rural development. We got to prioritize based upon resources available.

And I would be interested in knowing if—again, I doubt that the Department of Agriculture wants to answer this question but perhaps the private sector, the research institutions out there have a report that could tell us about the bang for a buck. Another dollar into commodity dollar versus another dollar into rural development and what we get for that dollar. And, second, as there are conversations at USDA about consolidation of programs, co-location as well as elimination of county offices, again, this on the FSA side of agriculture, but one of the missions of the Department of Agriculture is rural development.

And it has been troublesome to me as I have watched FSA develop plans to consolidate offices, it seems to me that someone over at the Department of Agriculture ought to be reminding folks at FSA about the importance of the county office and the four or five employees that are in some of our smallest communities as compared to the trend of always locating every USDA job in the regional center where the population is larger. And it is just troublesome to me that that is not an automatic light that comes on at the Department of Agriculture, a recognition that four or five jobs in a community of 2,000 may be more significant than retaining four or five jobs in a community of 25,000 or 50,000, and so if you have a role to play in those discussions among your peers promote the importance of how important a few jobs are in our smallest communities as compared to our largest.

And I have difficulty talking about this topic although I don't represent any really large communities there is always a battle about where those jobs go, but it seems to me where we get the bang for the buck where they are the most important is in some of our smaller communities as compared to always moving to where the population centers, at least what we call population centers at home are located. My time has expired. I recognize the gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Mr. Under Secretary, thank you for being here. Recently, I toured the Gulf Coast for the second time. And I know I don't represent that area but I do represent an area that has been devastated by hurricanes in the past. And it was my impression from the President's remarks that the area know as the Gulf Opportunity Zone would be an area that would be eligible for many of the rural development programs we are talking about this morning with the exemptions for the population requirements.

And I am thinking now specifically of water and sewer loans for these communities that have lost their water infrastructure and B&I loans to help kick start the economy, and I can tell you, Mr. Under Secretary, having gone there and fallen off, there is no question. There is going to be a long-term need, and hurricane season is just 2 months away. And my North Carolina constituents who have been hit many times want to know that the Government will be there to help rebuild when hurricanes and disaster strikes.

And we have fixed many problems that were exposed last year by Hurricane Katrina. So here is my question. What is happening now with opportunity zones, if anything, is it still a priority of the administration's agenda and do you need congressional authority to waive populations and other restrictions of rural development programs in order to help these disaster-stricken areas?

Mr. DORR. Let me respond to your last question first. Yes, to extend waivers would require statutory authority.

Mr. ETHERIDGE. Then I assume we can request that you will have that to us.

Mr. DORR. If you request that, I will——

Mr. ETHERIDGE. I am requesting that. Thank you.

Mr. DORR. Yes. Relative to the administration's commitment to rebuilding the Katrina disaster area, it gives me a great deal of pleasure to say that we are extremely committed. To date we have invested, I believe, nearly $145 million of rural development money in those Katrina-impacted States.

Mr. ETHERIDGE. And what is now happening in the opportunity zone that you answered previously?

Mr. DORR. I am not directly involved in the opportunity zone so I would have to get back to you on that.

Mr. ETHERIDGE. Will you get back to me on that?

Mr. DORR. Yes.

Mr. ETHERIDGE. Thank you. Second, regarding the new energy loan and grant program, as a representative of a major ag-producing district the use and development of biofuels as has been talked about, soy, diesel, et cetera, is one of our top priorities, as you well know, and it certainly is in our area. And I am pleased the USDA is attempting to create some capital incentives in this industry, but I am concerned, however, that despite a loan level for this program in the 2005 budget of well over a $100 million only $10 million was actually lent out to help.

It seems to me that with the cost of gasoline at the pump right now there should be a demand for loans to build some of the ethanol infrastructure plants, biodiesel plants. Why are we seeing so few of these dollars going out, and what is USDA doing to try to get some of this money into the hands of some of the folks who would like to build a plant really in the rural areas, the farmers themselves? I know that is happening in our area.

Mr. DORR. Well, it is a good question, and I think the short answer is that the reason that the demand for some of these loans, particularly in the ethanol and the biodiesel area, are down relative to the availability of funds that we have is the success of the industry, quite frankly. The success to the extent that these are very marketable loans. As a result, as producers and others who desire to build out a plant in a regional location they are finding that they can go to the private sector and obtain the funds.

The particular program you refer to, I will tell you in all honesty, and I believe this occurred shortly before I was confirmed last July, but I believe they just got the loan guarantee regs out in either late June or early July. There was not a lot of time to deal with the applications at that point. This year, we will have between that program and our business industry loan program several hundred million dollars available for energy applications, and if we get them and if they are well designed, I am certain that we will be financing as many of them as is reasonable.

Mr. ETHERIDGE. And you will follow that up with a written explanation to make sure?

Mr. DORR. Sure.

Mr. ETHERIDGE. I would appreciate that. Thank you, sir. I yield back. My time is up, Mr. Chairman.

Mr. LUCAS [presiding]. The Chair now turns to the gentleman from Iowa. Mr. King.

Mr. KING. Thank you, Mr. Chairman. I would like to thank the gentleman from Iowa, Secretary Dorr in our first testimony today, and for his hard and diligent work to try to find some new avenues for growth in economic development within the rural part of this country. As I had the privilege to have a number of conversations in looking at the insight you bring with you, and I particularly appreciate, Mr. Dorr, the perspective that sees this also from the free market perspective and the private investment perspective, and how the Government can cooperate and sometimes get out of the way.

But in picking up from some of the remarks and questions that were directed by Mr. Peterson with regard to the capital that is going into these ethanol production plants and possibly all our energy, particularly the biodiesel and the ethanol industry. And I would point out that from my perspective several years ago we saw that we had two large companies in the United States that were producing a little bit of ethanol and that was a side product for the multitude of products that they were adding value to our grain with.

And we determined that we wanted to put capital in in such a way that we could have the ownership of these energy producing plants, particularly ethanol and later on biodiesel, in the hands of the local producers. And because we didn't want to see the investors from outside the region be the ones that capitalized and that a nickel or a dime a bushel wasn't enough to really have a dramatic impact on the revenue stream of rural America but being a shareholder in an ethanol plant that might take your $1.70 corn and convert it into $3 corn if you happen to be the person that has been the investor.

Well, you have made some powerful testimony here with regard to how much capital is available in America, $150 trillion in equity. And listening to those questions about the grant program, I am one of those believers that if you have a good business model it will attract the capital, but out of that $145 trillion in equity——

Mr. DORR. It is $1.45 trillion.

Mr. KING. Excuse me. That is right. That is what my note says too, and I didn't have my glasses on, so out of that $1.45 trillion in equity——

Mr. DORR. A little bit lower in magnitude.

Mr. KING. Out of that $1.45 trillion in equity, Mr. Dorr, what is the asset value there and what is the liability against that? What is the percentage of its leverage?

Mr. DORR. I believe the latest numbers that I have seen from USDA would suggest that we have about 13 percent debt against the equity of rural America in the land and agricultural value for rural America.

Mr. KING. And 87 percent equity position then on how many assets. And so what do you have for ideas on how we can leverage this capital and return it back to the local producers in these regionalized energy production centers that you envision?

Mr. DORR. Well, that is a good question. It is one that we have been obviously discussing here earlier today, and it gets a bit perhaps esoteric and complex. I am a little reluctant to get too heavily involved in it, but it still boils down to the fact that these new business opportunities are distributed in nature. Distributed in nature means that they are going to frequently be $50 million to maybe $250 million dollar businesses which is a big business for most farmers without any question.

But they are big in the context of what we frequently think of as billion dollar businesses. In addition to that, because of that size it easily could be owned by residents in rural America whether they be farmland owners, operators, teachers, plumbers, people who live in rural America. These are the sorts of things that they legitimately could invest in if there were the kinds of vehicles and opportunities to do so.

The other thing we need to recognize is that rural America frequently—not frequently. They have very limited ability to originate loans of a magnitude of $50 million or $100 million, the capacity to do that in the traditional small banks and the farm credit systems and the way in which they have operated. They are not familiar with that. And on top of all of that the distribution issues that were raised earlier today, the lack of pipelines, the whole new approach to distribution, create in and of themselves also a magnitude of new business opportunities that frankly are, No. 1, not usually dealt with in traditional regulatory regimens, that we typically don't have investment vehicles in place to deal with and may in fact have tax issues and tax structure issues that we have to look at.

What we are trying to do in rural development is sit down and begin effectively noodling through these to try to bring some basic parameters to these to give ourselves some insight, and we will be delighted to share them with anyone else that is interested. But it is a significant new opportunity that has some significant challenges so that in the final analysis we can do exactly what you are talking about and make it less cumbersome, more easy for rural Americans to invest and to retain these wealth creation opportunities, and that new wealth that it creates in those communities.

Mr. KING. Mr. Chairman, I ask consent for a follow-up?

Mr. LUCAS. Request granted.

Mr. KING. Thank you, Mr. Chairman. I wanted to point out an issue I wanted to set this up for, and that is Sarbanes-Oxley, and under Sarbanes-Oxley an ethanol plant that is under planning stage in the Midwest today has opted to go to qualified investors in order to avoid a $100,000 year compliance costs for the administrative costs of compliance for the record keeping under Sarbanes-Oxley. The pre-qualification for the investors requires them to have $1 million, that the investors have $1 million of net worth or have a revenue income of $200,000 a year for each of the last 2 years.

This effectively cuts out the smaller investors, the local producers, many of them, the people that we are trying to help, and puts this investment into the hands of the millionaires. I am going to ask you, can you help us identify some of those barriers so that we can get this to work in the way it is envisioned?

Mr. DORR. If I say yes it will be part of the record and I will have to bring you something, and I am not sure——

Mr. KING. That is the intent, Mr. Dorr.

Mr. DORR. We will certainly do what we can to begin identifying some of these but we are clearly not in the tax code writing business, but we will do the best we can to identify some of these issues.

Mr. KING. Thank you.

Mr. LUCAS. The gentleman's time has expired. The Chair now turns to the gentlelady from South Dakota for her questions.

Ms. HERSETH. Thank you, Mr. Chairman, and Ranking Member Holden for the hearing. It has been very interesting. I certainly appreciate Mr. King and Mr. Peterson's focus on an issue near and dear to me in South Dakota, the same concern about retaining this profitability in farmers, ranchers, small business owners, other investors in rural communities, and would appreciate continuing to engage you in a discussion of how best we can utilize your knowledge base and others at USDA so that we can meet this challenge because I do think it is a great new opportunity, but it is all moving at such a pace that we all have to be sharing ideas and information to make sure that we don't leave rural America behind as they have been left behind in the past.

And we do look at this as a rural reinvestment tool and how we make sure that we have the authorities in place to achieve, I think, the common objectives that we have particularly in those of us where ethanol has developed over the last few years. I do want to express my concern at the outset, Secretary Dorr, about the cuts in the administration's proposed budget in rural housing. Every economic development meeting that I have with constituents in South Dakota the issue that comes up either first or second is the issue of affordable housing in our rural areas and our smaller communities, and so I am hoping that you will be able to address briefly how you see going forward the importance of the rural housing service and the resources that you have to work with to continue these partnerships as I know Lynn Jensen has developed with many communities in South Dakota, including some of our tribal governments that has been very helpful to meet some of the housing needs of rural citizens.

But if you could first address this question, and Chairman Lucas sort of addressed it at the outset in his opening statement, about a key question heading into the next farm bill about do we look to authorize new programs before we look at those that already exist that haven't been fully funded, haven't been funded at all. And you had said in your statement about these opportunities that exist for rural entrepreneurs rural development with technology and markets. Can you identify specifically for us either today or in a follow-up written submission which programs under your jurisdiction that have been authorized but have only been partially funded or not funded do you feel serve as effective tools in taking advantage of those opportunities that technology and markets provide to rural entrepreneurs?

Mr. DORR. I would in a general sense simply say that I think that the programs that have been funded that we have dealt with provide a considerable plate full of opportunities, and I am not sure that we fully exploited all of those, and as a result I am not overly concerned about those that at this point have not been funded simply because I think there are enough opportunities on our plate right now that it is important.

I look back at our budget requests, and although I know what we have sometimes received greater appropriations than we have requested our budget requests have pretty consistently increased at a similar pace over the last several years. Our housing programs, I realize last year as a result of some Katrina supplementals in our single family housing reflect a substantially higher level than we are requesting in 2007 but our budget request in 2007 is very consistent with where we have been.

One of the things that we have tried to do is to increase the level of guaranteed loans and automate the process to be more effective to make certain that we have a funding stream available on a regular basis for those involved in the rural housing development area. We have also worked very aggressively with a number of the folks in the Mortgage Bankers Association, the national homebuilders, to make them aware of the opportunities in rural America to begin to increase other non-traditional funding sources in those areas, and I think we have begun to do that. I think we have had some success at that.

So, you know, would it be nice to have more funds? Sure, it always is, but I think that we are doing a good job in meeting the needs that are out there without missing a lot. I am sure that there is more that we could address but I think that we are doing a pretty good job.

Ms. HERSETH. Just one final comment before my time is up. I think you are right. Our experience in South Dakota is that a lot of the needs are being met but the needs are enormous in these communities. And one of the issues that comes up frequently, and perhaps we can follow up on this, is the loan programs are working well but significant costs for smaller communities are the infrastructure.

If they could take care of some of the infrastructure then they could have some lots with developers coming in that would actually be in that range of $80,000 to $160,000 for a home that where a significant shortage in the housing stock occurs. So I just wanted to highlight that for you, commend you on the work that the agency is doing and the partnerships that have been formed but perhaps looking more at what we can do for some infrastructure development to help keep those costs a little bit lower for the type of wage earners in South Dakota and rural communities. Thank you.

Mr. DORR. Certainly. And, Mr. Chairman, if I may, I would just simply like to make one other add-on comment that the President's commitment to home ownership I think is unparalleled, and in fact we have a higher percentage of home ownership in rural America, I believe, than we actually do in urban areas. We are very cognizant and very sensitive to that, and we will do everything we can to facilitate the build out and address some of these issues as you are acknowledging.

Mr. LUCAS. Thank you. The Chair now turns to the gentleman from Texas.

Mr. CUELLAR. Thank you, Mr. Chairman. Secretary Dorr, I also want to thank you for the work that you have done and your staff in rural development. The issue that I want to go to is the issue that we talked about the other day, and that is the colonias. As you know, colonias—and it would be interesting to note that they exist in other parts of the United States, but in the south Texas border area you have unincorporated areas that don't have any water, don't have any sewage, don't have any plumbing, don't have any paving. And basically what you have is you have people that have to get those tanks or those barrels, fill them up with water from the city of Laredo and bring them down to the area either to drink or to bathe, and some of the basic necessities that we just take for granted.

I know that your agency has been working towards this issue. Is there anything else that we can help you here rather statutory changes or anything else that we can help you to help address some of those issues, that is, get some of the basic services, and of course help them address any of the challenges?

I want to thank you also because I was looking at your rural housing and community facilities programs, and I assume this would be a very good starting point, but is there anything else we can do to help you do your job better? And, again, I appreciate what you all have done.

Mr. DORR. Well, let me assure you that what we will do is we will check and see if there are some things that are impediments that we are dealing with on a regular basis. On the surface right now, I am not prepared to give you an answer, and I will certainly check with our State director, Brian Daniels, in Texas. We also deal with colonias in the New Mexico area as well so I will do some checking there.

I do know that probably one of the biggest impediments is our ability to deal or not deal with incorporated areas relative to statutory requirements we have as to how we secure these loans or to whom we can make these grant programs available. So let me check into that and see if there are some things that make some sense that could be done relatively painlessly.

Mr. CUELLAR. OK. Mr. Secretary, could you ask Mr. Daniels if he could prepare a list of the programs that you have here that could specifically be addressed to colonias taking into account the challenges that you are talking about incorporated areas that make it a little bit more difficult but if you can get this list and then maybe narrow it down to colonias, I really would appreciate that.

Mr. DORR. Certainly. We will see what we can do.

Mr. CUELLAR. Thank you. And I again appreciate the work that you all do. Mr. Chairman, I yield back the remainder of my time.

Mr. LUCAS. Thank you. The Chair now turns to the gentleman from Tennessee.

Mr. DAVIS. Mr. Chairman and ranking member, I appreciate the opportunity to attend the hearing today. Occasionally, we have two or three meetings at the same time. They don't ask you about that but I try to go to each one of them when we do have different committee meetings. In the audience today is the president of the Tennessee Farm Bureau, Lacy Upchurch, and with him is the CEO of Farm Bureau, Julius Johnson. There are from a community called Pall Mall. I also call that home. The fourth district of Tennessee is one of the most rural districts in this country. It is the fourth most rural according to the Congressional Quarterly.

In my life time I have worked with the Farmers Home Administration and the Soil Conservation Service as a soil scientist. So when I look at the list of names that you have with you, Administrator for Housing and Community Facilities, the utility district supplies water at my house on Duck Creek Road in Pall Mall. It is named after my grandfather, Duck Creek Road was, great-grandfather. I am trying to relate to you how rural the district that I have.

Acting Administrator for Business and Cooperative Programs. I can't imagine where we would be today without the electric co-ops and the telephone cooperatives. The farm to market rural roads that connected us with the rest of the world. Administrator for Utilities, when I turn the water on, my wife, she is pleased that someone is in that capacity. So I want to assure you that as I have listened to your testimony, as I observe what your hopes are and what your aspirations are and what you are willing to fight for for rural America it makes a difference in my congressional district.

But I look at the 2002 bill, and I see several authorizations that I believe could have a major impact on rural America and certainly rural Fourth Congressional District in rural Tennessee. I am really concerned about the lack of appropriations and perhaps even an interest on this administration and those of you who serve as secretary of the different departments or administrators in fighting for funding in 2002 the farm bill to 2007, the rural strategic investment program. It is a really strong sounding name.

It could make tremendous differences in rural America authorized at the level of $106 million. Appropriators have blocked that every year. I look at the value added product market development grants. We would love to in the upper Cumberland area parts of my district be able to have a value added market, maybe paragenic processing for vegetables that could mean we could have a product that would keep people in the farming business in the top of the Cumberland Plateau, but yet we see funding was authorized at $40 million to either be blocked our or appropriated only about half the amount and the recommendation for the administration that these be cancelled in this new farm bill.

Rural investment programs, $100 million. Nothing has been appropriated. Rural access to broadband, $20 million authorized, none appropriated. Mandatory funding has been blocked every year. I don't have DSL at my house so when I hook on it goes ding, ding, ding, ding, and it does it for a while and then it says, sorry, the line is busy. Now I am OK with that because I can drive over in the pasture field and I get on my BlackBerry and I can zoom out some place. It is my hope that this administration, it is also my hope that those of you who are advocates for rural America will realize the importance that the funding that we authorized at least be fought for to be authorized to actually be appropriate by the appropriators.

Rural America has made a difference. Urban America, urban development has made a difference in those areas. I hope that there are those of you who will continue to fight or feel the need to fight for programs that we on this committee have authorized and you will fight for the appropriation funds for those. Thank you. I yield back the rest of my time.

Mr. LUCAS. Thank you, and the Chair now turns to the ranking member for one follow-up question.

Mr. HOLDEN. Mr. Secretary, one follow-up question on what we talked about yesterday. On the Business and Industry Guaranteed Loan Program, what is the default rate and what was it when USDA was in the direct lending business?

Mr. DORR. I believe the outstanding default rate on the—let me pull that number up. Well, from memory the outstanding default rate on the direct loan side of the portfolio is presently about 42 percent. The default rate on the guaranteed side of the B&I loan portfolio is something under, I believe, 6 percent. There is a substantial difference when we allow these loans to be originated by local lenders and people who understand what is best and what works best, and we have found that it works very well that way.

Mr. HOLDEN. I just wanted to get that on the record, Mr. Chairman. Thank you.

Mr. LUCAS. Thank you, Mr. Ranking Member, and. Mr. Secretary, thank you for your insights today, and we appreciate your time and effort. And you are certainly dismissed. We are in the process for the procedure in the process of a series of two votes on the Floor of the United States House, so I believe we will recess until hopefully 11:45 at which time we will return and address our second and third panels at that point, so we are in recess until 11:45.

[Recess]

Mr. LUCAS. The Subcommittee on Conservation, Credit, Rural Development and Research is reconvened. And we call our second panel to the table. Certainly we would like to invite for their comments Dr. Chuck Fluharty, director of the Rural Policy Research Institute of Columbia, Missouri; Dr. Mark Drabenstott, vice president and director of the Center for the Study of Rural America, Federal Reserve Bank of Kansas City, Kansas City, Missouri; and the Honorable Colleen Landkamer, commissioner of Blue Earth County, Minnesota, on behalf of National Association of Counties and National Association of Development Organizations, Washington, DC. You may begin, Doctor.

STATEMENT OF CHUCK FLUHARTY, DIRECTOR, RURAL POLICY RESEARCH INSTITUTE, COLUMBIA, MO

Mr. FLUHARTY. Thank you, Mr. Chairman, and Ranking Member Holden and Congressman Moran. Just first of all, I would like to thank you for the opportunity to work with you over the last years and the leadership you are providing for rural development. It is important to recognize, I think, that this hearing is occurring at a historic moment in the history of rural policy in our Nation.

I think there are several converging factors that make this so, and I would like to briefly highlight them this morning. First, the USDA leadership vision which was articulated so clearly by Secretary Johanns and Under Secretary Dorr during this year's Ag Outlook Forum calling for a substantive reassessment of and recommitment to the longstanding USDA statutory responsibility for rural development is unprecedented in my opinion.

This enables this subcommittee and committee along with your colleagues on the Senate committee to develop an equally thoughtful, forward leaning legislative agenda regarding the most appropriate form and content for a 21st century rural development policy for America. Fortunately, as you undertake this process you will find growing consensus among key public decisionmakers, business and community leaders, and policy analysts regarding the principles which should under gird this new framework, which in my testimony as you know I have considered to be something like regional rural innovation systems.

This approach recognizes and addresses the current realities that are going on in the dirt across the rural landscape that all of you are well aware of. It creates a more systemic approach which enables new approaches sensitive to place dynamics, culture and local economic circumstance which operates on an asset based development framework recognizing we must do our own lifting in our economy with the indigenous economic opportunities that exist there and is really centered on two key new platforms, rural governance and entrepreneurship not only in the public sector but also in the private one.

However, for those politics and policies to be realized this Congress and this administration have to address a continuing systemic challenge faced by these rural regions as public roles and responsibilities keep devolving to local decision makers. As long as this Nation continues to spend two to five times more per capita on urban community resources than rural, rural areas will continue to be challenged to build new economic engines to compete in this global economy.

I believe we can do better than this. The question was raised what is community capacity, and my dear friend, Secretary Dorr, indicated he wasn't sure that academics like myself maybe understand it. I hope in questions I can be very specific about what that is. But I will mention three things it is. It is broadband understanding for your colleague so that he can work there. It is the capacity for business development to have risk management tools from the land grant institutions to make wiser choice, and it is the ability on my family farm in Ohio to finally get running water. Those things are community capacity.

Now the forces that must be aligned to create these rural innovation system are already at work out in the dirt. They are reinventing rural regions right now. The beauty of this is we no longer need to search for what to do. We need to figure out ways to enable it and create flexible policies to support it. It is not necessarily about new money. It is about wiser public choice in the allocation of the existing resources.

Finally, scaling this opportunity is going to require a vibrant rural entrepreneurship system. The system is the key which will not occur unless attention and resources are given to community capacity and regional supports for new functions to lift up these intermediaries. I believe rural America has phenomenal assets, some challenges, and new opportunities, and I would hope this committee will think anew about how we advantage them.

In closing, Mr. Chairman, while many additional comments could be offered, and I would ask that my comments be entered in the record, I would simply say we are in a new rural context. We live in a society that loves the quick fix. Rarely do we commit to anything for the long haul. If we are going to build a regional rural innovation system for the future of rural America it must be longer term in nature. Our rural challenges are evident but I would argue rural renaissance is occurring wherever we look. I thank you for the opportunity to be with you, Mr. Chairman, and I look forward to your comments.

[The prepared statement of Mr. Fluharty appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you. You may proceed when you are ready, Doctor.

STATEMENT OF MARK DRABENSTOTT, VICE PRESIDENT AND DIRECTOR, CENTER FOR THE STUDY OF RURAL AMERICA, FEDERAL RESERVE BANK OF KANSAS CITY, KANSAS CITY, MO

Mr. DRABENSTOTT. Thank you, Mr. Chairman, and good morning, distinguished members of this committee. Over the past couple of years the rural economy has outpaced the metro economy. Income growth, for instance, was 2.8 percent a year versus 2.5 percent in metro areas. Despite the recent gains, the rural economy still faces big challenges. Historically, rural America has depended heavily on commodity agricultural, natural resource extraction and labor intensive manufacturing.

Globalization tests all three creating big structural shifts and widespread consolidation in the rural economy. Fewer and fewer rural communities can tie their future to the economic engines of the past. Today's new contest is to innovate to become more competitive. Can rural development policy, which was crafted for a bygone area be reshaped to help them compete? In a global market, the key to success is to find the next new product, not compete on the old one.

Innovation creates new products and entrepreneurs bring them to market and a growing body of research points to a strong link between entrepreneurial activity and economic growth illustrated in the chart contained in my written testimony. The challenge for many rural regions, especially those tied to farming, is that entrepreneurial activity is weak. Economic data also reveal that the fastest growing regions have critical mass. That is, they have significant human, financial and social capital. With those assets, important synergies develop such as technology transfer, entrepreneurial network, and the lifestyle amenities that knowledge workers increasingly expect.

The critical mass poses a real dilemma for rural areas. By definition, as you well know, rural means small and remote. Fortunately, experts now believe that rural communities can create critical mass by partnering across city limits and county lines. Such partnering can help ideas flourish and entrepreneurs grow. Building and maintaining a competitive edge in rural America then involves three steps. In almost all rural cases these will play out in a multicounty region. We must understand the region's distinct economic assets. We must identify the best available markets for the region, and we must craft a strategy that exploits the assets to cease new market nitches.

Each region will have its own unique strategy so yesterday's one size fits all rural development policy has become woefully obsolete. Can Federal policy help rural places become more competitive? Let me suggest three policy directions. First, we can help rural regions craft new competitiveness strategies. Job one for every rural region will be to craft an effective strategy that reflects the region's own best assessment of the economy nitch where it stands the best chance of ongoing success.

In many respects this issue frames the future of 21st century extension service. Rural America's competitive edge no longer lies only in agriculture, the traditional focus of extension. Instead, success engages a wide range of economic nitches. Forging new competitiveness strategies will require adding new ingredients to public policy. Leadership capacity is perhaps the essential ingredient.

Many rural regions also need better economic information in preparing for the task ahead, a competitiveness dashboard, if you will. Finally, every region will need new competitiveness tools, one to sustain regional doalog or governance and one to identify the region's new competitive edge. Such tools simply do not exist today. Second, we can link Federal research investments to rural strategies. For more than a century the Federal Government has invested in basic research aimed at making agriculture more competitive. Rural America's need for innovation has grown much broader.

Tourism, advance manufacturing, producer services and even new specialized nitches in agriculture itself represent the future for many rural regions. The Federal research effort must compliment the economic strategies of individual regions which discoveries most advantage which regions. This special link between research and regions does not exist partly because most rural regions lack a strategy and partly because Federal research lacks a focus on regions.

Experts on competitiveness believe there may be a huge pay off from new mechanisms linking research to regions. And, third, we can build a more effective support system for rural entrepreneurs. Rural America has a strong entrepreneurial spirit but rural startups struggle to become high growth businesses. Simply put, the support system for rural entrepreneurs is limited. Philanthropies, universities, community colleges, State and local government could all be involved in building a support system. There may be a role for Federal policy in providing the back bone for such a system.

Equally important will be equity capital markets. Credit is readily available to creditworthy rural borrowers but equity capital funds in rural areas are rare. Federal policy has undertaken several initiatives to close gaps in rural equity capital markets but none has been very successful thus far. Thus, equity deserves more attention going forward.

In closing, Mr. Chairman, the rural economy has turned up recently but long-term challenges persist. Most rural regions need to reinvent their economy going beyond the commodity economic engines of the past. Critical mass, innovation, entrepreneurs all will be keys to success. Federal policy that helps regions craft new strategies spurs rural innovation and fosters a world class climate for entrepreneurs will certainly help rural America meet the challenges of the 21st century. And while many of these issues extend beyond the purview of this committee the next farm bill can make significant contributions. Thank you very much.

[The prepared statement of Mr. Drabenstott appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you, Doctor. Commissioner.

STATEMENT OF COLLEEN LANDKAMER, COMMISSIONER, BLUE EARTH COUNTY, MINNESOTA, ON BEHALF OF NATIONAL ASSOCIATION OF COUNTIES AND NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS, WASHINGTON, DC

Ms. LANDKAMER. Thank you, Chairman Lucas, and Ranking Member Holden and Representative Moran for allowing me to appear this afternoon on behalf of the National Association of Counties and the National Association of Development Organizations, and talk about the importance of a strong rural development title in the next farm bill.

My name is Colleen Landkamer. I am a county commissioner from Blue Earth County, Minnesota, and I serve as president elect of the National Association of Counties. NACo is the only organization that represents county government, and NADO represents regional development organizations nationwide. As you know, rural America is diverse in a constantly changing place.

So today I would like to make three key points on the state of rural development programs and then some recommendations on the upcoming farm bill reauthorization. First, rural communities need Federal development assistance programs and policies that allows 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 Federal 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 community development block grant and DOT's highway and transit programs the bulk of rural assistance is in the form of loan and transfer payment such as Social Security and ag payment.

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 into urban areas the Federal Government has given our metropolitan areas a distinct advantage over rural communities. While urban areas are building the communities and industries of tomorrow rural areas are forced to make do with 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 region by bringing the public and private sectors together.

The underlying goal was to place rural regions and communities in the driver's seat so they could chart their future. It represented one of the few Federal incentives to promote regional collaboration and public-private investment. But the program was never fully implemented and the funding was later rescinded. Lastly, critical public infrastructure such as water and wastewater and telecommunications are still sorely needed in numerous communities throughout rural America.

I was fortunate enough to participate in an eForum conducted by NADO in 2004. When the question was asked, what is the major requirement to economic development in your region the highest rated response was inadequate public infrastructure. Private sector investors and businesses expect and may demand that local governments and communities have the public infrastructure in place before they were located in a community. For rural America to fully compete in today's global economy there must be a 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. We must do more to close this digital divide. In conclusion, I would again like to thank you, Mr. Chairman, and Mr. Holden for the opportunity to appear today on behalf of NACo and NADO. We stand ready to work with you in crafting a farm bill that helps develop our rural communities, and I look forward to your comments. Thank you.

[The prepared statement of Ms. Landkamer appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you, Commissioner. And being a fellow who was at the time chairman of the subcommittee when we put the 202 formula together along with my colleagues here, thank you for those compliments because we did work very hard in crafting those programs trying to create opportunities. And we worked very hard, I think my colleagues would agree, in going the unique route at the time of trying to by designating that money to be mandatory to lock it in. We attempted to do the right thing and to deliver those resources for the life of the farm bill.

And we all slapped each other on the back and we were all very gleeful at the time in 2002, and lo and behold something called the annual appropriations process with a strike of the pen to extract the word mandatory and an amendment to create the word discretionary in the reallocation process. We have, I promise you, found it just as frustrating on this side of the table as you found it out there. And that is part of what we have to work through in preparation for 2007.

How do we wall off, how do we make sure that the resources that should be going to these programs to rural America actually get there? I know that will be something that we will all discuss for the next 18 months but if the mandatory route hasn't worked then will we back to discretionary or how do we do it? There has got to be a way to enable our friends in this building to understand how important these efforts are. And with that, I will step slightly off my high horse and we will visit about a few other things too.

Mr. Drabenstott, in your written testimony you talk about eight rural counties that were among the top 10 percent of the counties in increasing their work force. Could you expand a little bit on what was going on in those eight rural counties that gave them the opportunity or made it possible for them to be such growth engines and work force labor?

Mr. DRABENSTOTT. Mr. Chairman, I don't have a list of all eight in front of me, but we could provide a map to you that would show where they are. In general, our experience is the fastest growing portions of the rural economy tent to have one of three characteristics. Number 1, they tend to have scenic amenities. Number 2, they tend to be next to a major metropolitan area and are in fact turning in to the next round of subdivisions and suburban development.

Or, No. 3, they tend to be a retail health care financial hub for a widening market place in rural America.

In those cases those counties often grow at the expense of places that may be 25, 50 miles away, but our experience is that those typify the places that are growing the fastest.

Mr. LUCAS. The next question, I would like to throw just a general question out to the whole panel to touch on if you choose to or not. We always talk about capacity building in these discussions. A thumbnail sketch from each perspective of what you define as capacity building and how well we have been able to accomplish that so far in rural development. Whoever would care to go first.

Mr. FLUHARTY. Mr. Chairman, let me start, and I will use an issue near and dear to Congressman Moran's congressional leadership and that is rural health. In rural health we have the Federal Office of Rural Health Policy. We have State offices of rural health. We have a national rural health research program. We have a critical access hospital program in health. We have training dimensions to train doctors in rural health. We have ancillary rural health allied health commitments, and they are integrated around a set of priorities for the Secretary's advisory board.

My friend and colleague, Dr. Drabenstott, the reality is we currently have an extension system with phenomenal capacity to support wiser public choice. It is not configured at this point. We have phenomenal opportunities in entrepreneurship going on in the dirt. On your next panel you are going to hear Dean Lechtenberg talk about a phenomenal intermediary development in Indiana. The glue to begin to do those things in a broad ruralization framework simply is not integrated right now across these prongs. One of my greatest concerns is in other subcommittees your colleagues are going to begin talking about an energy title and a conservation title and a farm title. They are all the same thing. America is diverse. Ruralization can occur in landscape, in new agriculture, in conservation.

The reality is we are building the capacity to more wisely integrate Federal resources to build this through put between Federal, State and local government, the private sector and the NGO community. There are some examples taking place but right now the Federal Government is AWOL on those. I think with vision we can craft something there. Let me make one last point. The discussion Mark just raised about those eight growth counties, if we look at persistent poverty in the United States 90 percent of the counties in persistent poverty are rural.

The counties that left persistent poverty in the last decade were adjacent to rural areas. I include in my testimony the micropolitan areas of the United States. Were we to think about—and those are communities now that are recognized by the Federal Government. They are the only communities in commerce that are not getting consistent commitments from CDBG so they can do multi-year capital planning. Were we to think about a link in which those micropolitan areas, which are very dispersed, were linked with that adjacent counties around them and craft a conglomeration around a regional sporadic any vehicle like RSIP, which has very, very broad support, as you know, across the community, we begin to get out a rural regional innovation anchor that I believe most of the jurisdictions in government, much of the private sector and the NGO community could rally around.

Community capacity is the glue that builds the future of rural economy. It is very incrementally allocated right now in the rural landscape.

Mr. DRABENSTOTT. If I might just add very briefly, Mr. Chairman, I would describe two skills that I would lump under the heading of innovation capacity. I believe that most rural regions have to reinvent their economies. To do so they really need two sets of skills, particularly the public leaders of those regions. Number 1, they need to figure out to assess their competitive position and help to diagnose a new potential source of competitive advantage. That is no small feat and it requires certain kinds of skills.

Second, they are going to have to assemble a certain amount of critical mass across a broader region, and that requires regional visioning. It requires facilitation of doalog across a broad diverse set of leadership so those diagnostic skills and the facilitation and visiting skills both in my opinion will be crucial going forward.

Ms. LANDKAMER. And, very briefly, it is all about working together in rural communities. We have done it for years but we have to have that infrastructure of leadership and jobs in order to do that.

Mr. LUCAS. Thank you, commissioner. My time has expired. I turn to the ranking member from Pennsylvania, Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman. And I promise not to get on my high horse about the commissioner's comment about the appropriators either, but this is not a new problem. I remember back in 1993 when I was seated way down there Chairman de la Garza complaining about—it is something, commissioner, if your organization can help us with that other committee, we would be very, very appreciative of it. You have touched a lot of subjects already but as we prepare to write the next farm bill, is there any program that you think is obsolete, has outlived its effectiveness that maybe we should consider doing away with it and putting more resources on the table for other things that we think are more important?

Mr. FLUHARTY. I will take it on frontally because the academy has already been recognized. It is an irrelevant and rather useless sector in the economy but I want to suggest something. In my testimony I mention the programs we have and the vision that we lack. If we are serious about three things being our future, regional acting, entrepreneurship in the private sector, and relationship between Government, that private sector and the NGO community, we currently have no vehicle to advantage that in your portfolio.

You know the GAO study that just was released last month, 86 different programs addressing rural dynamics. This has been a mantra for 40 years. I would just simply say in your regions, as you know, your leaders and your economies are figuring new configurations. You are going to hear about three or four in the next panel. Figuring out a way to better link, rationalize and provide flexibility for local and regional development is to me the very key thing.

I will simply say there was broad support for RSIP. I think it was hierarchically and bureaucratically heavy. But the principle of assisting regions in discovering their future in a global economy forcing them to create earmarks and benchmarks to move toward it, and linking Federal and State programs would be a tremendous anchor institution where there aren't existing ones already at work in the dirt, Mr. Ranking Member.

Mr. DRABENSTOTT. I would offer three suggestions in answer to your excellent question. The issue that you are contending with in this committee is happening around the world and there is an emerging global doalog on how public policy can help all regions, rural regions in particular, adapt to this new competitive economy. People who have studied this the longest generally believe that there are two shifts that need to occur on public policy.

Number 1, that we need to move away from direct subsidies to investments. Now subsidy is a lot like beauty. It often lies in the eye of the beholder, but nonetheless I think there is a general consensus that if we move away from subsidies toward investments and economic engines that is a useful shift to make.

Second, the consensus is that we need to move away from a focus on individual sectors of the economy to a focus on place. Every region has to craft its own competitive strategy and that poses somewhat of a dilemma for rural America because agriculture has always been the sector at the heart of the discussion. How we go beyond that to a focus on geography is a very interesting dilemma.

The last suggestion I would have is that it is very easy for technology transfer and innovation to occur in our major metropolitan areas. That is why they are all in that top 10 percent of the fastest growing regions. It is much harder in rural America. How do we build a bridge between federally funded investment in basic research and the emerging competitive strategies of regions. That linking of our Federal investment and research on the one hand and our desire to create more competitive regional economies in rural America on the other, we need to invest serious thought into how that bridge gets built. It doesn't exist today, and I believe it would pay big dividends going forward.

Ms. LANDKAMER. Mr. Ranking Member, just a quick comment. A healthy infrastructure is still critical in rural communities. That is usually the basis of anything that happens, and when you talk about urban and rural areas or communities the issues are the same. The solutions, as you know, are much different at times, so allowing us flexibility to insure that we can make it work for us in that place and also insuring that the equity as to what is going to urban America also makes its way to rural America I think is extremely important.

Mr. HOLDEN. I was going to ask a question about what you feel are the biggest needs in rural America and what are the biggest barriers, and if you want to elaborate on that. You pretty much answered that, and lack of regionalization is one of them. But I just want to follow up on one last question that Ranking Member Peterson was going to ask if he was given the opportunity. Can you give me some examples of successful regional development initiatives and the difference between that and community-based rural development and why small rural communities shouldn't be fearful of being lost in a regional approach?

Mr. FLUHARTY. Thank you. Let me start, I want to follow on Dr. Drabenstott's comment that globally we are way behind the curve on this. Dr. Drabenstott serves on the OECD's territorial development committee. I just came back from work with the Scottish executive where they are going to take 25 percent of their common agricultural policy and move it immediately into regional strategies. They wanted to think about solution tracks there.

Mark has worked all over the world in this dynamic. This is happening when someone says can you show me an example, it is hard to show you a place where it isn't occurring but I will mention three. First of all, what is going on in Indiana is significant but it is generative. Northeast Ohio right now has a 20 county area that is working totally together between jurisdictions, the higher educational institutions and the private sector. Almost every community linked within the National Association of Development Organizations or our cogs frameworks in the United States to build regional strategies are doing this.

I will simply raise the rural community colleges in the United States, and in my testimony I have raised them up, I believe they are creating the extension service of the 21st century because they are a human capital institution that is already thinking regionally. They are linking to work force strategies and they are building global competitive advantage capture.

I think the rural development directors in the States of this country are the retail shop for your committee. You recently gave them 25 percent discretionary authority. The RD director, Bob White, in Indiana is a key driver in Dean Lechtenberg's initiative. The RD director in Mississippi has created a Mississippi entrepreneurial alliance with the community colleges of Mississippi to build regional strategies through RD.

There are thousands of emergent examples going on. My concern is we don't have a joint anchor right now to advantage that replication across space. I think if it is created the people will come to that dynamic because it is already going on out there in the heartland in many ways.

Mr. DRABENSTOTT. The real dilemma in much of rural America is that the competition is viewed as the team you last played in Friday night football when in fact the competition is China and Argentina and Eastern Europe and so on. There are good examples of the very dilemma that you have raised, Congressman. I would point to two, one from Congressman Peterson's home State, the Arrowhead region of Minnesota is a great example of regional development spearheaded by a regionally thinking community college.

Clallam County, Washington, very remote in the thumb of the Olympic peninsula of Washington similarly has taken a very dynamic regional approach to economic development. A question that I think bears asking as we ponder this dilemma is will these partnerships be borne only out of necessity or can they be brought about through incentives in public policy. And an interesting footnote to this discussion is that in many other countries around the world they have created Federal incentives for small municipalities and regional territories to partner, and I think that would be a direction that would be worth exploring.

Ms. LANDKAMER. I think there are a multitude of good practices that you can see across this Nation, and one small one I will talk about is Cambridge, Minnesota. They took EDA money, they took USDA money, they cobbled together a lot of other cooperative ventures to redo their community. It has now got small shops. It has got a large technology component. It is looking totally different than it did before. but usually that comes from the leadership in the community.

And so how do you encourage that long-term, sustainable good leadership in communities, and how do you help incentivize that as you move forward.

Mr. HOLDEN. Thank you, Mr. Chairman.

Mr. LUCAS. Thank you. The Chair turns to the gentleman from Kansas, Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you very much. Thank you three for joining us this afternoon. Just a couple of short questions, then maybe a broader one. And I say these things and believe them, wonder if it is true that broadband and technological advances matter. The analogy I always give when I am talking at home is that it is like you built your community and the railroad didn't come in the 1980's so the technology is that today.

Do the communities that are exceeding in economic growth job creation, is there a tie to access to technology? Is that a reality?

Mr. FLUHARTY. First of all, Congressman Moran, you know in rural health the failures are in the middle on the ground in telemedicine. I would argue we must be careful to assume any one issue is the reductionist solution to our challenge. The failures are in the middle also with technology but it is absolutely essential for entrepreneurship that that happened. And there is not strong research right now that I know of to fully differentiate that but I will simply say that without processes, leadership and regional strategies in the dirt all the technology on earth will not assure that a rural region competes in a global economy. They both are essential.

Mr. DRABENSTOTT. I would just confirm what Chuck said. Too many people view broadband as a silver bullet and even with DSL or high speed Internet to every home in every rural community in America we still need innovation and entrepreneurs to take those businesses to successful fruition in the market place, and I think there probably is as big or bigger Federal pay off from developing a more comprehensive entrepreneurial support system in rural America than there may be to investing in broadband delivery to every home.

Mr. MORAN. One of the keys, I assume, for success of an entrepreneur is access to credit, and at least one of you mentioned, maybe more than one, mentioned credit. Is the difficulty in rural America the availability of credit or in other words does every creditworthy project, is credit available to meet that need or is it the lack of creditworthy projects?

Mr. DRABENSTOTT. I think the issue is not so much credit at it is equity capital. We are blessed with a very robust credit market in most of rural America and creditworthy borrowers do not have difficulty obtaining credit. The real dilemma is if you are a start up business and you need early stage equity capital that is a very different proposition in rural America, and so I would encourage this committee to have a hearty doalog about how Federal policy can dovetail with private sector initiative to create a more robust network of equity capital institutions across the fruited plane.

There are some very good examples of well-run, well-functioning equity capital markets in rural America. Unfortunately, they tend to be very few and far between.

Mr. MORAN. For that reminder, I recognize that to be the case. I did not know the answer to my question but I do know that start up capital that is just scarce as can be.

Mr. FLUHARTY. Congressman, could I answer that quickly with an example for you to perhaps explore. If you look at what the Nebraska Community Foundation is doing with a project called Hometown Competitiveness, it is an effort in which we collaborate with them and Harland Center for leadership development. The reality is there is huge indigenous wealth in rural America. We are transferring it in this inner generational exchange. The question really is does it stay home or does it go to Tampa and Phoenix and can we figure out a way in linking CDBG for small cities with community foundations that pool existing wealth to create entrepreneurial opportunities for the next generation of competitiveness. I urge you to look at what Nebraska is doing. It is a phenomenal model.

Mr. MORAN. I appreciate that. I am intrigued by what you are telling me they are doing. I see this as one of the significant issues in rural America. As our population ages upon their death it is—my example in a personal way is I always wanted to own a bank but the size of town I could own a bank in their depositors were in their 60's, 70's and 80's and upon their death the money went where the kids live. And, Dr. Drabenstott, that is often in my case to your community.

And we created wealth in rural America in rural Kansas, for example, in land values, in oil and gas, but that wealth is held by an aging and elderly population whose children unfortunately no longer live any place close. And if community foundations, endowment associations, our universities, if they don't figure out to capture that before the death of our elderly population we have lost a tremendous asset that we will never—I don't know how we would ever recapture it.

These are the ones who care about rural America the most, and once their wealth disappears—Mr. Chairman, you are fidgeting, but let me just ask——

Mr. LUCAS. Your insight really is worth——

Mr. MORAN. I only wish you believe what you said. This will sound like an odd question coming from me, and this is my broad, more philosophical question. Particularly you, you are an economist, Dr. Drabenstott. To my urban colleagues what is the justification for why we should care about rural America? Why is it that we on an economic, perhaps an academic justification, does not the free market system, is it not supposed to determine where a population is distributed, where goods and services are sold?

Obviously, I have a different perspective than the answer being, yeah, the free market system is the answer to this question but that is it that we—how do we justify all this effort in preserving, enhancing and continuing to see good things happen in rural America?

Mr. DRABENSTOTT. That is a great question, and I think it deserves considerable discussion in this committee and in the Congress. The answer in the past has been because agriculture matters. We need a different answer, I believe, in the 21st century. From a competitiveness point of view there is an answer and that answer increasingly being realized by many other countries who have crafted specific policies about regional development. Their answer is that the national economy is most competitive when all regional segments of the economy are also competitive.

Put another way, our national competitiveness as an economy is diminished if we have regions of our country that are not achieving their full potential. I think this is an argument from an economic point of view that makes some sense. The other issue, the other tact that one can take in answering your question is to say that there are a vast array of resources in rural America, land being the principal one, but not the only one, landscape, heritage, culture, and so on, but those are truly national resources that we as a society, as a civil society, have an interest in seeing them stewarded well.

That is a separate tact but from an economic point of view, I think more and more of the people who analyze this question are saying it really relates to the fact that our national competitiveness is the sum total of how all regions are doing individually.

Mr. MORAN. I appreciate your answer, and either of the other witnesses that would like to answer in writing to me. I think probably the Chairman's indulgence has surpassed his patience.

Mr. LUCAS. Thank you, Mr. Moran. And the subcommittee wishes to thank the panel for your insightful testimony and responses to our questions, and you are dismissed.

We will invite our third panel to the table. Dr. Mike Woods, professor and extension economist, Oklahoma State University, Stillwater, Oklahoma; the Honorable Cheryl Cook, deputy secretary for Marketing and Economic Development, Pennsylvania Department of Agriculture, Harrisburg, Pennsylvania; Mr. Arlen Kangas, president, Midwest Minnesota Community Development Corporation, Detroit Lakes, Minnesota; and Dr. Victor Lechtenberg, vice provost for engagement, Purdue University of West Lafayette, Indiana. You may proceed whenever you are ready, Dr. Woods.

STATEMENT OF MIKE D. WOODS, PROFESSOR AND EXTENSION ECONOMIST, OKLAHOMA STATE UNIVERSITY, STILLWATER, OK

Mr. WOODS. Thank you, Mr. Chairman, and distinguished committee. I am very pleased and honored to be here. Thank you for inviting me. The rural development title of the farm bill does offer assistance for rural regions and addresses resource needs in several areas. Infrastructure is fundamental for development and includes traditional concerns like water, sewer and housing.

Safe, reliable water is critical for both quality of life and for development potential. The rural development title has provided assistance for rural water systems. In Oklahoma, for example, the USDA office indicates we have the seventh largest rural water portfolio. Oklahoma has over 400 rural water districts and has a backlog of requests for assistance.

More and more the responsibility for funding these water systems has shifted to local sources which can be challenging for economically depressed areas. A diversified rural economy also means all farm jobs that are available for rural residents including farm families. Efforts to enhance the rural economy through lending programs and loan guarantees can help.

Rural Enterprises of Oklahoma is the largest lender of rural development funds in the Nation. Their intermediate re-lending program in Oklahoma has revolved $11 million twice, offering much needed financial assistance. Guidelines for these programs are well intended but sometimes they make targeted assistance difficult. For example, much of western Oklahoma may qualify for program assistance but it scores low with the funding formula because of something like high per capita income levels. Perhaps some other factor like out migration might be considered.

USDA guarantees lending for businesses and has grown in Oklahoma from $8 million in the year 2000 to $55 million in 2006 according to the State office. Housing loans grew from $17 million to $80 million during the same time period. Clearly, these lenders are making loans that otherwise would not have been made. Entrepreneurship is something that has been mentioned several times this morning. Entrepreneurship is clearly a key option if rural areas are to provide enhanced economic opportunity for residents.

There is a growing interest in entrepreneurship in Oklahoma in our region. Our Regional Rural Development Centers located at Land Grant Universities have supported a national coalition for rural entrepreneurship. These Regional Rural Development Centers offer a national network that links to every Land Grant University in the country, and they offer research based information.

Recent listening sessions held in seven States in my southern region, for example, involved over 300 participants and identified key topics and possible actions to grow entrepreneurs and also to grow entrepreneurial communities. If entrepreneurship is to grow in rural American digital infrastructure will be important. That has been said. Rural businesses, consumer, and communities not only require infrastructure like broadband access but they also need the capacity and training to effectively utilize the technology. The rural electric commerce extension program or the e-commerce initiative within the farm bill addresses this need and currently has land grant faculty involved in curricular development related to community connectivity, rural business and farm business use of e-commerce.

In summary, I want to again express my appreciation for this opportunity to visit with you. There are three key points that I would like to close with. One, the rural development title of the farm bill has done much to benefit rural America. I observed real success stories in my home State and in my region. There are some possible areas for adjustment. For example, the funding formula sometimes scores communities in dire need of help low because of unique demographics.

Two, communities and regions should look at all available resources, natural, institutional, human resources and financial resources when considering the future. It truly is a place-based strategy that we must consider. The key is how these resources are combined and utilized. What is the best feed ration for growth in any unique place is perhaps one way to think of that. What is the best ration of resources that you are going to put together for that unique place? Perhaps communities and regions should be encouraged to develop holistic strategic plans and then public resources could be allocated to support those regional efforts and those systemic efforts, and I believe I heard earlier comments that supported that.

Three, rural entrepreneurship does offer great hope for rural regions. Resources of all types, institutional, infrastructure resources and financial resources can make a difference. Let us not forget those human resources in rural America as well and be sure to make investments in training, leadership, local capacity and knowledge so that rural entrepreneurs and potential entrepreneurs can be competitive in our global economy. Thank you, sir, for this opportunity.

[The prepared statement of Mr. Woods appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you, Doctor. Secretary Cook.

STATEMENT OF CHERYL L. COOK, DEPUTY SECRETARY, MARKETING AND ECONOMIC DEVELOPMENT, PENNSYLVANIA DEPARTMENT OF AGRICULTURE, HARRISBURG, PA

Ms. COOK. Thank you, Mr. Chairman. It is a pleasure for me to be here today, and I found the process of putting my statement together very cathartic so I thank you very much for the opportunity to be here today. Over my career I have had the opportunity to challenge the old Farmers Home Administration and how it treated its farm borrowers, kind of a put up or shut up challenge to me to take on the position of State director of Farmers Home Administration in 1993. I was the last Farmers Home State director, and the first and last rural economic and community development services director and the first State director of rural development. Mom thought I couldn't hold a job.

Mr. LUCAS. Actually you have been in the trenches.

Ms. COOK. I guess message number one is please don't change the name of the agency again. I finally got to the point where they can print letterhead and business cards. But I also now has evolved to a point where working with a stage agency have the opportunity to partner with rural development and try to piece together limited State dollars with limited Federal dollars, and if we take your example trying to bet the nutritionist who puts that dairy ration together for rural communities in Pennsylvania.

My statement goes into some depth but I am passionate about the program of rural development and believe very much that they need to continue that investment. Rural America is unique. Only rural development can bring the infrastructure, the rural utility service, the community development and rural housing service and the job creation and retention of rural business service in a cohesive, coordinated way to rural community that in our State depends largely on volunteer and part-time staff in 1,500 townships, 1,000 boroughs, and a few small cities that qualify as rural.

I want to take this opportunity to agree with you strongly, Mr. Chairman. It is time to revisit the definition of rural. The 2002 farm bill in one section had eight different definitions of rural, and, by golly, we can do better than that. In Pennsylvania sometimes it is hard to tell where one small town stops and the next one starts. It is kind of a fuzzy area. We have been wrestling with this at the State level trying to identify how we make sure that State resources in fact reach rural areas and come up with a common definition of rural.

We are leaning toward a population density based test not unlike what you had in the 2002 farm bill for the regional development organizations, and I encourage you to take a look at that. Agriculture's role in the rural economy is something that has come up a couple of times today. I want to emphasize how often in my work now in the Department of Agriculture I am having to explain to economic development professionals that it is really not an either or. Agriculture is part of the rural economy, and as has been stated today many, many farmers rely on their off farm income.

In fact, here in Pennsylvania 58,000 farms according to the National Agricultural Statistic Service only 7,800 rely solely on their farm income. The vast majority have one, if not both, spouses working in town. I never once as a State director for rural development cut a ribbon on a new factory or new school or some new community structure in a rural community that I didn't meet someone who was going to go home from work and get on a tractor, and that job was keeping that person on their family farm in their rural community, and it is very much a part of the same policy.

I am very pleased to see the extent to which you worked on the 2002 farm bill to bring agriculture to rural development. I had to have a few lectures with my staff, particularly in the rural business program that agriculture is a business and should be eligible for those benefits as well.

Finally, in stretching those limited Federal dollars one of the things I frequently wish as a State employee is that USDA rural development would have the ability to guarantee tax exempt bond financing issued by the State. It is one of the newer, more frequently used technique that we are using to invest in agricultural economies especially but also other areas. And if RD could participate in that, it would be a good way to stretch those dollars. I guess I will stop at that point and wait for questions.

[The prepared statement of Ms. Cook appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you. Mr. Kangas.

STATEMENT OF ARLEN KANGAS, PRESIDENT, MIDWEST MINNESOTA COMMUNITY DEVELOPMENT CORPORATION, DETROIT LAKES, MN

Mr. KANGAS. Good afternoon. Collin introduced me earlier. I come from the tundra of northwest Minnesota. So it is good to be out of the snow today. Collin also said I was a Finlander, and often times get accused of Finlander figuring, which is kind of a way saying thinking backwardly, and also someone who is a bit direct.

But I am pleased to be here to offer my views on the role and importance of USDA rural development. Our company was started 35 years ago as part of the original war on poverty. It dates back to the Office of Economic Development, OED, an office within the

White House. And it was operated in the guidance and direction of late Senator Robert Kennedy. So it has had quite a lineage.

We are a private, non-profit company. We do a number of things, kind of almost an embarrassingly wide number of things, which includes business lending, we make equity investments, housing construction, subdivision development, and home ownership finance. Together with our subsidiary companies last year we provided over $50 million to businesses and individuals in Minnesota.

We have subsidiaries, one that is a training company for low income individuals and at risk youth. We own a bank, a very small bank, but a growing bank that is located on an Indian reservation. And we also started a Native American subsidiary that has a car dealership which helps low income families get to and from work and literally drive out of poverty.

In 2 days I will have completed my 20th year working for MMCDC, and judging from the gray hairs that I have when I look in the mirror, it is a difficult job certainly, but one of our most important and consistent allies throughout these 20 years has been rural development. Our company's goal is to create impact through job creation, through lending and investing by developing communities and by providing housing. And USDA rural development like no other agency in Washington has developed, refined and implemented programs that help us meet all of our targeted activities.

For example, we are a borrower under the IRP program, Intermediary Relending Program. We have made over 144 loans, creating more than 3,500 jobs, leveraging more than $17 million in other capital. We have been a user of the Rural Business Enterprise Grant Program. In the mid–1990's the city of Detroit Lakes where our office is located lost its largest employer when Swift Butterball closed its turkey processing plant. Seeing the loss of 550 jobs in one community, rural development provided us a $450,000 Rural Business Enterprise grant to build a new manufacturing center.

That building was the first structure in a new industrial park. They call it the North Industrial Park. Ten years later that park is nearly full. Collectively, the businesses in that park pay more than $450,000 per year in property taxes. One business alone pays more than $400,000 in payroll taxes. So that investment has seen a significant return for that community and for the Nation.

Rural development is investing in Indian reservations. Earlier we talked about where there is discussion about community facilities and community infrastructure. For example, they are providing a loan to the city of Logoma, a small rural community that needs a new water supply system due to high levels of arsenic. We provide more than $25 million a year in advances for home ownership including section 502 guaranteed and participation loans.

And rural development does much more. Presently we are working on financing two ethanol plants. One is in earlier stages than the other, and there we are looking at the B&I loan program helping us do that financing as well as new markets tax credits. So they have several programs all of which are extremely important to those of us on the ground. The biggest challenge over the last 20 years has been the persistent erosion of asset values in rural areas with the mechanization of agricultural and the loss of population. The value of homes and businesses had gone into a long-term free fall.

The result was a flight of capital away from rural areas creating significant challenges for commercial banks, and now we are coming to an end of that long-term trend and the future looks brighter for lenders, for investors, for homeowners. Even yet the poorest of our residents have seen little improvement in their quality of life. The Midwest has a large number of Indian reservations for which there has been little economic development activity, and the greatest future challenge for our company and others is to make a meaningful impact and significant investments on reservations throughout Minnesota.

The shootings that occurred on the Red Lake Indian Reservation not so long ago could happen again elsewhere. Poverty and hopelessness may be the core problems which are further exacerbated by drug and alcohol abuse, and we feel it is our responsibility to step in and help. One potential positive step for these reservations could be energy production, whether it is wind energy, ethanol production or the production of biodiesel, all could be accomplished on reservations.

Investing significant resources on reservations and projects that yield long-term streams of income could result in jobs and renewed sense of hope in our poorest communities. And I will stop there and answer questions. Thanks.

[The prepared statement of Mr. Kangas appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you. Dr. Lechtenberg.

STATEMENT OF VICTOR L. LECHTENBERG, VICE PROVOST FOR ENGAGEMENT, PURDUE UNIVERSITY, WEST LAFAYETTE, IN

Mr. LECHTENBERG. Good afternoon, Mr. Chairman and Mr. Holden. Thank you for this opportunity. My tie to rural America started on a farm in northeast Nebraska, and then I moved to Indiana to pursue a career in education in agricultural research and in administration. Prior to becoming vice provost about 2 years ago, I was dean of the College of Agriculture at Purdue for 11 years, and I appreciate the opportunity to again appear before this committee.

Rural development is important to our Nation's economic growth and well being for a number of reasons, some of which we have already heard, but let me repeat. Nearly 60 million people live in rural America, 80 percent of our Nation's geography is rural, and as has been pointed out these regions face some special economic challenges in today's high tech and global economy.

I believe Land Grant Universities can and should play a major role in nurturing growth and development in these rural communities in helping to make these communities places of choice. And I would like to tell you a little bit about some of the things that Purdue University is doing in this regard. We are trying to reach well beyond our immediate campus to link stakeholders of all economic sectors with all areas of expertise within the university. Across our entire university we have made engagement a fundamental mission of our institution.

Our efforts are becoming much more inner disciplinary, both in terms of our research and our discovery and our teaching missions but also in our engagement with the people of Indiana. The cornerstone of our engagement mission is our ability to form creative partnerships with State, with local, and with Federal agencies, with the private sector, and with individuals and community organizations. One of the tools of these partnerships is a program we call our technical assistance program which provides technical and business assistance to manufacturing and other companies.

This program connects with about 400 firms each year. Its business has tripled in the last year. Discovery Park is a unique program in which we are developing creative inner disciplinary research teams from all across campus to address some of the grand challenges that our State and Nation face. Discovery Park does its work through a complement of 12 inner disciplinary centers, centers like nanotechnology, biosciences, e-commerce, advance manufacturing, healthcare engineering, and then layered across each of these inner disciplinary centers we have an entrepreneurship center to spur the commercialization of new discoveries.

In our Office of Technology Commercialization license, university patents and copyrights and technology, the Purdue Research Park includes a business incubator where some of this technology is actually commercialized. This park is home to 134 companies that today employs about 2,800 employees. Another very important took is our Center for Regional Development. This center is built on the premise that unbiased information is essential to drive wise local policies and decisions, and that success comes from linkages across the urban, suburban and rural sectors that economic development does not respect geo-political boundaries.

The center encourages and provides a haven where public doalog can occur, the kind of doalog that is essential for innovation and community and economic development and in goverance. In 2005 our General Assembly created an Office of Community and Rural Affairs. Importantly, this office is linked to the Indiana Department of Agriculture and they both report to our lieutenant governor, Becky Skillman. But they are in fact separate offices recognizing that rural and community issues are much broader than agriculture.

Purdue Center for Regional Development has partnered with this office to develop a report entitled Rural Indiana Strategy for Excellence. This project has been a year long and has involved 150 stakeholders. The interests of these stakeholders were far broader than rural. The makeup was quite broad. The process was highly interactive. The stakeholders have developed an ownership both in the process and in the product that has emerged.

A top priority of this task force has been to create a rural constituency and advocacy for rural interest and one that goes far beyond the traditional agricultural and commodity organizations. In building on this constituency the task force has identified several top priorities; one, established regional frameworks to achieve competitive advantage across public, private, non-profit and academic institutions; two, advance civic leadership and engagement to broaden and deepen the local leadership capacity; three, invest in rural Indiana's unique, place-based assets like natural resources, our heritage and history, and the arts and culture of the people and the places; four, promote a rural innovation culture to help enhance public and private entrepreneurship; 5, engage youth and young adults to build a rural countryside in which they and other young people want to live.

I might add that educational systems are absolutely essential and critical in this endeavor; six, ensure that wealth is created and retained and harnessed to generate new wealth and capture emerging economic opportunities; and, seven, ensure diversity, access and inclusiveness. This project is a work in progress. The heavy lifting is just beginning but we are convinced that this effort will be successful because the key elements are aligned. State government, U.S. Department of Agriculture's Rural Development, the private sector, community and economic development organizations, and, lastly, Purdue University with its cooperative extension service in every county and the significant commitment from the Office of Engagement is committed to doing everything that we possibly can to partner with communities across Indiana to grow our State's economic prosperity and to make Indiana a place of choice.

Thank you for this opportunity, and I will be happy to respond to questions and comments.

[The prepared statement of Mr. Lechtenberg appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you, Doctor. The Chair now turns to the ranking member for his questions.

Mr. HOLDEN. Thank you, Mr. Chairman, and we received a lot of positive testimony today about what we need to do in the writing of the next farm bill. And I would just like to apologize to our three other panelists if I engage in some parochial problems that we are facing in Pennsylvania on rural development. We have enough political problems too, Mr. Chairman, but we have a lot of serious problems I would like to talk to Secretary Cook about.

Pennsylvania leads the country in the number of rural citizens not served by public water and public sewer, and that is a real problem with environmental clean up. It is a real problem with public health, and it is a real problem, Secretary, as you know, with economic development. Under your guidance in Schuylkill County we were able to put in several sewage treatment plants that helped not only with public health and helped with the environment but helped with economic development, the Rushrian Township project which allowed Air Products to expand, but I am very concerned that we are just not keeping up with the demand, that there are still so many municipalities that are under a consent decree from DEP to install wastewater treatment plants and sewage treatment plants.

And I am just curious in your expertise how big do you think the problem is? How much do you think the recent reconciliation budget and the proposed budget for 2007 are going to be a deterrent to allow us to get these plants up and running?

Ms. COOK. It remains a huge problem. No sooner in a State with 2,500 municipalities do we get them all served and it is time to go back and fix at that point 30-year-old, 40-year-old systems and start over again. Added to that in our State, as you have alluded to a couple of times, is a State program that offers 1 percent financing for 30 years, which is comparable to rural development's 4½ percent poverty rate for 40 years.

Communities, where they can, are opting to go with the State program for the lower interest rate and the shorter term. Leaving rural development with the most seriously economically challenged communities who rely the most heavily on the grant portion of the water and wastewater disposal program in order to move forward, and when you couple that, as you said, with our Pennsylvania Department of Environmental Protection issuing stop orders that you cannot build any more housing, you can't bring in any more jobs until you do something about your water and wastewater problem, we are really stymied in a number of areas in rural Pennsylvania.

Mr. HOLDEN. I guess we shouldn't care if the Commonwealth is doing it or USDA is doing it, but it just seems to me that the USDA program has not been competitive at the 4¼ percent even though you said with no grant money when you put in the 1 percent it is comparable in the rates, but I have just seen too many recent instances where USDA was not competitive and there was no grant money available and even at the 1 percent you can't convince the people who are on these sewer authorities that it is competitive not having any grant money.

Ms. COOK. And it is probably a good example where we may want to look at the ability of the feds to put a guarantee on tax exempt financing. Penn Vest, the State agency that you mentioned, is about to benefit from what Governor Rendell has called the Growing Greener 2 program, much of which is tax exempt bond financing. It will give Penn Vest the ability to put grants into local water and sewer systems. And while that is great for those rural communities absent better cooperation between the State agency and the Federal agency, it is going to just make things worse as far as rural development's ability to serve their communities.

Mr. HOLDEN. And just for the other panelists, in your States are you seeing the same backlog on water and sewer projects hindering economic development, hindering environmental cleanup?

Mr. WOODS. I don't have specific numbers for you, sir, but the indication from our USDA office is that there is a significant backlog, significantly higher demand than they are able to respond to.

Mr. KANGAS. The same is true in Minnesota. There is competition each year for obtaining funds through the small cities grant program, which many times USDA funds are leveraged with community development block grants, but the backlog is long and consistently long.

Mr. LECHTENBERG. I would agree, and I think one of the challenges that our colleagues in rural development in Indiana faced is the challenge of bringing some of these smaller communities together to work jointly on some of these kind of projects to build a critical mass of capacity.

Mr. HOLDEN. That is what we do at Rushrian.

Ms. COOK. We try to do that everywhere in Pennsylvania but I will never forget Sandy Township, which is kind of a donut around the Borough of Dubois, coming in for a rural water and sewer grant because they needed to build two treatment plants since the Borough of Dubois wouldn't allow them to run a pipe through from one end to the other.

Mr. HOLDEN. Just one follow up, Mr. Chairman, and I will turn it over to you. We talked about regionalization. My home town in Pennsylvania is 4,000 people and five volunteer fire companies. And through rural facilities we were trying to build them a brand new fire house with a substantial amount of grant money but they didn't want to give up belonging to the Hookies or belonging to the Columbia or the Alert, so we still have four fire companies and they are all 75 years old. Yield back, Mr. Chairman.

Mr. LUCAS. Yes, indeed, and you take me to the point that I was going to go to to address for the whole crowd. When we talk about regionalization and these approaches virtually every panel has discussed it, a number of my colleagues have discussed it, but yet as Dr. Woods knows, I represent 32 counties in a 77-county State. I have 15,000 Oklahoma City-ites. I have 10,000 Tulsa-ites, and every community imaginable beyond that, and I have watched battling efforts between communities over economic development down through the years.

How do we, my friends on the panel, you have worked with everyone at every level obviously for careers now, how do we in the spirit of a regional approach create one that works and then persuade all of our—I would never refer to my constituents as children but persuade all of my friends back home to play together in the same box? And you don't have to touch it if you don't want to, but it is addressed in question for you all.

Mr. WOODS. Well, yes, and I will take a stab and fellow panel members can be thinking about it. Mr. Chairman, you do have a rather large region, essentially Western Oklahoma plus a little bit of Oklahoma City, and so encouraging everyone to play together could be a real challenge in a geographic region of that size. It strikes me that there is sort of two ways to come at it, and one is incentives from whether it is the Federal Government or the State government, some incentives for regional efforts.

If you are going to enjoy and benefit from various programs then you are going to have to approach it from a regional perspective. And then certainly I think the other perspective is letting the market work. There are some regions that simply make sense because of economics and geography and demographics, and there are some that don't. It is another example of that whole place-based problem. There are some regions that are simply artificial and they are never going to work because they are in fact artificial so you got to identify regions that have some economic and demographic tie and build on those regions.

I am thinking back to some of the comments from the previous panel. Let us work on the ground and see which regions are able to rise up because they want to have the local capacity to work together and too because there are some economic and demographic forces that are at work.

Mr. LECHTENBERG. Mr. Chairman, let me add a point or 2. One of the things that I think an institution like Land Grant Universities can do is try to help provide some cover for these kinds of discussions to occur. Several examples that come to mind immediately, in our technical assistance program we have been able to work with a group of certified technology parks that were created by State government a couple of years ago, and these are approved very much on a regional basis.

Communities apply for them, but in our willingness to work with them we have pretty much said to the local leaders bring your colleagues together from neighboring jurisdictions and let us craft a program that cuts across geo-political boundaries and regions. And that is working to a significant degree in my opinion. We have also done this with some learning centers that are connected and tied with our cooperative extension service.

But, again, as I said, we don't have the resources to work with 92 counties so let us do some of these things on a regional basis, and then through our regional center we have been able to leverage that position and help bring some of these disparate groups together. And it is beginning to take root and to work.

Mr. KANGAS. If I could comment too. I think that we need to look at specialization of entities. Our organization is good at some things but not everything. I have been to Rural Enterprises of Oklahoma, also Little Dixie in the southeast part of the State, and they do wonderful work and they have reached scale. They have got capacity. They have got talent. And so I think specialization based upon capacity is an important thing.

Second, I think there needs to be consolidation within the industry, which I don't think many people want to talk about but I think there are too many organizations chasing too few resources, which then market forces really aren't at work so I think that there is a reason and a rationale for consolidation.

Ms. COOK. It depends on the issue. We have had fairly good luck in regionalization and tourism promotion, for example. Our Pennsylvania Dutch region has come together and the regions of the northern tier have come together and the Pennsylvania Wilds Program, and they are promoting each other as a regional destination. In other areas it just doesn't work as well, economic development financing being one of them.

Mr. LUCAS. Thank you for your honest and accurate assessment and the insights you have provided in responses to the rest of the questions. This is part of the ongoing challenge probably from the perspective of this subcommittee as important an issue as we will touch on between now and the ultimate crafting of the conference committee report in the fall of 2007. So much is at stake back home and we all have a responsibility and obligation to help make that happen.

And I do appreciate your patience with regard to our votes and recesses and the schedule we have worked under today. Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplemental written responses from witnesses to any question posed by a member of the panel. This hearing of the Subcommittee on Conservation, Credit, Rural Development and Research is adjourned.

[Whereupon, at 1:20 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Statement of Thomas C. Dorr, Under Secretary for Rural Development
Before the House Agriculture Committee
Conservation, Credit, Rural Development and Research Subcommittee
Hearing on USDA Rural Development Programs
March 30, 2006

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify today. I last appeared before the House Agriculture Committee three years ago to discuss new generation cooperatives. It is a privilege to return today to discuss 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. I know that many members of this Subcommittee are participating 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. Earlier this week, Secretary Johanns shared USDA's summary of the nearly 5,000 comments we received during the forum process. 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 that process. 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, clearly, 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 allows 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 $60 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 $60 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 Subcommittee 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 Subcommittee 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.

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Written Statement for the Record

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Truman School of Public Affairs
University of Missouri-Columbia

Before the

U.S. House of Representatives
House Committee on Agriculture

Subcommittee on
Conservation, Credit, Rural Development and Research

Washington, D.C.

March 30, 2006

The Rural Policy Research Institute provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places.

Chairman Lucas, Ranking Member Holden, and Members of the Subcommittee, I thank you for the opportunity to testify before the Subcommittee on Conservation, Credit, Rural Development and Research regarding the USDA Rural Development Program, and applaud your leadership in assuring that rural development concerns receive more primacy in deliberations concerning the next Farm Bill.

I am Charles W. Fluharty, Director of the Rural Policy Research Institute, and Associate Director and Research Professor in the Harry S Truman School of Public Affairs at the University of Missouri-Columbia. RUPRI is a multi-state, interdisciplinary research consortium jointly sponsored by Iowa State University, the University of Missouri, and the University of Nebraska.

RUPRI conducts research and facilitates dialogue designed to assist policy makers in understanding the rural impacts of public policies. Continual service is currently provided to Congressional Members and staff, Executive Branch agencies, state legislators and executive agencies, county and municipal officials, community and farm groups, and rural researchers. Collaborative research relationships also exist with numerous institutions, organizations and individual scientists worldwide. To date, over 200 scholars representing 16 different disciplines in 80 universities, all U.S. states and twenty other nations have participated in RUPRI projects.

Mr. Chairman, in testimony before the House and Senate Agriculture Committees in 2001, I recommended seven key rural policy components for consideration in the 2002 Farm Bill:

1. *Developing a more comprehensive rural policy framework, driven by specific federal policy goals and outcomes measures*
2. *Sustaining existing categorical program and funding support.*
3. *Building rural community capacity, collaboration, and leadership.*
4. *Developing a more integrative, cross-sectoral, place-based policy approach.*
5. *Addressing the lack of rural venture and equity capital.*
6. *Supporting approaches which acknowledge the interdependency of agriculture and the rural economy.*
7. *Supporting rural entrepreneurship, in both the public and private sector.*

In 2006, I'm very pleased that real progress is being made on some of these issues. However, much remains undone, and I continue to support the importance of these suggestions. Nonetheless, contexts and circumstances have altered, as with all things. So this morning I would like to address three key contexts which should inform decision making regarding rural development programs within the new Farm Bill:

- **The new rural development perspective within the United States Department of Agriculture / Rural Development, and its impact upon this Farm Bill process.**

- **An emerging set of dynamics taking form across our nation's rural regions, which should be considered by this Congress as framing of elements within the new Farm Bill begins.**

- **USDA / Rural Development programs contained within the existing Farm Bill, and their relevance to A New Rural Vision – Regional Rural Innovation.**

The New USDA Rural Development Perspective

On February 16-17, 2006, the United States Department of Agriculture held its annual Agricultural Outlook Forum. This annual event has a distinguished, storied history. The USDA began laying the groundwork for its first Outlook Forum in 1913. Shortly thereafter, the number of farms in America would reach its zenith, at 6 ½ million. Today two-thirds of these are gone, and most of the producers on the remaining 1 ¼ million farms are working in towns and farming part-time. Approximately 90% of total farm income now comes from off-farm sources, while 150,000 very large farms produce the majority of our food and fiber.

That first Outlook Forum, hosted in 1923, brought together our nation's most eminent leaders in agriculture, a tradition which remains strongly in force today. Over the last 85 years, however, the Forum has broadened its focus to include discussions of the latest scientific research and new products, global aspects of trade, health issues, and the changing dynamics and economy of rural America. Today, it brings together our nation's leading producers, scientists, economists, consultants, industry leaders, analysts and public policy makers. It is, without question, the preeminent U.S. agricultural policy forum each year.

The 2006 event, however, was a watershed moment in USDA history, and a landmark event for U.S. rural policy. The Forum title, "Prospering in Rural America," created a thematic backdrop for the gathering's central framework –ensuring the future prosperity of all of rural America, through and beyond agriculture.

This became evident to the over 1,700 participants shortly into the keynote address by Secretary of Agriculture Mike Johanns. The full import of this moment was fully grasped as he reached the midpoint of his address, which contained one of his central points :

> "This forum is an opportunity to learn and to gauge the changes in agriculture and to get our bearings if you will, not only for the next year but for our future.
>
> I found the same to be true over the past months as we traveled across this great country doing our Farm Bill Forums. Those forums were the place to gain some perspective on the future of agriculture and farm policy and to hear directly from farmers and ranchers. . .
>
> But we heard ideas and concerns that differ from one crop to the next, and as you might expect, from one region of the country to the next. But interestingly enough – and I started talking about this about halfway through the forums because I found it so interesting -- interestingly enough we heard unanimous support for our Rural Development efforts. . .
>
> After hearing such compelling stories about the importance of Rural Development, I came back to Washington eager to examine the state of our rural economy. . .

Reality is that 92 percent of producers, those who manage about two-thirds of ag land, rely heavily on off-farm income. They choose to carry on the great tradition of American agriculture, but they do not depend on it as their sole source of income or in many cases even as their primary source as income.

I am here today to assure all those who stood in line at the forums, I was listening. Now today I'm not prepared to present a detailed piece of legislation but I can tell you that I believe future policy must acknowledge what I have just laid out in terms of the changing face of our rural economy. . .

If most agricultural producers are dependent on off-farm income, then we must pay special attention to our support of rural economies and beyond agriculture. To quote from a report recently released by the American Farm Bureau Federation: 'Farmers are more dependent on rural communities than rural communities are dependent on farmers.' . . .

We have an opportunity to develop farm policy that recognizes that this farm economy has changed. With fewer producers overall and the majority of farm production accounted for by a small percentage of producers, we must thoughtfully consider how we deliver support to rural America. . ."

Secretary Johann's framework was echoed and enhanced by USDA Under Secretary for Rural Development Thomas C. Dorr. In his comments, Under Secretary Dorr reinforced this emergent emphasis upon broader rural economic dynamics:

"Keeping family farms in business thus means that farmers need good jobs in town every bit as much as good farm policy out of Washington, D.C. In that respect, they're no different from their neighbors.

Bottom line: 65 million people live in rural America. 63 million of them don't farm. 96% of the total income in rural areas – and virtually all the job growth -- is from non-farm sources. . .

We are by statutory authority the leading advocate for rural America. Our mission is to increase economic opportunity and improve the quality of life in rural communities. And we recognize that the future of rural America depends on entrepreneurship and technology. . . .

Today, however, USDA Rural Development is a regional economic and community development organization:

- We recognize that sustainable development must be market driven, not program dependent.
- We want to be an investment banker for rural America, not a central planner or a lender of last resort.

- Our role is to support and empower local initiative, both public and private. We are an enabler, not a central planner.
- We also understand that money is part -- but only part -- of that role. We can't pay for everything -- and we don't want to. Rural America doesn't need Potemkin Villages that wither and die the moment the subsidy plug is pulled.
- What it does need is viable businesses, self-sustaining communities, and young families eager to build a future.

The issue is simple to state, but much more difficult to address:

> Given the challenges of an intensely competitive, highly networked global economy, what can we do to create sustainable opportunities for growth in rural America?

These comments by the Secretary and Under Secretary set the tone for one of the most energizing rural policy moments in USDA's recent history. As the ensuing Forum sessions unfolded, it became clear that a new departmental perspective and commitment was finally taking hold and being incorporated within the growing consensus across other federal departments and agencies – namely, that a new rural policy framework must become a more central component of the public policy dynamic of our nation. With this recognition, USDA leadership has joined the culminating apex of a decade-long dynamic, in which enlightened rural public decision makers, business and community leaders, and public policy scholars have coalesced around commitments to a set of principles for a new rural policy framework in the United States: "Regional Rural Innovation."

Today, with the leadership provided by you, Mr. Chairman, this Subcommittee begins the process of engaging USDA in a common commitment to this new vision, and the rural people and places of our nation look forward to this heightened attention and policy consideration.

Key Rural Policy Dynamics

Rural development has remained a "back-water" concern for U.S. public policy over the last four decades, usually rising only with a new Farm Bill tide, and then receding, after sufficient lip-service, with only minimal impact. However, over the past decade a number of dynamics in the U.S. culture and political economy are driving significant new attention to these challenges. The most important components of this context are outlined below:

- Growing Understanding of the True Rural Economy and of Rural Poverty
- The Rural Federalism Disadvantage
- The Rural Disadvantage in Foundation and Corporate Grantmaking
- The Importance of Asset-Based, Regionally Framed Development
- The Necessity of a New "Rural Governance" Framework
- A Systems Approach to Rural Entrepreneurship, both Public and Private

Growing Understanding of the True Rural Economy and of Rural Poverty

As the rural economy in the U.S. continues to consolidate, and as commodity producers, whether in agriculture or manufacturing, are forced to respond to the dynamics of globalization, it is becoming increasingly clear that innovation and technology must drive new rural economic engines, and that this is not only possible, but a necessity. This has helped to support a new commitment to building regional competitiveness strategies that seek to identify and exploit a region's unique assets, and build integrative approaches to optimize this potential. Furthermore, there is now a clear understanding of the delimiting worth of reliance on business attraction strategies, and much greater attention to asset-based innovation and entrepreneurial design, which I'll address briefly below.

There is also no question now that rural is no longer synonymous with agriculture, and that rural economies must become more diverse, as rural incomes continue to lag urban, with the greatest lags most often occurring in commodity-dependent counties.

Similarly, attention to rural poverty has increased over the last decade. While many organizations, institutions and individuals deserve credit for addressing these concerns, much of this is a direct result of specific attention within major philanthropic organizations, including but not limited to the Annie E. Casey Foundation, the W.K. Kellogg Foundation, and the Northwest Area Foundation. Recently, the tragedy wrought by federal and state inability to more effectively address the plight of the poor during Hurricane Katrina has enhanced this awareness. However, in our nation today, persistent poverty is largely a rural challenge, as 340 of our nation's 386 persistently poor counties are rural. Rural median family income is 25% lower, and rural poverty rates 28% higher than metro.[1] And this differential disadvantage is increasingly being viewed by decision-makers as a lag on broader regional economies.

The Rural Federalism Disadvantage

Because the federal government will continue to devolve roles and responsibilities down to states and localities, often in block granting structures, the capacity of rural jurisdictions to compete for these funds is increasingly important. However, compared to their colleagues in urban and suburban governments, rural public decision makers are significantly disadvantaged. Most rural jurisdictions have relatively few or no research staff, grant-writers, technical assistance funding bases, or economic analysts. Many are led by part-time public servants, with few or no paid staff at all. On this uneven playing field, urban and suburban counterparts will almost always be victorious in competing with rural jurisdictions for scarce, competitively awarded state block grant funds.

One of the largest challenges for rural development in the U.S. remains the inherent structural disadvantage which rural areas face in federal funding commitments. Current federal funding policy inadvertently, but significantly, disadvantages rural areas. The Consolidated Federal Funds Report for 2001 (the most recent reported data) shows that the federal government returned $6,131 on a per capita basis to urban areas, while returning only $6,020 to rural areas[2].

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[1] Economic Research Service, USDA, County Typology

This amounts to a nearly $5.5 billion annual federal disadvantage to rural areas. However, an equally challenging issue is the difference in the nature of these federal funds.

In Fiscal Year 2001, direct payments as a percent of all federal funds per capita were 50.5% in metropolitan areas and 63.9% in nonmetropolitan America[3]. This 13% differential funding builds much of the community capacity and infrastructure of urban and suburban America. Therefore, with each passing year, these dynamics further disadvantage rural jurisdictions and organizations, who are forced to compete with their metropolitan counterparts on an increasingly uneven playing field, without benefit of the professional staff, technical assistance and planning resources which this funding secures.

Part of this challenge is the fact that Metropolitan Statistical Areas (MSAs) have a "place entitlement" to HUD Community Development Block Grants (CDBG) from the federal government, which assures that these funds will be available each year, allowing multi-year capital and program planning – an excellent aggregation tool for integrative, cross-sector public capacity building. This is also one of the most flexible federal funding programs. Unfortunately, rural towns and cities of less than 50,000 population and counties with populations of less than 200,000 must compete against one another for the smaller, state-administered "State CDBG" program, which is neither assured nor multi-year funding.

These stark community capacity disadvantages are additive. Each year from 1994-2001, the federal government spent two to five times more, per capita, on urban than rural community development, and one third as much on community resources in rural areas[4]. Per capita spending on community resources in 2001 was $286 per person less in nonmetro areas than in urban America, a $14.1 billion dollar rural community capacity disadvantage (based on 2003 metropolitan classifications of Census 2000 population)[5].

These rural implications are exacerbated by an ongoing federal "push down" of funding and statutory responsibility to states and localities, which further challenges rural resources and community capacity. Federal block granting has become a more common framework for these shifts, with increasing use of loan and loan guarantees, and fewer direct granting possibilities, which is forcing new interjurisdictional cooperation – a good thing, with reduced federal commitments – a huge challenge. However, while the U.S. has a somewhat incomplete and incremental regional development framework, these challenges have increased interest in new collaboration, and have renewed interest in new regional approaches, which I will address briefly below.

The Rural Disadvantage in Foundation and Corporate Grantmaking

These rural community capacity challenges in federal funding are exacerbated by an equally uneven commitment to rural community and economic development by our nation's foundations and corporate grantmakers. In a May 2004 report, the National Committee for Responsive

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[2] Analysis of Consolidated Federal Funds data by the Economic Research Service, USDA.
[3] ibid.
[4] W.K. Kellogg Foundation (2004) "Federal Investment in Rural America Falls Behind"
[5] Economic Research Service/USDA, U.S. Census Bureau.

Philanthropy[6] noted that of the $30 billion distributed annually in by our nation's foundations, only $100.5 million was committed to rural development. Of 65,000 or so active grantmaking foundations in the United States, only 184 engaged in rural development grantmaking. About 20 foundations doing rural development grantmaking accounted for 80% of this total, and two foundations, the W.K. Kellogg Foundation and the Ford Foundation, constituted 42%. While the significant rural community and economic development commitment of these two foundations is commendable, these numbers indicate that the majority of grantmaking foundations in the U.S. have not seriously addressed the rural development needs of not-for-profits serving rural populations.

Sadly, the same rural differential disadvantage also applies to corporate philanthropy. While total corporate grantmaking in the U.S. amounts to $12 billion annually, a 2000 study of the 124 Fortune 500 corporations found that corporate grantmaking for rural, racial / ethnic organizations amounted to 1% of their total racial / ethnic grantmaking. In total, corporate grantmaking for rural groups constituted seven-tenths of one percent (.7%) of the grant dollars awarded by the 124 surveyed corporations for racial / ethnic giving. Rural organizations received only 153 of the 10,905 grants made, approximately 1.4% of all grants.

The Importance of Asset-Based, Regionally Framed Development

Rural regions must rethink the premises upon which their economic development strategies are based. They must reassess their economic opportunities and redefine themselves by them! This requires that public and private sector decision makers rethink the framework for community and economic development, which begins with an honest assessment of a region's unique competitive advantage, based upon its internal assets. This niche must stand the test of the global marketplace, enable export beyond the boundaries of the region, and build upon a region's assets and its entrepreneurial capacity. Industrial recruitment is an ineffective public sector strategy in a global economy. Capturing and advantaging local wealth and local entrepreneurship is now essential. In this approach, regions must exploit the potential for clustering opportunities, build synergies in technology adaptation, and create new economic models which underscore the interdependence of a region's key economic sectors.

The most critical component of this new paradigm is institutional innovation. Intermediary organizations to create and sustain these dynamics are the key to a region's future. Leveraging local amenities, including culture, heritage and history, investing in human and social capital development, building venture and equity capital mechanisms and advancing local infrastructure and advanced technology all require effective, innovative institutional intermediaries. In this regard, the most essential task is the crafting of a new regional governance.

The Necessity of a New "Rural Governance" Framework

Despite, or perhaps as a result of these economic challenges, a new "Rural Governance" is expressing itself across the U.S. rural landscape. By "governance," I mean the process by which decisions are made regarding the distribution of public and private resources and responsibilities

[6] National Committee for Responsive Philanthropy (2004) "Beyond City Limits: The Philanthropic Needs of Rural America."

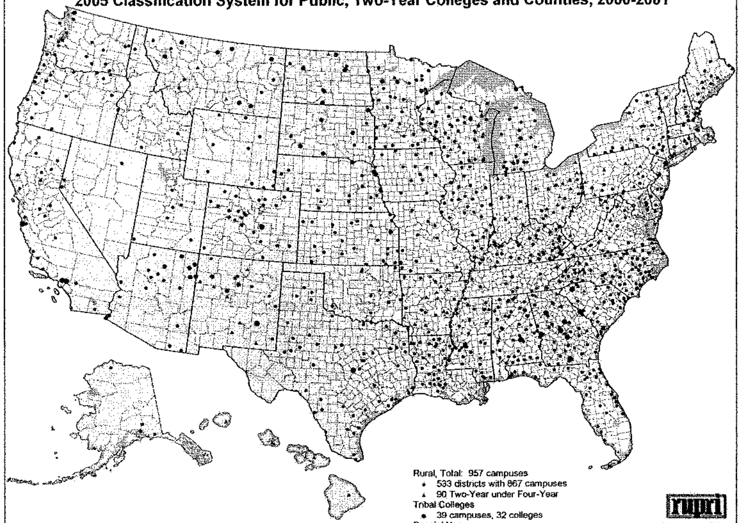
across multiple stakeholders, including the public, private and non-governmental sectors. The dynamics in U.S. federalism outlined above are forcing ever greater interdependence of rural governmental and nongovernmental organizations, as the central government's role continues to reduce over time and circumstance. This requires greater coordination, facilitation and negotiation, through multiple policy networks which are often diverse and overlapping. While this offers a possible new set of strategies to confront the community capacity challenge outlined above, it also creates the necessity for new intermediaries to be formed and functioning.

These intermediaries provide the "glue" that enables new rural governance to express itself, and these new actors are now playing critical roles across multiple institutional settings. As an example, over 20 states now have a rural policy center, either located in the office of the governor, within state government, as the result of state legislative action, or operating through the private efforts of regional universities or non-governmental organizations. Intermediaries such as these are becoming much more relevant to state and local governmental decision making, and will play a more important role in the future of rural policy, as these processes evolve.

Some of the most promising new rural intermediary institutions assuming increased community and economic development significance in the U.S. are our nation's rural community colleges. These institutions, often the key human and social capital aggregators in our most isolated rural landscapes, have long fulfilled multiple, unfunded roles in building regional collaboration. With major changes in our nation's workforce investment policy and program design, these rural institutions have taken on added responsibilities and significance. It could indeed be said that these institutions are building the "Extension Service of the Next Century," grounded in place, working from an asset-based value set, sensitive to local culture and heritage, and focused upon building the human capital of some of our nation's most disadvantaged rural citizens.

RUPRI is honored to be working closely with the national Rural Community College Alliance, through our National Institute for Rural Community Colleges, a joint collaboration with Mississippi State and Alcorn State Universities, to assure these institutions become a more central player in future regional rural strategies. As the map below demonstrates, these institutions are uniquely configured, by both geography and mission, to serve this critical intermediary function, and national public policy must take advantage of the rural development opportunities afforded by these place-based colleges.

Publicly-Controlled Two-Year College Campuses in the United States by Katsinas, Lacey, & Hardy 2005 Classification System for Public, Two-Year Colleges and Counties, 2000-2001



This map was prepared by the Rural Policy Research Institute (RUPRI) using ZIP codes supplied by institutions to the US Department of Education's IPEDS data base, 2001.

These new rural intermediaries are as diverse as rural America itself. Community foundations are playing a very significant role in these dynamics. As but one example, RUPRI is honored to be collaborating with the Nebraska Community Foundation and the Heartland Center for Leadership Development in a wonderful new initiative, Home Town Competitiveness.[7] Yet these intermediaries exist in all sectors, governments and NGO organizations, and are changing the face of decision-making across the rural landscape.

Despite this potential, three critical questions will determine whether these forces are passing fads or sustainable platforms for new policy innovation:

- Will public sector champion(s) step up, take on the New Governance mantle, and support public and private entrepreneurship?
- Will institutional innovator(s) accept the challenge of building these new intermediary structures, and the burdens of institutional innovation?
- Where are the constituencies to support these innovative leaders and institutions?

These are not moot questions, and the Rural Development Title offers a wonderful opportunity to create innovative support mechanisms for rural leadership in these dynamics.

[7] For information on HTC, see the RUPRI Center for Rural Entrepreneurship at www.ruraleship.org.

A Systems Approach to Rural Entrepreneurship, both Public and Private

Rural economic development must overcome a number of obvious challenges. Low population size and density, and limited local demand make it difficult to achieve economies of scale. Efforts to achieve efficiencies drive consolidation, from school systems to financial institutions. Remoteness from global markets and poor infrastructure limits rural economic opportunities, and core connections to regional and global markets exacerbate these challenges. More poorly educated, lower skilled workers and the challenges of building rural entrepreneurial cultures have limited rural participation in the new global economy. However, across the nation today, a new rural entrepreneurial culture and climate is flourishing.

Four principles should drive these efforts:

- Focus on the entrepreneur. Systems thinking is required to properly organize and align the training, technical assistance, and financing programs that are available for small businesses and entrepreneurs. Focusing on the entrepreneurs and their needs ensures that all these programs are aligned in a coherent system, that allows entrepreneurs to obtain the support they need without being passed from door to door or given inappropriate advice.

- Focus on the region. Only through regional cooperation across jurisdictions and through regionally-aware institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role as supporters of an entrepreneurial climate. It is rare for an individual county to be able to act effectively on its own in economic development, workforce development, transportation or any other complex public service activity. Economic regions invariably cross county and often state boundaries, and these boundaries are irrelevant for the markets entrepreneurs have to be able to serve.

- Focus on the community. Local communities need the tools and resources to identify and build upon their competitive assets, and to make appropriate choices among economic, social, and environmental imperatives. Communities can achieve much if they are open to experimentation and innovation, but they will go nowhere if they continue to do what they have been doing for decades, in spite of the changes that are going on around them.

- Focus on continuous learning. Entrepreneurs, policymakers, community leaders, and service providers all benefit from networks of peer support and learning. Entrepreneurs in particular rely on networks to share ideas, conduct business together, and link to markets, capital, employees, partners, and services. Taking this one step further, entrepreneurship should without a doubt be an integral part of the school curriculum.

If we are to achieve this, three steps are essential. Anchor institutions with the capacity to articulate a vision, advocate for change, build partnerships and attract and mobilize resources must be built. Secondly, supportive public policies which ensure adequate resources, send positive messages, and build programs with the capacity and flexibility to meet the needs of diverse rural regions must be crafted. Finally, these approaches must provide support and encouragement to both "opportunity" and "necessity" entrepreneurs, and avoid "picking winners." We must also acknowledge that failures will occur.

These principles, which became the focus of the W.K. Kellogg Foundation's Entrepreneurship Development Systems in Rural America national competition last year, elicited responses from over 185 rural regions across our nation. This is a very clear market indication of the willingness and excitement of rural institutions and organizations regarding this new rural regional innovation approach.

In summary, a systems approach must have three critical dimensions to be totally efficacious:

- Regional framings – embracing both urban and rural, tailored to economic, geographic, cultural and demographic diversity.

- Integrative dynamics – cross-sectoral (entrepreneurship opportunities in agriculture, energy, amenities, education, health etc.), cross-jurisdictional (collaboration across public-private-nonprofit organizations and all levels of government) and cross-functional (entrepreneurship education, training & technical assistance, access to debt and equity capital, networking, infrastructure)

- Cultural contexts – building capacity and support for private and public entrepreneurship, focus on entrepreneurs as converters of rural assets into rural competitiveness.[8] [9] [10] [11]

All this hinges upon the emergence and support of a strong cadre of rural public entrepreneurs. This reality is clearly recognized, and leadership support for this dynamic is being supported in multiple settings across the rural U.S., by major foundations such as the W.K. Kellogg Foundation, regional and community foundations, and corporate grantmakers.

In this regard, I would like to acknowledge my fellow panelists, Mr. Jim Hunt, President of the National League of Cities, and Ms. Colleen Landkamer, President-Elect of the National Association of Counties. These rural public entrepreneurs, leading two of our nation's important associations of government, have been collaboration leaders in a five year effort among NACo, NLC, NADO, NCSL, CSG, NATaT and other associations of government, to address the new rural governance framework we are discussing today, and support federal approaches which create greater regional innovation flexibility.

Finally, one huge challenge before us remains the development of rigorous, quantitative evaluative tools to assess the return on investment for public sector commitments to these

[8] Articulation of scope and potential for entrepreneurship in a rural context – Dabson, Brian, Jennifer Malkin et al. (2003) *Mapping Rural Entrepreneurship.* W.K. Kellogg Foundation and CFED
[9] *Entrepreneurship in specific contexts* – Malkin, Jennifer with Brian Dabson et al (2004) Native Entrepreneurship: Challenges and Opportunities for Rural Communities. Northwest Area Foundation and CFED
[10] Entrepreneurship as a core economic development strategy – Brian Dabson (2005) Presentation to the Secretarial Advisory Committee, Strengthening America's Communities, Clearwater, Florida, June 2, 2005
[11] Comprehensive guidance for rural communities interested in pursuing entrepreneurship – Markley, Deborah, Don Macke & Vicki B. Luther (2005) Energizing Entrepreneurs: *Charting a Course for Rural Communities.* RUPRI Center for Rural Entrepreneurship and Heartland Center for Leadership Development.

systems. Absent such, we will still have too few risk management tools for public entrepreneurs willing to risk such commitments. However, serious attention is currently being paid to this deficiency, and many in the field are discussing approaches to address this challenge.

Several final observations should be made regarding regional approaches, new governance, and entrepreneurship:

1. This new framework should be designed to enable an integration of rural initiatives with farm programs, to advantage rural producers, their rural communities and regions, and their childrens' opportunities to thrive in their rural community in the 21st Century.

2. The sector considerations which have historically been titles in the Farm Bill, i.e., energy, conservation, rural development, etc., should become key components in an integrative new rural vision, and should be considered more holistically in future discussions of this Farm Bill.

3. Finally, we must better link the research title of this Bill, which frames priorities for our Land Grant University research community, with the new rural vision we seek to support through the Rural Development Title. The unparalleled potential which resides in our Land Grant University research community must be mobilized to enhance the decision support infrastructure for wiser public policy choice in rural America.

Rural Development, the New Farm Bill, and a New Rural Vision: Regional Rural Innovation

With this Committee's leadership in advocating for enhanced rural development emphasis in the Farm Security and Rural Investment Act of 2002, major new program attention and mandatory funding for rural development was obtained. While rural advocates were most appreciative, much of this funding never materialized, and many of the new programs were not implemented or suffered drastically curtailed funding.

As a new Farm Bill approaches, with tremendous federal budget challenges as a result of our continuing deficit, increased WTO trade pressure, and no lessening of competing demands from the very diverse constituencies affected by this omnibus title, are new framings to address the issues and opportunities raised above possible. I believe they are, and I would argue that models already exist. Several examples are briefly highlighted below, to initiate these discussions.

A Regional Rural Innovation System

Obviously, until the structural resource disadvantages outlined above are addressed, rural America must look internally to better its community and economic development opportunities. Rural regions must craft a common vision; pool very limited resources, talents, and capacities from all sectors; and develop an asset-based approach in which new institutional partnerships between the private, NGO and philanthropic sectors link with under-resourced rural governments. Though challenged by the lack of technical assistance funding available for such efforts and the relative lack of philanthropic capacity and grant making in rural regions, rural communities have begun this effort. However, absent attention to these huge resource disadvantages, building the new rural innovation system outlined below will remain a significant challenge. Nevertheless, such developments are absolutely essential, if rural regions are to optimize their relative competitive advantage.

Given these challenges, where should policy makers turn in building wiser public sector investments in rural community and economic development? First, we must acknowledge that what has worked in the past will no longer suffice. Once that is evident, regional rural innovation systems can be considered. When this happens, we will move from attraction strategies to entrepreneurship; identify and encourage "functional economic regions" to build on existing assets, broadly defined; and move from sector to place-based approaches. This regional framework will be appropriately configured, and will engage our institutions of higher education in a new regional compact, where public and private entrepreneurship will be central, a new rural governance between the public, private and philanthropic sectors will be evident, and new regional leadership, through innovative institutional renaissance, will be expressed.

While this may seem a bridge too far, it is already emerging all across rural America. Purdue University has designed and developed a new Discovery Park, Research Park, and the Center for Regional Development, outstanding new intermediaries, creating traction and scale for new regional innovation systems. Dr. Sam Cordes, Director of the Center, has been working with the Administration of Indiana Governor Mitch Daniels and Lieutenant Governor Becky Skillman over the past year to create the Rural Indiana Strategy for Excellence 2020 (RISE 2020)[12]. This effort has engaged over 150 Indiana organizations and institutions, and has become a national model for new rural governance and regional innovation development. Northeastern Ohio institutions created an exiting new regional competitiveness strategy, linking higher education, the private sector and governments across the region and generating significant innovation and collaboration success. Multiple counties across the United States are beginning to forge collaborative "functional" compacts, and across the rural landscape federal, state, regional and local agencies and governments are rethinking and defining their appropriate roles and responsibilities.

The growing number of these innovations should result in the federal government creating incentives for regional partnering, expanding investments in basic research and regional community and leadership capacity, and funding the development of new public goods for regional decision making, all key elements in a national rural entrepreneurship framework. Should this occur, the federal government will become an enabler rather than a driver of such dynamics, as regional, state and local actors work together to build effective new frameworks for regional governance, public and private collaboration, and identification of unique regional assets. Then, a true rural entrepreneurial development system can emerge, to enable innovation to leverage these assets, across space.

Globalization has had profound and lasting effects. It also has created two unmistakable rural challenges: uneven growth across space, and new drivers of sustainable growth, primarily innovation and entrepreneurship. Building a Regional Rural Innovation System, which acknowledges these necessities and seeks to address them, must and will emerge within the U.S.

The promise of such a Regional Rural Innovation Policy is premised upon the following realities:

[12] The Indiana Rural Strategy (2006) http://www.purdue.edu/pcrd/Indiana%20rural%20strategy.htm

1. National competitiveness is increasingly determined by the summative impact of diverse regional actions, capturing asset-based competitive advantage.

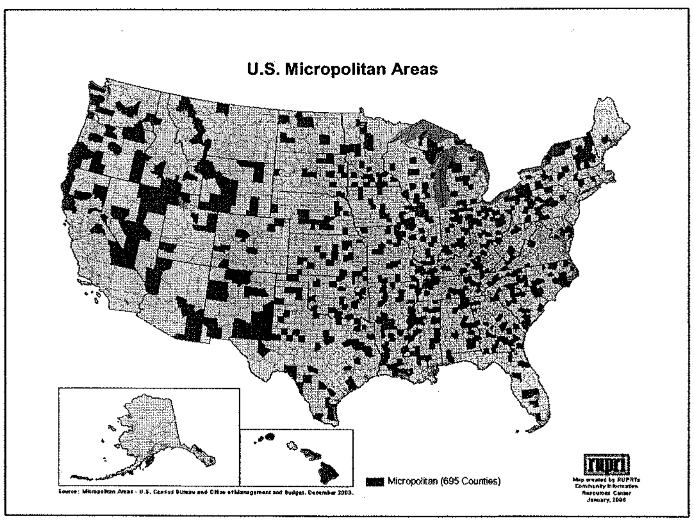
2. Support for such an approach will require a substantive rethinking of core missions across federal departments, state agencies, and regional and local governments, and a commitment to leadership renaissance within these institutions and organizations.

3. Funding support for these place-based policies are WTO green-box compliant, non-trade distorting funding opportunities for the federal government.

4. Finally, such a commitment improves the potential for Congressional Agriculture Committees to retain existing funding baselines, and for these Committees to retain statutory responsibility for rural development policy.

Micropolitan Regions

One of the most intriguing, but as yet unutilized, federal vehicles for both regional innovation targeting and programming is the new Micropolitan Area designation. First defined in 2003 by the Office of Management and Budget, Micropolitan Areas have a core principal city of 10,000 – 49,999, and include surrounding counties linked by commuting ties to this city. Currently, there are 582 Micropolitan Statistical Areas, which range in size and character from "edge cities" with close proximity to metropolitan areas, to others in much more isolated landscapes. These micropolitan areas contain more than 28 million people, nearly 1 in 10 Americans, account for over 1/5 of all U.S. counties, and are as diverse as the U.S. geography, with Eastern micropolitan areas mostly lying between metropolitan areas, and Midwestern and Western micropolitan areas more isolated from metropolitan areas[13]. While demographers, statisticians and policy analysts are only now beginning to fully apply and leverage the utility of this new designation, all anticipate that micropolitan areas will soon become a designation for legislative and regulatory targeting, as have metropolitan and nonmetropolitan areas in the past. However, these new "federally designated places" remain the only ones in the U.S. currently not receiving "place entitlements" from the federal government, through the CDBG program. Rural policy advocates will no doubt challenge this funding inconsistency, as many of these micropolitan areas could provide the logical "regional growth" core, to be incorporated with surrounding rural areas for federal designation and funding as part of a new "Regional Rural Innovation" framework.



[13] Lang, Robert E. and Dawn Dhavale (2004) "Micropolitan America: A Brand New Geography." Metropolitan Institute at Virginia Tech.

The Rural Strategic Investment Program

Another promising opportunity for capturing this new attention to regional rural innovation is the potential to craft an approach similar to the Rural Strategic Investment Program (RSIP), contained within The Farm Security and Rural Investment Act of 2002. This program was one of the most innovative rural initiatives in recent history, but has never been implemented. RSIP was designed to create regional, new governance collaboration, to spur innovation through a strategic regional framework, and had two purposes:

1. *to provide rural communities with flexible resources to develop comprehensive, collaborative, and locally-based strategic planning processes; and*
2. *to implement innovative community and economic development strategies that optimize regional competitive advantages.*

Subtitle I, Sec. 385A-H
The Farm Security and Rural Investment Act of 2002

Final Concerns and Considerations

These contexts for regional and rural development in the U.S. are dynamic and complex. Attention to these considerations will play an important role in our 2006 mid-term elections, next year's Farm Bill, our 2008 presidential election, and our nation's ongoing efforts to explain, understand, and address intractable poverty and a widening bifurcation of wealth, by class and geography, in the world's richest democracy.

In closing, I would like to offer several considerations, which I hope can become more relevant to policy discussions regarding the new Farm Bill over the coming year. The U.S. currently lacks consensus upon a vision for the future of rural America, its peoples, communities, and regions. And, as we all know, policies are ultimately about visions and values. While one may argue that a coalescing may be beginning within these dynamics, a cautionary word must be added.

In our current "rush to regionality," we must be careful to listen to those silent, yet ultimately most powerful forces - culture, community and landscape.

In the U.S., we have not answered three critical questions regarding our rural development policy. One is ontological: "What is this 'rural policy' being?" Another is teleological: "What is our 'purpose,' toward what do we strive?" And the last is epistemological: "Upon what foundational pillars does our knowledge framework for this field rest?" Absent answers to these, we will drift, for,

". . . it is programs we have, and a vision we lack!"

We also must assure that we do not lose track of "the place in space," and why our rural citizens choose to live where they do. And, until we answer these questions, we run the risk of allowing our rural policies to easily fall back upon four devastating defaults:

- Homogenization – In the absence of an appreciation for our rural distinctiveness, our assets, our culture, and our natural resources, one development will be indistinguishable from any other. If rural communities and regions fail to act primarily from this "placed-ness," they obviate their most unique competitive advantage in a globalizing world – leveraging their precious human, cultural, social, psychic, religion, economic, physical and institutional assets.

- Commoditization – Most of our rural landscapes are the result of generations of careful stewardship. These "working landscapes," sustained by intimate relationships between caring families and their land, will become an increasingly valuable asset in a world in which markets are currently trumping and trampling culture. Until we as a nation are prepared to place a true market value on the natural resources we have so long assumed are unending, and available for the taking at little or no cost, we will not treat them as assets requiring skillful stewardship and management, which could therefore offer significant new economic possibilities for rural people.

- Urbanization – In the U.S., it is not uncommon at all for rural areas to define progress in one-dimensional growth terms – i.e., growing more urban. While economic progress is essential, if the only avenue to assuring our rural community's survival is to make it urban, thereby obliterating the rural assets we sought to sustain, what have we gained? This essentially assumes that the non-agricultural composition of rural America has no intrinsic, non-urban value, and is just waiting there to be urbanized. We must be capable of more complex policy design.

- Resignation – This thread, which winds through homogenization, commoditization and urbanization, is the most insidious, and destructive. This is the process by which rural people cede their futures to some wider interest or purpose, be it governmental, corporate, or non-governmental. Rural people and their communities must become equal partners in determining their own futures. Until their interests are perceived as being equally important to all others, and until they are given the tools and capacities to direct their own destinies, they will never achieve sufficient voice or platform, and metropolitan-framed solutions will continue to define their future.

Again, I would like to thank you Chairman Lucas, Ranking Member Holden and members of the subcommittee for the opportunity to testify today.

A New Rural Economy:
A New Role for Public Policy

By

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The views expressed are strictly those of the author, and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

There is good news and bad news for the rural economy. Over the past couple of years, fortunes have turned up as the rural economy has outpaced the metro economy. Looking deeper, though, reveals long-term structural shifts which underscore ongoing concerns whether rural regions will be able to compete as effectively in the 21st century. These shifts also raise fresh questions whether rural development policy crafted for an earlier era offers the greatest promise in helping rural regions in their new economic quest.

RECENT TRENDS IN THE RURAL ECONOMY

The rural economy has enjoyed a strong upturn since 2003. Growth in income and jobs has been stronger in rural America than in metro areas.[1] In '04 and'05, rural incomes grew 2.8 percent a year (vs. 2.5 percent in metro areas).[2] Jobs were added at a 1.3 percent annual pace (1.2 percent in metro areas).[3]

The rural growth appears broad-based, though clearly paced by growth in high-skill jobs and new activity in recreational areas. Rural service jobs have been growing briskly, especially in high-skill and recreation-related categories. For instance, finance, professional, and business service jobs grew 3.2 percent annually over the past two years. These gains are especially welcome in rural areas since they represent top paying jobs and help retain highly trained professionals in rural communities. Meanwhile, job growth in recreational industries rose 2.7 percent.

The rural upturn has also been supported by a leveling out in rural manufacturing. The most recent recession spawned a significant blood-letting of rural factory jobs, but

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[1] For statistical purposes, rural is defined as nonmetropolitan areas or counties.

[2] Calculations are based on weekly earnings data obtained from the Bureau of Labor Statistics, Current Population Survey (CPS).

[3] Job growth statistics are calculated from Bureau of Labor Statistics, Current Employment Statistics (CES) data.

that appears to have been staunched more recently. Rural factory closures are now about half what they were in '01 and '02.[4] And rural factory jobs have edged up 0.7 percent a year in '04 and '05, after contracting nearly a fifth from 2000 through 2003.

The recent upswing has been helped along by record farm incomes. On the strength of big crops and strong livestock profits, farm incomes were at an all-time high in '04 and second best in '05.[5]

Recent rural economic gains are certainly welcome, but they can mask persistent long-term economic challenges. Historically, rural America has depended heavily on commodity agriculture, natural resource extraction, and labor-intensive manufacturing. Globalization challenges all three—forcing U.S. producers to slash costs to stay competitive. Thus a pattern of consolidation is the norm throughout the countryside. Farms get bigger and fewer. Coal mines in Wyoming's Powder River Basin produce more coal with bigger shovels and trucks, but fewer workers. Taken together, these shifts mean fewer and fewer rural communities can tie their economic future to the economic engines of the past.

Building new economic engines is not easy, however. A longer term perspective suggests that rural areas are struggling more than metro areas in meeting this challenge. Since 1993, employment gains in rural areas have lagged behind those in metro areas.[6] This suggests metro areas have been more successful in shifting to leading edge industries. A look at the leading edge of growth raises even more concerns about rural areas. There are about 3,100 counties in the United States. The top 10 percent of those

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[4] Calculations are based on Bureau of Labor Statistics, Mass Layoff Statistics (MLS) data.
[5] Economic Research Service, U.S. Department of Agriculture, Farm Income Briefing Room. www.ers.usda.gov/Briefing/FarmIncome/.
[6] Calculations are based on Bureau of Economic Analysis, Regional Economic Accounts data.

counties have contributed nearly three-fourths of the nation's new jobs since 1993. And only 8 of those 310 counties are in rural America.

While the challenge to innovate confronts all corners of the rural economy, farming regions may face the biggest challenge. U.S. agriculture is far from homogeneous in terms of output, but bulk commodities still account for a big share of both output and exports. With any commodity, globalization creates inexorable pressures to cut costs, making consolidation a powerful force, even during good times. Thus, even though farm income was at all-time highs in 2004 and 2005, farm-dependent counties barely added any new jobs (averaging job gains of just 0.1 percent annually compared with 1.1 percent growth for the rest of rural America).[7]

RURAL AMERICA'S DEVELOPMENT CHALLENGE

As the economic trends of the past decade show, globalization has transformed the rural development landscape. The swift currents of global markets mean that rural areas can no longer rely on old economic engines to fuel future growth. When commodities are the game, and the competitors are many and strong, consolidation will leave many rural communities searching for new engines.

Economists generally believe that globalization has ushered in a new era for economic development.[8] The central challenge facing rural regions is the same for all regions in America, indeed in the entire world: *the vigorous pursuit of a competitive edge*

[7] In 2004, Economic Researach Service (ERS) at the U.S. Department of Agriculture defined farm-dependent counties are counties with either 15 percent or more of average annual labor and proprietors' earnings derived from farming during 1998-2000 or 15 percent or more of employed residents worked in farm occupations in 2000. Data are available at http://www.ers.usda.gov/Briefing/Rurality/Typology/. Calculations based on Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS) data.

[8] The economic literature on this topic is summarized in, Drabenstott, Mark. *A Review of the Federal Role in Regional Economic Development*. Center for the Study of Rural America, Federal Reserve Bank of Kansas City, 2005.

in rapidly changing global markets. Building and maintaining that edge will involve three steps: to understand the region's distinct economic assets, to identify the best market opportunities for the region, and to craft a strategy that exploits one to seize the other. This approach yields a unique development strategy for each region. In other words, the new era amounts to the end of the "one-size-fits-all" development policy.

Two ingredients are critical for carrying out this strategy. The first is the twin force of innovation and entrepreneurs. Innovation is the new fuel in creating regional competitiveness.[9] In a global market, where the cost of producing basic products is often several times lower in other corners of the world, the key is to find the next *new* product, not compete on the *old* one. Innovation is the fuel to creating the new products.

Entrepreneurs bring the new products to market. As old products reach a mature phase and competition for them intensifies, regions need more than the fuel of new technologies and fresh ideas. They also need entrepreneurial engines to take new ideas to the marketplace. Not all of these engines will keep on running, but those that do will define a region's competitive edge in the marketplace.

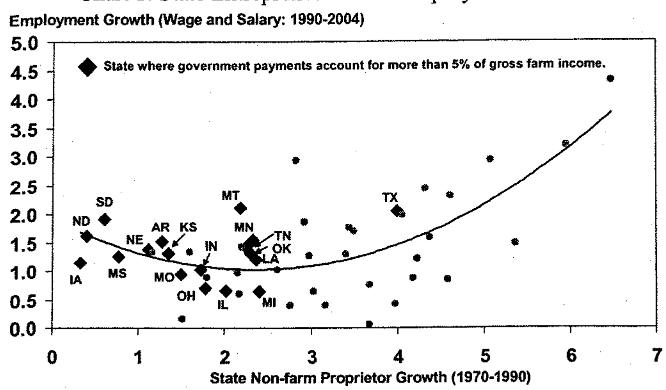
While innovation is difficult to measure, entrepreneurs are easier to track. Since business starts also reflect the current stock of ideas moving to market, measures of entrepreneurial activity essentially provide a useful proxy for both ingredients.

Recent research points to a strong link between entrepreneurial activity and economic growth. For some time now, economists have shown that nations that grow more entrepreneurs tend to experience faster economic growth rates.[10] The same link has been explored across the 50 states, with the same result (Chart 1). What is more, the

[9] Council on Competitiveness. 2004. *Innovate America.* National Innovation Initiative Report: Thriving in a World of Challenge and Change. Available at http://innovateamerica.org/webscr/report.asp.
[10] The Global Entrepreneurship Monitor, available at http://www.gemconsortium.org, provides annual summaries of the relationship between entrepreneurship and national economic growth.

economic impact appears to go up as entrepreneurial activity increases. In other words, there is a clear bonus to places that are good at fostering entrepreneurs.

Chart 1: State Entrepreneurial and Employment Growth



Calculations based on BEA, Regional Economic Information System data

Such evidence underscores the importance of regions that innovate and have entrepreneurs that move those new ideas to market. The dilemma for many rural regions is that they appear to be lagging well behind in this process. As further shown in Chart 1, states where agricultural subsidies are especially important to farm income are all clustered on the left side of the chart. That is, they have low levels of entrepreneurial activity, and economic growth is correspondingly low. The one exception is Texas, which falls toward the other end of the spectrum. An argument can be made that Texas is actually many states—with the agricultural panhandle a very different place than the high-tech mecca of Austin.

The second key ingredient is critical mass. A growing body of research shows that the fastest growing regions have sufficient human, financial, and social capital that important synergies develop. These synergies involve a whole host of things, including technology transfer, workforce skills, entrepreneurial networks, and the mere lifestyle amenities that knowledge workers increasingly expect. Economists lump all these synergies into a concept they call "agglomeration."

Research increasingly shows that locations with more agglomeration appear to be growing faster in the 21st century economy. The earlier data on the fastest growing 310 counties is one piece of evidence, but there are many others. Economic innovations (as measured by patents) occur at a faster rate in metro areas, and faster still in the biggest metro areas.[11] While entrepreneurial activity is spread across the U.S. landscape, entrepreneurs that add greater economic value tend to cluster in metropolitan areas.[12] Economists continue to explore the reasons behind these findings, but in general they conclude that places with a lot of agglomeration, like metro areas, can lower the cost of finding and obtaining specialized labor and inputs and provide a more fertile climate for knowledge to be shared across entrepreneurs, workers, and financiers. Such places also have a large supply of leaders that can help create a vision to guide the region's public and private investments.

Be that as it may, agglomeration poses a real dilemma for rural areas. By definition, rural areas are small and remote. Agglomeration is an abstract notion, not a natural feature.

Does that mean rural areas are doomed in the new economy? No, there are ways around this dilemma. Experts now believe that rural communities can create many of the benefits of agglomeration by partnering across city limits and county lines laid down

[11] Orlando, Michael J. and Michael Verba. "Do Only Big Cities Innovate? Technological Maturity and the Location of Innovation," *Economic Review,* Federal Reserve Bank of Kansas City, Second Quarter 2005, pp. 31-57. Available at http://www.kansascityfed.org/PUBLICAT/ECONREV/PDF/2q05orla.pdf (Obtained March 24, 2006).

[12] Low, Sarah, Jason Henderson, and Stephan Weiler. "Gauging a Region's Entrepreneurial Potential," *Economic Review,* Federal Reserve Bank of Kansas City, Third Quarter 2005, pp. 61-89. Available at http://www.kansascityfed.org/PUBLICAT/ECONREV/PDF/3q05low.pdf (Obtained March 24, 2006).

generations ago for a very different economy. The overall purpose of such partnering is to create a development climate where ideas flourish and entrepreneurs grow. While economists may never be able to determine how much critical mass is enough, suffice it to say that most rural communities cannot get there alone.

In sum, the new paradigm for economic development is powerful, but it also challenges rural regions. The shift to an innovative, entrepreneurial economy will not be easy in rural America. Most rural areas have put their development eggs squarely in the basket of business recruiting, putting little if any focus on growing entrepreneurs in their own backyard.[13] To gain critical mass, rural communities will have to partner across jurisdictional lines. Yet rural communities are not accustomed to reaching across those lines—Friday night football dies hard in rural America. Finally, crafting a competitiveness strategy—a region's road map to its economic future—requires leadership capacity. Such capacity is not spread evenly across the countryside, posing yet another challenge to rural areas.

The Role for Policy in Rural Development

Given the development challenges in rural America, what can federal policy contribute? Let me suggest three policy directions:

- *Help rural regions craft new competitiveness strategies.*
- *Link ongoing federal investments in research to these strategies.*
- *Build a more effective support system for rural entrepreneurs.*

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[13] State Entrepreneurship Policies and Programs. Kansas City, MO: The Ewing Marion Kauffman Foundation. November 1999, www.ruraleship.org, Rural Eship Library, Reference Library.

Together, the three may extend beyond the purview of this committee, but programs within this committee's jurisdiction could make some significant contributions.

Craft new competitiveness strategies

Job one for every rural region will be to craft an effective competitiveness strategy. This strategy will reflect the region's own best assessment of the economic niche where it stands the best chance of ongoing success. Public officials and private leaders alike will have important voices in crafting this strategy. Can public policy help?

In many respects, this question frames the future of the Extension Service. Historically, the Extension Service was the federal answer to calls to help rural America create a more competitive economy. Then, it was about transferring technology and helping farms and farm households become more efficient. Today, rural America's competitive edge no longer lies only in agriculture, but in a wide range of economic niches. Even within agriculture, some regions will continue to focus on commodities, while others will narrow their strategy to specific products.

What might federal "extension" mean in a 21st century quest for a competitive rural economy? Three areas are worth exploring.

Leadership capacity is perhaps *the* essential ingredient as rural regions forge new competitiveness strategies. Several skills will be critical to success: creating a sustainable forum for regional dialogue, diagnosing new sources of competitive advantage, and building a consensus vision for the region.

These "competitiveness" skills will need to be honed. Is there a federal role in the honing? At least some other countries around the world have answered that question in the affirmative. Italy, for instance, dedicates 15 percent of federal regional development funds to train regional officials in "competitiveness skills."[14] Is there a corresponding federal role in the United States?

Apart from the skills to make sound decisions, many rural regions need better economic information in preparing for the task ahead. For more than a century, the USDA has been the definitive source of information on the farm sector and the rural economy. That information was organized around the central premise that a strong farm economy means a strong rural economy. But that premise no longer holds in most parts of rural America. Today, rural leaders need to understand their competitive position, what their key economic assets are, and where markets critical to their region are headed. Is there a federal role in creating a new economic dashboard for rural America?

Finally, new tools might be created to help regions build effective strategies. Every region will need to build an effective means of making decisions, what many analysts now refer to as "regional governance." Currently, there are very few practical guides to doing this. Similarly, regions will need analytical tools to identify promising new sources of competitive advantage, tools that lay a region's assets alongside available markets and then winnow the field of potential economic niches to those that seem to hold the greatest promise. Such tools simply do not exist today. Is there a public role in helping to create them?

Answers to all these questions have not been reached, nor are they likely to come quickly. Yet a case could be made that they all fall within the bounds of a federal goal of helping rural America compete in the 21st century global economy.

Link federal research investments to rural strategies

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[14] Barca, Fabrizio. 2003. "Innovation and Effectiveness in Territorial Development Policy," summary of conclusion by Farbrizio Barca. June 25-26. Retrieved April 5, 2005 at http://www.oecd.org/dataoecd/63/2/3867727.pdf.

For more than a century, the federal government has invested in basic research aimed at making the rural economy more competitive. But this investment focused mostly on a single sector—agriculture. The Hatch Act, for example, created agricultural experiment stations in every state. The USDA has an Agricultural Research Service, while USDA's Cooperative State Research, Education, and Extension Service extends the research network to land grant universities, focusing on colleges of agriculture.

To be sure, agriculture will remain an important anchor of the rural economy, but rural America's need for innovation has become much, much broader than agriculture alone. Tourism, advanced manufacturing, producer services, and even new highly specialized niches of agriculture itself represent the future for many rural regions.

Obviously, the federal government invests in a lot of basic research other than agriculture, including medicine and transportation. Allocating federal funds across this research spectrum is a complex task.

From rural America's perspective, however, one issue will be particularly important. New mechanisms are needed to link emerging research knowledge with the economic strategies of individual rural regions. This link is crucial because innovation has become the hallmark of competitive regions, and research is a powerful driver of innovation. Today, the federal research effort is not tied to the competitive strategies of individual regions—it is tied to individual sectors. While that may be an effective way to organize researchers, an additional question needs to be asked if the federal government wants to ensure that new knowledge *also* advances the goal of making regions more competitive: *Which federal research breakthroughs will particularly advantage which rural region?*

The link between research and regions does not exist today because most rural regions do not yet have clear strategies and because federal research is focused on sectors, not regions. Thus, federal policy may want to create an explicit mechanism to link federal research with regional competitive strategies. The purpose of this mechanism is not to interfere with the research, but rather to create a sort of clearing house that connects new research with regions that might make best use of it. This "brokerage house for research" would mark frontier work, since such a mechanism simply does not exist today in the United States or elsewhere. Nonetheless, experts on regional competitiveness believe there may be a huge economic payoff from exploring this new mechanism.[15]

Build a more effective support system for rural entrepreneurs

Rural America has a strong entrepreneurial spirit, but the evidence suggests that rural start-ups struggle to become high-growth businesses. All entrepreneurs, including the owner of the Chatterbox Café, add value to the rural economy. But high-growth businesses create the biggest economic impact.

One explanation for the paucity of rural high-growth businesses is that the support system for entrepreneurs is much more limited in rural areas. Some researchers compare entrepreneurs to minor-league baseball players—an incomplete bundle of skills that often needs coaching to round it out.[16] These skills include marketing, accounting, legal, and management. A plethora of new initiatives to help enhance these entrepreneurial skills are being tried in rural regions throughout the nation. The Entrepreneurial League

[15] For a discussion of linking public research and economic development see Martin C. Jischke, "Adapting Justin Morrill's Vision to a New Century: The Imperative of Change for Land-Grant Universities," speech, annual meeting for the National Association of State Universities and Land-Grant Colleges, San Diego, November 14.

[16] Lyons, Thomas, 2003. "Policies for Creating an Entrepreneurial Region." *Main Streets of Tomorrow: Growing and Financing Rural Entrepreneurs,* conference proceedings pp. 97-105. Center for the Study of Rural America, Federal Reserve Bank of Kansas City.

System is now in development in North Carolina, Louisiana, and portions of Kentucky, Ohio, and Western Virginia.[17] Home Town Competitiveness aims to grow entrepreneurs on the Main Streets of Nebraska and other states.[18]

These and other trials hold promise, but they beg a bigger question: How can we build comprehensive entrepreneurship programs that are regional in scope and systematic in approach? Many partners will likely be involved in building such programs, including philanthropies, universities, community colleges, and state and local government. But who will provide the backbone for the system, and is that a role for a federal policy?

Equally important, though different in character, will be paying new attention to equity capital markets in rural America. Federal rural development policy has always paid close attention to capital availability in rural America. However, the focus has been on credit, as the name of this subcommittee makes clear. Yet in nearly all corners of rural America, credit is readily available to creditworthy borrowers, whether on the farm or on Main Street.

The same cannot be said about equity capital. Equity capital funds are concentrated in metro areas.[19] In part, this reflects the significant transaction costs in equity participations, which can be offset in metro areas that offer proximity and a high volume of start-up firms. Rural areas offer fewer deals in more remote locations and thus have had far fewer equity funds.

As rural America enters the era of the entrepreneurial economy, its sparse network of equity funds becomes a bigger problem. There are many potential responses.

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[17] Lyons, Thomas, 2002. The Entrepreneurial League System: Transforming Your Community's Economy Through Enterprise Development, Appalachian Regional Commission.

[18] For more information on the Home Town Competitiveness program see the Rural Entrepreneurship Center at www.ruraleship.org.

[19] Brophy, David. "Developing Rural Equity Capital Markets" Financing Rural America conference proceedings pp.159-172. Federal Reserve Bank of Kansas City, 1997. *Equity for Rural America: From Wall Street to Main Street.* 1998 conference proceedings. Federal Reserve Bank of Kansas City.

Philanthropies are playing an important role. The Nebraska Community Foundation, for instance, is mounting a new campaign to put charitable donations into equity funds that can fuel new businesses in greater Nebraska. Community development venture funds, such as Kentucky Highlands and Northeast Ventures, have been notable additions to the equity capital landscape. By design, these funds measure performance, not only by the financial returns they generate, but also by the economic returns they bring to their region—a so-called double bottom line.

Notwithstanding such innovations, federal policy has undertaken several initiatives in the past to close gaps in rural equity capital markets. Unfortunately, none has been very successful from a rural perspective. The New Markets Tax Credits were designed to induce new equity investments in distressed areas—rural and urban alike—by offering direct tax incentives to investors (39 percent over 7 years). Relatively few of the credits have landed in rural America; in the FY '05 allocation, only 16 percent were aimed at rural areas.[20] Small Business Investment Companies (SBICs) were created a long time ago to give commercial banks a vehicle for making equity placements in local businesses. These have not proven popular in rural America; only one SBIC is owned by a rural bank.[21] Rural Business Investment Companies (RBICs) were another attempt to provide federal incentives for the creation of rural equity funds. While sound in concept, very few have become operational.

In short, while there are many interesting public and private innovations to address the rural equity problem, this is a topic that deserves close attention going

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[20] U.S. Department of Treasury. *New Markets Tax Credit Program: Third Round (2005) Allocatees.* Available at http://www.cdfifund.gov/awardees/2005/2005NMTC-FAQs.pdf (Retrieved March 24, 2006).
[21] Rural Policy Research Institute (RUPRI). *Rural Equity Capital Initiative: Fund for Rural America Study of Nontraditional Venture Capital Institutions, Final Report.* Available at http://www.rupri.org/publications/archive/reports/P2001-11/index.html (Retrieved March 24, 2006

forward. The irony is that many parts of rural America have considerable wealth, often in the form of farmland. That wealth can be a critical ingredient to fuel a new generation of innovation and business that can build new sources of competitive advantage. But financial mechanisms will be needed to do that. Publicly managed funds are not the solution to the problem—research confirms that.[22] But public policy could play an important role in helping a robust network of funds emerge.

[22] Barkley, David L. "Policy Options for Equity Financing for Rural Entrepreneurs" *Main Streets of Tomorrow: Growing and Financing Rural Entrepreneurs.* Conference proceedings 2003. Center for the Study of Rural America, Federal Reserve Bank of Kansas City. pp. 107-127

U.S. House of Representatives
Committee on Agriculture

Subcommittee on Conservation, Credit, Rural Development, and Research

Testimony provided by
Dr. Mike D. Woods, Professor
Oklahoma State University

March 30, 2006

I am pleased to be here today to discuss and review rural development programs. Rural America is deserving of our attention and investments to secure economic opportunity and enhance quality of life for rural residents will pay dividends. My comments will be brief and hopefully concise. I will first address the notion of rural development from a community or regional perspective. Then I will share results of a recent Oklahoma survey intended to identify specific needs of rural businesses. Finally, I will address state and regional rural development efforts that have made a difference. First, a brief discussion regarding the "place-based" nature of rural development.

Rural development solutions vary depending upon the geographic location and unique circumstances of specific rural regions. My home state, Oklahoma, is a good example of the diversity we have in rural America. Western counties of Oklahoma are heavily dependent on agriculture and oil/gas. Population tends to be declining in these counties and employment growth is erratic or slow. Much of the Great Plains region (bread basket) in the U.S. falls in this category. Eastern Oklahoma has some rural counties experiencing rapid growth, often based on amenities, outdoor recreation, and in some cases specific sectors like manufacturing. Other counties experience persistent poverty and low income levels. The state has counties that are suburban and are feeling growth pressures and urban encroachment. The state also has what could be considered "frontier" counties with extremely low population density. Development problems vary and potential solutions vary by geographic region.

Rural communities and rural regions achieve development goals through effective use of available resources. These resources fall into several categories including natural [land, water, natural amenities, etc.]; human [educational levels, quantity and quality of labor force, etc.]; institutional [government organizations, infrastructure]; and financial resources. Natural resources are endowed, either a region has them or not. The other resources offer opportunity for policy intervention. Title VI of the Farm bill offers several programs to address these resource needs. Before addressing specific programs I would like to share some feedback recently obtained from rural businesses and leaders in Oklahoma.

The Rural Economic Development Initiative (REDI) was designed to encourage business creation and growth by matching businesses with the appropriate resources available across the state. Oklahoma House Speaker Todd Hiett selected former U.S. Congressman Wes Watkins to oversee the project, which involved collecting data from hundreds of rural businesses and residents. The survey process was accomplished through a partnership between the Oklahoma Cooperative Extension Service (OCES) and Rural Enterprises of Oklahoma, Inc. (REI). At last count, 787 firms and individuals representing 72 counties from across the state had responded to the action questionnaire and had identified a variety of needs and issues including finance, marketing, employee relations, accounting, international trade, government procurement, etc.

The goals of the REDI questionnaire are:
1) understand the specific needs of rural businesses in terms of available assistance, and
2) understand the policy issues that are impacting rural businesses.

The REDI respondents tended to represent rural businesses with over 75 percent of the responses coming from nonmetropolitan counties. Responses indicate a strong desire for companies to grow and expand with 62 percent of the respondents planning to expand.

The type of assistance needed varied across business and region but included financial assistance, marketing, market research, business plan development, and technology assistance (product development or process improvement). Often, firms requested more than one type of assistance. One notable finding has been the eagerness of the respondents to identify opportunities such as the pursuit of the expansion of an existing operation. The entrepreneurial spirit is truly alive and well. Respondents to the survey also identified policy issues that have significant impact. Workforce preparation, tax issues, regulations, and transportation were most frequently mentioned. Responses to the survey suggest types of public programs and support which rural areas need to encourage healthy growth.

The Rural Development Title of the Farm Bill offers assistance for rural regions and addresses resource needs in several areas. Infrastructure is fundamental for development and includes traditional concerns like water, sewer, roads, and bridges. Safe, reliable water is critical for both quality of life and for development potential. The Rural Development Title has provided assistance for rural water systems. In Oklahoma, for example, the USDA office indicates we have the seventh largest rural water portfolio. Oklahoma has over 400 rural water districts and has a backlog of requests for assistance. More and more, the responsibility for funding these water systems has been shifted to local sources which can be challenging for economically depressed regions.

We must also consider digital infrastructure if we desire rural areas to be competitive in the new information economy. Providing broadband access to rural areas is a significant concern. Leaders in Oklahoma tell me that satellite access to broadband has greatly enhanced electronic access for rural areas. Partnerships with telephone cooperatives and Tribal governments are exploring opportunities for wireless towers, often funded by USDA low interest loans.

Ranchers and farmers deserve the highest quality medical and educational services. Farming is one of the most dangerous occupations. Because of economies of size, it is often difficult to provide these services in sparsely populated rural areas without governmental assistance. Every effort must be made to assist in the efficient provision of these services. This includes continuation of such programs as community facility loan programs, and tele-health and tele-education grant programs. In addition to the need for these services, the health and education sectors are often the largest employers in many rural communities and thus perform an economic development function. These employers often provide jobs to farm spouses and thus enable the farm families to have health insurance.

A diversified rural economy means off-farm jobs will be available for rural residents including farm families. Efforts to enhance the rural economy through lending programs and loan guarantees can help. Rural Enterprises of Oklahoma, Inc. is the largest re-lender of Rural Development funds in the nation. REIs intermediate re-lending program in Oklahoma has "revolved" eleven million dollars twice, offering much needed financial assistance. Guidelines for these programs are well intended but sometimes make targeted assistance difficult. For example, much of western Oklahoma may qualify for program assistance but scores low with the funding formula because of high per capita income levels. Perhaps some other factor like "out migration" might be considered.

USDA guaranteed lending for businesses has grown in Oklahoma from $8 million in 2000 to $55 million in 2006 according to the state office. Housing loans have grown from $17 million to $80 million during the same time period. The lenders are making loans that otherwise would not be made.

The value added grant program has also been important for states like Oklahoma. Feasibility studies for an ethanol plant and the American Native Beef Plant have been funded. A noted value added venture, Value Added Products (VAP) in Alva, Oklahoma involves 800 producers across the state and continues to be a success story. Clearly this program is making a difference. Sometimes producers and leaders at the community level do find it difficult to respond to the required paperwork, but the programs are important. The Agricultural Innovation Center is another potentially helpful program that has been mentioned to me. Again, guidelines and requirements to participate can sometimes be limiting. A notable shift in attitudes in rural Oklahoma has emerged and community leaders are "hungry" for alternative sources of economic growth.

Entrepreneurship is clearly a key option if rural areas are to provide enhanced economic opportunity for residents. There is a growing interest in entrepreneurship in Oklahoma and in our region. Regional Rural Development Centers located at Land Grant Universities have supported a national coalition for rural entrepreneurship. Recent "listening sessions" held in seven states through the southern region involved almost 300 participants and identified key topics and possible actions to grow entrepreneurs and communities. In Oklahoma, possible action steps identified included agritourism development, youth entrepreneurship, alliances with Native American efforts, business start-up "boot camps," and assistance with information technology. Participants in Pine Bluff, Arkansas, identified activities including building strong public schools, partnering, investing in technology, and utilizing a community-based strategic planning process.

If entrepreneurship is to grow in rural America, digital infrastructure will be important. Rural businesses, consumers, and communities not only will require infrastructure like broad band access but will need the capacity and training to effectively utilize the technology. The "rural electronic commerce extension program" or e-commerce initiative addresses this need and currently has Land Grant faculty involved in curricula development related to community connectivity, rural businesses, and farm businesses.

Recent efforts in Oklahoma have reinforced the importance of local leadership and capacity building. Community development efforts succeed when appropriate tools and training are made available to rural communities. The Initiative for the Future of Rural Oklahoma found that community groups are eager and willing to "buy in" to a strategic planning effort utilizing existing local resources and seeking out resources that are not present but needed. Community and regional groups developed local plans with local ownership and were provided networking opportunities to utilize both state and federal sources of assistance. The resulting strategies were both entrepreneurial and place-based.

In summary, I again would like to express my appreciation for this opportunity to visit with you. There are three key points I will close with:

1. The Rural Development Title of the Farm Bill has done much to benefit rural America. I observe real examples in my home state and region. There are possible areas for adjustments, for example, the funding formula sometimes scores communities in need of help low because of unique demographics.

2. Communities and regions should look at all available resources (natural, institutional, human, and financial) when considering the future. The key is how these resources are combined and utilized. What is the best "feed ration" for growth in any unique place? Perhaps communities and regions should be

encouraged to develop holistic strategic plans and public resources then allocated to support these efforts.

3. Rural entrepreneurship offers great hope for rural regions. Resources of all types (institutional, infrastructure, financial) can make a difference. Let's not forget human resources and be sure to make investments in training, leadership, local capacity, and knowledge so rural entrepreneurs and potential entrepreneurs can be competitive in our global economy.

Thank you for your time.

Table 1
Response by Region, REDI Survey

Region	Surveys Returned	Part Time Employees Represented	Full Time Employees Represented
Northeast	123	441	2,776
Northwest	178	370	7,194
Southeast	228	474	3,454
Southwest	258	499	4,785
STATE TOTAL	787	1,784	18,209

Table 2
Expansion Plans, REDI Survey

Region	Planning to Expand Total	Planning to Expand Percent
Northeast	78	63.4
Northwest	107	60.1
Southeast	142	62.3
Southwest	158	61.2
STATE TOTAL	485	61.6

Table 3
New Products or Processes, REDI Survey

Region	Have Existing Product or Process that's Marketable?	Have Idea for Product or Process that's Marketable?
Northeast	48	43
Northwest	58	40
Southeast	77	55
Southwest	81	64
STATE TOTAL	264 (33.5%)	202 (25.7%)

Table 4
Types of Assistance Requested, REDI Survey

Assistance	State Total
Financial Assistance	228
Technology: Product Development	87
Technology: Process Improvement	90
Marketing: Advertising/Public Relations	191
Marketing: Market Research	129
Marketing: Product Merchandising	122
Marketing: Sales/Customer Service	107
Marketing: Transportation/Logistics	65
Building space for start-up or expanding	129
Business Plan Development	103
Gov. Procurement/Contracts	83
Employee Training/Motivation	95
Management Training/Motivation	62
Labor/Management Relations	39
Export/Import/Foreign Markets	41
Accounting/Bookkeeping	86
Government Regulations	46
Other	19
None Requested	358

Table 5
Problems with Recruiting and Keeping Labor, REDI Survey

Assistance	State Total
Recruiting Unskilled Labor	97
Keeping Unskilled Labor	130
Recruiting Skilled Labor	239
Keeping Skilled Labor	142
Recruiting Clerical Labor	65
Keeping Clerical Labor	40
Recruiting Professionals/Management	94
Keeping Professionals/Management	56

Table 6
Policy Issues that Significantly Impact Respondent Businesses

Assistance	State Total
State tax structure	214
Lack of affordable housing	83
Transportation issues	131
Communication issues	49
State or federal regulations	205
Inadequately educated workforce	166
Other: Workers' Comp.	43
Other	83

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Woods, Mike, Gerald Doeksen, and Cheryl St. Clair. "Measuring Local Impacts of the Education Sector," The Role of Education: Promoting the Economic and Social Vitality of Rural America. Southern Rural Development Center, USDA Economic Research Service, and The Rural School and Community Trust. Bo Beaulieu and Rodert Gibbs, Editors, January 2005.

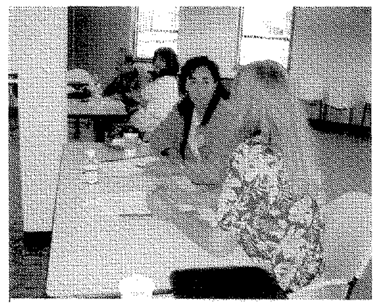
Rural Entrepreneurship Development Program

Rural Entrepreneurship Listening Sessions

Listening Sessions are part of the National Coalition for Rural Entrepreneurship. They foster informative discussions of what is working and not working in rural entrepreneurship and rural enterprise building. They establish networks among key people and resources. They help the National Coalition build support for rural entrepreneurs.

Listening Sessions, approximately fifty from spring 2005 through summer 2006, are bringing together researchers, rural development practitioners, community organizations, development agencies, and private sector partners committed to enterprise development and economic growth.

Listening Sessions are developed and led by the four USDA-CSREES Regional Rural Development Centers, RUPRI's Center for Rural Entrepreneurship, Professor James Zuiches, Vice Chancellor of Extension, Engagement, and Economic Development at North Carolina State University, and various partners.



Billings, Montana
Sponsored by the Native American Development Council and several partners.

Upcoming Listening Sessions

- **Idaho – April 5** **College of Southern Idaho, Twin Falls, Idaho**
  Sponsor: Western Regional Rural Development Center
  Co- Sponsors: Senator Mike Crapo, Idaho Small Business Development Center, Idaho Commerce and Labor, Partners for Prosperity, Idaho Economic Development Association, Idaho Rural Partnership, Region IV Development

- **Arizona – April 13** **La Posada Hotel, Winslow, Arizona**
  Sponsors: Western Regional Rural Development Center, North Central Regional Rural Development
  Co-Sponsors: The Navajo Nation, Hopi Foundation, Navajo County, and the Hopi Pu'tavi Project

For more information about Idaho and Arizona, contact James Goodwin, Senior Program Officer, Western Regional Rural Development Center at (435)-797-7606 or *jgoodwin@ext.usu.edu*.

For a summaries and reports from the Listening Sessions to date, see the RUPRI Center for Rural Entrepreneurship at *www.ruraleship.org*.

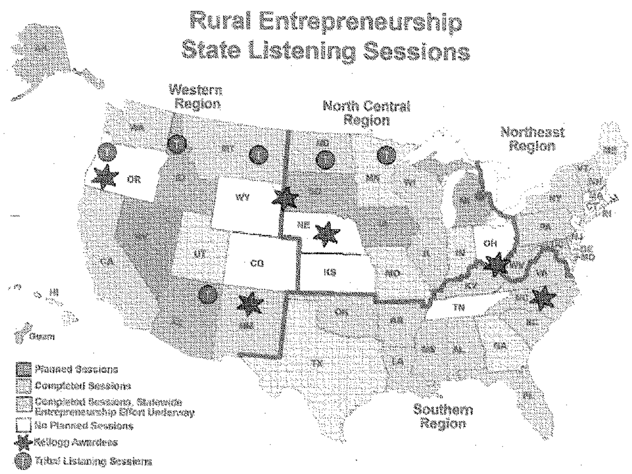
National Summit for Rural Entrepreneurship

A National Summit for Rural Entrepreneurship was held in Nashville, Tennessee on December 16 – 17, 2005, to share what has been learned so far. For results, please see *www.nationalcoalition.wsu.edu*.

For information from USDA-CSREES, please contact Sally Maggard, Economic and Community Systems, at (202)-720-0741 or *smaggard@csrees.usda.gov*.

The National Coalition for Rural Entrepreneurship

The National Coalition for Rural Entrepreneurship develops entrepreneurial capacity in rural communities and organizations through education, training, technical assistance, research, extension, outreach, and demonstration.



Partners and Contacts:

USDA-CSREES' four Regional Rural Development Centers and
the Rural Policy Research Institute's Center for Rural Entrepreneurship direct programs:

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<u>Northeast Regional Center for Rural Development</u>
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<u>Southern Rural Development Center</u>
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<u>Western Rural Development Center</u>
John C. Allen, III, Director, johna@usu.edu
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<u>RUPRI Center for Rural Entrepreneurship</u>
Deborah Markley, Managing Director, dmarkley@nc.rr.com
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<u>National Coalition for Rural Entrepreneurship</u>
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www.nationalcoalition.wsu.edu

Subcommittee on Conservation, Credit, Rural Development, Research

March 30, 2006

Mr. Chairman and Members of the Committee, I am pleased to offer my views as an economic development practitioner regarding the role and importance of USDA Rural Development. Our company, the Midwest Minnesota Community Development Corporation was formed 35 years ago as one of the original CDC's created by the Office of Economic Development; an office established in the 1960's under the guidance and direction of the late Senator Robert Kennedy.

MMCDC is a private, non-profit company engaged in a variety of activities which today include: business lending, making equity investments, housing construction, subdivision development and home ownership finance. Together with our subsidiary companies we last year provided over 50 million dollars to businesses and individuals in Minnesota. Our subsidiaries include a training company for low income individuals and at-risk youth, a bank that is located on an Indian Reservation and a Native American development company that has a car dealership providing low income families the means to own a reliable vehicle to get to and from work.

In two days I will have completed my twentieth year working for MMCDC. I would like to emphasize, in each of these twenty years, Rural Development has been our most consistent and most important ally. Our company's goal is to create impact; through job creation by lending and investing in businesses, by developing communities and by providing housing. USDA Rural Development has developed, refined and implemented programs that help us meet all of our targeted activities.

I would like to provide you with a few specific examples of the impact of these programs.

We are a borrower under the Intermediary Relending Program, or IRP, which provides loans to non-profits at 1% interest with a thirty year term. We used IRP funds to assist the 350 employees of Anderson Fabrics purchase the company from its founder. The program provides capital to businesses that are turned down by a bank and in need of a 'second chance'. Since 1992 we have made 144 loans, creating 3560 jobs and leveraged other capital in the amount of $17.5 million.

In mid-1990's the City of Detroit Lakes lost its largest employer when Swift Butterball closed its turkey processing plant. Seeing the loss 550 jobs in one community Rural Development provided a $450,000 Rural Business Enterprise Grant to build a new manufacturing center. That building was the first structure in a new industrial park. Ten years later the industrial park is nearly full. The businesses located in the park pay in excess of $450,000 per year in property taxes. The payroll taxes, from just one of those companies, exceed $400,000 per year. That is a significant return on public investment.

Rural Development is investing on Indian Reservations. For example, they are providing a loan to the City of Ogema for a new water supply system. More than two-thirds of that community's wells have levels of arsenic that exceed public health guidelines. Rural Development financing was critical to the survival of this poor reservation community.

MMCDC provides more than twenty five million dollars each year for home ownership. Rural Development offers direct loans and loan guarantees that help low income families achieve home ownership thereby building assets and wealth and fostering community stability.

Rural Development does much more. They are focused on investing in renewable energy and have been the leader in fostering renewable energy development. As members of the committee are aware, the use of agricultural products for the creation of energy has many direct benefits but also indirect benefits that are even greater.

One specific example is the request made by a start-up company for MMCDC to provide a 55 million dollar loan to a new ethanol plant planned to be constructed in West Central Minnesota. This plant will use 20 million bushels of corn yielding 50 million gallons of clean burning ethanol. We are seeking to use a Rural Development guarantee provided under the B & I guarantee program. A guaranteed loan for this project will allow rural lenders to increase the size of their loans and put local deposits to work for an environmentally friendly technology. It will create 35 direct jobs and an estimated 500 indirect jobs. That is impact!

The biggest challenge over the last twenty years has been a persistent erosion of asset values in rural areas. With the mechanization of agriculture and the concurrent loss of population, the values of homes and businesses went into a long term free-fall. The result was the flight of capital away from rural areas creating significant challenges for commercial banks. We are now coming to the end of that long term trend; the future looks brighter for lenders, for investors and for home owners.

Even yet the poorest of our residents have seen little improvement in their quality of life. The Midwest has a large number of Indian Reservations for which there has been little economic development activity. The greatest future challenge for our company and others is to make a meaningful impact and significant investments on Reservations. The shootings that occurred on the Red Lake Indian Reservation not so long ago could happen again elsewhere. Poverty and hopelessness may be the core problems further exacerbated by drug and alcohol abuse.

One potential positive step for these reservations could be energy production. Whether its wind energy, ethanol production or the production of bio-diesel, all could be accomplished on Reservations. Investing significant resources on Reservations on projects that yield long term streams of income could create jobs and a renewed sense of hope in our poorest communities.

I have offered that USDA's programs are very important, not only to our company but also to our rural communities. I also want to emphasize what makes Rural Development different from any other federal agency. The difference is that they have a physical presence in rural areas of the country. Rural Development employees are our neighbors.

They know the needs of rural families and businesses. They know and understand the needs of our rural communities.

Being employed in this industry for the last twenty years, I can state that lending and investing in rural markets is a difficult task. Rural Development staff has gained expertise that cannot easily be replaced or readily duplicated. The strengths of the agency include both the capital they provide and the programs they offer, but also the intelligence, commitment and integrity of their employees.

I would like to thank this Committee for the support you have provided to organizations like ours. But it is important for me to thank you on behalf the thousands of people you or I will never meet but are greatly benefited by your commitment to Rural America.

Attachments

1- Policy Recommendations
2- IRP/RBEG Survey
3- Resume for Arlen Kangas
4- Witness Disclosure form

Policy Recommendations for IRP and RBEG

The one policy recommendation might be that IRP and RBEG be more adequately funded.

IRP

Demand:
There are currently 403 intermediaries operating IRP funds around the country and USDA has obligated more than $528 million to capitalize revolving funds administered by these intermediaries. In addition to providing small businesses with much needed loan capital, IRP intermediaries have contributed to the preservation and creation of jobs and the leveraging of private and public funds to support rural business development.

The IRP program, or as it was formerly known the Rural Development Loan Fund, has been in operation for more than 42 years and in that time there have been no defaults on loans to the USDA.

The principal problem facing the IRP program is inadequate funding. Every year demand for IRP loan capital outweighs the funding available. In FY 2005, USDA was able to provide loans totaling almost $34 million to 57 intermediaries. However, at the end of the year USDA had 16 qualified funding requests pending worth more than $17 million still pending. These were applications from both new and existing intermediaries that were not funded in Fiscal 2005 dues to a lack of funds.

Leverage:
Rural Community Development Corporations, like Midwest Minnesota Community Development Corporation (MMCDC) are important users of the Intermediary Relending Program (IRP). Rural CDCs were some of the original intermediaries participating in the program and represent some of the high volume and high impact lenders in USDA's current portfolio.

Rural Community Development Corporations such as MMCDC work in struggling rural communities. These communities can be characterized as having high levels of poverty and unemployment combined with low levels of economic activity. In addition, there are often few services and facilities available to residents. As a result of such economic conditions, businesses and projects in these communities encounter a myriad of obstacles that often prevent them from securing the financing they need from conventional sources. These hurdles include low loan-to-value ratios, uncertain and transitional markets, owners with limited credit, and limited understanding on the part of investors of the business opportunities in these areas. Many of these communities have a strong potential for economic growth, especially with the right blend of technical support and private sector investment.

Using the IRP, we have brought not only federal support to these communities, but also high level of private sector financing. Through our technical assistance and financing available through IRP, we successfully work to make deals 'bankable'.

While the IRP regulations require that an intermediary not finance more that seventy-five percent of a business' total project cost; RCDCs far exceed this requirement and on average leverage between $1 and $5 in private financing for every $1 in IRP funds loaned to a business. This leverage is provided on a deal by deal basis and is not something that is recorded by USDA.

The MMCDC has secured 3 separate IRP loans for a total of $4 million and since 1991 we have closed more than $14 million in IRP loans to small businesses in rural Minnesota. On average, we leverage $1.25 in private financing for every $1 in IRP funds we loan that business. In many cases, it is the IRP financing that gives the private lender to comfort to make the additional financing available and in our opinion that is the critical role for federal financing.

RBEG

Funding Availability and Demand:
In FY 2005, USDA made 427 RBEG grants totaling $41 million in total RBEG funding. The average RBEG grant was under $100,000. Unlike IRP funds which are administered by the national office, RBEG funds are distributed by formula to the states and applications are submitted, reviewed and funded at the discretion of the state. As the end of FY 2005, USDA reports that there were 151 RBEG applications representing $26 million in RBEG requests still pending in state offices across the country.

Revolving Funds
In 1993, MMCDC worked with other rural CDCs to advocate that the regulations governing the RBEG program, which at the time was the Industrial Development Grant Program, be amended to allow the use of grant funds to capitalize revolving loan funds and technical assistance.

We succeeded in seeing the RBEG regulations expanded and current rules allow for the financing of revolving funds. However, there is no preference for using RBEG funds to capitalize revolving funds and we urge USDA to consider making such financing an explicit goal of the program as a way to expand the reach of the program.

By design revolving funds ensure that resources are invested and reinvested in qualified rural businesses. Considering the current budget environment using RBEG funds to capitalize revolving funds is an effective way to increase the impact of scarce federal resources. RBEG funds used to capitalize a revolving fund will continue to leverage new private financing as each new loan is closed.

While there is no requirement that RBEG grantees use the USDA grant dollars to leverage other sources of financing, all of the RCDCs utilizing these funds have done so in order to maximize the impact of their funds. A recent survey of RCDC that have used RBEG funds to capitalize revolving funds found that RCDCs are leveraging between $1 to $4 in additional financing for every RBEG dollar loaned out to a business borrower.

Unlike the IRP program, the RBEG financing can be used to finance technical assistance. Several intermediaries that have used RBEG funds to capitalize revolving funds have also dedicated a portion of their grant for technical assistance targeted to their business borrowers.

IRP/RBEG SURVEY – MARCH 2006 – RAPOZA ASSOCIATES

Rapoza Associates, a public interest lobbying and government relations firm specializing in community development issues, recently sent a questionnaire to five of the rural community development corporations (RCDCs) it represents to glean information on how they have utilized funding from the U.S. Department of Agriculture's Intermediary Relending Program (IRP) and the Rural Business Enterprise Grant (RBEG) program. These RCDCs primarily serve rural areas in the Northeastern and Midwestern United States and are based in the states of Maine, Wisconsin, Michigan, Vermont, Minnesota, and Kentucky.

With regard to the IRP, the five RCDCs surveyed have longstanding experience with this initiative. In fact, the RCDCs have utilized IRP for at least a decade to provide loan capital to rural businesses that typically are unable to obtain sufficient financing from conventional lenders with terms and rates they need to start or expand their business activity. One of the survey respondents, Northern Community Investment Corporation (NCIC) of St. Johnsbury, Vermont, received its first IRP a quarter of a century ago in 1980.

As the table below reveals, the five RCDCs have received between $3.1 million and $7.2 million in IRP funding to initiate their loan funds. They have used IRP financing to leverage private dollars from banks or other sources of private capital which are in turn lent to new and expanding rural businesses. These transactions have promoted economic growth as well as spurred the creation as well as retention of jobs in rural communities.

RCDC	TOTAL IRP $$ BORROWED FROM USDA	TOTAL # OF LOANS TO BUSINESSES	TOTAL $ AMOUNT OF LOANS	AVERAGE INTERMEDIARY LOAN TO BUSINESS	PRIVATE $ LEVERAGED PER $1 IN IRP FINANCING	JOBS CREATED AND KEPT	AVERAGE IRP COST PER JOB
Coastal Enterprises, Inc. (CEI)	$7.25 million	196	$13.9 million	$71,000	$7.3	7,801	$929
Impact Seven, Inc.	$3.1 million	105	$10.8 million	$103,000	$3	1,392	$2,227
Kentucky Highlands Investment Corp. (KHIC)	$5.86 million	90	$9.2 million	$102,000	$1 (based on $100,000 avg. loan size)	7,389	$793
Midwest Minnesota CDC	$4 million	144	$14 million	$97,000	$1.25	3,560	$1,124
Northern Community Investment Corp. (NCIC)	$7.1 million	228	$18.3 million	$80,000	$5	3,884	$1,828
Northern Economic Initiatives Corporation	$2.7 million	87	$6.7 million	$77,000	$1.30	415	$6,506

The last column of the table above indicates the average IRP cost per job. This figure is based on the number of jobs created for every IRP dollar borrowed from the federal government. These figures point to the job creation potential of IRP financing.

- The Wiscasset, Maine-based Coastal Enterprises, Inc. (CEI) made a $30,000 IRP loan to a local logging company to enable it to purchase a state-of-the-art wood processor. The IRP funds leveraged an additional $180,000 for the project.

- Impact Seven, Inc. (I-7), based in Almena, Wisconsin, made a $150,000 IRP construction loan to Century Foods, a broker/trader of dairy products, to build a manufacturing plant. The IRP loan was vital given the fact that many traditional financing institutions were unwilling to take on the $400,000 project. Since the initial IRP loan, the business has doubled in size and has constructed three additional plants in Wisconsin, employing 400 people and serving customers in over 45 countries. In addition, I-7 made $155,000 in IRP loans to CRI Recycling Services to buy the land and building it was leasing for its operations as well as provide for additional working capital and equipment. These IRP funds enabled I-7 to leverage additional financing on an 11-to-1 basis from both private and public sources for the project.

- In Lyndonville, Vermont, NCIC provided $43,828 through its IRP loan fund to renovate the former Freighthouse/Carmen's Ice Cream shop and expand the facility to become both a year-round restaurant as well as the city's information center. The IRP loan also was able to leverage nearly $309,000 in other funds.

- The Kentucky Highlands Investment Corporation (KHIC) made a $150,000 IRP loan to Mountain View Development Company, LLC, the owners and operators of Huddle House, a 60-seat restaurant in Whitley City, Kentucky. Huddle House is a full service "set down" restaurant that is open to the public twenty-four hours per day seven days a week. The IRP was necessary because the bank was not willing to finance the entire $760,000 project alone.

- The Midwest Minnesota Community Development Corporation (MMCDC) provided a $150,000 IRP loan to a new business start-up in Rothsay, a small rural community in Minnesota, for the construction of a facility for a semi-truck and trailer repair service. Rothsay is located in the Red River Valley, where over 500,000 acres of sugarbeets are farmed annually. The sugarbeets are ultimately sold to the American Crystal Sugar Company, which uses them to make sweetener. Semi-trucks and trailers are needed to transport the sugarbeets, particularly during the harvest season when they are literally farmed day and night. MMCDC provided the construction and the business financing with the IRP loan, and enabled the start-up to hire four full-time employees.

- The Marquette, Michigan-based Northern Economic Initiatives Corporation (NEIC) made an $111,000 IRP financed loan to Hiawatha Log Homes, a local manufacturer of log homes serving the Midwestern market, to improve their dry kiln operations. IRP funds were used as a sub-debt on the loan and allowed the company to leverage an additional $115,000.

Concerning the RBEG program, the five RCDCs surveyed are using the grant funds for a variety of projects. They are also leveraging other sources of funding and are having a significant impact on the rural communities they serve. For example:

- NCIC, CEI, and NEIC have used their RBEG grant dollars to capitalize revolving loan funds, thereby maximizing the impact of the grant and enabling the CDCs to provide an ongoing source of business financing. NCIC has utilized its six RBEG grants totaling $1,180,000 to establish four revolving loan funds, which together have extended 56 loans totaling $2,171,587. These funds have also leveraged $4,869,241 in additional funds and created/maintained 209 jobs. Among the small businesses NCIC has assisted with its revolving loan funds are a building construction firm in Northern Vermont that wanted to expand and a catering firm in New Hampshire that desired to move into the restaurant business. CEI's $1,149,000 in RBEG grant dollars have supported a wide range of small businesses in rural Maine, including a tortilla maker, a trucking company, a metal construction company, an aquaculture firm, and a business that combines seafood and blueberry process wastes to manufacture high-end gardening compost. These funds have leveraged dollars from other sources on a 3-to-1 basis such that the $1,149,000 has brought in an additional $3,447,000 for a total financing of over $4,600,000. NEIC have used its two RBEG grants totaling $1,500,000 to capitalize two revolving loan funds targeted to small businesses. NEIC has made 17 loans for $715,819 in financing, which have leveraged an additional $300,000 from other sources.

- MMCDC received a total of $650,000 in RBEG grant funds in 1995 and 2004. Of that amount, $450,000 was used to build a 22,000 square foot manufacturing facility, creating 45 jobs in rural Minnesota. This project also leveraged an additional $450,000. In addition, MMCDC made a $150,000 loan for working capital to a producer of Native American foods located on the White Earth Indian Reservation as well as a $50,000 technical assistance grant. This loan allowed the producer to purchase its raw inventory (wild rice, syrup, etc.) from low income Native American households.

- KHIC has received a total of $1,793,000 in RBEG grant funds over the last six years. In FY2006, it used its $199,000 Non-EZ/EC RBEG Grant to fund loans to two companies – Wells Collision Center, LLC ($143,280) and Information Capture Solutions, LLC ($55,720). Wells Collision Center, an automotive body, paint and repair shop located in Somerset, Kentucky, will use the RBEG funds to hire 2 to 3 new employees over the next twelve months. The RBEG funds already have leveraged $166,720 in additional KHIC program dollars. Information Capture Solutions, a Williamsburg, Kentucky-based company providing such services as document imaging, data capture, and document storage/destruction, plans to hire an additional 30 to 40 people as a result of this financing. These RBEG funds have leveraged an additional $99,280.

- Since 1993, I-7 has made 16 RBEG loans totaling $1,227,500. The list of businesses benefiting from the program includes American Bronze Castings, Ltd., Benchmark, Dynatronix, Inc., Eagle Security, LLC, Horizon Manufacturing, Inc., Just In Time Machine Corporation, Lake Country Dairy, Lake Country Tool, Living Adventure, Northern Optiks, Inc., OEI, Scope Moldins, Stevens Point Deli, and Traxx Motorsports. These businesses have leveraged other sources of funds for an additional $2,768,840. In addition, these projects have made a substantial contribution to the employment prospects in these rural areas, creating 83.5 new jobs and retaining 153 existing positions.

Follow up comments to the March 30th USDA Sub-committee hearing

The Business and Industry Loan Guarantee program has a requirement for most borrowers to have tangible equity of at least 20% to be eligible for a loan. This is a reasonable requirement. Yet for specialty projects, which may include the ethanol industry, administrative rules could require tangible equity of 40%.

The higher tangible equity requirement could be stifling for new ethanol development. Most 'de novo' facilities seek to raise equity of 40% of the total developed cost as a reasonable cushion for lenders providing debt financing. However, part of the cost of developing an ethanol facility will require soft costs such as engineering, legal fees and other closing costs.

Therefore, a requirement of 40% tangible equity (versus 40% equity) would require start-up operations to raise more than forty percent of the project cost to meet this higher requirement. I would argue that a lower percentage of tangible equity (less than forty percent) be required for ethanol projects. Otherwise, the return on equity for investors would be impaired and reduce the amount of capital flowing to this important industry.

Arlen Kangas, Ph.D.
President
Midwest Minnesota Community Development Corporation

TESTIMONY
before the
U.S. House of Representatives
Committee on Agriculture
Subcommittee on Conservation, Credit, Rural Development, and Research

by
Victor L. Lechtenberg
Vice Provost for Engagement
Purdue University.

Good morning Mr. Chairman and members of the Subcommittee. The Agriculture Committee is very important to the large number of Hoosiers who live in rural Indiana and I am pleased to have this opportunity to appear before this Subcommittee.

I would like to share some of my thoughts about the importance of rural development and how this critical national issue is being addressed in Indiana, including the role Purdue University is playing. We think Indiana's approach is innovative and that our collaborative approach involving Purdue University, government, and other public and private entities has much to offer. I appreciate the opportunity to describe Indiana's efforts.

Let me first share a bit about my own background and interests. I currently serve as Vice Provost of Engagement at Purdue University. I have spent my entire professional career at Purdue, Indiana's land grant university. Before assuming the duties of Vice Provost two years ago, I served in our College of Agriculture, including 11 years as Dean. However, my connection to agriculture and rural America go back to the farm I grew up on in Nebraska's Third Congressional District. This is one of the largest and most rural Congressional Districts in the country and I am not surprised to see that Representatives Osborne and Fortenberry serve on this Subcommittee.

Background. Let me begin with a few observations about rural America. First, rural America is a national treasure: about 50 million people live in the nation's non-metropolitan counties. These counties comprise about 80% of the nation's land mass, including our most productive lands and most spectacular scenery, wildlife and recreational areas. This landscape also includes thousands of villages, towns and small cities that have unique heritages and histories; and which represent a varied and rich set of lifestyle choices and diverse populations. The nation needs to embrace, not abandon, this cultural and ethnic richness. Rural America is a national treasure for all of us, not just for those who choose to live there.

Second, rural America is not synonymous with farming, nor has it been for decades. Manufacturing and other industries are major sources of employment and have long counted for much more of the economic activity in rural areas than has farming or agriculture. Today, only one in five non-metropolitan counties—primarily those located in the Great Plains—is classified as farming dependent by USDA's Economic Research Service. In Indiana, nearly 1.5 million people live in our 46 non-metropolitan counties. Indiana has fewer than 60,000 farms and only

18 percent of these farms had gross sales greater than $100,000. Most farmers supplement their earnings and livelihood from off-farm sources of income. As Secretary Johanns noted recently at the 2006 Agricultural Outlook Forum, "Farmers are more dependent on rural communities than rural communities are dependent on farmers."

Third, today's knowledge based and highly competitive global economy poses special challenges for rural America. In many rural communities the economy needs to be largely re-invented if it is to provide a high quality of life for its people, including those farmers who are so dependent upon off-farm sources of income.

Fourth, higher education, especially this nation's large network of public land-grant universities, has a unique opportunity and a special responsibility to help re-invent and revitalize the rural economy. Purdue University is engaged in a number of things consistent with this opportunity and responsibility.

Purdue University Engagement. Purdue's President, Martin C. Jischke, has made "engagement" one of the cornerstones of his presidency. The engaged university is one that deliberately and systematically reaches beyond the ivory tower with its knowledge and resources to create meaningful partnerships and collaborations with external stakeholders. These partnerships are two-way streets designed to address local and statewide issues and, simultaneously, enrich the perspective, capacity and knowledge of the university's faculty, staff, and students. Historically, a version of "engagement" has been most closely identified with the Cooperative Extension Service which is linked primarily to colleges of agriculture. At Purdue, we are intent on expanding our engagement mission to include all 10 of our colleges within the University.

Purdue's engagement efforts involve all types of issues and needs but none is more important than focusing on the role the university can play in economic development. Purdue, like all universities, has made enormous contributions to economic development for decades through: a) the productive human capital associated with our graduates and b) the major scientific and technological breakthroughs associated with our research and discovery. As important as these contributions are, they are diffuse and somewhat serendipitous. What we are now trying to do is to also layer in a much more deliberative role in economic development that hinges on institutional organization and support for innovation, entrepreneurship, and technology commercialization and technical assistance to business and industry.

Perhaps our grandest experiment is with what we call Discovery Park, a $250 million effort to stimulate innovation through multidisciplinary work. Discovery Park aims to link Purdue more closely with the Indiana and U. S. economies. Indeed, one of the 10 major centers located within Discovery Park is the Burton D. Morgan Center for Entrepreneurship. Other centers include: biosciences, nanotechnology, e-commerce, healthcare engineering, discovery learning, energy, environment, cyber security, and oncology. These centers bring scientists together from across campus to work on very challenging problems and to collectively harness broad expertise to solve problems that constrain Indiana's economy.

Purdue Research Park is another important part of our tool kit. This Park is home to 134 companies (90 high technology and research based) that employ more than 2800 people. It was recently named the nation's top university-based research park. Many of these companies have strong ties to Purdue-licensed technologies and to university faculty and staff who have successfully developed new products and processes.

The Technical Assistance Program (TAP) is a third Purdue program that is having a very positive impact. TAP provides technical and management advice to Indiana companies and businesses. Approximately 400 companies are served each year through projects that range from a couple days to several weeks. TAP has grown nearly three-fold recently due to increased demand for services and additional funding. Several regional offices for TAP and Purdue Engagement have been established. Each serves a key region of the state and is closely integrated with the local Purdue Cooperative Extension Service.

Center for Regional Development. The fourth piece of the institutional framework I want to highlight is our year-old Center for Regional Development. The basic premise behind this Center is that traditional geo-political boundaries need to be transcended to adequately address our most pressing societal challenges and opportunities. For example, communities need to cooperate in order to succeed in today's highly competitive global economy. Economic activity is very disrespectful of city limits and county boundaries. The mission of our Center is to:

> *foster Indiana becoming the nation's leader in supporting creative, regional approaches to development that build on three core values:*
> - *a voluntary approach;*
> - *the power of data, analysis, ideas and information; and*
> - *the importance of dialogue, social capital development, and collaborative partnership*

Although this is a Center for Regional Development—not Rural Development—it has been heavily involved in some very innovative rural development projects. It is our belief that rural areas cannot be looked at in isolation. Like it or not, they are part of a larger regional economy. Hence, our involvement in rural development has begun with the premise that we need to take a regional perspective. Many rural leaders are understandably skeptical about a regional approach. Too often, the regional approach has developed in a way that the benefits of "regionalism" have accrued mainly to the larger population centers in the region and have not extended into the rural periphery. This inequity needs to be acknowledged and addressed when we work on a regional approach to rural development. New institutional frameworks may be needed so the benefits of the regional approach really do lift all boats.

Overall, the Center strives to make two contributions: a) provide the public information and decision support that can assist limited resource jurisdictions in making wise public choices, and b) advance the understanding that economic activity crosses urban, suburban, and rural arenas and that collaboration and cross-linkages are essential for creative, effective, and efficient development and governance.

I would like to briefly note three rural development projects in which the Center has been involved.

A U. S. Economic Development Administration grant funded project focuses on regional rural competitiveness. We are creating a database and analytic techniques around business and industry clusters. This information and methodology will be available to assist rural regions across the country in assessing their regional economic competitiveness and determining strategic growth and development strategies for their future.

Funding provided by the Indiana State Department of Agriculture is focused on a 9-county pilot region in southwestern Indiana. The focus of the study is to define economic development strategies for agriculture that are linked to and supported by the broader, non-agricultural economic development organizations and institutions.

The Indiana Rural Development Council has funded a survey of rural residents that will provide insights into quality of life issues and help identify priority issues and opportunities facing rural Hoosiers. This survey is designed so comparisons can be made among regions within Indiana. Several states conduct similar polls and we hope some type of annual national poll can be commissioned to raise awareness of rural communities and to provide useful information to the American public and to policymakers.

RISE 2020. I would like to elaborate on a fourth project in the Center that has major rural dimensions. The genesis of this project goes back more that a year ago when Governor Mitch Daniels and Lieutenant Governor Becky Skillman were elected. Lieutenant Governor Skillman, who had previously served in the Indiana General Assembly, was a long-standing champion for rural Indiana. As Lt. Governor, she assembled a small transition team to help formulate ideas to assist rural Indiana. One of my colleagues, Dr. Sam Cordes, Co-Director of the Center for Regional Development, served on this team. One of the team's recommendations was to create an Office of Community and Rural Affairs within state government. It was envisioned that this office would bring together those considerable resources and programs that already existed but were scattered throughout state government. Such an office was quickly created in early 2005, along with the new Indiana State Department of Agriculture. Lt. Governor Skillman now serves as Indiana's Secretary for Agriculture and Rural Development.

Several months later, Lt. Governor Skillman saw the need for a long-term strategic vision for rural Indiana; not only to help guide the new Office of Community and Rural Affairs, but also to provide opportunities for other agencies, organizations and the private sector to play a critical role. The Center for Regional Development was asked to help facilitate this process. Convening and facilitation is an important role for our Center. One of the more important roles that can be played by institutions of higher education is that of a convener and be a "safe haven" in which difficult conversations can occur.

Dr. Cordes took the lead on this project, with the support and assistance of Charles Fluharty, Director of the Rural Policy Research Institute (RUPRI). The draft report was released in mid-March, titled: *Rural Indiana Strategy for Excellence: A 2020 Vision for the Indiana Countryside*

(*RISE 2020*). This has been an exciting and dynamic process and one which I believe can and should be replicated in other states.

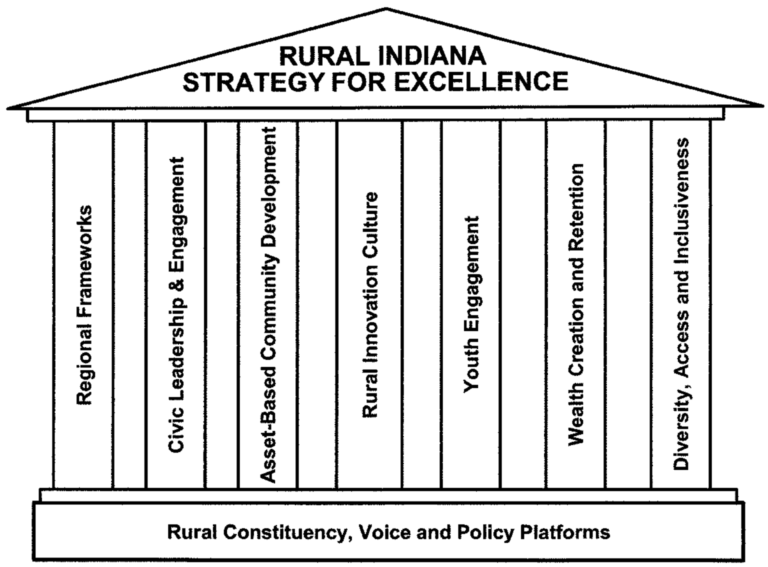
The Center's key contribution in *RISE 2020* was our ability to engage over 150 stakeholders in the process. These stakeholders represented a broad array of institutions, organizations, governments and other constituencies. Two observations are important regarding this stakeholder base. First, with a few notable exceptions, the missions of these institutions and organizations did not focus on rural Indiana. Most have broad, statewide missions and we chose them deliberately to avoid creating artificial firewalls between rural, urban and suburban interests. All have a stake in and something to contribute to the future of rural Indiana. Creating this broad stakeholder base was essential. Failure to do so—regardless of the strength of the vision and content of the thinking—would almost certainly insure the lack of action. Second, the needs and opportunities associated with the Indiana countryside far exceed the capacity and mission of government. The private sector, nonprofit, academic, and philanthropic communities are key to a sustainable long-term movement that will transcend any particular governmental administration. This effort emphasizes collaboration and partnerships – collaboration between the state and towns, between civic groups and counties, between individuals and regional associations, between one part of the state and others and between our university and others. *RISE 2020* is inclusive, above all else.

One aspect of the process involved dividing the stakeholders into eight work groups: Community Capacity; Cultural Assets; Economic Development; Education and Workforce; Finance; Health and Human Services; Natural Resource Assets; and Transportation. Examples of the types of priority issues and opportunities to emerge were:

* Residing in towns and small cities can become a lifestyle choice for a variety of people, providing certain quality of life issues are addressed, such as quality public schools.
* Infrastructure issues, especially broadband, are critical from both the standpoint of businesses and residents.
* The proper stewardship of the Indiana landscape, including effective land use planning, is a key element as we look to the future.
* The workforce skills needed to participate in the knowledge based "new economy" are in short supply in rural Indiana. Workforce development and the institutional capacity to reach rural workers are critical or rural Indiana will fall further behind the rest of the economy.

The *RISE 2020* effort has led to a number of specific recommendations around these priority topics and others. As important as these insights and recommendations are, they are not likely to be the greatest long-term value of *RISE 2020.* The greatest value is the creation of the larger strategic framework for moving rural Indiana forward. This framework includes eight key elements: what the *RISE 2020* participants refer to as the foundation and seven pillars (see graphic below).

The top priority of *RISE 2020* is to create a constituency for rural Indiana—and specifically *RISE 2020*—and a platform from which the rural perspective and voice can be articulated. Historically, in Indiana, in other states and nationally, there has not been a well organized constituency to focus on the broad scope of rural issues, opportunities and challenges. Contrast this situation to that of the agricultural industry in which multiple agencies, organizations and institutions exist to help address the challenges and opportunities of that particular constituency, including the plethora of commodity organizations, general farm organizations, state and federal departments of agriculture and a national network of colleges of agriculture.



The seven pillars of *RISE 2020* are anchored to this foundation. They represent key strategic principles that must be adhered to as we go about our work to make the Indiana countryside all it can be by the year 2020. If these principles are not used to guide action, policy and resource deployment then the vision of *RISE 2020* will not be achieved. These pillars form a holistic framework for how rural Indiana must approach its future; and represent the unifying thread for moving from vision to action whether the area of focus is economic development, health and human services, transportation, education, or any other sector concern. Specific sectoral issues and concerns will change over time. The seven pillars, however, will not change, but will stand the test of time to 2020...and beyond. Let me comment briefly on each of these seven elements.

I. ***Nurture Regional Frameworks. Establish appropriate regional frameworks to achieve rural competitive advantage in a rapidly changing global economy, building connectivity across public, private, nonprofit and academic sectors and institutions.***

Indiana must encourage cooperation, collaboration and sharing across jurisdictional and geo-political boundaries, recognizing that cities and counties working regionally can generate more resources and act more effectively on most common challenges. Nowhere is this more needed than in the case of economic development. In today's highly competitive global economy, communities must cooperate in order to compete. Rural communities must understand they are part of a larger regional economy. In addition to geopolitical boundaries, the same urgency for cooperation, collaboration and sharing must lead to meaningful and creative partnerships among public, private, nonprofit, and academic sectors and institutions.

II. ***Advance Civic Leadership and Engagement. Achieve a rural leadership renaissance, to broaden and deepen civic leadership and engagement and reinvigorate civic processes.***

To meet the multiple challenges facing rural Indiana, a "renaissanced" rural leadership will be needed, to reinvigorate and recommit civic processes. Indiana must provide technical assistance, resources, and support for civic leaders, to better inform their decision-making, encourage all voices to be heard in civic affairs – tapping into the wisdom of long-established residents, and into the skills and experiences of newcomers, and explore new technologies to encourage broader participation of rural people in civic affairs.

III. ***Support Asset Based Community Development. Invest in rural Indiana's unique, place-based assets, to fully optimize and enhance our diverse natural resources, the heritage, history, arts and cultures of our people and places, the integrity of our rural communities, and the human and social capital of all Hoosiers.***

Every community has some combination of human, social, economic, cultural, and natural assets that can be translated into opportunities for revitalization. Indiana must foster a new public and civic attitude toward the rural landscape, which emphasizes the identification and optimization of our unique rural assets and which provides tools and resources which enable rural communities to identify and take advantage of these assets but without compromising them for use and enjoyment by future generations.

IV. ***Promote a Rural Innovation Culture. A "Rural Innovation Culture" is needed to enhance public and private entrepreneurship and build collaborative systems which sustain public, private and philanthropic commitments to achieve this goal.***

The environment, infrastructure, and resources to encourage and support rural Hoosiers as they create their own enterprises must be provided, to generate income and jobs and provide services to improve the quality of life in their communities. Indiana also promotes entrepreneurship as a viable economic development strategy, and not rely solely on recruitment of outside companies to provide economic opportunities for rural residents. Entrepreneurship in the public and nonprofit sectors is equally important. Those who work in these sectors must see themselves as agents of change and creativity, rather than as protectors of the status quo. This type of civic entrepreneurship is critical if Indiana's communities and regions—rural and urban alike—are to thrive and to become magnets for others who want to live and work in a state that can become known for this type of civic culture and dynamism.

V. ***Foster Youth Engagement. Engage the youth and young adults of rural Indiana in achieving the RISE 2020 vision, so they build a rural countryside in which they wish to stay, and to which other young people wish to come.***

The voices and talents of young people are too often overlooked or undervalued, ignoring the fact that they represent the future of rural Indiana. Rural Indiana must engage youth directly in civic decision-making, provide them with skills and opportunities for personal development, and channel their energies into constructive action to execute this vision.

VI. ***Increase Wealth Creation and Retention. Ensure that rural Indiana's substantial wealth is retained, enhanced, and harnessed, to generate new wealth and capture emerging economic opportunities for all Hoosiers.***

Contrary to conventional wisdom, substantial wealth already exists in rural Indiana, but it must be harnessed, protected, and enhanced for sustained economic well-being, so all rural people and families can save and invest for their future – to buy or repair a house, to pay for their own or their children's higher education and training, to start their own business, to create a rainy day fund to pay for medical and other emergencies, or provide for retirement. This wealth must also support civic efforts to sustain and build rural communities and regions, through local community foundations or other community financial intermediaries, as repositories for retaining wealth in rural communities.

VII. ***Ensure Diversity, Access and Inclusiveness. Ensure all rural Hoosiers are engaged in achieving this vision and advantaged in its outcomes, by embracing approaches which specifically address the challenges faced by the poor, minorities, and those undervalued or with special needs and which ensure all Hoosiers have reasonable access to basic human and social services and are authentically included in community decision-making.***

To access all available assets, rural communities must embrace and act upon a realization that all people can make a positive contribution to rural community life and that no community can fully prosper if there are some who are excluded and disenfranchised. Rural community decision-making and action must directly engage minorities, the poor, and the invisible; and must also insure that these populations have access to basic human and social services.

RISE 2020 is far from finished. The report is now public but is in draft format. The complete draft report, supporting and background materials can be found on the Center's website: http://www.purdue.edu/pcrd/RISE2020/index.htm Some 20 community input sessions are scheduled around Indiana during the next six weeks. Input from those sessions and other sources will then be incorporated into a final version. And that is when the real work begins. Some components of *RISE 2020* will surely be led by the Lieutenant Governor's office and her new Office of Community and Rural Affairs. Other components will more logically become the purview of non-government organizations, including the Indiana Rural Development Council, Inc. Our Center for Regional Development will continue to be supportive. For example, we currently plan to organize and host—using Purdue's distance education capabilities and our network of Extension offices—a series of statewide "rural forums" on critical topics and issues. Indiana is also blessed with strong leadership in our USDA-Rural Development office. Mr. Bob White, State Director, is providing the leadership for organizing a statewide "rural summit" later this year. Finally, Purdue Cooperative Extension is poised to play a critical role. Extension has a very strong presence in rural areas but has not typically become heavily involved in a systematic, substantive and targeted fashion with rural economic development and related issues. In the past three years, this has begun to change. Specifically, one of the four programmatic areas within Purdue Extension is now called Economic and Community Development. Today, nearly 40 of Purdue's Extension Educators are spending at least 20 percent of their time in this area of work. Although this is not enough, given there are some 250 Extension Educators spread across Indiana, it is at least an important beginning.

As noted earlier, rural America is a national treasure. We believe what we have been doing here in Indiana—especially with the *RISE 2020* project—reflects that view and we hope our approach and model may have some insights and lessons learned for other states. We also hope our experiences will also help inform how the Rural Development Title of the next Farm Bill might be structured or re-structured. Historically, rural development has been the poor stepchild within the Farm Bill; but with the strong leadership and commitment of this Committee that need not continue.

Thank you for your time and this opportunity.

Testimony of Cheryl L. Cook, Esq.
Deputy Secretary for Marketing & Economic Development
Pennsylvania Department of Agriculture

Good morning, Mr. Chairman, and thank you for the opportunity to discuss how the Federal investment in rural development programs has impacted rural Pennsylvania.

Let me begin by confessing a personal bias. Now solidly in my third decade in agricultural and rural policy, I feel confident in stating that there is no harder working, nor more dedicated group of public servants than the staff of USDA's Rural Development Mission Area. It was a privilege to serve as the last Pennsylvania State Director of the Farmers Home Administration, and staff's ability to stay focused on the mission of serving rural people and communities made successful the transition to what is now Rural Development.

While I recognize that only those programs authorized through the Consolidated Farm and Rural Development Act (CONACT) are considered within the framework of the farm bill, I think it's important to take a more holistic view of rural economic and community development, looking at possible gaps and occasional cross purposes among government entities, and even among agencies of USDA. For one example, the "if we build it, they will come" approach to housing construction that I encountered when first arriving at Farmers Home Administration (FmHA) in 1993 – which placed entire Section 502 Single Family Housing developments in areas without public water or sewer, decent roads, schools and other community services – was wholly contrary to the farmland preservation efforts of USDA's Natural Resources Conservation Service, not to mention the Pennsylvania Department of Agriculture, which operates the largest farmland preservation program in the country.

Also, I recognize that this Subcommittee has certain jurisdictional assignments related to conservation, credit, rural development, and research. However, I find it impossible to think comprehensively about the wellbeing of rural communities without occasionally straying into hunger and nutrition assistance programs, international trade opportunities, biosecurity and other risk management considerations, forest products development, and, of course, production agriculture. Even in Pennsylvania, our 58,000 farm families remain the foundation of the rural economy. In many respects, the Rural Development title of the farm bill is as important to our producers as the commodity titles.

While I am most conversant in my own Pennsylvania-based experiences and I bleed Pennsylvania blue and gold, I don't want to lose sight of the nearly overwhelming destruction along the Gulf Coast and the uniqueness of several of Rural Development's programs in bringing a Federal solution to those devastated areas. I've stood in homes in the Appalachian region of Pennsylvania where the toilet was a hole cut in the kitchen floor (Fayette County) and where a porch falling off took the entire side of the house with it, leaving the occupant in an over-sized doll house with a tarp for one wall (Bedford County). Still, I can't even imagine the kind of devastation that rural communities in Louisiana and Mississippi are facing. Only Rural Development can offer home mortgages with interest that can be subsidized to one percent, 40-year loan repayment terms for infrastructure development, and grants to help the lowest-income communities afford essential emergency services and other basic facilities. The country needs

Rural Development's programs to be funded at a level that will allow the rebuilding process to move forward in rural Gulf Coast communities as it is in the City of New Orleans, without sacrificing Fayette or Bedford County Pennsylvania.

If a significant funding increase is simply impossible, then perhaps the Secretary can be given the authority for states affected by Hurricanes Katrina and Rita (and new catastrophes that might be forthcoming) to shift funds, not just among programs of individual Rural Development agencies as has been allowed for a decade now under the Rural Community Advancement Program, but across agency lines as well. If rural Louisiana needs to dedicate 80 percent of its total allocated Rural Development budget authority for the year to restoring clean drinking water, so be it.

From time to time, I have heard people comment that Rural Development isn't needed anymore. The Department of Housing and Urban Development offers loan guarantee programs for home ownership and Section 8 rental housing assistance for low-income tenants. The Economic Development Administration and other Department of Commerce programs are available for job creation and retention. Electricity and telephones are available throughout the country now, so there's no need to maintain Federal support of rural electric and telephone cooperatives. Those and other cooperatives are big business now, and continued Federal investment isn't necessary.

I couldn't disagree more.

Rural Development stands alone in the Federal framework as the only entity with the ability to bring all of these things together in a comprehensive, coordinated approach, serving rural communities that – unlike their urban and suburban counterparts – largely depend on part-time and volunteer staff. Rural Development alone has the field structure to provide direct assistance in planning for a community's future, and the variety of program resources to help make that future real. Sometimes, it's been too easy to get tunnel vision on one program versus another and, going back to my housing development example, they haven't always acted in a coordinated strategic fashion, but they remain the only Federal entity with the capacity to do so. This enables a careful use of taxpayer funds to facilitate communities' and individuals' ability to invest in themselves. There's an old saying that, "if all you have is a hammer, you make all your problems look like nails". When a rural community seeks help from Rural Development, its residents are getting the hammer along with a full set of screwdrivers, a drill, and a table saw.

Rural Development, as a mission area within USDA, also stands as a bridge between those other agencies and agriculture. This is particularly true since the 2002 farm bill created several agricultural grant programs in the Rural Business-Cooperative Service, made provisions for farmer-owned cooperatives in the Business and Industry Loan Guarantee program, and finally established legislative authority for the important work of the National Rural Development Partnership and State Rural Development Councils.

Still, I am worried for Rural Development's future. When I came on board with USDA in May 1993, I joined a staff of 248 employees dispersed over 43 offices. When I left Pennsylvania in March 2000 to accept a detail to Washington, DC as the Acting Associate Administrator of Rural Housing Service, I left behind a staff of 127 employees dispersed over 12 offices. Getting from one point to the other was a series of reorganizations, restructurings, and downsizings which I will never forget. In fairness, about 60 of those employees simply moved to the new Farm Service Agency when it was created from the legacy Agricultural Stabilization and Conservation Service and the farm loan programs of FmHA. But, in far too many cases, the result was the loss of experienced, dedicated employees from Federal service.

The upside of all that restructuring, to the extent there was one, was that closing three-quarters of Pennsylvania's Rural Development offices took my annual leasing costs from around $750,000 to about $400,000. This allowed me to redirect those funds into technology and training to make the remaining workforce as mobile and agile as possible. At first, I thought my legacy as a State Director would be making rural Pennsylvania a better place. In time, I realized that this was my staff's legacy. My legacy – aside from being the one who closed all those offices – was that every loan officer in Rural Development in Pennsylvania had a laptop computer running the same versions of the same software and a portable printer. And, every employee received at least two weeks of training in Microsoft Office as well as program-specific software packages. Unfortunately, my understanding is that Pennsylvania remains among the minority of states where this has taken place.

With the tools for mobility and sister agencies still in 50 USDA Service Centers, Rural Development loan officers actually could serve clients in more locations, including the client's home or place of business, than had been the case before all the restructuring started. Basic informational materials on Rural Development programs also were available to the public in all 50 Service Centers, and Farm Service Agency employees were very generous in helping walk-in customers get in contact with the closest Rural Development loan officer. Still, as I read articles on the growing budget deficit, and know how few non-defense discretionary places there are in the Federal budget to cut, I worry about what's next for Rural Development, and the rest of USDA's Service Center agencies. HUD has offices in Philadelphia and Pittsburgh, and has deemed Pennsylvania "covered". USDA could not make the same claim. Program effectiveness will suffer if farms and rural communities lose access to the people of USDA.

Of course, being able to serve rural America begins with an understanding of what *rural* America is. Before I get into specific programs in the Rural Development Mission Area, I want to emphasize that the next farm bill should establish a single definition of the term "rural", preferably one that moves away from a hard and fast total population limit and towards other characteristics of rurality, such as population density per square mile of the area in question versus the statewide average, or even the number of electric utility subscribers per square mile compared to a statewide or national average. Section 6020 of the 2002 farm bill defined "rural" as follows:

> ***SEC. 6020. DEFINITION OF RURAL AND RURAL AREA.***
> *(a) IN GENERAL.—Section 343(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1991(a)) is amended by adding at the end the following:*
> *"(13) RURAL AND RURAL AREA.—*
> *"(A) IN GENERAL.—Except as otherwise provided in this paragraph, the terms 'rural' and 'rural area' mean any area other than—*
> *"(i) a city or town that has a population of greater than 50,000 inhabitants; and*
> *"(ii) the urbanized area contiguous and adjacent to such a city or town.*
> *"(B) WATER AND WASTE DISPOSAL GRANTS AND DIRECT AND GUARANTEED*

LOANS.—For the purpose of water and waste disposal grants and direct and guaranteed loans provided under paragraphs (l), (2), and (24) of section 306(a), the terms 'rural' and 'rural area' mean a city, town, or unincorporated area that has a population of no more than ***10,000 inhabitants.***
"(C) COMMUNITY FACILITY LOANS AND GRANTS.—For the purpose of community facility direct and guaranteed loans and grants under paragraphs (l), (19), (20), (2l), and(24) of section 306(a), the terms 'rural' and 'rural area' mean a city, town, or unincorporated area that has a population of not more than ***20,000 inhabitants.***
"(D) MULTIJURISDICTIONAL REGIONAL PLANNING ORGANIZATIONS;NATIONAL RURAL DEVELOPMENT PARTNERSHIP.— In sections 306(a)(23) and 378, the term 'rural area' means—
"(i) all the territory of a State that is ***not within the boundary of any standard metropolitan statistical area;*** *and*
"(ii) all territory within any standard metropolitan statistical area within a census tract having a ***population density of less than 20 persons per square mile,*** *as determined by the Secretary according to the most recent census of the United States as of any date.*
"(E) RURAL BUSINESS INVESTMENT PROGRAM.—In subtitle H, the term 'rural area' means an area that is located—
"(i) outside a standard metropolitan statistical area; or
"(ii) within a community that has a population of ***50,000 inhabitants or less.".***
(Emphasis added.)

Unfortunately, that was actually an improvement. You can imagine the reaction of a developer who simply asks to know whether an area is rural or not when the response is, "well, it depends – maybe it is, and maybe it isn't".

If we must stay with population-based definition, and particularly if budget implications require that we stay with more than one population-based definition, I would recommend that Congress at the very least put all of the Rural Business-Cooperative Service's programs on equal footing, using the definition adopted for the Rural Business Investment Program of simply 50,000 inhabitants or less (paragraph (E) above). This is because the language of clause (A)(ii), adding "the urbanized area contiguous and adjacent to such a city or town", has led to some absurd results in states like Pennsylvania with many small towns proximate to urban centers. The same geography that allows Pennsylvania farmers to rank third in the nation in direct sales to consumers hampers Rural Development's ability to serve small communities. There are a number of areas in Pennsylvania, particularly in southwestern Pennsylvania near Pittsburgh, where economically struggling small towns have been served with sewers and water treatment projects because their population is less than 10,000, but where business owners in the same town cannot be served – despite the 50,000 population threshold – because of their small town's proximity to an urban area. When you're trying to be strategic with taxpayers' resources, this kind of thing can drive you crazy.

Rural Housing Service

Again, the Section 502 direct home ownership loan program is unique in the Federal government, providing interest rate subsidies for home ownership that can go as low as one percent. Subsidies may be subject to recapture when the home is sold, discouraging speculators who might otherwise take unfair advantage of the program and the taxpayers. In my tenure as

State Director, the majority of these loans were made to single mothers struggling to provide their children with decent housing and a safe environment in which to grow up.

Since I left USDA in 2001, statewide average land prices in Pennsylvania have jumped nearly 50 percent. This is a daily struggle in keeping land in agriculture, when it sells for several times the amount per acre for development purposes as a farmer could earn growing a crop on those acres. It's also meant that fewer families can be served with a static funding level for direct housing loans, particularly since construction materials and other costs have gone up, too. Coupled with the continued dearth of available, affordable rental housing in rural areas, the number of families who spend entirely too much for housing, leaving them less to spend on heat, food, and other essentials, continues to climb.

The Section 504 program, offering one-percent interest loans to persons below 50 percent of median income in their county (and grants for the elderly) to repair and upgrade their homes, tap into public water and sewer projects, and the like, also is unique. Unfortunately, this program has not been made available to a group of rural homeowners who, even though they might meet the income eligibility requirements, are considered too "rich" to qualify for the low-interest loans. Of course, I'm speaking of farmers. Many of Pennsylvania's 58,000 farm families are living in homes that would not meet the thermal standards of the Section 502 program, and 61 percent of our state's farmers, as USDA defines that term, have gross annual sales below $10,000. Many have off-farm jobs and significantly higher total household income, but others are retirees who could really benefit from the Section 504 program to better insulate their homes, replace windows and aging furnaces, etc. As a State Director, I approached the national office staff of Rural Housing Service to inquire whether something could be done to allow income-eligible farmers into the program. The response I got was that they should sell off a few acres for development and use the money to fix their own homes. For Pennsylvania, and other states battling urban sprawl, that is simply the wrong answer. The individual with whom I dealt on this issue has since left USDA for the Department of Housing and Urban Development. I'm sure she's much happier there.

As I alluded to above, there remains a need for affordable rural rental housing, despite the funding levels in the Section 515 rental housing program being too low for nearly a decade now to keep field staff trained in how to process applications and administer the program. There appears to be a wholesale dismantling of the existing portfolio, as well, as developers look to get out from under commitments to keep rental rates affordable on aging properties in need of major improvements.

The Community Facilities (CF) program is one of the most flexible tools in the Federal toolbox, and as HUD's Community Development Block Grant (CDBG) funds diminish, the 40-year repayment terms and responsive interest rates will make the competition for Community Facilities funds even greater. Pennsylvania is home to 1,000 boroughs and some 1,500 townships. They, along with a few dozen smaller cities that meet the population-based eligibility criterion for CF, all have the need for: first responders' equipment and vehicles, plus buildings in which to store equipment and vehicles; health care facilities, including technology for connecting with other health care facilities; schools that are structurally sound and have capacity for 21st century instruction methods; and non-profit organizations with few other borrowing options that want to build libraries, homeless shelters, and meet other community needs. The backlog of CF applications in Pennsylvania is significant, and additional funding should be provided to this program. The cost to the taxpayers of the CF loan program is pennies compared to the dollars needed for a grant program like CDBG. CF is a cost-effective way to help rural communities invest in themselves, and provide a return to taxpayers as the loan is repaid with interest.

The CF Loan Guarantee Program could be a more viable product for lenders and borrowers if a guarantee could be granted on tax exempt bond issuances, such as those of the Pennsylvania Department of Community and Economic Development. This would allow the program to assist applicants that cannot afford commercial rates but may otherwise have the financial strength to be successful. This would also remove some of the demand on limited Direct Loan resources, since leveraging state bond issues with private funds and placing a guarantee on the whole package could make overall interest rates more affordable for more applicants.

The Farm Labor Housing program has not been funded for years, yet the need for farmers to provide decent housing to seasonal and migrant laborers has not diminished. In fact, the quality of housing may well be a factor in farmers' ability to attract and retain workers. If this is not the right program to do the job, then I would recommend that the farm bill include direction to the Secretary to determine what the right type of assistance might be. Pennsylvania's Secretary of Agriculture, Dennis Wolff, has convened a Seasonal Farm Labor Advisory Committee to examine this and other labor issues facing agriculture. We will gladly provide Secretary Johanns with that committee's work product.

Rural Utilities Service

I mentioned earlier my dismay at discovering that Section 502 Single Family Housing construction frequently converted prime farmland for housing developments that lacked water, sewer, and other basic infrastructure. As a State Director, I had some ability to influence that by encouraging the housing program staff to target their resources to communities where the water and sewer program staff had already been. I believe that this sort of policy should be instituted at the national level. Priority should be given to housing projects that redevelop existing areas with infrastructure in place, or where a community's plan for development calls for developing infrastructure before or concurrently with housing. There are areas all over the country where unplanned sprawl and loss of farmland has begun with a Federally-subsidized housing project – all the more frustrating when that subsidy came from the Department of Agriculture.

Despite significant allocations of Water and Wastewater Disposal Program funds, and a companion agency at the state level called the Pennsylvania Infrastructure Investment Authority, or PENNVEST, Pennsylvania still leads the nation in the number of rural citizens not served by public water and sewers. As with the CF program, I believe that many more projects could be reached if the Water and Wastewater Disposal Loan Guarantee program could be used in conjunction with states' tax exempt bond issuances.

More communities would resolve their problems with malfunctioning on-lot septic systems before the Pennsylvania Department of Environmental Protection shut down their ability to develop new housing if the Water and Wastewater Disposal Program's intermediate and poverty-level interest rates could be set as a percentage of market rate rather than using fixed poverty rate. The same could be said for the RHS Community Facilities program.

The other major area of emphasis with respect the Rural Utilities Service are the legacy programs of the former Rural Electrification Administration assisting rural telephone companies and even rural electric cooperatives with providing access to broadband telecommunications. There are so many services and economic development opportunities missed by having to rely on a long-distance call through a dial-up modem to get access to the Internet. Our technology companies should be looking for call center sites in New Florence, Pennsylvania, not New Delhi, India. A business owner shouldn't have to live in a metropolitan area to take advantage of the largest business development curriculum available for free on-line from Kutztown University's Small Business Development Center. A farmer should be able to check commodities markets in real time. I could go on and on, including ensuring that rural citizens can benefit equally from e-government initiatives.

In considering where to go on this issue in the next farm bill, I would encourage you to consider additional incentives for development of wireless technologies, since it may never be cost-effective to provide T-1 lines in rural areas – just as it was not cost-effective for cable television in rural areas or even telephone and electric lines without a significant investment of Federal subsidies. Wireless phone service is slowly getting better in rural Pennsylvania, but there are still whole regions of the state without service. Wireless Internet access, whether through wireless networks, ricochet-type systems, or satellites, might help rural America catch up with its urban and suburban neighbors who have had broadband access through DSL and cable TV modems for several years now.

Rural Business – Cooperative Service

In a state like Pennsylvania, with small diversified farm operations, access to large consumer bases, and a renewable energy portfolio standard[1], RBS programs can be as important to farmers as those of any other USDA agency.

The Business and Industry Loan Guarantee program, has been very active in Pennsylvania over the last decade. And Rural Development staff continue to explore ways to partner that program with other funding, such as the Pennsylvania Industrial Development Authority (PIDA), on which I represent the Secretary of Agriculture. After some effort, PIDA was approved about a year ago to pursue a loan guarantee from Rural Development for borrowers in eligible areas. However, the two-percent loan guarantee fee has been a deterrent to actually seeking a guarantee for the roughly half-dozen projects PIDA has financed since then that would have otherwise been eligible. The Business and Industry Loan Guarantee program is a great product, but it must be competitively priced or lenders will look elsewhere for assurances, such as to the Pennsylvania Economic Development Financing Authority, on which I also represent the Secretary of

[1] Pennsylvania's Alternative Energy Act of 2004 provides a 15-year implementation period after which 8% of electricity sold in the state must be generated from truly renewable sources, such as solar or wind power, and 10% from a second tier that includes conversion of agricultural wastes and by-products, such as manure digesters or co-firing waste coal piles with low-grade wood.

Agriculture. I believe the program would be more effective in reaching particularly start-up companies if the guarantee fee were back at one percent. Similarly, fees in other Rural Development loan guarantee programs should not compromise the program's appeal and utility.

Pennsylvania was one of 10 states to be awarded an Agricultural Innovation Center grant, a team effort between Penn State University's Cooperative Extension Service and the Department of Agriculture. Unfortunately, with only one year of funding appropriated, by the time we hit full stride with services to farmers interested in value-added initiatives, it was time to wind down the operation and lay off the Extension employees who had been hired in the field. Had we known the funding to be a once-and-done arrangement, I believe we would have approached the process quite differently, and more of the money that was invested would have gone into value-added projects rather than ramping up the center's staffing and administration. The advisory board still meets monthly to compare notes on projects underway and to look for additional funding sources to move projects forward. Absent a longer-term funding commitment, this program should not be reauthorized in the next farm bill. Rather, funds available should stay dedicated to the Value-Added Producer Grant program (VAPG).

Pennsylvania also is home to a cooperative development center funded through the Rural Cooperative Development Grant (RCDG) program. In fact, I was the Keystone Development Center's first Executive Director, and its only employee until a few months before I left three years ago to take my current position. Keystone now has an Executive Director and four additional part-time employees, is truly statewide in its reach, and has been able to develop additional funding from several other sources, among them the Pennsylvania Department of Agriculture. As you might expect, I think RCDG is a terrific program that should be reauthorized in the next farm bill. Through that program and the Center's work, a group of disabled rural residents in Berks County have a transportation cooperative through which they share a van, giving them access to jobs, social services and recreational opportunities not available to them before. A group of Amish farmers have established a cooperative to market their specialty cheeses, home-baked breads, jams, and pickles. A specialty food cooperative has moved out of a home-owner's garage and into a municipal building with truck access and a lighted parking lot. A group of turkey growers are investigating the feasibility of buying the processing plant with which they've been under contract. The examples go on and on. The RCDG program actually returns dividends to local and federal governments in the form of job creation, new wealth, and new tax revenues. It is one of very few programs whose primary focus is developing capacity for business creation. Federal funding is leveraged by significant matching funds from the centers, increasing the resources available to rural communities across the country for cooperatives that do everything from senior housing to health care to farmers markets.

One of the real challenges in the RCDG program, though, is the annual funding cycle. Just as with the Agricultural Innovation Center grants, RCDG grantees run the risk of getting ramped up only to shut down the following year if their grant application is not selected for some reason.

In the 2002 farm bill, Congress recognized that it can take several years for a cooperative to form and emerge as a functioning business. Section 6017 states that when Business & Industry Loan Guarantees are issued for the purchase of cooperative stock for an agricultural commodity processing facility, the actual processing can be contracted out for as long as five years to give the co-op sufficient time to plan and build its own facility. That same logic needs to apply to other cooperatives developed by the centers and to the centers themselves. Start-up centers need time to build capacity, develop a reputation for helping rural citizens meet their shared needs through cooperatives, and attract other funding sources, including developing fee-based services. I strongly recommend that the next farm bill provide at least three, if not five-year funding cycles for cooperative development centers.

The Rural Business Enterprise Grant (RBEG) program is currently the only RBS grant program funded sufficiently to allow individual state allocations. Still, of the 45 RBEG applications totaling $3,797,864 submitted for Fiscal Year 2006 funds, only 10 projects were able to receive funding from Pennsylvania's $914,000 allocation. The funding shortfall in RBEG is particularly distressing since this is the only one of Rural Development's programs that can fund workforce development types of activities – a critical need in rural areas, including agriculture.

The Intermediary Relending Program (IRP) is another excellent program that creates jobs in rural communities and returns dollars to the tax rolls, but is funded at a level that keeps the program one of the Federal government's best-kept secrets. In Pennsylvania, each of the seven Local Development Districts chartered by the Appalachian Regional Commission has participated in the IRP program, most having paid off their initial one-percent loans. There are many potential intermediaries among Pennsylvania's myriad regional and county-based economic development entities, and several specific areas where an additional IRP project would be welcome. Among them is production agriculture, which can access participation loans for small businesses from the Commonwealth, but in many areas of Pennsylvania, farmers struggle to find private lenders willing to finance the rest of an agricultural project. We have had some success in pairing these state programs with loans from the Farm Service Agency, but again, funding levels are a problem.

Since the advent of the Section 9006 Renewable Energy and Energy Efficiency Improvements Grant and Loan Program in the 2002 farm bill, Pennsylvania has obtained funding for six projects, including four anaerobic digesters on dairy farms, a soy oil extraction plant and the nation's first large scale geothermal system in the City of Bradford. Also, Rural Development provided funding in the form of a $4.995 million Business and Industry Loan Guarantee and a $450,000 Value-Added Producer Grant for a $10.55 million project for Keystone Potato Products. The Keystone Potato Products facility is the first potato dehydration plant on the East Coast. The plant processes low grade potatoes that are too small for chipping or not quite the right color into potato flakes. Instead of getting nothing for their potatoes from the chipping companies – even losing money having to transport the potatoes to a landfill – producers now have a new value-added project. The plant is adjacent to a large landfill in order to utilize methane gas in the potato dehydration process.

The potential for renewable energy to transform American agriculture, and for agriculture to transform the rest of the economy, is mind-boggling. Pennsylvania has created an Energy Development Authority to provide loans and grants to start-up energy companies, along with other incentive programs. We're making oil from waste coal, our first biodiesel production facility shipped its first load of fuel last week, we have several ethanol projects in development (including one that would take full advantage of Penn's Woods), we're turning manure from a waste problem threatening our water and air quality into an energy source, and windmills are popping up as our Public Utilities Commission moves closer to requiring electric companies to offer net metering. Governor Rendell has commissioned an Agricultural Renewable Energy Council to ensure that opportunities are seized upon and farmers learn how to both increase their revenues and decrease their operating costs. But, development of new power and liquid fuel plants requires a level of investment that demands a continued Federal presence. Section 9006 was one of the most innovative provisions of the 2002 farm bill, and I hope Congress will continue that momentum as well as allow the Business and Industry Loan Guarantee program to play a role.

As a State Director, I viewed the Pennsylvania Rural Development Council, which I co-chaired, as an extension of my own staff. For the average price of two full-time equivalent positions – $100,000 – I could access the combined talent, skills, and experience of dozens of professionals in every imaginable field from small town mayors and redevelopment authority directors to the consumer affairs staff of Verizon. I found the exchange extremely helpful and a good value for the Salaries & Expenses dollars invested.

In my current position, I represent the Secretary of Agriculture on the Pennsylvania Rural Development Council, and again find myself co-chairing the group. Unfortunately, this year, we expect the work plan we submit to Rural Development to garner $12,000 in support. While the Council's office space and basic needs are supplied by State funds, the shrinking Federal investment has made it nearly impossible to maintain the momentum that the Council had only a few years ago. I recognize that funding is extremely tight, and most of my statement has revolved around the need to increase program funds to meet pressing rural needs. Obviously, my first preference would be for Congress to increase funding available to state councils as well as the National Rural Development Partnership. If that just isn't possible, then I would recommend that State Directors be given the authority to contribute some of their Salaries & Expenses funds to their states' Rural Development Council. Give them the ability to trade a position or two for far more expertise than one or two new staff members could possibly provide.

Finally, while I promise that my oral statement will stay within the time allotted, I want you to know that I am absolutely passionate about these issues, and could go on all day if time allowed. As the Subcommittee moves forward with its deliberations and legislative proposals, I would be pleased to offer whatever assistance you might wish me to provide. I would happy to address any questions you might have at this point.

NACo-NADO Statement Before House Committee on Agriculture
Subcommittee on Conservation, Credit, Rural Development and Research

Thank you Chairman Lucas, Ranking Member Holden and Members of the Subcommittee. My name is Colleen Landkamer, I am a County Commissioner from Blue Earth County, Minnesota and I currently serve as the President Elect of the National Association of Counties (NACo). I have served as a County Commissioner in Blue Earth County since 1988. 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 House Committee on Agriculture
Subcommittee on Conservation, Credit, Rural Development and Research

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.

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 US 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 US 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.

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.

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. Chuck Fluharty, the Director of the Rural Policy Research Institute and I were asked to participate in this eForum and I found the results very informative.

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 2002, Regional Economic Development District Initiatives of South Central Pennsylvania (REDDI), headquartered in Harrisburg, successfully applied for a $45,000 grant from USDA's Rural Business Enterprise Grant (RBEG) program to complete a feasibility study for the construction of an ethanol facility in Franklin County. From this initial seed funding, REDDI helped form a group of 45 farmers from Northern Maryland and South Central Pennsylvania into Pennmar, LLC and completed the initial analysis and strategic plan for the venture. As a result, 55 acres on the former Letter Kenny Army facility were purchased and construction of an $80 million processing facility began. The facility generates 60 million gallons of ethanol converted from regionally produced corn, employs 35 people in this rural region and generates $85 million annually. As a result of its initial success on this project, REDDI has served as project facilitator and coordinator for the construction of a bio-diesel soybean crush plant. The organization was recently awarded RBEG funds to study the economic feasibility of the construction of a facility. As a result, REDDI is moving forward with phase two of the project and is searching for a suitable site in the South Central Pennsylvania region to build a facility that will process 2.8 million bushels of soybeans annually, which will produce 3 million gallons of soybean oil for conversion into bio-diesel and also provide 25 percent of the state's crop of meal for dairy feed. The project is expected to create 30-35 jobs.

- 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 or wind energy many in rural America view renewable energy as a key to economic development and a strategy to reduce reliance on foreign sources of energy. 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 Lucas, Ranking Member Holden and members of the subcommittee 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.

Testimony Submitted by
The Farm Credit Council
On behalf of
The Farm Credit System
Before the House Committee on Agriculture
Subcommittee on Conservation, Credit, Rural Development and Research
March 30, 2006

Mr. Chairman and members of the subcommittee:

On behalf of the institutions of the Farm Credit System and its member-borrowers, the Farm Credit Council is pleased to provide testimony on the important subject of rural development programs. This year, the Farm Credit System will celebrate its 90th year of service to rural America. Rural economic development is vitally important to not just rural America, but indeed the entire nation. The Farm Credit System is proud to play a role in providing resources for this important activity and look forward to working with your committee to explore new approaches to do even more.

One area where we believe the System can provide significant assistance is through fuller utilization of the Rural Business Investment Company (RBIC) program. This innovative program, adopted in the 2002 Farm Bill, could offer significant benefits to rural America if modified in a way to allow Farm Credit to participate more fully.

The first concern is the limitation that if a RBIC includes greater than 15 percent Farm Credit System ownership, that RBIC may only invest in rural business concerns that are otherwise eligible for Farm Credit financing. This limitation has a direct adverse impact on the ability of the organizations selected to be RBIC's to raise necessary capital as well as the capacity to serve their rural communities. Farm Credit is a willing and available partner that can help make a difference, but rural America is held hostage due to the ownership limitation imposed by law. We urge that this limitation be dropped in the next Farm Bill.

The second impediment can be fixed by a relatively simple change to current regulations. If changed, it will permit Farm Credit as well as commercial banks greater flexibility to form RBICs and respond to a desire to assist rural America by making more investment capital available to rural business concerns. The USDA rulemaking process to implement the authority for RBICs was unique in that the rules were written by the Small Business Administration (SBA) through a cooperative agreement, as required by the 2002 Farm Bill. The RBIC rules, for the most part, were intended to mirror the SBA rules authorizing Small Business Investment Companies. Unfortunately, a critical element of the SBIC rules was not included in the RBIC rules. This omission effectively excludes Farm Credit from establishing an RBIC and directly participating in the RBIC program to benefit rural America.

In general terms, the 2002 Farm Bill provided for two types of RBICs; one type that creates a federal obligation in that the RBIC can leverage each dollar of its own capital with two dollars of federal money, and another type of RBIC that does not leverage its own capital with federal money and thus does not create any federal obligation. Farm Credit is in a position to take advantage of the non-leveraged RBIC but is prevented from doing so because the USDA regulations do not provide for the certification of this type of RBIC.

The Farm Credit Council provided comment (attached) to the USDA's June 8, 2004, Interim Final rule that pointed out this critical omission and urged that the RBIC regulations conform to the SBIC regulations as required in the 2002 Farm Bill. We believe such a change is critical to making the RBIC program successful, and would allow Farm Credit institutions and commercial banks to participate to the benefit of rural America.

We respectfully request that the subcommittee review these concerns and take steps to correct these flaws to ensure a robust RBIC program. First, the ownership limitation of a RBIC that is contained in law needs to be deleted. Secondly, the subcommittee should insist that USDA immediately revise its regulations to allow for certification of non-leveraged RBICs. This type of certification program could be managed by the Farm Credit Administration if USDA does not have the resources to do so.

We look forward to working with the subcommittee on this most important matter. We appreciate your leadership on matters of rural development and hope to have further discussion on issues of importance to rural America.

Attachment: Farm Credit July 8, 2004, comment letter to USDA on Rural Business Investment Companies.

* * Delivered Via E-mail * *

July 8, 2004

Ms. Cheryl Thompson
Management Analyst
Regulations and Paperwork
Management Branch
U.S. Department of Agriculture
STOP 0742
1400 Independence Avenue, SW
Washington, DC 20250-0742

Dear Ms. Thompson:

The Farm Credit Council, on behalf of Farm Credit System institutions, appreciates the opportunity to comment on the Interim Final rule implementing the Rural Business Investment Companies (RBIC) Program. These regulations were published in the *Federal Register* on June 8, 2004 (RIN 0570-AA35).

The RBIC program will provide necessary investment capital to rural America that currently is not widely available. The regulations are comprehensive and, as designed, significantly mirror the regulations promulgated by the Small Business Administration implementing its Small Business Investment Company (SBIC) and New Markets Venture Capital programs. With this in mind, an important subpart in the SBIC regulations is not also included in the regulations implementing the RBIC program.

Our discussion with staff involved significantly in the Small Business Administration's SBIC program indicated that this omission was simply an oversight as the RBIC regulations were developed. We respectfully request, as discussed further below, that the Secretary include in the RBIC regulations a conforming subpart that provides for the licensing of RBICs that do not seek Leverage as a strategy to serve the unmet equity capital needs of rural America. The RBIC provisions in the Farm Bill were designed, in part, to allow Farm Credit System institutions to form non-leveraged RBICs. The regulations, as currently written, preclude Farm Credit institutions from participating fully in the RBIC program.

Section 6029 of the Farm Security and Rural Investment Act of 2002, Pub. L. 107-171, added Subtitle H to the Consolidated Farm and Rural Development Act (the "Act") establishing the Rural Business Investment Program. The Act, as amended, provides for the licensing of a RBIC without Leverage, parallel to the SBIC program, in sections 384D and 384I. In section 384I(c)(1)(A), a RBIC shall have capital not less than $5 million. In section 384I(c)(1)(B), a RBIC shall have capital not less than $10 million if it is authorized or seeking authority to issue debentures purchased or guaranteed by the Secretary. The two provisions provide for the different types of RBICs and is further supported by section 384I(c)(2) where the Secretary has the discretion to permit a RBIC "described in paragraph (1)(B)" to have less than $10 million, but not less than $5 million in capital if it does not create an unreasonable risk to the Federal Government.

The regulations implementing the SBIC program recognize the two types of SBICs. The Small Business Administration regulations in 13 CFR 107 Subpart H exempt SBICs without Leverage from certain regulations applicable to SBICs with Leverage. We recommend the same approach be taken by the Secretary to clearly delineate the two types of RBICs.

In order to conform the RBIC regulations to the SBIC regulations, a new Subpart O to Part 4290 is recommended. The conforming regulations are presented below and were developed by replacing the pertinent SBIC regulations in subpart H of part 107 with Sec. 4290.xxx (xxx represents the section of the regulations in new part 4290), replacing all references to "SBA" with references to "the Secretary" and replacing the term "Small Business" in one instance with the term "Enterprise." For illustrative purposes, this would result in a new Sec. 4290.3020 that accurately conforms the RBIC regulations with the parallel SBIC regulations.

In addition, we recommend two additional new regulations to add clarity to some distinct differences between the two types of RBICs. These two recommended regulation sections are not found in the SBIC regulations, but would assist potential applicants and others interested in the RBIC program. These two recommended new regulations are presented at the end of this letter.

The first new regulation, Sec. 4290.3000 for illustrative purposes, would establish that the Secretary will accept applications for RBICs not seeking Leverage at any time and allowing the Secretary to prescribe a modified application form to be used by RBICs not seeking Leverage. This recommendation is intended to relieve applicants not seeking Leverage from the rigorous application procedures for RBICs with Leverage that appear necessary because of the Federal obligation that is created.

The Interim Final rule provides for a RBIC license application to be submitted only during the timeframe published in the Notice of Funds Availability (NOFA), also on June 8. The NOFA establishes September 17, 2004 as the final date that such applications will be accepted. The NOFA is used because successful applicants for a RBIC license <u>with</u> Leverage will create a Federal obligation in that Federal funds authorized for the RBIC program are used and a Federal grant will also be provided to successful applicants. Similar to the SBIC program, a RBIC licensed <u>without</u> Leverage creates <u>no</u> Federal obligation and should be licensed outside of the NOFA process. Recommended new Sec.

4290.3000 would conform the RBIC program to the SBIC program where there are no timeframes for the acceptance of SBIC applications in those instances where the applicant does not seek Leverage.

In addition, we recommend consideration be given by the Secretary to modify the application process for RBICs that do not seek Leverage. The present application, including SBA Forms 2241 and 2242, when completed result in an application estimated to be up to 500 pages (quite possibly lengthier) even though no Federal obligation is created. We recommend the Secretary prescribe a less burdensome application form and process for this type of RBIC. Currently, a RBIC applicant with a significant track record in venture capital investing is excluded from the most burdensome portions of the application forms. It is reasonable that a new entity without the depth of experience of established participants should provide greater information because a Federal obligation would be created if the applicant is successful. An applicant not seeking Leverage should be accorded a less burdensome application since the Federal government does not assume any risk.

The second new regulation, Sec. 4290.3010 for illustrative purposes, would establish an expedited application and licensing process giving the Secretary the latitude to exempt applicants not seeking Leverage from burdensome requirements. We believe this is appropriate since no Federal obligation is created plus it would provide for equity capital being made available to rural America in a more timely manner and begin working toward the objectives of the RBIC program. Presently, the application process when seeking Leverage is estimated by the Secretary to result in the first applicant being selected for a RBIC license in 2006.

The regulations published on June 8 were effective on that date. We request the suggested regulations be published, as soon as possible, in a Direct Final rule effective on the publication date so that the RBIC regulations mirror the SBIC regulations and the unintentional omission of these regulations will be corrected in a timely manner. The recommended new regulations to conform and clarify the RBIC regulations to the SBIC regulations follow:

Subpart O – Non-leveraged Licensees; Exceptions to Regulations

Sec. 4290.3000 Applying for a license as a RBIC without Leverage or Operational Assistance.

The Secretary will accept, at any time, applications from a RBIC that does not elect to seek Leverage or Operational Assistance. An Applicant not seeking Leverage or Operational Assistance must apply for a RBIC license using an appropriate application packet provided by the Secretary. Upon receipt of a completed application packet, the Secretary may request clarifying or technical information on the materials submitted as part of the application.

Sec. 4290.3010 Expedited processing and approval of applications for RBICs without Leverage or Operational Assistance.

An Applicant under this subpart must complete a written application that includes information required by the Secretary with certain exemptions determined by the Secretary in his or her sole discretion. The Secretary may exempt material from the application where the Secretary determines it impedes an expedited process when a RBIC applies for a license but does not seek Leverage or Operational Assistance. The Secretary shall make a decision as to licensing an Applicant within 90 days of the receipt of a complete application and enter into a Participation Agreement with the licensee if approved.

Sec. 4290.3020 Licensees without Leverage--exceptions to the regulations.

The regulatory exceptions in this section apply to Licensees with no outstanding Leverage.

(a) You are exempt from the following provisions (but you must come into compliance with them to become eligible for Leverage):

(1) The management diversity requirements of Sec. 4290.150;

(2) The over-line limitation in Sec. 4290.740;

(3) The restrictions in Sec. 4290.530 on investments of idle funds provided you do not engage in activities not contemplated by the Act;

(4) The restrictions in Sec. 4290.550 on third-party debt;

(5) The restrictions in Sec. 4290.880 on expenses incurred to maintain or improve assets acquired in liquidation of Portfolio securities; and

(6) The recordkeeping requirements and fee limitations in Sec. 4290.825 (b) and (c), respectively, for securities purchased through or from an underwriter.

(b) You are exempt from the requirements to obtain the Secretary's prior approval for:

(1) A decrease in your Regulatory Capital of more than two percent under Sec. 4290.585 (but not below the minimum required under the Act or these regulations). You must report the reduction to the Secretary within 30 days;

(2) Disposition of any asset to your Associate under Sec. 4290.885;

(3) A contract to employ an Investment Adviser/Manager under Sec. 4290.510. However, you must notify the Secretary of the Management Expenses to be incurred under such contract, or of any subsequent material changes in such Management Expenses, within 30 days of execution. In order to become eligible for Leverage, you must have the contract approved by the Secretary;

(4) Your initial Management Expenses under Sec. 4290.140 and increases in your Management Expenses under Sec. 4290.520. However, you must have your Management Expenses approved by the Secretary in order to become eligible for Leverage; and

(5) Options obtained from an Enterprise by your management or employees under Sec. 4290.815(b).

(c) You are exempt from the requirement in Sec. 4290.680 to obtain the Secretary's post approval of new directors and new officers, other than your chief operating officer.

However, you must notify the Secretary of the new directors or officers within 30 days, and you must have all directors and officers approved by the Secretary in order to become eligible for Leverage.

On behalf of the Farm Credit System institutions, we appreciate the Secretary's consideration of these necessary revisions to the RBIC regulations. Please do not hesitate to contact me at 202.879.0853 or hays@fccouncil.com if we can provide any assistance.

Sincerely,

John Hays

John Hays
Vice President

Statement by North Carolina Rural Economic Development Center, Inc.
Before House Committee on Agriculture
Subcommittee on Conservation, Credit, Rural Development, and Research

Thank you Chairman Lucas, Ranking Member Holden and Members of the Subcommittee for this opportunity to present our views on the development needs of rural America, as you prepare legislation to guide federal investments in our communities through USDA.

I am Billy Ray Hall, President of the North Carolina Rural Economic Development Center (Rural Center). For the past twenty years the Rural Center has worked to make life better for people in rural North Carolina. As a statewide non-profit organization, the Rural Center has developed, promoted, and implemented sound economic strategies to improve the quality of life of rural North Carolinians. Throughout these two decades, the Rural Center has had a very productive partnership with USDA Rural Development, working together on ventures that brought new jobs and businesses, infrastructure improvements, innovative technology, and community facilities to rural communities.

Federal rural development policy must be flexible and the programs well funded to help local partners assist displaced workers and distressed farmers find a way through troubled times. In the past five years, rural areas in North Carolina and throughout much of the country have faced major shifts in the agricultural and manufacturing economy. Facing declining crop prices, the end of the tobacco allocation system, drought and flooding, an alarming number of North Carolina's rural communities also saw jobs disappear with the closure of textile and furniture plants, victims of global competition and forces beyond their control. Rural North Carolina is diverse, complex and constantly evolving. Without increased federal funding and technical assistance, rural communities will continue to be at a disadvantage in trying to build and sustain viable local economies.

The non-farm part of the rural economy means more to today's rural families than ever before. Most small farmers rely on off-farm jobs to sustain their families. Loss of jobs in our rural small towns takes away a small farmer's 'day job' and frequently a spouse's contribution to the family budget. Clearly the role, guidance and funding you give USDA Rural Development in the next Farm Bill will define whether the federal-state-local partnership will be effective in revitalizing rural towns and promoting regional collaborations and public-private investments.

Like most non-profits, the Rural Center always needs to stretch every dollar and be flexible and accountable stewards of our resources. In our joint ventures with USDA, we have found Rural Development staff willing and able to be as flexible as the law allows in meeting local needs in rural communities. We observed this after hurricanes devastated many rural counties in 1996, 1999, and 2004 as USDA Rural Development staff scrambled with state and local staff to help families and communities begin the slow road to recovery from the flooding. USDA Rural Development staff members are excellent partners, but they can only be as good as the programs and funding they have available. The new Farm Bill can give USDA and your rural partners the potent tools to help rural communities through natural disasters and economic transitions.

Examples of how we have worked collaboratively with USDA Rural Development follow. These demonstrate the way the federal-local partnership can work effectively to produce results and benefit rural towns. Federal development assistance programs and policies must enable local communities to identify, address and meet local needs.

Water/Sewer Infrastructure

Inadequate public infrastructure is the leading roadblock to economic development in rural North Carolina. Private sector investors and existing businesses demand that local governments have public infrastructure in place before they locate or remain at a business site. Our recent statewide Water 2030 report revealed that North Carolina's public water, sewer and stormwater utilities will require investments totaling $16.6 billion to keep pace with necessary improvements and population growth over the next 25 years. Our research also found that because of low bond ratings, more than 60 percent of our rural local governments do not qualify for loan programs. Most water and sewer systems in North Carolina are small, and many are located in economically distressed areas. As USDA programs shift from grants to direct loans to loan guarantees, many communities in North Carolina cannot afford the debt service that comes with loan programs, once again limiting access to capital to those who need it most.

Over the past ten years USDA Rural Development Utilities invested $738.4 million to help create or improve water and wastewater systems in North Carolina communities. The Rural Center has invested $263.9 million into water/wastewater projects, through its Supplemental and Unsewered communities programs. USDA Rural Development staff often work with local officials, engineers, and Rural Center staff to coordinate the mix of federal loan and grant assistance with Rural

Center funds to make projects feasible, without 'over subsidizing.' Through this working relationship we leverage federal and state resources, extending the reach of federal grant and loan programs to more families and communities.

Town of Four Oaks Sewer Extensions: This collaboratively funded project received USDA Rural Development Loans of $557,000 and Rural Center Supplemental Grants of $200,000. The project will extend gravity sewer lines to newly annexed areas of the town and will provide public central sewer service to approximately 100 residential and business customers in these areas. These residences and businesses are currently served by individual septic tank systems that are currently failing or jeopardized by poor soils and private lots with insufficient area to relocate septic drain fields. This project will provide economic development benefits along with public health and environmental benefits by eliminating the discharge of untreated wastewater into the streams and surface waters within the Neuse River Basin. The administration of funds to the town and the monitoring of construction activities are closely coordinated between USDA and Rural Center staff.

Ingrams Township Water and Sewer District, Johnston County: The Ingrams Township Water and Sewer District received USDA Rural Development Loans and Grants of $899,500, Rural Center Unsewered Community Grants of $366,000, and local funds of $126,500. USDA, Rural Center and local staff worked through many issues prior to awarding construction contracts, including problems with permitting and high construction bids. This project will provide wastewater treatment to approximately 47 residential customers in a rural part of Johnston County that was originally formed as a district to provide public water services. The wastewater infrastructure will include a low-pressure and gravity collection system to serve the residents, and treatment will be provided by Johnston County. The Johnston County Health Department conducted onsite surveys that revealed instances of straight piping, failing septic systems, and septic systems installed prior to the issuance of county health department permit guidelines. These individual septic systems in this area fail due to poor soil conditions and the high seasonal groundwater table. This project will provide public health and environmental benefits by eliminating the discharge of untreated wastewater to the streams and surface waters within the Neuse River Basin.

Norcress Water and Sewer District, Cumberland County: The Norcress district was formed to serve the small towns of Wade, Godwin, and Falcon in northeastern Cumberland County. This $9.3 million jointly funded project was the largest wastewater project to date for this area of rural North Carolina. The project received USDA Rural Development Loans and Grants of $5.4 million, Rural Center Unsewered Community Grants of $2.7 million, and local funds of $1.2 million. The towns wished to create a regional project in the beginning but Rural Center funding limits could not cover the costs of a regional project of this size. USDA became involved with district formation and funding. USDA representatives met with the town's leaders and their engineering consultant on several occasions to give them advice on many issues that the district would face in getting this project to the construction stage. The Rural Center funded most of the design process leading up to construction. The Norcress district also had many issues to work out with wastewater treatment capacity and funding from the other local government entities. The City of Fayetteville Public Works Commission will provide wastewater treatment and Cumberland County will eventually own and operate the system, creating truly a regional wastewater project.

This project will provide wastewater service for approximately 431 residential, institutional and commercial users in the district. The three separate towns were served by gravity sewer collection systems and connected by force mains and pump stations that were eventually connected to the Fayetteville Public Works Commission wastewater system. This project eliminates individual onsite septic systems that were failing or had the potential to fail due to poor soils, aging septic systems, and lack of system repair area on individual property lots. Environmentally, the project will eliminate the discharge of untreated wastewater into the stream segments and surface waters of the Cape Fear River.

Community Facilities

USDA Rural Development also provided rural towns with affordable financing to build critical public facilities. When tied to local capital priorities, these federal investments definitely enable local and regional leaders to improve the quality of life.

Johnston County Skill Training Center: USDA Rural Development provided loans totaling $4,303,000 to construct a new skills training center, sponsored by the Johnston County Industrial Development Corporation (JCIDC). Pharmaceutical companies want employees with specialized training that is not available in the immediate vicinity. The training center will fill the companies' needs while providing rural residents with skills suitable to this emerging industry cluster. By having a trained workforce, Johnston County will be able to attract other companies to relocate to the area. The 30,000 square foot Skills Training Center is sited close to existing industrial buildings, designed in keeping with the character of surrounding buildings.

Town of Benson Fire Facility: USDA Rural Development funds were provided for a new fire facility. With loans totaling $1,305,000 and a $100,000 grant, the town of Benson will construct a new 7-bay fire apparatus building with a decontamination and equipment area, and the town will rehabilitate an adjoining building for classroom, training and overnight area for fire and emergency personnel. The combined project will serve over 7,000 residents of Benson and the Banner Rural Fire District. The new station will improve the response time and potentially the insurance rating, which should reduce the insurance premiums for each property owner. This type of community facility means so much to rural towns that are struggling to provide basic services to their residents.

Spring Lake Community Center: USDA Rural Development loan funds are being used to build a 16,916 square foot Community Center in the town of Spring Lake. This facility is designed to hold public events, education, social, civic, senior enrichment and recreational programs. The building is in the town's Municipal Complex, adjacent to undeveloped land that could provide for expansion in the future. Up until this point, the town had no central gathering place for recreation, senior activities and public events. This Community Center will become the hub of community life.

Conclusion

To conclude, let me reinforce how important a flexible, well-funded USDA Rural Development program is to the future of rural areas and small towns. Federal funding should be mandatory, providing assured funds to State USDA-Rural Development staff to implement programs, rather than tied to discretionary funding decisions that are vulnerable to changing Administration priorities that leave poor rural communities even further behind. Federal rural development programs work best when USDA staff, non-profit intermediaries, community based organizations, and local governments leverage each other's strengths, coordinate and tap all available resources. Not one of these parties working alone can transform a rural region from one of despair to one of hope. Federal rural development programs should challenge rural areas to identify their own priorities and strategies and then align federal investments with regional strategies. USDA rural development programs can and must help state, regional and local partners address the basic needs of local communities, such as water and wastewater systems, key community facilities, telecommunications, and housing. But they should also be agents of change by helping rural areas support new economic ventures that build on natural assets and the unique character of rural places. Rural development programs also should enhance community and regionally based networks that are using innovation and entrepreneurship to form a new rural economy.

I thank you Chairman Lucas, Ranking Member Holden and Members of the Subcommittee for this opportunity to submit a statement for the record on behalf of the North Carolina Rural Economic Development Center and rural people and communities in North Carolina.

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