

## **RURAL BUSINESS-COOPERATIVE SERVICE**

### **Statement of Jackie J. Gleason, Acting Administrator of the Rural Business-Cooperative Service, before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.**

Mr. Chairman and members of the Subcommittee, I am pleased to present the Administration's Fiscal Year (FY) 2007 Budget for the Rural Development's rural business and cooperative programs.

Mr. Chairman, the programs and services of Rural Development, in partnership with other public and private sector businesses, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs. Rural Development continues to invest in rural America, especially in the under-served rural areas and populations. Rural Development programs help close the gap in opportunity for these under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology and technical assistance. The \$103 million requested in budget authority for Rural Business-Cooperative Service programs will support \$1.138 billion in direct and guaranteed loans and grants and will assist in creating or saving over 56,000 jobs and providing financial assistance to more than 1,200 small businesses.

The cooperative form of organizational governance continues to be a cornerstone of business development in our rural communities, whether in the traditional form that brings day care services to a rural community or today's new generation ethanol cooperatives that lessen our dependence on foreign oil. From the large agricultural marketing cooperative that brings

additional value to its members products, to the small rural telephone cooperative that brings broadband technology to its community's businesses and residents, to the elder care cooperative that brings desperately needed services to our "greatest generation," cooperative organizations provide our rural residents with new and exciting job opportunities, enhanced educational and health care opportunities, and products and services that enable viable rural communities to compete with their urban and suburban counterparts.

Rural Development's mission is "to increase economic opportunity and improve the quality of life for all Rural Americans." Rural Development's business and cooperative programs successfully carry out this mission by providing an array of educational, technical assistance, research, and loan and grant programs to rural Americans.

### **Business and Industry Guaranteed Loan Program**

For the Business and Industry (B&I) Program, the FY 2007 budget includes \$43.16 million in budget authority to support \$990 million in guaranteed loans. We estimate that the funding requested for FY 2007 will create or save over 23,667 jobs and provide financial assistance to approximately 554 businesses. The B&I program allows lenders to better meet the needs of rural businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B&I guaranteed loans may also be used by individual farmers to purchase cooperative stock in a start-up or existing cooperative established for value-added processing.

I would like to illustrate how this program partners with a lender. Desert View Regional Medical Center Holdings, LLC was approved for a Business and Industry Guaranteed Loan in the amount of \$17.5 million. The funds will be used to construct a 25 bed acute-care surgical hospital in Pahrump, NV, which currently does not have hospital services. The facility will include 22 medical beds, 3 birthing suites, and emergency rooms with 8 treatment bays and trauma unit. The surgery department will have 2 operating rooms; the imaging department will include radiology, fluoroscopy, mammography, ultra sound, C/T, and mobile MRI; and there will be a clinical laboratory, cardiopulmonary, physical, and occupational therapies. At present, residents of the Pahrump area must travel approximately 60 miles to Las Vegas for acute primary hospital care. Approximately \$12 million in equity and other funds will be contributed to the project. In addition to benefiting the community with a critical access hospital, the new hospital will bring 140 new jobs to the area, which includes 40 doctors and nurses.

I would also like to share with you another example of how this program partnering with a lender, Comerica Bank, has supported alternative energy development in rural America. The Snowflake White Mountain Power, LLC, was approved for a B&I guaranteed loan of \$6 million in addition to a Section 9006, Renewable Energy System Guaranteed Loan of \$10 million to build a 20 megawatt biomass electrical generating plant 17 miles southwest of Snowflake, Arizona. The raw materials for generation are burnt trees from the Abitibi Paper Mill which is located adjacent to the proposed plant. About six jobs will be created directly and 40 jobs from subcontractors. This is a good example of how two programs within Rural Development were jointly utilized to purchase the guaranteed loan assistance needed for the project to be realized.

## **Value-Added Producer Grant Program**

For FY 2007, the budget requests \$20.295 million for the value-added producer grant program, the same as in the previous year. The Value-Added Producer Grant (VAPG) program encourages independent agricultural commodity producers to further refine or enhance their products, thereby increasing their value to end users and increasing the returns to producers. Grants may be used for planning purposes such as conducting feasibility analyses or developing business plans, or for working capital accounts to pay salaries, utilities and other operating costs. Program revisions were made in FY 2006 that will increase the number of eligible applicants competing for this critically important funding, and in support of the President's e-Gov initiative, administrative processes were refined to enable producers to complete an electronic application template and submit their completed applications through Grants.gov.

The successes of the Value-Added program are evident throughout the country. Alternative crops are two vital words for the survival of agriculture in today's world. For example, Paulk Vineyards of Wray, Georgia, is a family-based grower of southern grapes, commonly known as muscadines. While this alternative crop is used in wines, jellies, jams, and juice, studies have shown that the product and its by-products have tremendous health benefits. Paulk Vineyards received a \$126,350 VAPG to develop processes that would turn muscadine seeds into anti-oxidant powders and a healthy, good-tasting juice. Muscadine seeds are higher in reseratul antioxidant, ellagic acid, and total antioxidants than any other fruit analyzed according to several researchers, including the University of Georgia. When dried, crushed, and encapsulated, this value-added product can be sold on the market to biomedical companies,

health food stores, natural food stores, and the public. As a result of being able to develop these new processes with the value-added grant, the Paulk family is building a new processing facility for its extract and powder lines which will substantially increase employment in this rural area.

Since the passage of the 2002 Farm Bill, funding for the Agricultural Marketing Resource Center (AgMRC) has been set at 5 percent of the funding made available to the other value-added programs. Therefore, approximately \$1.015 million of the \$20.295 million budget request will fund the AgMRC's activities. AgMRC is an electronically based information center that creates processes, analyzes, and presents information on value-added agriculture. The center is housed at Iowa State University; however, it has partners at Kansas State University and the University of California–Davis. The center provides producers, processors, and other interested parties with critical information necessary to build successful value-added businesses.

### **Rural Cooperative Development Grant Program**

For FY 2007, the budget requests \$4.95 million for the Rural Cooperative Development Grant Program. The Rural Cooperative Development Grant program provides funds to establish and operate centers for developing new cooperatives and improving the operations of existing cooperatives with the primary goal of improving the economic conditions of rural areas. This program complements our national and State office technical assistance efforts by increasing outreach and developing feasibility studies and business plans for new cooperatives, and assisting existing cooperatives in meeting the demands of today's ever-changing global economy.

For example, when Cooperative Development Services, Inc. (CDS) started fielding inquiries to start new food cooperatives, they found this to be very unique. Not since the 1970s had a major number of new food cooperatives been developed in the United States. While CDS' consultants work with over 100 food cooperatives in rural Wisconsin, Minnesota, and Iowa, assisting with all phases of leadership development; store growth, and expansion; and operations improvement, it needed additional financing for the technical assistance necessary to meet the growing demands of start-up cooperatives. With a Rural Cooperative Development Grant from USDA's Rural Development, CDS was able to advise and assist two steering committees as they moved through the steps of cooperative development, including market research, feasibility analysis, business planning, equity formation, and, in one case, the hiring of the cooperative's manager. The results have been an overwhelming success. Harvest Market Co-op, located in the Village of Barneveld, opened a grocery store cooperative that has 348 members. The store is thriving with projections calling for the store to reach breakeven profitability this year. A second cooperative, Just Foods Co-op, has already grown in membership to over 1,100. These start-ups served as the catalyst for CDS to create a national model to guide the development of food cooperatives across the country. Implemented in June 2005, the model has been adopted by other cooperative associations and is expected to grow the number of food cooperatives throughout the country in the next 10 years from 300 to 500.

### **Grants to Assist Minority Producers**

For FY 2007, the budget requests \$1.485 million for funding for cooperatives or associations of cooperatives whose primary focus is to provide assistance to small, minority producers whose governing board and/or membership comprise at least 75 percent minority members. Grants may be used for developing business plans, conducting feasibility studies, or developing marketing plans for farmers, ranchers, loggers, agricultural harvesters and fishermen whose gross annual sales do not exceed \$250,000.

### **Cooperative Research Agreements**

For FY 2007, the budget requests \$495,000 for cooperative research agreements to encourage the study of those issues essential to the development and sustainability of cooperatives. Because so much of rural America's business endeavors are cooperatively formed, their continued success is critical for the continued sustainability of the Nation's rural communities. Through cooperative research agreements, Rural Development can continue to develop and maintain the information base vital for innovative, creative, and prudent decision making.

### **Intermediary Relending Program**

The FY 2007 budget also includes \$14.951 million in budget authority to support \$33.925 million in loans under the Intermediary Relending Program (IRP). We estimate that the proposed level of funding will create or save approximately 25,952 jobs over the 30-year period of this year's loans. Participation by other private credit funding sources is encouraged in the IRP program, since this program requires the intermediary to provide, at a minimum, 25 percent

in matching funds. To illustrate the benefits IRP provides to rural America, I would like to share with you a success story from rural Iowa.

A six hundred and twenty-five thousand dollar IRP loan was made to the Corn Belt Power Cooperative in Humboldt, Iowa, for the purpose of expanding their existing Revolving Loan Fund. Together with private sector matching funds, the loan fund was increased to approximately \$2,250,000. Based on historical performance, Corn Belt Power estimates that approximately 95 jobs will be created in rural areas with this new injection of funding.

### **Rural Business Enterprise Grant Program/Rural Business Opportunity Grant Program**

The Rural Business Enterprise Grant (RBEG) and the Rural Business Opportunity Grant (RBOG) programs are being proposed to be consolidated into the Federal Economic and Community Development programs as part of the President's initiatives to help strengthen America's transitioning and most needy communities. These grant programs, along with others will be transformed into a new, two-part program: (1) the Strengthening America's Communities Grant Program, a unified economic and community development grant program, and (2) the Economic Development Challenge Fund, a bonus program for communities.

### **Rural Economic Development Loan and Grant Programs**

The FY 2007 budget includes \$7.568 million in budget authority to support \$34.652 million in Rural Economic Development Loans (REDL) and \$10 million in Rural Economic Development Grants (REDG). This program represents a unique partnership, since it directly involves the Rural Development electric and telecommunications borrowers in community and



economic development projects. It provides zero-interest loans and grants to intermediaries, who invest the funds locally. The return on our equity from rural America is strong.

The following is an example of how one REDL will benefit two States by allowing a Wisconsin firm to expand its capacity. A loan of \$740,000 was provided to the Northwest Telephone Cooperative Association on behalf of the Laurens Industrial Foundation for Link Snacks, Inc. Laurens, Iowa has a population under 1,500. The loan will be used to assist with the purchase of a warehouse facility and equipment to accommodate Link Snacks, Inc., of Minong, Wisconsin. Link Snacks, Inc. will use the facility as freezer storage and international distribution center for a snack and meat production company. In addition, some meat products will be processed at this site. As a result, the loan will increase opportunities, help fill vacant space, and create up to 150 new jobs in an area suffering from population decline.

### **Renewable Energy Grants/Loan Guarantee Program**

The Renewable Energy Systems and Energy Efficiency Improvements Program were authorized by the Farm Security and Rural Investment Act of 2002. The program authorizes loans, loan guarantees, and grants to farmers, ranchers, and rural small businesses to (1) purchase renewable energy systems, and (2) make energy efficiency improvements. The FY 2007 budget proposes a \$7.92 million grant program and a budget authority of \$2.243 million to support \$34.560 million guaranteed loan program. The program supports the President's energy policy goals by helping to develop renewable energy supplies that are environmentally friendly. In addition, the program contributes to local rural economies through the creation of jobs and provides new income sources to rural small businesses, farmers, and ranchers. Finally, the

program helps to reduce the costs of doing business for farmers, ranchers, and rural small businesses by encouraging the use of energy efficient physical plant systems. We anticipate 37,440 households will be served, 388 million-kilowatt hours of energy generated while reducing greenhouse gasses by 0.1 million metric tons. These loans and grants will reduce oil imports by 73 million barrels in the year funded.

Reducing the costs of operating a business is significant in terms of job retention. In June, 2005, an energy efficiency improvement grant of \$98,873 was awarded to the New Holland Brewing Company, a Limited Liability Corporation in Holland, Michigan. Using the grant, as well as leveraged funds of almost \$400,000, the company installed a low pressure boiling storage system and a new lighting fixture with motion sensors. Thus, the lights are only on when a person is present to use them. It is estimated that the energy efficiency improvements are saving the business between 40 percent and 50 percent of their normal energy costs.

### **Biomass Research and Development Grants**

The Biomass Research and Development Grant program, authorized under section 9008 of the 2002 Farm Bill, is jointly administered by USDA and the Department of Energy. During FY 2006, Rural Development will assume USDA's part of the administration of this program from the Natural Resources Conservation Service. The FY 2007 budget includes funding to provide up to \$12 million in grants to organizations involved in researching biomass energy alternatives and developing bio-based energy products.

Mr. Chairman, and members of the Subcommittee, this concludes my testimony for the Rural Development FY 2007 budget for rural business-cooperative programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.