HEARING TO EXAMINE THE U.S. DEPARTMENT OF AGRICULTURE'S RURAL BUSINESS PROGRAMS AND TO REVIEW CURRENT CONDITIONS FOR RURAL ENTREPRENEURSHIP AND BUSINESS DEVELOPMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT, BIOTECHNOLOGY, SPECIALTY CROPS, AND FOREIGN AGRICULTURE

OF THE

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HOUSE OF REPRESENTATIVES

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HEARING TO EXAMINE THE U.S. DEPARTMENT OF AGRICULTURE'S RURAL BUSINESS PROGRAMS AND TO REVIEW CURRENT CONDITIONS FOR RURAL ENTREPRENEURSHIP AND BUSINESS DEVELOPMENT

WEDNESDAY, OCTOBER 21, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RURAL DEVELOPMENT,
BIOTECHNOLOGY, SPECIALTY CROPS, AND FOREIGN AGRICULTURE,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:52 a.m., in Room 1300 of the Longworth House Office Building, Hon. Mike McIntyre [Chairman of the Subcommittee] presiding.

Members present: Representatives McIntyre, Cuellar, Minnick, and Conaway.

Staff present: Aleta Botts, Claiborn Crain, Tyler Jameson, John Konya, James Ryder, April Slayton, Rebekah Solem, Patricia Barr, Mike Dunlap, Jamie Mitchell, and Sangina Wright.

OPENING STATEMENT OF HON. MIKE McINTYRE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

The CHAIRMAN. We will call this hearing of the Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture to examine USDA's rural business programs and to review conditions for rural entrepreneurship and business development to order. I am Mike McIntyre from North Carolina, Chairman of this Subcommittee, and I welcome each of you here. We know this morning has already been a little bit hectic with the unexpected evacuation. That will affect our proceedings because we are all going to be now on a more cramped schedule given the possibility of votes. And so we are going to ask our witnesses to try to condense their testimony even further than we had previously at no fault of yours or ours, just realizing that is the nature of the circumstances today, and the nature of the beast of the situation we are operating under.

But we are thrilled to have you. I am going to shorten my opening statement as well, just to say that this discussion about rural entrepreneurship and business development and the operations of the USDA rural business program are critical to help small business opportunities move forward in rural America. I know in North Carolina alone 85 percent, 85 percent of the state is considered rural, 85 of the 100 counties. I know that so often that it is easy to focus on just where the money tends to go, which is more towards the populated areas, metropolitan, urban, and suburban. But, we know that rural America can only thrive when rural small businesses have the opportunity to thrive and rural entrepreneurs find a way to do what they do best, and that is to be able to innovate.

I was particularly thrilled in the farm bill last year that we had the opportunity to incorporate the Rural Microentrepreneur Assistance Program and the success that is forthcoming from this initiative. This will use organizations with years of experience in working with small business entrepreneurs to help provide training and services along with microloans to small businesses in rural areas. We have the opportunity for that entrepreneurial spirit which is so well known in America, and so integral to what American enterprise is about, to thrive in rural areas to make sure that no part of America is left behind, and that we have the opportunities to move forward in this regard.

I am pleased the Department has finally issued a proposed rule in the program though I would have preferred to today be talking about the actual program instead of just about the rules under which it will operate. I trust that by this time next year there will be new entrepreneurs reaping the benefits from the Rural Microentrepreneur Assistance Program and rural business entrepreneur assistance that we have now incorporated. With that, I have only given about ⅓ of what I planned to say in my opening remarks. I hope that that will suggest a pattern for all of our speakers and questions from our panel. I would encourage witnesses—we normally provide 5 minutes today, if the clerks will please take note, we are going to cut the timer back, okay, to 4 minutes, and that way we hope that will help us all move along.

Please do not read your testimony unless you can read the complete testimony within the 4 minutes. I would suggest you read the highlights within the 4 minutes. And pursuant to our Committee rules, testimony along with questions and answers by Members will be stopped today under special conditions at 4 minutes. Your complete written testimony, of course, can be submitted in its entirety in the record for the public to view. So that we are not hindering any openness with regard to the transparency required for your full statement. We welcome that, as well as Members' full questions and full inquiries that would follow up.

[The prepared statement of Mr. McIntyre follows:]

PREPARED STATEMENT OF HON. MIKE MCINTYRE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Good morning, and welcome to today's hearing to review conditions for rural entrepreneurship and business development and the operations of the USDA rural business programs. I want to thank all of you for being here as we examine this important topic, and I want to especially thank our witnesses who will be testifying before us today.

Rural areas can thrive only when rural businesses thrive and when rural entrepreneurs find a way to do what they do best: innovate. Businesses in rural areas, certainly, provide jobs to rural residents and offer residents the ability to receive services locally. However, most importantly, rural businesses generate critical economic activity, ensuring a future for a community by providing local capital and a local tax base. A business owner or entrepreneur with ties to the local community is less likely to take the business in directions contrary to the best interests of that community. Unfortunately, many of us have seen all too often some businesses leaving communities in the quest for ever lower operating costs. A locally invested and a locally generated business is more likely to have a business plan with the local community in mind, rather than consider the area where they are located as a mere data point.

Using Federal Government programs to incentivize the tremendous business innovation and creation power present in our rural communities is a win-win option. Communities win through the creation of local jobs, and the government wins through lower unemployment and higher levels of economic growth.

Through these programs, farmers can create processing ventures for their commodities to ensure a greater share of the food dollar stays on the farm. Lenders can provide lower interest loans to businesses. Cooperative Development Centers can help individuals come together, pool their resources and their products, and create new marketing opportunities.

Many of the rural business programs that we will discuss today are well known and have been around for many years. The Business and Industry Loan program made its first loans almost 25 years ago. Last year, the B&I program made almost $1.4 billion in loan guarantees, with over $52 million in North Carolina alone.

While this program and many others have a great deal of success behind them, I am excited about the eventual roll-out of a new program that I co-authored in the 2008 Farm Bill, the Rural Microentrepreneur Assistance Program, and the success that I believe is forthcoming from such an initiative. This program uses organizations with years of experience in working with small entrepreneurs to help provide training and other services along with microloans to small businesses in rural areas. Rural areas possess tremendous business acumen and entrepreneurial spirit that hearkens back to the first settlement of many of these areas. The behavior that led pioneers to settle new lands is present in those that seek to develop new business ventures. They are willing to take a risk, find a way to make a new product or a new system work, and truly represent the best of American private enterprise. I am pleased that the Department has finally issued a proposed rule on the program, though I would have preferred to be talking about the actual program operations by this point. I hope by this time next year, new entrepreneurs will be reaping the benefits from the Rural Microentrepreneur Assistance Program.

From all of the witnesses today, I look forward to hearing about their personal experiences with rural business programs, and about the benefits of these programs, but I also want to ensure that we listen for ways that the programs can be improved. We must always be ready to make changes to programs to ensure that, they reach the target recipients in the most cost-effective way possible.

The CHAIRMAN. I would like to now recognize the Ranking Member, Representative Mike Conaway, for any opening comments he might have.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. CONAWAY. Thank you, Mr. Chairman. I will also ask that my full statement be made a part of the record. This hearing is especially timely because people throughout our economy are still struggling. Unemployment is nearing double digits nationally, and in some states has been a reality for many months. At the core of our economic machine is the small business economy. Small businesses account for more than ⅔ of new jobs and employ about ½ of all U.S. workers. Many of these businesses are located in small towns across America.

Small and medium-sized firms in rural America provide food, fiber, and energy to the United States and the world. Every billion dollars in export creates 9,000 jobs. In addition to the food and fiber production in rural America a significant portion of rural employment is in the energy intensive sector such as construction, forestry and fishing, mining, and utility companies. It is imperative that Congress minimize the impact of regulatory burdens which might raise the cost of energy and of doing business, while at the same time provide programs which foster innovation and positive business environment.

Some of the programs we will discuss today are designed with that coordinated, community-wide approach in mind. Earlier this year the Subcommittee heard a great deal of testimony attesting to the need for rural cooperation and rural development efforts. The 2008 Farm Bill includes instructions to USDA to coordinate programs at the Federal and state levels to ensure maximum impact. I am interested in an update on the activities being undertaken to achieve coordination among the 88 programs administered by the 16 different Federal agencies which target rural development.

It is disappointing that some of the Rural Development programs, included in the 2008 Farm Bill, are still in their beginning stages. While these programs might have been useful as we faced the tremendous economic downturn in this past fiscal year, we are now 4½ months into the farm bill implementation and still some of these award dates are not expected until after the beginning of 2010. I hope Ms. Canales can provide the Committee with assurances that an improved time-line will be in order.

We have been watching with a keen eye how USDA is using the $150 million in additional funding provided to rural business programs through the stimulus bill. The stimulus was an imperfect approach to economic policy with an unprecedented increase in the size and cost of government. However, now that it is in place it is incumbent upon Congress to ensure that when the Administration spends over $1 trillion in stimulus money that it is directed to areas with the greatest impact possible. As we hear from our other witnesses today, we hope to glean from their testimony whether the programs we do have in place have provided the tools necessary to small businesses in rural America to overcome the economic and regulatory challenges they face.

We also hope to receive feedback on the process applicants must use and whether this can be improved to make programs more accessible to small enterprises with limited time and personnel. I thank our witnesses in advance and look forward to their insight. Thank you, Mr. Chairman.

[The prepared statement of Mr. Conaway follows:]

PREPARED STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Thank you, Mr. Chairman, for calling this hearing today. This hearing is especially timely because people throughout our economy are still struggling. Unemployment is nearing double-digits nationally, and in some states has been a reality for many months. At the core of our economic machine is the small business. Small businesses account for more than ⅔ of new jobs, and employ just over ½ of all U.S. workers. Many of these businesses are located in small towns all across America.

Small and medium-sized firms in rural America provide food, fiber, and energy to the U.S. and the world. Every $1 billion in exports creates more than 9,000 jobs, supporting ⅓ of all jobs on the farm and ⅔ off the farm in areas such as transportation, trade, food processing, and other manufacturing sectors.

In addition to the food and fiber production in rural America, a significant portion of rural employment is in energy-intensive sectors such as construction, forestry and fishing, mining, and utility companies. It is imperative that Congress minimize the impact of regulatory burdens which might raise the cost of energy and of doing business, while at the same time provide programs which foster innovation and a positive business environment.

Some of the programs we will discuss today are designed with a coordinated, community-wide approach in mind. Earlier this year this Subcommittee heard a great deal of testimony attesting to the need for regional cooperation in rural development efforts. The 2008 Farm Bill includes instructions for USDA to coordinate programs at the Federal and state levels to ensure the maximum impact possible. I am interested in an update on the activities being undertaken to achieve coordination among the 88 programs administered by the 16 different Federal agencies which target rural economic development.

It is disappointing that some of the Rural Development programs included in the 2008 Farm Bill are still in their beginning stages. While these programs might have been useful as we faced a tremendous economic downturn this past fiscal year, we are now a year and 4 months into farm bill implementation, and still some award dates are not expected until after the beginning of 2010. I hope Ms. Canales can provide the Committee with assurances for an improved timeline.

We have been watching with a keen eye how USDA is using the $150 million in additional funding provided to rural business programs through the stimulus bill. The stimulus was an imperfect approach to economic policy, with an unprecedented increase in the size and cost of government. However, now that it is in place, it is incumbent upon Congress to ensure that when the Administration spends over a trillion dollars authorized in the stimulus, it is directed to the areas with the greatest impact possible.

As we hear from our other witnesses today, we hope to glean from their testimony whether the programs we do have in place have provided the tools necessary to small businesses in rural American to overcome the economic and regulatory challenges they face. We hope to also receive feedback on the process applicants must use and whether it can be improved to make programs more accessible to small enterprises with limited time and personnel.

I thank all our witnesses and look forward to their insights. Thank you Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Conaway. The chair would now request that other Members submit their opening statements for the record so that the witnesses may begin their testimony, and we make sure in a timely manner under the restricted time conditions we unfortunately have today, so that we can move forward.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Thank you, Chairman McIntyre, for holding this hearing today to look at how USDA's rural business development programs are working and to hear about some of the new and innovative things being done to expand entrepreneurship and business opportunities in rural America.

USDA has a long history of supporting the development and growth of businesses in rural America. By providing loans, grants and technical assistance to people in rural areas, these programs create jobs and investments that keep these communities strong.

By partnering with Community Development Corporations and other organizations, USDA's rural business development programs are reaching even more people. I want to particularly recognize the work of one of our witnesses, Arlen Kangas and the Midwest Minnesota Community Development Corporation, which is one of the country's largest Community Development Corporations. Thanks to the work they do, thousands of Minnesotans have been able to raise the capital they need to create and expand business enterprises, purchase homes and invest in community infrastructure.

I want to thank our witnesses for joining us here today to take a closer look at these important programs and for advising us about ways that we can make these programs work better.

The CHAIRMAN. So with that, we will begin with our first panel. We welcome Ms. Judy Canales, the Administrator of the Rural Business-Cooperative Services for USDA. Ms. Canales, please begin.

STATEMENT OF JUDITH CANALES, ADMINISTRATOR, RURAL BUSINESS-COOPERATIVE SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Ms. CANALES. Good morning. Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to testify on behalf of the United States Department of Agriculture's Rural Business-Cooperative Services. This is my first time to appear before you, so I will hope this will be the beginning of a great working relationship. As you all know, we are in a tough economic time, but with your commitment and the work of the Obama Administration, we have the funds, the skills and the dedication to turn our economy around. I appreciate the opportunity to discuss our programs today.

First of all, I do want to just give you a little bit of background about myself. I had the privilege of serving as the Deputy State Director for the U.S. Department of Agriculture Rural Development in Texas for 5 years, and I also worked for 2 years at the Department of Housing and Urban Development during the Clinton Administration, so I have 7 years of Federal service. And, also, over the last 8 years, I worked in economic development, and I also taught at our local community college in rural south Texas, so I am thrilled to come back to Rural Development and to serve in the Administration now as the Administrator.

My objective today is to talk to you all about the real accomplishments that we have made since May 19, and also to talk about what our goals are for this Administration. When Secretary Tom Vilsack first took office, he outlined his priorities to ensure that all staff was operating on the same page as the voice of rural issues in the Obama Administration. He challenged us to build rural communities that can create wealth, that are self-sustaining, repopulating, and that are thriving economically. Rural business has an important role to play in this effort and we were challenged by the Secretary to do so.

First of all, local food systems will expand and support local and regional food systems to foster wealth creation. That is supported by our business and loan guarantee program, specifically among other programs that we have within rural business. Second, alterative energy: We will conduct feasibility studies and develop and invest in new energy alternatives by administering our portion of the 2008 Farm Bill. We have $910 million in funding over 4 years of the 2008 Farm Bill that we will use for energy audits and to expand advanced biorefineries, renewables, and energy efficiency systems.

Third, regional collaboration and strategic partners: As the Ranking Member mentioned, we know that we can't do this alone. Obviously, using our Rural Utility and Rural Housing Services, and then the leadership and support, locally, to create collaborative and regional partnerships between communities, states, and other interested parties. We are looking at how we can use this authority to ensure that communities and stakeholders work together and that our tax dollars are used most effectively. These efforts aren't just a reflection of a new Administration but also a reflection of the American Recovery and Reinvestment Act of 2009, the 2008 Farm Bill, and the needs of our constituents.

Now I manage among the economic stimulus programs two programs that received stimulus funding, the B&I Guaranteed Loan Program, which I mentioned earlier, and the Rural Business Enterprise Grant. The B&I program has been Rural Development's flag ship job creation and capital expansion business program since 1974. Through our regular funding at the close of the 2009 Fiscal Year, we invested $1.2 billion in rural America with the B&I program. In Fiscal Year 2010, we have $993 million of program level funding, and of course in a very large way we have $1.7 billion of economic stimulus funding. And I am pleased to announce today for the first time before the Committee that we have now obligated $71 million which have targeted 20 projects around the United States, and we are announcing this today as our first of many economic stimulus projects within the Business and Industry Loan Guarantee program.

Additionally, the second Recovery Act program, which is our Rural Business Enterprise Grant, provided funds for activities that will positively impact employment opportunities. We have $19.4 million available and more than $15.3 million was allocated on July 28. We are going to finish allocating the rest of the monies by the end of October and make more announcements on the rest of these economic stimulus monies for the Rural Business Enterprise Grant. Now in regards to the farm bill, the Rural Microentrepreneur Assistance Program is going to help us expand by providing capital access, business-based training, and technical assistance to the smallest businesses and startups. The proposed rule was published in the *Federal Register* on October 7. We are now soliciting comments from everyone, and we, of course, will be beginning the funding for this program near the first of calendar year 2010.

Additionally, other energy programs that were created within the farm bill, we are, of course, directed to use energy investments in rural America, agriculture and farm-based energy generation. We can reduce greenhouse gas emissions, improve the nation's security, and foster sustainable development. Our other flagship programs, of course, are cooperatives, and I would like to focus on that for a moment. The cooperative form of government is a cornerstone of business development for rural communities, whether in the traditional form of agriculture producers or also non-traditional, which have to do with a variety of services such as day cares and other kinds of services to rural America.

On September 15, we reinforced our commitment to cooperatives when we announced the *Know Your Farmer, Know Your Food* initiative that USDA Deputy Secretary Kathleen Merrigan is leading. Now in regards to the Value-Added Producer Grant program, you may remember when our Under Secretary Dallas Tonsanger testified on June 10, he spoke about the VAPG program. This, of course, encourages independent agriculture commodity producers to refine or enhance their products or increase their value to end-users. The Notice of Funding Availability for the Value-Added Producer Grant was published on September 1. We are soliciting projects right now, and of course we will be looking at rules and other enhancements to the rules on the first of calendar year 2010, but we are getting the money out this calendar year for the VAPG program.

In conclusion, we are using all of these funding sources, annual appropriations, disaster supplementals, Recovery Act, and the 2008 Farm Bill, something we have never had before, this type of opportunity for support for rural America and new rural business ventures, as we do today. We are committing to improving the lives of rural Americans and to distributing funds that show promise and innovative ways to support our communities. Let me again thank the Subcommittee and the Congress for the generous support that you have provided over the years to Rural Development, and I look forward to greater and further collaboration because our goal, as is yours, is to build a future for rural America. We have a new Administration, new priorities, and a new opportunity for relationship building here. I am both honored and humbled to sit here and speak to you all about this, and for the opportunity to return to Rural Development in this position as the Administrator for Rural Business and Cooperative Services. So thank you, and I look forward to our discussion.

[The prepared statement of Ms. Canales follows:]

PREPARED STATEMENT OF JUDITH CANALES, ADMINISTRATOR, RURAL BUSINESS-COOPERATIVE SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Introduction

Mr. Chairman, Members of the Subcommittee, thank you for your invitation to testify regarding the United States Department of Agriculture's Rural Business-Cooperative Services (RBS). This is my first time appearing before you, and I hope it will be the beginning of a great relationship. As we all know, we are in a tough economic time, but with your commitment and the work of the Obama Administration, we have the funds, the skills and the dedication to turn our economy around. I appreciate the opportunity to discuss our USDA business programs today.

Background

At the start, I would like to give you a brief overview of my background and my work with rural America. I had the privilege of serving as the Deputy State Director for Rural Development in Texas for 5 years and I spent 2 years working at the U.S. Department of Housing and Urban Development during the Clinton Administration. For the last 8 years I worked in economic development and taught at a community college in rural South Texas. I am thrilled to have the opportunity to come back to Rural Development and to serve as the Administrator for RBS.

My objective today is to show you not just the goals we have for Rural Development, but the real accomplishments we have made since I started on May 19, 2009, and since the Administration took office on January 20, 2009.

New Administration—Priorities

Secretary Tom Vilsack outlined his priorities for USDA to ensure that all staff was operating on the same page, as the voice of rural issues for the Obama Administration. He challenged us, "to build rural communities that can create wealth, that are self-sustaining, repopulating and that are thriving economically." Within RBS we have an important role to play, and I will talk briefly about the programs we have to address the Secretary's challenge.

Local Food Systems

We will expand and support local and regional food systems to foster wealth creation. As part of the Business & Industry (B&I) Loan Guarantee Program, entities can receive loan guarantees to assist enterprises that process, distribute, aggregate, store, and market locally or regionally produced agricultural food products. The Agency is required by the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) to reserve a minimum of five percent of available funds from the B&I Program for this purpose until April 1 of each year through Fiscal Year (FY) 2012; however, applicants are encouraged to apply for loan guarantees throughout the year. RBS is committed to supporting local and regionally produced agricultural food products and continuous funding is available for this purpose.

Alternative Energy

We will conduct feasibility studies, and develop and invest in new energy alternatives by administering our portions of the 2008 Farm Bill. We have $915 million in funding—over 5 years—that we will use for energy audits and to expand advanced biorefineries, renewables and energy efficiency systems through grants, loan guarantees and payments.

Regional Collaboration and Strategic Partners

We know that we cannot do this alone, but we, along with the Rural Utilities Service and Rural Housing Service, will provide leadership, education and training, and technical support to create collaborative and regional partnerships between communities and interested parties. We are examining how we can use the authority you have provided us to ensure that communities and stakeholders work together and that tax dollars are used in most effectively.

These strategies are not just a reflection of a new Administration, but a reflection of the American Recovery and Reinvestment Act of 2009 (ARRA), the 2008 Farm Bill and the needs of our constituents. These priorities drive our work and I am here to give you a progress report on our efforts.

Business Programs

B&I Guaranteed Loan Program

Within RBS, I manage two programs receiving ARRA funding, the B&I Guaranteed Loan Program and the Rural Business Enterprise Grant Program (RBEG). The B&I Guaranteed Loan Program has been Rural Development's flagship job creation and capital expansion business program since 1974. Through our regular funding, for FY 2009, we obligated $1.2 billion, totaling 487 loans. A project example is a $7.3 million loan guarantee to expand a manufacturing plant that makes HVAC equipment in a persistent poverty and high unemployment area. It provided much needed funding to assist in closing the gap in opportunities for underserved and rural populations. In FY 2010, there is $52.9 million in budget authority to support a program level of approximately $993 million for businesses of all types.

The B&I Guaranteed Loan Program has been very popular during regular funding cycles and we expect growing participation under ARRA. We retooled our loan assistance to improve access to capital and we have an additional $1.7 billion to bring to the table due to ARRA funding.

Rural Business Enterprise Grant Program

The second program receiving ARRA funding is RBEG. RBEG provides funds for activities that will positively impact employment opportunities. The total funding available under ARRA is $19.4 million and more than $15.3 million was awarded on July 28, 2009, during the first round of funding. About $4.1 million is still available, but we fully expect the requests to utilize all available funding in the second round. Our goal is to submit project recommendations to Secretary Vilsack by the end of October 2009.

Farm Bill

Rural Microentrepreneur Assistance Program

Another new source of funding is the Rural Microentrepreneur Assistance Program (RMAP), established under the 2008 Farm Bill. RMAP will provide capital access, business-based training and technical assistance to the smallest of small businesses, including start-ups (ten employees or less). The proposed rule was actually just published in the *Federal Register* on October 7, 2009. We have $4 million in mandatory funding for FY 2009 and an additional $4 million for FY 2010. We expect permanent regulations to be in place January 2010. RMAP will allow rural Americans that lack start-up capital to achieve their dreams of becoming small business owners.

Energy

Other 2008 Farm Bill programs significantly expanded our energy portfolio. These programs are directed at finding ways to use energy investments in rural America to boost our economy. Agriculture and farm-based energy generation can reduce greenhouse gas emissions, improve the nation's energy security and foster sustainable development.

On May 5, President Obama emphasized his commitment to the deployment of advanced biofuels. In that announcement the President also underscored his commitment in a directive to Secretary Vilsack to make the renewable energy provisions from the 2008 Farm Bill available within 30 days. We are happy to report we met this directive and our programs are underway.

Section 9003: Biorefinery Assistance Program.

The new Biorefinery Assistance Program (Section 9003) funds are used to assist in the development of new and emerging technologies for the development of advanced biofuels. This provision allows for loan guarantees and grants to develop, construct and retrofit commercial-scale biorefineries for second and third generation feedstock. Currently, funding is only available for loan guarantees, as indicated in the Notice of Funds Availability (NOFA) that was published on November 20, 2008. The first application window closed on December 31, 2008, and two projects, one for cellulosic ethanol and another for retrofitting, received loan guarantees. We anticipate making grants once permanent regulations are developed. A proposed rule is expected to be published for comment in January 2010.

Section 9004: Repowering Assistance.

The Repowering Assistance Program (Section 9004) funds are for replacing fossil fuels used for heating or powering biorefineries (that were in existence at the time the 2008 Farm Bill was passed) with renewable biomass. A NOFA was published June 12, 2009, and we are currently reviewing applications for payments. A proposed rule is expected to be published for comment in December 2009.

Section 9005: Bioenergy Program for Advanced Biofuels.

The Bioenergy Program for Advanced Biofuels (Section 9005) provides payments for eligible producers to expand production of advanced biofuels. Since the publication of the NOFA on June 12, 2009, we have received 180 applications and payments will be made in early FY 2010. A proposed rule is expected to be published for comment in December 2009.

Section 9007: Rural Energy for America Program.

Last, but certainly not least, is the most popular 2008 Farm Bill program we have, the Rural Energy for America Program (Section 9007). It expands and renames the Renewable Energy Systems and Energy Efficiency Improvements Program (Section 9006) under the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). Section 9007 has provided more than 2,000 grants and loan guarantees from FY 2003–2008 for energy efficiency and renewable energy projects ranging from biofuels to wind, solar, geothermal, methane gas, and other biomass projects. A change from the 2002 Farm Bill now allows us to fund hydroelectric, ocean source technologies and energy audits.

In 2009, funding was obligated as $26.6 million in grants, $8.5 in loan guarantees, and $76.8 million in grant and loan guarantee combinations.

The 2008 Farm Bill provides us with programs to spur deployment of advanced biofuels, develop renewable energy technologies and to shift to second and third generation feed stocks. We recognize the compelling need to diversify away from fossil fuels for national, environmental, and energy security reasons. We know that biofuels are a historic economic opportunity for agricultural producers and rural America and we are committed to their growth.

Cooperatives

I just covered our Rural Business programs and I would now like to focus on the Cooperative Services programs. The cooperative form of organizational governance is another cornerstone of business development in rural communities, whether in the traditional form of agricultural producers or in the non-traditional form that brings day care services to rural communities or new generation biofuel cooperatives that lessen our dependence on foreign oil. Cooperatives provide rural residents with new job opportunities, enhanced educational and health care services and products that enable them to compete with their urban and suburban counterparts. Opportunities are created locally and revenues are maintained and re-circulated locally.

The participatory, self-help foundation, upon which cooperative organizations are based, exemplifies the very grassroots efforts that made our nation great and have served our rural communities well. Our Cooperative Programs help our constituents adjust to continually changing economic forces and allow them to operate and compete in today's global marketplace.

We have over 80 years of experience working with the cooperative sector and remain the only Federal agency charged with that responsibility. We support 2,473 U.S. farmer, rancher, and fishery cooperatives who reported gross sales of $191.9 billion in 2008.

A March 2009 study, done in conjunction with the University of Wisconsin, found that the total gross revenue generated by cooperatives in the U.S. is $653 billion and that cooperatives pay the wages of 853,000 workers. USDA has seen an increased demand for high quality research and technical assistance for the cooperative business model. Given current economic conditions, we expect demand to increase over the coming years. There is evidence, according to multiple studies including a USDA study in 2003, *Measuring the Economic Impact of Cooperatives in Minnesota* (by the University of Wisconsin), that a community which relies more heavily upon cooperatives will be more successful in retaining wealth and reducing the boom-and-bust cycles often associated with businesses controlled from outside the community.

On September 15, 2009, we announced funding to help local cooperatives as part of the 'Know Your Farmer, Know Your Food' initiative that Deputy Secretary Kathleen Merrigan is leading. Twenty-eight organizations in 21 states were selected to receive $4.8 million in grants as part of our regular Rural Cooperative Development Grant program.

For example, Rural Development is awarding a $200,000 grant to The Ohio State University Research Foundation to support the foundation's efforts to help individuals and new and emerging cooperative business entities. The Foundation will provide technical assistance to a statewide farmers' market management network cooperative, and a newly formed purchasing cooperative for businesses in Appalachia.

Meanwhile, the Value-Added Agriculture Development Center in Pierre, S.D., has been selected to receive a $200,000 grant to continue supporting the creation of producer-owned, value-added agriculture. The Center will help local growers educate the public, lenders and producers about the benefits of value-added agriculture. These efforts often increase sales of locally grown crops in addition to increasing local agriculture's contribution to area residents' health and to the local economy.

Value-Added Producer Grant program

When Under Secretary for Rural Development, Dallas Tonsager, testified before you on June 10, 2009, he spoke about our Value-Added Producer Grant Program (VAPG). The VAPG program encourages independent agricultural commodity producers to further refine or enhance their products, thereby increasing their value to end-users and increasing their returns to producers. Since 2001, Cooperative Programs has awarded over 1,200 planning and working capital grants for a wide array of products, including projects for specialty meats, vegetable and dairy products, forest products and renewable energy.

The FY 2009 NOFA for the VAPG program was issued on September 1, 2009, and to ensure that potential recipients have the greatest opportunity to apply, we extended the application period to 3 months, pushing the award date into early 2010. With a new focus on local foods and value chains, or food systems, we are anticipating many creative applications. Farms and rural economies are interdependent and value-added agriculture drives sustainable development across the board in rural communities. I look forward to working with this Subcommittee to ensure that we maximize the potential of this program.

Conclusion

Using all of our funding sources—Annual Appropriations Acts, disaster supplementals, ARRA and 2008 Farm Bill—we have never had as much funding available to support rural America and fund new rural business ventures as we do today. We are committed to improving the lives of rural Americans and to awarding loans, grants, loan guarantees and payments that show promise and innovative ways to support our communities.

In closing, let me again thank this Subcommittee and Congress for the generous support you have provided over the years to Rural Development. I look forward to greater collaboration because—ultimately, we are here for the same reason—to build the future of rural America. We have a new Administration, new priorities and an opportunity for new relationships. I am both honored and humbled by the opportunity to return to Rural Development as the Administrator for Rural Business-Cooperative Services and I look forward to many more discussions in the future.

The CHAIRMAN. Thank you very much, and as a common courtesy, we allow the official representatives of the U.S. Government an extension of time in case people were wondering about the 4 minutes, which we will have to enforce with our second panel. Thank you, being the only witness on this panel, and for taking the time to explain those programs. Very briefly, I am also going to shorten my questions because of the time constraints today. You mentioned that the first of the year in the calendar year 2010 is when you expect the funding to be made available for the Rural Microentrepreneur Assistance Program, is that correct?

Ms. CANALES. That is correct, Congressman, yes.

The CHAIRMAN. Okay. And multiple renewable energy programs are your responsibility. Tell me how you are doing on an outreach program to ensure that there be a wide range of entities that could effectuate assistance for renewable energy programs.

Ms. CANALES. We were tasked by Secretary Tom Vilsack. He saw—he is, of course, the former Governor of Iowa. He saw that his home state had highly participated in the program, but he strongly stated to us this is a national program, and so I am asking you to develop a marketing plan, which we are doing right now. We have also identified energy coordinators in all states so that energy coordinator is the person that I would want—as you all know, I have come from the state office. I always want to make sure that your local offices are working with our state and local area offices to work with that energy coordinator who is being educated, is being trained, and we are very cognizant of wanting to create a vibrant national energy program supported by our division.

The CHAIRMAN. Have those coordinators been appointed in all 50 states?

Ms. CANALES. Yes, sir. Yes, Mr. Chairman.

The CHAIRMAN. Thank you. If you would, would you make available that list to Members of the Committee within the next 10 days?

Ms. CANALES. Absolutely.

The CHAIRMAN. So each Member—I know some could not be here for other reasons, but I think it is important for them to be aware that there is an energy coordinator appointed. Is this for overall energy needs or just renewable energy?

Ms. CANALES. This would be for all of the energy programs that we direct within Rural Development.

The CHAIRMAN. Okay. All right. Great. Just in the few moments I have left for questions, can you tell me how you work with other Federal agencies? You say you have energy coordinators with the state *vis-à-vis* other Federal agencies such as specifically the National Renewable Energy Laboratory in Golden, Colorado, and then generally the Department of Energy. How are you set up to coordinate efforts with them?

Ms. CANALES. Very much so. We have contracts with the NREL that you mentioned in Colorado. The Department of Energy, once again, Secretary Vilsack as well as Secretary Chu and the Department of Energy direct an energy task force for the entire Administration, and so we work very closely with them. And we also have tasked our energy coordinators to work locally also with the state agencies because many states are very innovative in energy funding. So, that is how, as you well know, you get your bigger bang for the buck in investing in those projects by partnering with the states. And some communities are also investing in energy so we are really seeking that out.

The CHAIRMAN. Thank you. I know I was at an alternative energy summit at the University of North Carolina Wilmington on

July 20 that was very well attended from the Federal, state, and local level. We found that similar coordination was of great assistance when you can cross those lines sometimes that people tend to work only on their own turf, but on things like energy clearly all Americans benefit. We want to have every coordination across every jurisdictional line that we can. I might also mention that with regard to your efforts in energy, we commend you to continue to go forward on that. The Biofuels Center of North Carolina is an example of one of those innovative places where they are looking ahead for new ventures and some of the great ideas on renewable energy.

They are based in Oxford, North Carolina, so if you have would have your staff note to please contact the Director of Biofuels Center of North Carolina, and I will be happy to let our Agriculture Committee staff, and my staff, direct you to who those persons would be. And with that, I want to conclude actually ahead of schedule. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. Ms. Canales, welcome and welcome to your new role. The Value-Added Producer Grant Program, you said, I guess, Notice of Funding Availability came out on September 1, and you expect to have all of those grants granted by the calendar year 2009 or 2010?

Ms. CANALES. CY 2009 right now. Basically we are getting a tremendous amount of interest and so we will be announcing the VAPG awards during the first quarter of calendar year 2010.

Mr. CONAWAY. Okay. We are about 16 months into the program, so I know you are as disappointed as we are that it has taken this long to get that program—if it has value, and we will see if it does, the results have been delayed in getting here, the RMAP program, how long is the comment period for the——

Ms. CANALES. Forty-five days for the Rural Microentrepreneur Assistance Program.

Mr. CONAWAY. And that started October 9?

Ms. CANALES. October 7. Yes, Congressman.

Mr. CONAWAY. So can you assure us that by early 2010 you will have absorbed all those comments, made the changes, done what you needed to do, and be able to move forward?

Ms. CANALES. We actually have a very aggressive schedule that we have been working very closely with the Office of Management and Budget, and certainly within our own resources at USDA for all of these programs. So, actually all the energy programs for this calendar year, and then specifically as you mentioned on the Rural Microentrepreneur Assistance Program, to be able to finish the entire process by the first of January for the final rule to also be available, the Notice of Funding Availability. So, all of that will be coming very——

Mr. CONAWAY. So you are going to have the Notice of Funding Availability before you have the final rule?

Ms. CANALES. Right. At the same time. At the same time the Notice of Funding Availability will be announced.

Mr. CONAWAY. Yes. So you are developing the rules. Okay.

Ms. CANALES. For the Rural Microentrepreneur Assistance Program.

Mr. CONAWAY. Right. Right. I just want to make sure you don't get the cart before the horse.

Ms. CANALES. The proposed rule is out right now, and we are in a comment period. Once we get the comments back——

Mr. CONAWAY. So you will publish a final rule. You will have already implemented the final rule before it is published?

Ms. CANALES. The final rule will be published at the same time that we are soliciting funding.

Mr. CONAWAY. Okay. So, in effect, you will have implemented the rule with that final publication, right? You can't put together the Notice of Funding Availability without knowing what the rule is going to say. We can't know what the rule is going to say until you finally publish it, so are you going to do all that before it is published?

Ms. CANALES. It will be simultaneously.

Mr. CONAWAY. That is an interesting approach. You mentioned, and I didn't catch the lead in, $71 million and 20 projects. Can you give us a flavor of some of those 20 projects to what that does? Give me the program it is under.

Ms. CANALES. The Business and Industry Loan Guarantee Program, the specific funding being the economic stimulus monies. So, this is a huge announcement for us because this is the beginning of the $1.7 billion for the B&I Loan Guarantee Program.

Mr. CONAWAY. Is this the five percent that has to go into this program or is that a different set of monies?

Ms. CANALES. There is a five percent regarding the locally—I am sorry. What did you ask?

Mr. CONAWAY. The five percent B&I requirement that it goes to a certain area related to local processing, distribution and storage, marketing of agriculture products, is that this five percent or is that something else?

Ms. CANALES. The locally grown foods is the five percent you are referring to and that is within the B&I program.

Mr. CONAWAY. Right. So the $71 million satisfies the five percent or it is separate and apart from the five percent?

Ms. CANALES. Oh, no, no, no, $71 million is just our first group of $1.7 billion of loans. It is our first announcement.

Mr. CONAWAY. Okay. We will ask the second question in a second round. Thank you.

The CHAIRMAN. Thank you, Mr. Conaway. Mr. Cuellar.

Mr. CUELLAR. Thank you very much, Mr. Chairman. I just want to say something. I have known Ms. Canales for many years. I have worked with her down there in south Texas, and she has always done an outstanding job, and we appreciate it and welcome her back to the Federal Government again. Ms. Canales, I have, I guess, two related questions. Many of the Rural Development programs will require matching funds. During times that revenues have gone down and dollars are hard to get, how do we help those communities or those applicants that are trying to get those dollars, but they are having trouble with the matching funds? Is there any way we can get creative?

Ms. CANALES. Thank you, Congressman, and that is a very good question, because having just come from being in that position where I had to fund raise myself, it is very challenging. So, what we do is we have to remember that so many of our programs are also—extra points are given to persistent poverty areas, to areas that are going to be 125 percent regarding the comparison to the unemployment rate. We have a lot of targeting, and so we are trying to get the monies to those areas that are most in need, but what we are also doing is that some of our programs within the Rural Business Enterprise Grant, for example, they do not require the matching. So, some—I am actually responsible for—you can get extra points if you do get matching but they are not required.

But, just overall, what we are doing—and the good thing about being now in the rulemaking process is that we can look at the applications. And I know I just came from Oregon and met with a focus group that was looking at energy programs, and that was one of their top concerns was matching. And we basically said we will take a look at it in our rulemaking process right now because this is the time to be able to identify which programs can, perhaps, most support the matching and which programs we can look at that don't necessarily require matching.

Mr. CUELLAR. And on the rulemaking process, I would ask you that when we talk about the matching to just be as creative as possible as to what meets the definition of a *matching contribution*. The other thing is I do want to echo some of the things that my other colleagues—the speed as to how we get those dollars down there is so important. Coming from our area in south Texas there is always a feeling that Washington takes too long to get the dollars down here. And so I would ask you to move on the speed as soon as possible, and of course the other thing of interest to me is what performance measures are you using to measure results?

I guess my question is do you have any performance measures that you could share with the Committee if you could present that to us?

Ms. CANALES. I would be happy to so some further research, but you are absolutely correct regarding the performance because these are valuable Federal dollars. They are hard to come by and they are also something in which, in so many of our programs, they are so competitive. Some of these programs are very highly subscribed.

Mr. CUELLAR. I know your staff is good staff at handing you information. Do you all have any performance measures if somebody can pass you a note on that?

Ms. CANALES. One of the comments that I have just received is certainly job creation, how many jobs were created, and that is one of the biggest items, certainly, within rural business. Because, the fact is that we are geared towards business investment in: the number of jobs created, number of jobs retained, and then also the number of businesses that are assisted.

Mr. CUELLAR. And again my time is over, but I would ask you to please give us your performance measures. I am very interested. We are measuring results and not just activity. Thank you. Good seeing you again, Ms. Canales. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Mr. Minnick, do you have any questions?

Mr. MINNICK. No questions, Mr. Chairman.

The CHAIRMAN. All right. Thank you. I believe Mr. Conaway does have one remaining short question.

Mr. CONAWAY. Yes. I had asked about some specifics of the 20 projects. Can you give us a flavor of what some of those—just a couple actually do?

Ms. CANALES. Yes, sir.

Mr. CONAWAY. Thanks.

Ms. CANALES. Specifically, we have a project in South Carolina that was to guarantee a $3 million loan and it was for a company that is assembling gates, you have those businesses and mounting systems, and the purpose of these particular monies are to restructure debt and purchase new machinery and equipment. That is one of them. I know one of the other projects was for manufacturing. The company actually was based on Wisconsin, but they had different manufacturing sites, one in New York, and one also in Michigan. And so it is manufacturing, it is health care related. It is a whole variety that, obviously, in the long run were highly scrutinized because of the fact that we wanted to make sure that the whole job creation and leveraging, and leveraging in the sense of what does the business put in for other entities.

Mr. CONAWAY. Okay. The gate manufacturing, how many new jobs or sustained job does your sheet show, how many jobs involved?

Ms. CANALES. I don't have it on this particular project as far as the jobs that were created, but we have another one actually that was for—in Ohio a farmer-owned cooperative that will receive a $7.5 million loan guarantee and this will help 50,000 livestock farmers in Ohio, Kentucky, Michigan, Indiana, Illinois and Missouri. For this particular loan it will maintain insurance for nearly 500 employees, and also in this instance, the counties have unemployment rates that are 125 percent greater than the national average.

Mr. CONAWAY. Okay. We will talk later about the specifics of guaranteeing insurance. We will talk later. Thanks, Mr. Chairman.

The CHAIRMAN. Thank you so much. We appreciate your time this morning and we look forward to working with you and to having your full testimony submitted again before the panel. Any further questions that the Members may submit to you we would ask you to please supplement with written answers and any other supplementary material within the next 10 days. So with that, thank you very much.

Ms. CANALES. Thank you, Mr. Chairman.

The CHAIRMAN. And you have a blessed day.

Ms. CANALES. Yes. And thank you, Ranking Member from Texas.

The CHAIRMAN. And then we will welcome our second panel if they would be taking their positions, and in the interest of time I am going to go ahead and announce for the record who those are. Mr. Randall Jones, President and CEO of Lumbee River Electric Membership Cooperation, Red Springs, North Carolina; Arlen Kangas, Ph.D., President of Midwest Minnesota Community Development Corporation, Detroit Lakes, Minnesota; Ms. Amy Crystle, CSA Manager, Lancaster Farm Fresh Cooperative of Leola, Pennsylvania; Dr. Timothy Collins, Assistant Director for the Illinois Institute for Rural Affairs out of Macomb, Illinois; and Mr. Leo Hoehn, General Manager of Stateline Bean Producers Cooperative, Gering, Nebraska.

We welcome each of you as you come forward. We apologize again for the delay beyond anyone's control with the emergency alarms that sounded earlier that we had to evacuate the building. We are trying to move along and honor people's time and stay within the appointed schedule. As you are having a seat, I would especially like to welcome a friend of mine, who I have worked with in many different capacities who is well known and well respected in my home county of Robeson County, North Carolina, my constituent Mr. Randy Jones, as I mentioned, the President and CEO of Lumbee River Electric Membership Corporation.

Mr. Jones was born in Laurinburg, North Carolina just about 30 miles down the road from my hometown of Lumberton. And he has worked with Lumbee River Corporation for over 25 years. His work there and his combined efforts with the regional medical center, Robeson County public schools, and through many other civic and church activities are well known and well respected. It is an honor, sir, to have you come up from our Congressional district and from our home county to be here today. I know Mr. Jones has quite a history also of working with our local Chamber of Commerce which he and I made many trips together to Washington long before I was elected to Congress. So thank you, Randall, for being with us today. Mr. Jones, you are up first, so if you will proceed with your testimony, and I remind the witnesses that we have reduced the time to 4 minutes.

STATEMENT OF RANDALL S. JONES, PRESIDENT AND CEO, LUMBEE RIVER ELECTRIC MEMBERSHIP CORPORATION, RED SPRINGS, NC

Mr. JONES. Thank you, Congressman McIntyre. It is my pleasure to be with you. I am Randall Jones, President and CEO of Lumbee River Electric Membership Corporation. I would be remiss to say that I don't feel somewhat like I felt that morning 39 years ago when I first gave my speech in a speech class at the university, so bear with me, please. I am delighted to appear before you today to tell our story and make comments about the current situation and future needs.

Lumbee River EMC is proud of our long history of effective use of USDA funds since 1939 from the Rural Electrification Administration. Lumbee River EMC provides electric to over 50,000 members along 5,000 miles of line and 1,400 square miles of service territory. During the last 15 years with Lumbee River, I have worked with USDA Rural Development loan programs. My primary concentration on lending has been with IRP, Intermediary Relending Program, for the last 9 years. We speak of this bad economy now, but the four-county area in the southern part of North Carolina was already suffering from low cotton prices, the transfer of textile jobs to other countries, and more recently the tobacco buy-out with reduction in acreage of production and fewer local jobs.

The major banks have either left the area or transferred the business lending talent, loan decision-makers and underwriters to major cities. Some regional and local banks remain but they have not focused on rural businesses, unless the lending family has an abundance of assets as collateral. It is ironic that rural lending programs developed by Farmers Home Administration during the

1930's depression are ideal today and are really needed to recover from this current bad economy. The number of IRP loans approved by USDA Rural Development to date, five approvals for $3,550,000; the number of REDLG loans and grants approved, eight approved for $3,780,000. The number of IRP loans have been 25, and the number of REDLG loans and grants have been eight. The number of jobs created, over 1,000; new LREMC loans made, over $6 million; capital investment, over $100 million; new businesses created, over 100.

The USDA loan funds, along with LREMC's own resources, allowed our Cooperative to be awarded the National Rural Electric Cooperative Association's National Community Service Award for community investment in 2006. Our economic development started small and the initial activity began over a decade ago. A substantial portion of the Lake Rim area/Hwy. 401 development began with a LREMC loan for the initial sewer lines, and you see a picture in your handouts of that major growth that has developed due to that sewer they have placed there through that loan.

COMtech, a centrally located educational, medical and light industry park, received electric infrastructure early on along with LREMC leadership on the board. Some of the new firms have received long-term USDA Rural Development loans. There are approximately three REDLG loans and two IRP loans to businesses in that park. Current concerns: Since the Federal bailout of major banks last November, our new borrowers are told that new policies, guidelines and regulations prevent the bank from making loans beyond 5 years even with an interest rate cap. So, the bank's part of the needed long-term set of loans is really a 5 year loan with a big balloon.

If rates increase, this shifts all of the interest rate cost to the borrower and the refinancing risk to LREMC. Related activities: Recent North Carolina law required that each electric utility obtain a modest percentage of electricity from green sources. We are cooperating with NC Farm Center for Innovation and Sustainability, a new and local nonprofit organization that includes a 6,000 acre farm that is being dedicated to practical demonstration projects. A carbon offset trading program is under development. This center plans to assemble a large network of landowners in order to access the market for extensive carbon and ecosystems credit resources.

Also, a $500,000 grant from USDA's Natural Resources Conservation Service has just awarded to the North Carolina Farm Center to demonstrate the benefits of using a mobile Paralysis unit which produces Biochar. The Biochar is produced by converting agro-forest waste biomass to carbon-rich charcoal to be added to the crop land.

[The prepared statement of Mr. Jones follows:]

PREPARED STATEMENT OF RANDALL S. JONES, PRESIDENT AND CEO, LUMBEE RIVER ELECTRIC MEMBERSHIP CORPORATION, RED SPRINGS, NC

Introduction: First, I am delighted to appear before you today briefly tell our story and make comments about currents situation and future needs. Second, Lumbee River EMC is proud of our long history of effective use of USDA funds, since 1939 from the Rural Electrification Administration.

Lumbee River EMC provides electricity to over 50,000 members along 5,000 miles of line in 1,400 square miles of service territory. During the last fifteen of my nearly thirty years with LREMC, I have worked with USDA–RD loan programs. My primary concentration on lending has been with the IRP for the last 9 years.

History: We speak of this "Bad Economy" now, but our four county area in the southern part of North Carolina was already suffering from low cotton prices, the transfer of textile jobs to other countries and more recently the tobacco buy-outs with reductions in acres of production and fewer local jobs. The major banks have either left the area or transferred the business lending talent, loan decisions maker and underwriters to major cities. Some regional and local banks remain but they have not focused on rural businesses, unless the landed family has an abundance of assets as collateral.

It is ironic that the rural lending programs developed by Farmers Home Administration during the 1930's depression are ideal today and are really needed to recover from this current "Bad Economy".

LREMC Loan Programs by volume:

1. Number of IRP loans approved by USDA–RD to date.

   Five approvals for $3,550,000

2. Number of REDLG loans approved by USDA–RD to date.

   Eight approvals for $3,780,000

3. Number of IRP loans that have been funded.

   Twenty five

4. Number of REDLG loans that have been funded

   Eight

LREMC Loan Programs by results:

The minimum but broad accomplishment numbers are as follows:

Jobs Created: *Over 1,000*

New LREMC Loans Made: *Over $6,000,000*

Capital Investment: *Over $100,000,000*

New businesses Created: *Over 100*

New Homes from Water, Sewer or Electricity Availability: *Over 1,000*

The use of the USDA loan funds, along with LREMC's own resources, allowed our Cooperative to be awarded the NRECA's National Community Service Award for Community Investment in 2006.

Illustrations: Our economic development started small and the initial activity began over a decade ago. A substantial portion of the Lake Rim area/Hwy. 401 development began with a LREMC loan for the initial sewer line.

(Image 1 of 2)

COMtech, a centrally located educational, medical and light industry park, received electricity infrastructure early on, along with LREMC leadership on the board. Some of the new firms have received long-term USDA–RD loans.

(Image 2 of 2)

Lending Approach: This lending program has been conducted by a couple seasoned executives and all loans are current with no loan losses to date. We have adopted the formal Project Financing criteria, which mean early analysis and direct involvement of the loan applicant. This discipline before the loan decision has reduced our risks with borrowers, who could not get credit elsewhere.

Rather than risk the criticism of competition from the few local banks, we have taken a cooperative attitude. If we have a loan inquiry that a bank believes that it wants, the bank can take the situation and then make and service the loan. Since a business needs a banking relationship, we try to do shared collateral with separate loans but on similar interest rates and terms.

Current Concerns: Since the Federal Bailout of major banks last November, our new borrowers are told that new policies, guidelines and regulations prevent the bank from making loans beyond 5 years even with an interest rate cap. So, the bank's part of the needed long-term set of loans is really a 5 year loan with a big balloon. If rates increase, this shifts all of the interest rate cost to the borrower and the refinancing risk to LREMC. A 15 or 20 year amortizing loan with a 5 year balloon is akin to a credit card bank offering a one percent teaser interest rate for 6 months when the cardholder does not have the capability to pay off the entire balance. Small businesses should not need to switch to another lender. If this "no cap avoidance" by banks is allowed to continue, we may have to stop shared lending or start doing 5 year loans with a big balloon. However, the businesses really need longer-term loans with a predetermined interest rate exposure. I am sure that rural America is the first hit by this new defensive action of the banks.

Related Activities: Recent North Carolina law required that each electric utility obtain a modest percentage of electricity from "green" sources. We are cooperating with NC Farm Center for Innovation & Sustainability, a new and local nonprofit organization that includes a 6,000 acre farm that is being dedicated to practical demonstration projects. A Carbon Offset Trading Program is under development. This Center plans to assemble a large network of landowners in order to access the market for extensive Carbon & Ecosystems Credit resources. Also, a $500,000 grant from USDA's Natural Resources Conservation Service has just awarded to the NC Farm Center to demonstrate the benefits of using a mobile Paralysis unit, which produces Biochar. This Biochar is produced by converting agro-forest waste biomass to carbon-rich charcoal to be added to the crop land.

Existing Economy: Nearly one in four Americans has suffered a job loss over the past year, according to a survey released by the Economic Policy Institute. Nearly one in ten Americans is officially unemployed, and the real-world jobless rate is worse. An article in the *Winston-Salem Journal* dated October 7, 2009 and titled "Numbing Numbers for N.C." states: "Jobs for middle-class workers are expected to rebound slowly, a dire sign for growth, in the near future of both personal income taxes and sales-tax collections in North Carolina."

Current Challenge: Rural America needs more funds for fixed rate, long term loans. As you know, job creation by the firm at the local level continues to be a proven, major factor for economic and employment recovery. Again, USDA loans have a successful seventy 5 year history.

Lumbee River EMC IRP Loan Recipients

Hawkeye Child Development Center
Hoke County

Mitchell's Rollback & Wrecker
Robeson County

Glenn Ray Harris, MD
Scotland County

Evans Cross Road Fire Dept.
Robeson County

National Reinforcing Systems
Robeson County

The CHAIRMAN. Thank you, Mr. Jones. We are over 5 minutes so we are going to have to suspend your testimony, but I think you have just a couple more paragraphs, which we can take note of, concerning the existing economy and the current challenge. Thank you very much. We will go to our next witness, please, Dr. Kangas.

Dr. KANGAS. It is Arlen Kangas is my name.

The CHAIRMAN. Thank you, Dr. Kangas. I am sorry.

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

Dr. KANGAS. Thank you for the opportunity to appear here today. MMCDC is a nonprofit company based in northwest Minnesota, which has partnered with USDA since 1988. Although already short, I will abbreviate my remarks even further trying to beat the clock of 4 minutes, which seems to go pretty quickly. We are a commercial lender having accessed $400 million of Intermediary Relending Program funds. We are a Rural Business Enterprise grantee and a specialty lender under the Business and Industry Guarantee Program. In short, we are a consumer of the USDA programs. Overcoming the economic crisis which began just over 1 year ago will require resumption of the free flow of credit to businesses and homeowners. Unfortunately, commercial loans are not only difficult to come by, but banks struggling with stiff regulatory pressures are calling in loans *versus* making new ones.

Fortunately, for individuals, businesses, and communities Rural Development is active and aggressive in extending credit as the Administrator earlier described. I would like to provide both recent and historical examples of our use of these Rural Development programs. We are presently working with our state RD office to obtain a B&I guarantee for $7 million to support a local manufacturing company and help retain 800 manufacturing jobs. Last year the company lost money causing the bank to pull in their line of credit. However, this loan will be well secured and allow the company enough time to overcome a difficult year.

Another example, in the mid-1990s a local community lost its major employer for a total of 550 jobs. The RBEG program provided us a grant to support the creation of a replacement business. Not only were 70 jobs created but that business became the first tenant in a new industrial park now providing thousands of dollars in property tax revenues, and nearly as many jobs as were originally lost. The Intermediary Relending Program began for us with a $4 million loan from USDA and a half million of our own capital which has provided $18 million in total loans out of that fund plus leveraging another $27 million in other capital since its inception.

I think the IRP program is important in good economic times, but absolutely vital in times like these. These programs are important but from my perspective could be improved. Specifically, the B&I program should implement the low-doc program similar to the SBA. Access to Federal credit enhancement will expedite banks to, again, start lending to small and medium sized businesses, as well as diversify USDA's portfolio. The IRP, Intermediary Relending Program, should allow both the sale of participations as well as the purchase of participations. Third, rather than attempting to spread

IRP funds among many applicants with more but smaller loans, I would recommend making fewer and larger loans to allow intermediaries to generate economies of scale.

Rural Business Enterprise Grants should have an expiration of reporting after 5 to 10 years, rather than in perpetuity, as is now the case subject to the requirement that the nonprofit use these Federal funds with an intent that was similar to what was originally required. And there should be greater flexibility to combine the B&I guarantee with the New Markets Tax Credit program, and specifically, allowing guarantees for upper-tier lenders in a leveraged new markets transaction. These Rural Development programs are valuable to us that live in rural America. The IRP, RBEG and B&I create real jobs in rural areas. They are important in good times, but become critical when the flow of credit has slowed and will play an important part in economic recovery.

[The prepared statement of Dr. Kangas follows:]

PREPARED STATEMENT OF ARLEN KANGAS, PH.D., PRESIDENT, MIDWEST MINNESOTA COMMUNITY DEVELOPMENT CORPORATION, DETROIT LAKES, MN

Thank you for the opportunity to appear here today. MMCDC is a nonprofit company, based in northwest Minnesota, which has partnered with USDA since 1988. Rural Development is unique due to its delivery mechanism which involves local and state offices as well as their National Office. No other Federal agency combines as much local knowledge with Federal policy making as USDA.

Our company provides loans to home owners via the Section 502 guaranteed program and we are one of the largest providers of those loans in Minnesota. But my comments today focus on commercial lending. We are a commercial lender having accessed $4 million of Intermediary Relending Program funds; we are a Rural Business Enterprise grantee; and a 'specialty lender' under the Business and Industry Guarantee program.

Overcoming the economic crisis which began just over 1 year ago will require resumption of the free flow of credit to businesses and home owners. Unfortunately, commercial loans are not only difficult to come by, but banks faced with stiff regulatory pressures, are calling in loans *versus* making new ones.

Fortunately for individuals, businesses and communities Rural Development is active and aggressive in extending credit. I would like to provide both recent and historical examples of our use of these Rural Development programs.

We are presently working with our state RD office to obtain a *B&I guarantee* for a $7 million loan to support a local manufacturing company and help retain 800 jobs. Last year the company lost money causing the bank to pull in their line of credit. This loan will be well secured and allow the company enough time to overcome a difficult year.

In the mid-1990s a local community lost its major employer and a total of 550 jobs. The *RBEG program* provided us a $450,000 grant to support the creation of a replacement business. Not only were 70 jobs created but that business became the first tenant in a new industrial park. That industrial park is now full and generates tens of thousands of annual property tax revenues and nearly as many jobs as were originally lost. The RBEG program also helped us establish a cooperatively owned construction company that has produced over 140 homes, supporting the workforce for local employers.

The *Intermediary Relending Program* that began with a $4 million loan and $500,000 of our own equity has provided over $18 million in total loans and has leveraged another $27.2 million in other capital since its inception. I think the IRP program is important in good economic times, but absolutely vital in times like these.

These USDA programs are important but, at least from my perspective, could be improved. Specifically:

- The B&I program should implement a 'low-doc' component for smaller loans similar to the SBA. Access to credit enhancement will expedite banks again lending to small and medium sized businesses and diversify USDA's portfolio.
- The Intermediary Relending Program should allow both the sale of participations as well as the purchase of participations. Participations are loans sold in

fractions of the total. This will not impair USDA's collateral position but greatly improve the flow of capital and the ability to manage portfolios that span wide geographic distances.

- ◦ Rather than attempting to spread IRP funds among applicants with more but smaller loans, I would recommend making fewer and larger loans to allow intermediaries to generate economies of scale.
- ◦ Rural Business Enterprise Grants should have an expiration of reporting after 5 to 10 years, rather than in perpetuity, subject to the requirement that the nonprofit use these Federal funds for a similar intent.
- ◦ There should be greater flexibility to combine the B&I guarantee with the New Markets Tax Credit program; specifically allowing guarantees for upper-tier lenders in a leveraged NMTC transaction.

These Rural Development programs are valuable to rural America. The IRP, RBEG and the B&I programs create real jobs in rural areas. They are particularly important in good times, but they become critical when the flow of credit has slowed and will play an important part in economic recovery.

END OF ORAL TESTIMONY WITH ADDED INFORMATION ON RBEG AND IRP BELOW:

RBEG

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:

- Northern Communities Investment Corporation (NCIC), Coastal Enterprises, Inc. (CEI), and Northeast Economic initiatives Corporation (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 three to one 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.
- Kentucky Highlands Investment Corporation (KHIC) has received a total of $1,793,000 in RBEG grant funds over the last 6 years. In FY 2006, 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. 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, Impact 7 (I–7) in Wisconsin 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 Moldings, 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.

IRP

In rural America small businesses (business with 500 or fewer employees) account for 90% of rural business establishments. According to the Federal Reserve Bank of Kansas City, over one million rural businesses have fewer than 20 employees. This is almost 75 % of all businesses located in rural America. Yet these businesses are increasingly unable to gain access to capital.

The upheaval in the financial services industry has resulted in credit drying up for businesses in low income communities—loan to value ratios are falling, lines of credits are disappearing, and commitments are evaporating. As a result of the precipitous decline of the availability of credit from private financial institutions, demand is increasing for the entire range of local, regional and national loan funds, microloan programs, venture capital and intermediary organizations to fill this expanding void created by the reluctance of private financial institutions to provide credit. At the same time these same mission driven organizations are also facing a liquidity shortage as traditional non-governmental sources of capital—from private philanthropic organizations, the bond market, and private financial institutions—are no longer available.

To offset the change many rural communities and organizations have put to use an Agriculture Department program: Intermediary Relending Program (IRP). The IRP makes loans to public and private non-intermediaries that in turn loan to private business enterprises in rural areas. In many cases the loans made available through the IRP are one of the few sources of fix rate term financing for small rural businesses for working capital, lines of credit and equipment. With an average loan size of $100,000 and an upward limit of $250,000, the IRP is targeting small businesses that are the backbone of the rural economy.

USDA has administered the IRP since 1988. At this time, USDA had some 400 borrowers of over $700 million in IRP funds. The agency has not suffered a single default.

Beyond the importance of the patient, flexible capital provided by the IRP, there are two other factors of note:

1. *Job Creation*—The average IRP loan is $100,000. According to USDA, on average, each loan for that amount creates or saves 76.5 jobs. A recent survey of the CDCs indicates a cost per job of $3,000;

2. *Continuing Source of Capital*—A typical intermediary revolves IRP funds three times over the life of the 30 year, USDA loan; and

3. *Leverage*—a recent survey of IRP borrowers indicates that projects financed with IRP are able to leverage significant of additional capital. IRP borrowers surveyed leveraged as much as $7.3 per every dollar of IRP funds.

Other Specific Recommendations for IRP:
Under Instruction 4274–D:

Recommendation: Increase the cap on loans to ultimate recipients.

(§ 4274.331(b)–(c)):

(B) ULTIMATE RECIPIENTS. Loans from intermediaries to ultimate recipients using the IRP revolving fund must not exceed the lesser of:

(1) $250,000; or

(2) Seventy five percent of the total cost of the ultimate recipient's project for which the loan is being made.

(C) PORTFOLIO. No more than 25 percent of an IRP loan approved may be used for loans to ultimate recipients that exceed $150,000. This limit does not apply to revolved funds.

The current cap on IRP lending has been in place since 1994. To keep pace with inflation the cap of $250,000 should be increased to $297,000. In addition, there are greater credit demands of IRP lenders than ever before. With many private financial institutions pulling back, IRP is a key source of fixed rate credit for rural businesses.

Our recommendation is to allow intermediaries to lend up to 10% of their portfolio in any one project.

Recommendation: Reduce or eliminate points for match, double points offered for leverage.

(§ 4274.344(c)(1)):

> *"(i) The intermediary will obtain non-Federal loan or grant funds to pay part of the cost of the ultimate recipients' projects . . ."*
>
> *"(ii) The intermediary will provide loans to ultimate recipients from its project contribution funds to pay part of the costs of ultimate recipient projects. Project contribution funds must be separate and distinct from any loan or grant dollars provided to the intermediary under the IRP as well as the intermediary's equity contribution."*

(§ 4274.344(c)(3)):

> *INTERMEDIARY CONTRIBUTION. All assets of the IRP revolving fund will serve as security for the IRP loan, and the intermediary will contribute funds not derived from the Agency into the IRP revolving fund along with the proceeds of the IRP loan.*

The current scoring system, as outlined above, gives more weight to applicants that have the ability to commit matching funds than an applicant that commits to leveraging private financing. Applicants who are able to commit matching funds must do so for the full 30 year term of the loan. These are the first dollars to be put into the fund and the last to come out. The current economic situation makes it very difficult for many organizations to commit these funds for that period of time.

Additionally, encouraging private leverage would ensure that Federal dollars could go farther and have a greater impact. Such a system would also encourage IRP lenders to assist borrowers in accessing private credit and developing relationships with conventional lenders. As indicated above, many IRP borrowers have shown great success in leveraging private sector participation in IRP-financed businesses.

We recommend that USDA double the number of points awarded to an IRP applicant committed to leveraging significant private financing, on a deal by deal basis, with IRP dollars.

These difficult economic times have reduced the sources of funds for match. Private foundations and state and local governments are facing greater limitations and demands for resources. Earned income of borrowers is also limited because of the recession. Congress has authorized other Federal agencies including Commerce Environmental Protection and Treasury to drop or reduce matching requirements for community development programs. We recommend that USDA consider a similar measure for the IRP.

Eliminate the fourteen-county limit which is used to award points accountability.

(§ 4274.344(c)(5)):

The instruction limits the target area for an application to not more than 14 counties. An application can receive up to 15 points for having community representation on its board or oversight committee.

From state to state, counties vary greatly in size from one another. San Bernardino County, California, for example, is larger in size and population than the entire state of New Hampshire. Limiting the number of counties served puts some applicants at an unfair disadvantage. The 14 county ceiling also limits the participation of statewide, multi-state or national organizations with service areas greater than fourteen counties.

We suggest that USDA drop 14 county limit. We suggest that other measures of accountability be adopted. USDA should ensure that applicants have a board of business, civic and community leader make up the board or advisory committee of the applicant and that community leader be residents of rural communities.

Recommendation: Allow for the sale and purchase of loan participations.

(§ 4274.361(e))

> *"(e) Current regulations do not allow the intermediary to sell their ultimate recipient loans. (Added 08–19–05 ~ SPECIAL PN.)"*

In general, the IRP rules should provide for better coordination and cooperation with private financial institutions. In tight budget times, leveraging the maximum participation of private loans is essential to stretching Federal IRP funds. Because this is not expressly authorized in the rule, USDA has recently indicated that intermediaries are not authorized to buy or sell participation agreements or notes from the IRP revolving fund. This includes any revolved funds as well.

We recommend that USDA eliminate the prohibition on buying and selling participations on private loans. Buying participations has proved to be useful for encouraging private sector participation in rural lending and stretching Federal resources.

Selling participations allows intermediaries to more quickly revolve their funds. This activity would not change the nature or character of the IRP funds, and simply serves to increase the volume of lending provided by intermediaries. In addition, for statewide or regional organizations, IRP borrowers buying participations can rely on the local bank to service and monitor loans.

Small rural bank quickly reach their lending limits. Allowing these banks to buy or sell a participation is a way to keep them in small business lending.

Recommendation: Allow borrowers with multiple loans to consolidate these for purposes of repayments and reporting requirement.

Many IRP intermediaries have multiple loans from USDA. In order to ensure that deposited funds are protected by Federal deposit insurance, intermediaries maintain multiple bank accounts. For example, one borrower has nine loans, maintains 27 bank accounts and files nine separate reports to USDA. We would like to encourage USDA to consider ways that this reporting could be streamlined.

Recommendation: Ensure that clear and consistent guidance is given to IRP Intermediaries.

While the IRP is administered as a national program, some state offices have weighed in with IRP intermediaries to give direction. For example, some state offices are requiring documentation that the IRP lender has met *lender of last resort* requirements even though this requirement is in neither the rule nor instructions governing the program.

Some intermediaries are interested in lending in more than one state. That option does not appear in the rule or instructions. Yet intermediaries have in fact received IRP loans to work in more than one state with the state on which the IRP is located taking the lead in administering the loan. USDA should clarify the instructions on this.

Recommendation: Establish a "preferred lender" program for seasoned IRP lenders.

USDA has made hundreds of IRP loans totaling hundreds of millions of dollars since the program's inception. A select few of the organizations receiving these loans are high volume lenders and, therefore, many of them apply to USDA on an annual basis for additional IRP dollars to replenish their loan funds. We recommend that the USDA consider instituting a "preferred lender" program that would provide additional liquidity to high-performing, high-volume IRP lenders.

Through a "preferred lender" program, USDA could grant a moratorium on the principal and interest payments of an intermediary as long as the intermediary could demonstrate a successful track record in terms of deploying loans to qualified businesses, being current in payments to USDA, and meeting additional performance goals such as targeting "high distress" rural areas and/ or creating and retaining jobs.

The annual demand for IRP funding outweighs the availability of IRP funds. Many seasoned IRP lenders are left unable to secure the new IRP loans that they need to meet the local demand from new and returning borrowers. By relieving these qualified lenders of principal and interest payments, additional capital would be freed. Intermediaries could put those dollars into loans, thus alleviating the need to apply for additional IRP funds on an annual basis.

The CHAIRMAN. Thank you so much. Perfect timing. And I apologize for the mispronunciation of your name. Thank you for being here today. Ms. Crystle.

STATEMENT OF AMY PYLE CRYSTLE, COMMUNITY SUPPORTED AGRICULTURE (CSA) MANAGER, LANCASTER FARM FRESH COOPERATIVE, LEOLA, PA

Ms. CRYSTLE. Yes. Good morning. I am here representing Lancaster Farm Fresh Cooperative. It is an organic farmers' cooperative from Lancaster County, Pennsylvania. And I am here to tell you a success story of an RCD grant. The Keystone Development Center, KDC, a nonprofit organization devoted to rural cooperative business development in Pennsylvania, received a grant from the USDA under the RCDG program. KDC contracted with a local facilitator who understood there was a strong need and great potential for an organic farmer's cooperative to serve the Philadelphia metropolitan area. LFFC, Lancaster Farm Fresh, evolved from a series of meetings organized by that KDC facilitator with Lancaster County farmers and sustainable ag professionals in the fall of 2005.

The facilitator conducted a market feasibility study in early 2006 that found a need and demand for more locally grown organic food in the Philadelphia area. The farmers assembled and selected a Board of Directors. The first deliveries for LFFC were made in May of 2006. The Board of Directors hired two full-time managers in July of 2006, and I am one of those managers. LFFC has enjoyed growth and success. Our first growing season, 12 farmers contributed products to the Cooperative, serving 30 wholesale customers and 100 community supported or CSA customers. The Cooperative employed two full-time managers and two of the farmers' sons helped us to pack orders. One of the members delivered orders to customers.

This year, for 2009, 50 farmers contributed to the products we offer. Over 100 wholesale customers order products weekly, and more than 1,200 families collect CSA shares during the growing season. We now have five full-time employees and 15 part-time employees. In addition, the Board of Directors created a transportation company in the spring of last year that currently employs three full-time and two part-time delivery drivers and a full-time transportation manager. LFFC is a farmer-owned cooperative. The employees work for the farmers to secure a sale price for products which provide a profit to the farmers and allow them to continue to produce.

Profits are redistributed to farm members at the end of the fiscal year. The nature of the business is direct marketing from the farmers' cooperative, acting on behalf of the farmers to individual consumers and wholesale buyers. Our customers, both CSA and wholesale, are more connected with their food source and the hardships and glories of agriculture than if they were purchasing food from a large grocery store or a food distributor.

I was asked to testify today to support the work of the National Cooperative Business Association and CooperationWorks!. On behalf of NCBA, CooperationWorks!, and all the cooperatives, I want to thank you, Mr. Chairman, and Members of the Subcommittee, for making improvements to the RCDG program in last year's farm bill, and supporting an increase to the RCDG program in the most recent appropriations bill passed by Congress. I want to thank you for allowing me to share our story with you. I hope it will shed some light on the economic impact of RCD grants in rural America. The impacts of this particular RCD grants goes beyond economic benefits in rural Lancaster County, Pennsylvania.

It affects the social and cultural fabrics of the metropolitan and suburban communities we serve. If you eat at some of the restaurants that serve locally produced food in Washington, D.C. or join a CSA program here you are supporting local farmers and possibly Lancaster Farm Fresh. Thank you.

[The prepared statement of Ms. Crystle follows:]

PREPARED STATEMENT OF AMY PYLE CRYSTLE, COMMUNITY SUPPORTED AGRICULTURE (CSA) MANAGER, LANCASTER FARM FRESH COOPERATIVE, LEOLA, PA

Good morning Chairman McIntyre and Members of the Committee. My name is Amy Crystle, and I am here representing Lancaster Farm Fresh Cooperative, an organic farmers' cooperative in Lancaster County, Pennsylvania. I have worked as a manager for Lancaster Farm Fresh since 2006. I am here to tell you one story of a successful Rural Development grant and encourage you to continue and expand funding for the Rural Cooperative Development Grants program.

The Keystone Development Center (KDC), a nonprofit organization devoted to rural cooperative business development in Pennsylvania, has received grants from USDA under the Rural Cooperative Development Grant (RCDG) program). The RCDG program is an annual competitive grant program that awards grants to Cooperative Development Centers to provide technical assistance to farmers and others to help create cooperatives and other member-owned businesses. The grants are awarded to between 20 and 25 centers around the country, depending on the year, the applications, and the amount of available funds.

KDC contracted with a local facilitator in Lancaster County, Pennsylvania who understood there was a strong need, and great potential, for an organic farmers' cooperative to serve the Philadelphia metropolitan area. Lancaster Farm Fresh Cooperative (LFFC) evolved from a series of meetings, organized by the KDC facilitator, with Lancaster County farmers and sustainable agricultural professionals from Philadelphia and the surrounding region in the fall of 2005.

The facilitator conducted a feasibility study in early 2006 that found the need and demand for more organically grown food and a member-owned farmer cooperative that could address that need in the Philadelphia area. A group of farmers organized into a Board of Directors and farmer members assembled in the spring; the first deliveries of organic produce and pastured-animal products were made in May. Two full-time managers for the Cooperative were hired in July of 2006. I am one of those managers.

We are happy to report that the Cooperative has enjoyed growth and success over the past few years. About 12 farmers contributed to the products delivered by LFFC in 2006, serving approximately 30 wholesale customers and 100 CSA shareholders. In 2007 the number of farmers contributing product to the Cooperative rose to 24, with the number of wholesale customers and CSA members increasing to 55 and 300 respectively. The Cooperative employed two full-time managers, three part-time employees and two contracted delivery drivers in 2007.

In 2009 the number of people involved with LFFC increased significantly; currently 50 farmers contribute to the products offered by the Cooperative, over 100 wholesale customers order produce and more than 1,200 families collect CSA shares during the growing season. We now have five full-time employees and 15 part-time employees.

In addition to the above described business growth we created a trucking company, Lancaster Farm Fresh Organics, LLC, in the spring of 2008 to support the growing delivery needs for the Cooperative. Lancaster Farm Fresh Organics employs three full-time and two part-time delivery drivers and a full-time transportation manager. Because of the success of LFFC, the members were able to provide funding support to begin the trucking company.

LFFC is a farmer-owned cooperative. The employees work for the farmers to secure a sale price for produce, meat, dairy and value-added products, which provide a profit for the farmers' work and allow them to continue to produce. Any profits that are made by the Cooperative are redistributed to the farm members at the end of the fiscal year. In 2009 LFFC farmers received their first dividends check for the Fiscal Year 2007.

The nature of the business is direct-marketing from the farmers' cooperative, acting on behalf of the farmers, to individual consumers and wholesale buyers. For wholesale orders the following procedure takes place: the farmers communicate harvest predictions to LFFC staff that then send a price list to wholesale customers reflecting the farmers' prediction. Wholesale customers order products and we communicate their orders to the farmers. The farmers harvest the produce ordered and their harvest is retrieved by a truck that delivers it to the LFFC warehouse. When all of the produce has been delivered to the warehouse, employees assemble each customer's order. We deliver the orders, usually the next day, to wholesale customers.

LFFC also operates a Community Supported Agriculture (CSA) program. In CSA the consumer shares the inherent risk and abundance of agriculture with the farmer. Individuals and families join the Cooperative as CSA shareholders. They purchase a share of the harvest, which entitles them to a weekly delivery of vegetables and fruit for 25 weeks during the growing season, May through November.

The funds collected from CSA members during the application period, November through April, are sent to farmers in the form of CSA advance payments. These cash advances are paid back to the Cooperative when the farmer begins to receive payments for their products during the harvest season. The funds help farmers during a very lean time of the year to purchase supplies for the upcoming growing season. The farmer repays the CSA members with produce when they begin to harvest their crops.

The LFFC CSA and wholesale customers are more connected with their food source and the trials and tribulations of agriculture than if they were purchasing food from a large grocery store or food distributor. The effects on food safety are significant, because the consumer purchases the food from and speaks directly with the producer. The local economy benefits significantly, because 75% of every dollar spent is going directly into the hands of farmers, allowing them to continue to produce agricultural products on their land. Consumer health is positively affected in this system as food is in the hands of consumers usually within 24 hours of being harvested, retaining most of its nutritional value. Air, soil and water quality is positively affected because LFFC farmers build their soil through organic (not synthetic) amendments, use erosion-prevention techniques and hand-harvesting methods.

What began as an idea and growing economic need on behalf of one farm family, grew into Lancaster Farm Fresh Cooperative, a multi-million dollar farmer-owned business. The funding and assistance from Keystone Development Center through a Rural Cooperative Development Grant created jobs with livable wages, economic stability for organic farmers and a significant contributor to the local food system. LFFC brings local, fresh organically grown vegetables and fruit and grass-fed animal products to thousands of families, restaurants and grocers in Philadelphia, Washington, D.C., New York and the surrounding areas.

The National Cooperative Business Association (NCBA), which represents cooperatives across this country, and CooperationWorks!, a network of Cooperative Development Centers, work to make sure the RCDG program is effective and that funding is available to help create cooperatives like ours. On behalf of NCBA, CooperationWorks! and all cooperatives, I want to thank you, Mr. Chairman, and Members of this Subcommittee for making improvements to the RCDG program in last year's farm bill. It is also my understanding that the RCDG program got an increase in the most recent appropriations bill passed by Congress. Again, thank you. That support will help create more opportunities for rural entrepreneurs.

I encourage you to continue to support this and other programs that help rural businesses develop and grow. The assistance we received with creating a business feasibility study, organizing informational meetings, developing a business plan and writing by-laws was invaluable for the start of LFFC. Without the funding from RCD grants to study and discuss the possibility of an organic farmers' cooperative, LFFC may never have germinated into the successful business it is today.

I want to thank you for allowing me to share our story with you. I hope it will shed some light on the economic impact of RCD grants in rural America. The impact of this particular RCD grant goes beyond economic benefits in rural Lancaster County, Pennsylvania: it affects the social and cultural fabric of the metropolitan and suburban communities it serves. If you eat at some of the restaurants that feature locally grown food in this metropolitan area or join a local CSA, you are supporting local farmers and maybe LFFC. The more we support local farms, the more we improve our health and well-being and the more we prosper economically. Thank you.

The CHAIRMAN. Thank you very much. Excellent job, and a great testimony, and we look forward to having that full story on record. It is very interesting as I was going through it. Dr. Collins.

STATEMENT OF TIMOTHY COLLINS, PH.D., ASSISTANT DIRECTOR, ILLINOIS INSTITUTE FOR RURAL AFFAIRS, WESTERN ILLINOIS UNIVERSITY, BUSHNELL, IL

Dr. COLLINS. Yes, thank you. Good morning. Mr. Chairman, Members of the Committee, thank you for letting me testify today on the Illinois Institute for Rural Affairs experience with two USDA rural business programs. More than 20 years ago, the Illinois Governor designated IIRA as the clearinghouse for information on rural issues. As a rural community and economic development agency, IIRA works with rural communities and also conducts rural research and policy activities. USDA funding has been important in IIRA's small business development efforts. For example, the current RCDI grant helps leverage private funds to work with small businesses in three rural communities so that those businesses could market more effectively over the Internet.

The grant allowed IIRA to meet needs of each community including training on digital media, renewable energy, youth entrepreneurship and microenterprises. Based on preliminary estimates from the first eight businesses providing Letters of Intent, we anticipate the project will create about 13 jobs. We also hope to see 25 to 30 full and part-time jobs added as IIRA continues to support the project, and as other businesses join in. IIRA's business partners recognize the importance of working as a region or community of interest. One restaurant owner, for instance, wants to connect the traffic coming from Chicago to visit historic sites in his community. In addition, RCDG funding has spurred entrepreneurship and small business activities. For example, this grant paid for some legal work to set up the only community-owned grocery store in Illinois in Washburn, which was a rural food desert when the store opened in 2000.

With RCDG funding, IIRA has been able to assist with several membership drive activities. In his "The Rise of the Creative Class," author Richard Florida talks about the increased role of artists and other creators of intellectual property and economic development. RCDG funds also helped an arts cooperative flourish in rural northwest Illinois helping rural America to participate in the creative economy. The RCDG grant also helped spur entrepreneurial activities among farmers in the green economy. For example, IIRA used RCDG funds to help organize an ethanol producing New Generation Cooperative in Crawford County.

Our experience with USDA grants has been excellent. State-level staff members are cooperative, support our work, and offer helpful suggestions. With this in mind, we offer these recommendations to make the programs even better. First, programs to promote the creation of eco-industrial parks where renewable energy projects based on wind or biofuels can be linked with new small business start-ups in rural areas. And, second, USDA grants to support the development of small business entrepreneurship, what we like to call earthtrepreneurship, for the rural green economy. I am glad to be here this morning and thank you so much for this opportunity to testify.

[The prepared statement of Dr. Collins follows:]

PREPARED STATEMENT OF TIMOTHY COLLINS, PH.D., ASSISTANT DIRECTOR, ILLINOIS INSTITUTE FOR RURAL AFFAIRS, WESTERN ILLINOIS UNIVERSITY, BUSHNELL, IL *

Mr. Chairman, Members of the Committee, thank you for letting me testify today on the Illinois Institute for Rural Affairs' experience with two USDA rural business programs.

More than twenty years ago, the Illinois Governor designated IIRA as the clearinghouse for information on rural issues. As a rural community and economic development agency, IIRA helps rural communities build a better life. It also conducts rural research and works with various agencies and organizations on rural policy issues (*Appendix*).

USDA funding has been important in IIRA's small-business development efforts. For example, the current RCDI grant helped leverage private funds to work with businesses in Havana (Mason County), Stark County, and Savanna (Carroll County) so they could market more effectively over the Internet. The grant allowed IIRA to meet needs of each community, including training on digital media, renewable energy, youth entrepreneurship, microenterprises, food-based businesses, business succession, youth entrepreneurship, and innovative business approaches.

Based on preliminary estimates from the first eight businesses providing Letters of Intent, we anticipate the project will create about 13 jobs. We also hope to see 25 to 30 full- and part-time jobs added as IIRA continues to support the project and as other businesses join in. A standard economic development multiplier of 1.5 suggests 40 or more total (direct and indirect) jobs could be created in the region, including businesses not participating in the grant.

IIRA's business partners recognize the importance of working as a region or community of interest. One restaurant owner, for instance, wants to connect to traffic coming from Chicago to visit historic sites. An antique dealer wants to attract tourists by marketing jointly with other nearby dealers. A tourism group wants to put an itinerary tool on the community website to show potential tourists how they might spend 1 or 2 days in the region and which businesses might be possible attractions.

In addition, RCDG funding has also spurred entrepreneurship and small business activities. For example, this grant paid for some legal work to set up the only community-owned grocery store in Illinois in Washburn (Woodford County), which was a rural food desert when the store opened in 2000. According to the Cooperative's website,[1] members went door-to-door within 15 miles of Washburn to sell shares. Nearly 500 investors bought the $50 shares, raising more than $100,000. The capital, along with grants and low-interest loans, paid for buying, remodeling, and restocking the store. Volunteers cleaned, painted, replaced light fixtures, repaired equipment, and rearranged the store. With RCDG funding, IIRA has been able to assist with several membership drive activities.

In "The Rise of the Creative Class," author Richard Florida talks about the increased role of artists and other creators of intellectual property in economic development. RCDG funds also helped an arts cooperative flourish in rural northwest Illinois—helping rural America to participate in the "creative economy."

The RCDG grant also helped spur entrepreneurial activities among farmers in the "green economy." For example IIRA used RCDG funds to help organize an ethanol producing New Generation Cooperative in Crawford County. This operation helps Illinois farmers add value to their crops, generating increased on-farm profits and employment opportunities.

Our experience with USDA grants has been excellent. State-level staff members are cooperative, support our work, and offer helpful suggestions. With this in mind, we offer these recommendations to make the programs even better:

- USDA grants to support the development of small business entrepreneurship ("earthtrepreneurship") for the rural green economy;
- Programs to promote the creation of eco-industrial parks where renewable energy projects based on wind or biofuels can be linked with new small business start-ups in rural areas.

Thank you for the opportunity to testify. I look forward to your questions.

* Testimony also contributed to by GISELLE HAMM, *Program Manager;* KAREN PONCIN, *Operations Manager;* ERIN ORWIG, *Faculty Assistant;* and CHRISTOPHER D. MERRETT, *Director,* Illinois Institute for Rural Affairs, Western Illinois University.

[1] *http://www.washburnillinois.org/resources.html.*

APPENDIX: ABOUT THE ILLINOIS INSTITUTE FOR RURAL AFFAIRS

The Illinois Institute for Rural Affairs (IIRA) was founded in 1989 as a companion agency to the Illinois Governor's Rural Affairs Council and is focused on research, policy analysis, and technical assistance in rural areas of Illinois. IIRA assists rural communities and their leaders to expand their capacity to improve their quality of life. IIRA also acts as a bridge between local leaders and the state and Federal agencies that provide rural programs. Following is a glimpse at some of the things IIRA does to build rural communities in our state.

IIRA receives about 25% of its annual budget through Western Illinois University, where it is located. The remaining funding is raised through grants. Because of this dependence on grants, IIRA is an entrepreneurial organization that constantly seeks new opportunities.

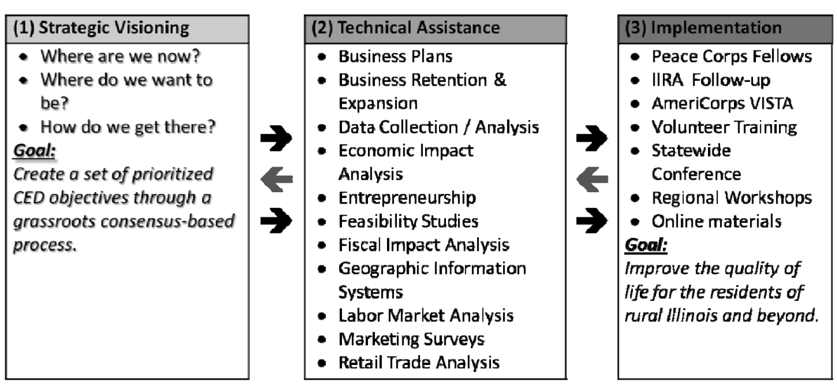
The staff of about 40 includes five Ph.D.s and 25 master's level outreach specialists and about 20 students. IIRA has created grant-funded outreach and research programs in a number of areas, including economic and community development; housing and health; transportation; rural schools; and alternative energy using wind and biomass (*Figure 1*). IIRA's research is not only theoretical; it is intended to be applied in the local communities.

IIRA partners with public and private agencies on rural local development and enhancement efforts with the goal of developing sustainable communities. Efforts involve building local support to create a community vision and plan for achieving that vision. IIRA's holistic model links research, outreach, and policy activities.

Figure 1

IIRA's approach to rural development is predicated on the idea that community and economic development occur hand in hand. This recognizes the dynamic complexities of rural communities and the importance of strong community life as the basis for strong national economic and civic life. This is the rationale for approach that links strategic planning and visioning, technical assistance, and implementation in communities (*Figure 2*). These strategies are often mixed to provide a wide spectrum of assistance to rural communities throughout the state. As a result, IIRA has developed a national reputation for innovative programs and services.

Figure 2



The CHAIRMAN. Thank you, Dr. Collins, well done. Mr. Hoehn.

STATEMENT OF LEO J. HOEHN, GENERAL MANAGER, STATELINE BEAN PRODUCERS COOPERATIVE, GERING, NE

Mr. HOEHN. Thank you. Chairman McIntyre, Ranking Member Conaway, thank you for the opportunity to tell the story of the Stateline Bean Producers Cooperative before the Subcommittee today. My name is Leo Hoehn, Manager of Stateline Bean Producers Cooperative. Stateline is a closed Cooperative formed in 2002 after a small group of dry edible bean growers from western Nebraska and eastern Wyoming were able to implement their vision to process and market their dry edible beans. Our Cooperative came into existence when acreage in our region was diminishing due to low returns to growers. The Stateline Bean Producers Cooperative was organized, and we started working with USDA Rural Development to see what could be done. Today, acreage has stabilized and is returning to historic levels due to the increased profitability of our producers, as well as other producers in the area.

A feasibility study conducted by USDA Rural Development along with a Business and Industry Guaranteed loan for $1.9 million enabled the Cooperative to purchase two processing plants in western Nebraska. The Cooperative raised nearly $1 million from 180 regional growers in a 100 mile radius of Scottsbluff, Nebraska to purchase the two plants valued at $2.4 million. Growers invested $3.00 for the right to deliver each 100 pounds of dry edible beans. In 7 years the Cooperative has returned over $9.00 per hundred weight for the original investment, or a 300 percent return.

The total return to growers has been nearly $3 million. In addition, the competition provided by Stateline has reduced margins of competing processors and shifted revenue to bean growers in the area. In addition to the dividend payments the Cooperative continues to reduce long term debt on its facilities. In 2002, the Cooperative was awarded a $500,000 Value-Added Grant from USDA Rural Development. This grant helped to fund an inventory tracking system, the development of the Stateline Brand, and a complete technology upgrade. Stateline's launch can be greatly attributed to the feasibility study done by the USDA Rural Development staff. We are in existence because of our USDA 80 percent Rural Business Guaranteed loan, and much of our success and operations and marketing are the result of the Value-Added Grant.

The outcome of the investments made by the farmer-owners of the Stateline Bean Producers Cooperative and the USDA Rural Development has enabled us to secure our own processing facilities and significantly increase our sales volume. In addition, the Rural Development funding has also helped the Cooperative maintain permanent jobs that would have been lost if sales were not increased. The Cooperative employs close to 20 employees, that adds to the economy of the communities of Gering and Bridgeport, Nebraska. Again, thank you for your time and the opportunity we have been afforded by the Subcommittee to testify today.

[The prepared statement of Mr. Hoehn follows:]

PREPARED STATEMENT OF LEO J. HOEHN, GENERAL MANAGER, STATELINE BEAN PRODUCERS COOPERATIVE, GERING, NE

Chairman McIntyre, Ranking Member Conaway, and Members of the Subcommittee, thank you for the opportunity to tell the story of the Stateline Bean Producers Cooperative before the Subcommittee today.

My name is Leo Hoehn, Manager of Stateline Bean Producers Cooperative. Stateline is a closed Cooperative formed in 2002 after a small group of dry edible bean growers from western Nebraska and eastern Wyoming were able to implement their vision to process and market their dry edible beans.

Our Cooperative came into existence when acreage in our region was diminishing due to low returns to growers. The Stateline Bean Producers Cooperative was organized and we started working with USDA Rural Development to see what could be done. Today, acreage has stabilized and returning to historic levels due to increased profitability to our producers, as well as other producers in our area.

A feasibility study conducted by USDA Rural Development along with a Business and Industry Guaranteed (B&I) loan for $1.9 million enabled the Cooperative to purchase two processing plants in western Nebraska.

The Cooperative raised nearly $1,000,000 from 180 regional growers in a 100 mile radius of Scottsbluff, Nebraska to purchase the two plants valued at $2,400,000. Growers invested $3.00 for the right to deliver 100 pounds of dry edible beans. In 7 years the Cooperative has returned over $9.00/CWT for the original investment, or a 300% return.

The total return to growers has been nearly $3,000,000. In addition, the competition provided by Stateline has reduced margins of competing processors and shifted revenue to bean growers in the area. In addition to the dividend payments the Cooperative continues to reduce long term debt on its facilities.

In 2004 the Cooperative was awarded a $500,000 Value-Added Grant from USDA Rural Development. This grant helped to fund an inventory tracking system, the development of the Stateline Brand, and a complete technology upgrade.

Stateline's launch can be greatly attributed to the feasibility study done by USDA Rural Development staff. We are in existence because of our USDA 80% Rural Business Guaranteed loan and much of our success in operations and marketing are the result of the Value-Added Grant.

The outcome of the investments made by the farmer-owners of the Stateline Bean Cooperative and USDA Rural Development has enabled us to secure our own processing facilities and significantly increase our sales volume. In addition, the Rural Development funding has also helped the Cooperative maintain permanent jobs that would have been lost if sales were not increased. The Cooperative employs close to 20 employees that add to the economy of the communities of Gering and Bridgeport Nebraska.

Again, thank you for your time and the opportunity that we have been afforded by the Subcommittee to testify today.

The CHAIRMAN. Thank you. Thank you for testifying in a very timely, and succinct manner, and thank you and each of the panelists for your testimony today. Some brief questions: Mr. Jones, we, of course, both know the primary role of Lumbee River EMC is to provide electric power to your member-owners, which you do an excellent job of. How does the Cooperative decide what economic development projects to undertake, and do you work with the USDA Rural Development staff in deciding on those projects?

Mr. JONES. Yes, sir. We work not only with the USDA staff but we also have a committee, loan committee, who works with us out of the four counties, which we serve, that are appointed to serve on our loan committee to help us. And by having those individuals out of those four counties, they also know some of the economic conditions of their county, and they also make recommendations or referrals to us for lending loans.

The CHAIRMAN. Are those folks from the four counties, does that have a certain name? Is it a committee appointed through the LREMC or appointed through some other entity?

Mr. JONES. It is appointed through LREMC.

The CHAIRMAN. And how many people serve on that?

Mr. JONES. There are eight committee members, four out of each of the four counties we serve, and then four of our own board members serve on that loan committee.

The CHAIRMAN. And how are the committee members appointed that are not members of your board?

Mr. JONES. Basically by the board itself or our EMC board looks at those community people who are involved with economic development, or even in the banking area, we have a retired banker on that committee. We have a couple other businessmen that are a part of that committee and also a local developer.

The CHAIRMAN. Thank you. I commend you on the great number of projects that I have personally seen that have been quite successful in Robeson County and in your service area. Dr. Collins, you mentioned a couple of opportunities related to rural communities recognizing online marketing opportunities. Broadband is something that we have fought for for rural areas. How do you see greater access to broadband services having an effect on these opportunities for small communities?

Dr. COLLINS. Well, I think there are a number of opportunities. Certainly in terms of promoting tourism, but also we are seeing, in some cases, actually local use of broadband so that people can shop more selectively. Then, of course, there are the broader national and global connections, all of which are very important. Original connections with Chicago, St. Louis, depending on what part of the state that you are in, are very important in terms of the tourism because it allows people from those areas to drive fairly close from home, take a day trip or whatever, take in the sights, and perhaps do some tourism or buy some local products.

The CHAIRMAN. In terms of merchandising those products or marketing them, have you seen an advantage in that way as well?

Dr. COLLINS. Yes, I think so. Now we are relatively early into this project, probably about 2 years, but I think in the time to come, we will see, because of the increased bargaining efforts, that increase as the participants for the grant increase.

The CHAIRMAN. Thank you. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I want to just thank you all for coming to D.C. and putting up with the schedule. Mr. Jones, you have experience with several different Rural Development lending programs. You visited with us a couple of minutes about conflicts between them, could they cooperate better, are there ways that the system could be streamlined to meet a broader need?

Mr. JONES. We really haven't run into many problems with it. It has been very beneficial pertaining to our local area in southeastern North Carolina. There are so many needs there for small businesses to receive funds, but through USDA we have had a good working relationship with the regional office, state office, and also the national office in assisting us and being able to get those lending funds that we lend back out to the businesses, so it has been very helpful.

Mr. CONAWAY. Dr. Kangas, you mentioned a loan for about $7 million to a local company that helped retain 900 jobs. You said the loan is well secured. What risks were the banks unwilling to take that the loan guarantee was necessary for it? Do you know off the top of your head?

Dr. KANGAS. Well, I don't believe that it was that the bank was unwilling to take risks because I don't think there was underwriting risk really with the transaction, but rather for the company due to the downturn in sales because they are a tier one manufacturer too and OEM, original equipment manufacturer, they had lost money. They lost $7 million in the last fiscal year. The bank with whom they were working has a policy that it a company loses money of any significant amount, they want them out of their portfolio. So it wasn't a question of whether or not the bank felt it was going to get repaid or not, but merely that it lost money and their policy is to jettison that company.

Mr. CONAWAY. Okay, because they don't think they are going to get repaid. What is the current status of the loan now? Is it performing?

Dr. KANGAS. Well, we haven't closed the loan. The loan is scheduled to close in the next month or 2 depending on working out all of the details, but we do plan to close it shortly.

Mr. CONAWAY. Sure. Dr. Collins, you mentioned that there was a grant that created 13 jobs to help businesses, I guess, better market over the Internet. How much was that per job, the grant *versus* 13 jobs?

Dr. COLLINS. I am afraid off the top of my head, I don't have that information for you but——

Mr. CONAWAY. Typically in Texas we have a sales tax that is dedicated toward economic development within the sales tax entity. The rule of thumb there is $10,000 per job. Is that anywhere near the——

Dr. COLLINS. I am going to guess and say it is probably about $10,000 and $15,000 and probably closer to $15,000.

Mr. CONAWAY. Okay. All right. Mr. Hoehn, you mentioned the loan originally was about $1.9 million. Is it performing? You said it was reduced but is it performing according to its terms so there is no real sense that the guarantee is going to have to be called?

Mr. HOEHN. Not at all. We make monthly payments on our original loan of $1.9 million, and the board of our company has taken the attitude that we needed to get money back to the farmers' hands as quickly as possible. As you can tell from our earnings, we could have paid this off very rapidly. We have chosen to make our monthly payments as scheduled. So, we have put about $3 million in additional money back into the community, but we are down to about $1.5 million on our loan.

Mr. CONAWAY. What was the original term of the loan?

Mr. HOEHN. Thirty years.

Mr. CONAWAY. Thirty years.

Mr. HOEHN. Yes.

Mr. CONAWAY. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. Yes, sir. Ms. Crystle, how large are the farms which participate in your Cooperative?

Ms. CRYSTLE. How many farms?

The CHAIRMAN. How large are the farms?

Ms. CRYSTLE. Oh, well, they range from about 3 acres to maybe 80 acres, and on those larger farms they have—they are very diversified, they have a small dairy herd. So, a lot of those 80 acre farms are pasture land and land to grow hay.

The CHAIRMAN. Do any of your farmer-members have side ventures to sell portions of their produce outside of the Cooperative?

Ms. CRYSTLE. No, that is against our membership guidelines, so they can't compete with the Cooperative.

The CHAIRMAN. Okay. Thank you. Did you have any final questions, Mr. Conaway?

Mr. CONAWAY. Just one. Mr. Jones, the tension between private lending and government guaranteed lending, the local banks you say are unwilling or incapable of making loans competitively so that guarantees aren't needed. What is going on there because most of us would prefer that lending be done privately as done with everything else. The loan guarantees by the taxpayers would be kind of a last resort.

Mr. JONES. I think, presently, with the economy as it is that we are seeing from the banking side some lesser lending on smaller businesses. It is more difficult for small businesses to be able to obtain lending through the banks, and this is where the Intermediary Relending Program, for us, has been very beneficial for those smaller businesses. We have been very fortunate. All of our loans are on bank draft and we don't have any losses with any of those loans at this time, so it has been beneficial. The banking industry, I think, because the economy has just tightened down on the lending side of where we were lending 15 year term limits at six percent interest, banks are keeping a cap of 5 years, and I understand that from the banking industry as well too, it is to protect their risk. But the small business lending program is ideal today because of some of the financial crisis that we see.

Mr. CONAWAY. All right. Thank you. Dr. Kangas, one of your recommendations, and I appreciate the specificity of your recommendations because it is helpful as sometimes we talk at 10,000 feet when we really need to be a little lower. You mentioned that B&I should go to a low-doc or no-doc process. Given the wreck we have seen in mortgage lending with lack of documentation and the problems there, is there something that offsets similar risk here that you wouldn't know your borrower?

Dr. KANGAS. Well, the reference to low-doc isn't to lower the credit standards, which in the mortgage lending industry the problem really was no documentation, liar loans, *et cetera*, driven by brokers who were merely trying to make a quick buck, and, obviously, got a lot of banks and others into trouble. Low-doc is really for—is similar to the SBA program where there is minimal work that is done on the application. The underwriting process remains the same. The credit quality remains the same, but it would be for smaller loans, and the principal impediment for banks to get involved with the Business and Industry Guarantee Program is the voluminous application that goes along with it. So, there are ways to streamline that process, and I have talked to the Administrator about that specifically. Whether or not they are proposing to do anything or not, I am not sure.

Mr. CONAWAY. Okay. A more euphemistic phrase might be a streamlined process rather than low-doc given the low-doc is a——

Dr. KANGAS. I think that would be a better description although in the industry low-doc is the term of choice.

Mr. CONAWAY. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Conaway. Thank you to each of our panelists and everyone in attendance today at this important hearing. Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member. This hearing of the Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture is now adjourned. Thank you.

[Whereupon, at 11:56 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL BY JUDITH CANALES, ADMINISTRATOR, RURAL BUSINESS-COOPERATIVE SERVICES, U.S. DEPARTMENT OF AGRICULTURE

Locally Produced Agriculture Products

Through fiscal year 2012, the agency is required to reserve not less than five percent of the funds made available to the B&I program until April 1 of each year for entities that establish and facilitate the processing, distributing, aggregating, storing, and marketing of locally or regionally produced agricultural food products. Prior to allocating funds to the State Offices, we will remove the five percent setaside and retain it in the National Office. State Offices will request funds from the setaside the same way funds are requested from the National Office reserve. Requests will clearly indicate that the project is for locally or regionally produced agricultural food products. Additionally, priority will be given to projects that have components benefiting (providing product to) underserved communities, including applicants who propose to work with retail establishments in underserved communities to supply items to promote and ensure the salability of the locally-produced agricultural food products. For the purposes of this setaside, underserved community is defined as a community (including an urban or rural community and an Indian tribal community) that has limited access to affordable, healthy foods, including fresh fruits and vegetables, in grocery retail stores or farmer to consumer direct markets AND has a high rate of hunger or food insecurity or a high poverty rate. For fiscal year 2010, $76,164,913 will be set aside under B&I ARRA reservej. We are not sure the exact amounts that will be available under regular B&I in the National Office reserve and B&I Disaster reserve, but it will be 5 percent of the available funds.

Item 4: Please provide a narrative statement that explains how the final rule and the NOFA will be published simultaneously, *i.e.,* the concern that we will be putting out a NOFA without knowing what the final rule says.

Response: The Administrator has indicated that the agency will publish the Final Rule for the Rural Microenterprise Assistance Program (RMAP) simultaneously with publication of the Notice of Funding Availability (NOFA). Once comments on the proposed rule are received, reviewed, and incorporated as appropriate, the NOFA will be finalized accordingly. The NOFA, along with the Final Rule will be processed through the Agency internal clearance process. The NOFA will not be published prior to publication of the Final Rule.

Item 5: Describe the matching requirements in the proposed rule and explain that we will be responsive to comments.

Response: As proposed, the RMAP program has three distinct activities that will require participants to provide matching funds. The establishment of a Loan Loss Reserve Fund will require a five percent (5%) match. The provision of a Technical Assistance Grant will require a twenty-five percent (25%) match. And the provision of an Enhancement grant will also require a 25% match for any project funded.

Loan Loss Reserve Fund Match

The first set of matching funds will be used to establish a Loan Loss Reserve Fund. The Loan Loss Reserve Fund will be held in a federally insured depository account and will be maintained an amount equal to not less than five percent (5%) of the amount owed to the agency by the RMAP intermediary. The 5% will be made up of non-Federal cash. To ease the burden of raising up front cash, intermediaries may build the fund over time so that they will only be required to put dollars into the fund as the Agency disburses dollars to the intermediary. Over time, the Loan Loss Reserve Fund must be maintained at a level of 5% of the debt owed to the Agency by the intermediary lender. In the event that a microloan fails and reserve funds are used causing the Loan Loss Reserve Fund to dip below 5% of the outstanding debt to the Agency, the intermediary will be required to access its own funding to bring the Reserve Fund up to the 5% requirement.

Grant Match

The second set of matching funds in accordance with the statute will equal a total of twenty-five percent of the amount of a grant. The grant match will be made up of two tranches of funding. The first tranche is a cash requirement in the amount of ten percent (10%) of the grant amount. The second tranche is a fifteen percent (15%) requirement that can be made up of further cash or of in-kind contributions, such as the dollar equivalent of volunteer time or use of equipment, of donation of space. For Technical Assistance grants, up to ten percent of the grant may be used for administrative expenses.

Since the rule has been published proposed and is open to public comment. All comments will be considered in developing the final rule.

USDA Rural Development—Business Programs—Energy Branch—Rural Coordinator List

10/22/09

Alabama

QUINTON HARRIS, USDA Rural Development,
Sterling Centre, Suite 601,
4121 Carmichael Road,
Montgomery, AL 36106–3683,
(334) 279–3623,
Quinton.Harris@al.usda.gov.

Alaska

DEAN STEWART, USDA Rural Development,
800 West Evergreen, Suite 201,
Palmer, AK 99645–6539,
(907) 761–7722,
dean.stewart@ak.usda.gov.

Arizona

ALAN WATT, USDA Rural Development,
230 North First Avenue, Suite 206,
Phoenix, AZ 85003–1706,
(602) 280–8769,
Alan.Watt@az.usda.gov.

Arkansas

TIM SMITH, USDA Rural Development,
700 West Capitol Avenue, Room 3416,
Little Rock, AR 72201–3225,
(501) 301–3280,
Tim.Smith@ar.usda.gov.

California

PHILIP BROWN, USDA Rural Development,
430 G Street, #4169,
Davis, CA 95616,
(530) 792–5811,
Philip.brown@ca.usda.gov.

Colorado

APRIL DAHLAGER, USDA Rural Development,
655 Parfet Street, Room E–100,
Lakewood, CO 80215,
(720) 544–2909,
april.dahlager@co.usda.gov.

Delaware-Maryland

BRUCE WEAVER, USDA Rural Development,
1221 College Park Drive,
Suite 200,
Dover, DE 19904,
(302) 857–3629,
Bruce.Weaver@de.usda.gov.

Florida/Virgin Islands

JOE MUELLER, USDA Rural Development,
4440 NW. 25th Place,
Gainesville, FL 32606,
(352) 338–3482,
joe.mueller@fl.usda.gov.

Georgia

J. CRAIG SCROGGS, USDA Rural Development,
111 E. Spring St., Suite B,
Monroe, GA 30655,
(770) 267–1413 ext. 113,
craig.scroggs@ga.usda.gov.

Hawaii

TIM O'CONNELL, USDA Rural Development,
Federal Building, Room 311,
154 Waianuenue Avenue,
Hilo, HI 96720,
(808) 933–8313,
Tim.Oconnell@hi.usda.gov.

Idaho

BRIAN BUCH, USDA Rural Development,
9173 W. Barnes Drive, Suite A1,
Boise, ID 83709,
(208) 378–5623,
Brian.Buch@id.usda.gov.

Illinois

MOLLY HAMMOND, USDA Rural Development,
2118 West Park Court, Suite A,
Champaign, IL 61821,
(217) 403–6210,
Molly.Hammond@il.usda.gov.

Indiana

JERRY HAY, USDA Rural Development
5975 Lakeside Boulevard
Indianapolis, IN 46278
(812) 873–1100
Jerry.Hay@in.usda.gov.

Iowa

TERESA BOMHOFF, USDA Rural Development,
873 Federal Building,
210 Walnut Street,
Des Moines, IA 50309,
(515) 284–4447,
teresa.bomhoff@ia.usda.gov.

Kansas

DAVID KRAMER, USDA Rural Development,
1303 SW First American Place, Suite 100,
Topeka, KS 66604–4040,
(785) 271–2744,
david.kramer@ks.usda.gov.

Kentucky

SCOTT MAAS, USDA Rural Development,
771 Corporate Drive, Suite 200,
Lexington, KY 40503,
(859) 224–7435,
scott.maas@ky.usda.gov.

Louisiana

KEVIN BOONE, USDA Rural Development,
905 Jefferson Street, Suite 320,
Lafayette, LA 70501,
(337) 262–6601, Ext. 133,
Kevin.Boone@la.usda.gov.

Maine

JOHN F. SHEEHAN, USDA Rural Development,
967 Illinois Avenue, Suite 4,
P.O. Box 405,
Bangor, ME 04402–0405,
(207) 990–9168,
john.sheehan@me.usda.gov.

Massachusetts/Rhode Island/Connecticut

CHARLES W. DUBUC, USDA Rural Development,
451 West Street, Suite 2,
Amherst, MA 01002,

(401) 826–0842 X 306,
Charles.Dubuc@ma.usda.gov.

Michigan

TRACI J. SMITH, USDA Rural Development,
3001 Coolidge Road, Suite 200,
East Lansing, MI 48823,
(517) 324–5157,
Traci.Smith@mi.usda.gov.

Minnesota

LISA L. NOTY, USDA Rural Development,
1400 West Main Street,
Albert Lea, MN 56007,
(507) 373–7960 Ext. 120,
lisa.noty@mn.usda.gov.

Mississippi

G. GARY JONES, USDA Rural Development,
Federal Building, Suite 831,
100 West Capitol Street,
Jackson, MS 39269,
(601) 965–5457,
george.jones@ms.usda.gov.

Missouri

MATT MOORE, USDA Rural Development,
601 Business Loop 70 West,
Parkade Center, Suite 235,
Columbia, MO 65203,
(573) 876–9321,
matt.moore@mo.usda.gov.

Montana

JOHN GUTHMILLER, USDA Rural Development,
900 Technology Blvd., Unit 1, Suite B,
P.O. Box 850,
Bozeman, MT 59771,
(406) 585–2540,
John.Guthmiller@mt.usda.gov.

Nebraska

DEBRA YOCUM, USDA Rural Development,
100 Centennial Mall North,
Room 152, Federal Building,
Lincoln, NE 68508,
(402) 437–5554,
Debra.Yocum@ne.usda.gov.

Nevada

HERB SHEDD, USDA Rural Development,
1390 South Curry Street,
Carson City, NV 89703,
(775) 887–1222,
herb.shedd@nv.usda.gov.

New Hampshire (See Vermont)

New Jersey

VICTORIA FEKETE, USDA Rural Development,
8000 Midlantic Drive,
5th Floor North, Suite 500,
Mt. Laurel, NJ 08054,
(856) 787–7752,
Victoria.Fekete@nj.usda.gov.

New Mexico

JESSE BOPP, USDA Rural Development,
6200 Jefferson Street, NE,
Room 255,
Albuquerque, NM 87109,

(505) 761–4952,
jesse.bopp@nm.usda.gov.

New York

THOMAS HAURYSKI, USDA Rural Development,
415 West Morris Street,
Bath, NY 14810,
(607) 776–7398 Ext. 132,
Thomas.Hauryski@ny.usda.gov.

North Carolina

DAVID THIGPEN, USDA Rural Development,
4405 Bland Rd. Suite 260,
Raleigh, N.C. 27609,
(919) 873–2065,
David.Thigpen@nc.usda.gov.

North Dakota

DENNIS RODIN, USDA Rural Development,
Federal Building, Room 208,
220 East Rosser Avenue,
P.O. Box 1737,
Bismarck, ND 58502–1737,
(701) 530–2068,
Dennis.Rodin@nd.usda.gov.

Ohio

RANDY MONHEMIUS, USDA Rural Development,
Federal Building, Room 507,
200 North High Street,
Columbus, OH 43215–2418,
(614) 255–2424,
Randy.Monhemius@oh.usda.gov.

Oklahoma

JODY HARRIS, USDA Rural Development,
100 USDA, Suite 108,
Stillwater, OK 74074–2654,
(405) 742–1036,
Jody.harris@ok.usda.gov.

Oregon

DON HOLLIS, USDA Rural Development.
200 SE Hailey Ave, Suite 105,
Pendleton, OR 97801,
(541) 278–8049, Ext. 129,
Don.Hollis@or.usda.gov

Pennsylvania

BERNARD LINN, USDA Rural Development,
One Credit Union Place, Suite 330,
Harrisburg, PA 17110–2996,
(717) 237–2182,
Bernard.Linn@pa.usda.gov.

Puerto Rico

LUIS GARCIA, USDA Rural Development,
IBM Building,
654 Munoz Rivera Avenue, Suite 601,
Hato Rey, PR 00918–6106,
(787) 766–5091, Ext. 251,
Luis.Garcia@pr.usda.gov.

South Carolina

SHANNON LEGREE, USDA Rural Development,
Strom Thurmond Federal Building,
1835 Assembly Street, Room 1007,
Columbia, SC 29201,
(803) 253–3150,
Shannon.Legree@sc.usda.gov.

South Dakota

DOUGLAS ROEHL, USDA Rural Development,
Federal Building, Room 210,
200 4th Street, SW.,
Huron, SD 57350,
(605) 352–1145,
doug.roehl@sd.usda.gov.

Tennessee

WILL DODSON, USDA Rural Development,
3322 West End Avenue, Suite 300,
Nashville, TN 37203–1084,
(615) 783–1350,
will.dodson@tn.usda.gov.

Texas

DANIEL TORRES, USDA Rural Development,
Federal Building, Suite 102,
101 South Main Street,
Temple, TX 76501,
(254) 742–9756,
Daniel.Torres@tx.usda.gov.

Utah

ROGER KOON, USDA Rural Development,
Wallace F. Bennett Federal Building,
125 South State Street, Room 4311,
Salt Lake City, UT 84138,
(801) 524–4301,
Roger.Koon@ut.usda.gov.

Vermont/New Hampshire

CHERYL DUCHARME, USDA Rural Development,
89 Main Street, 3rd Floor,
Montpelier, VT 05602,
(802) 828–6083,
cheryl.ducharme@vt.usda.gov.

Virginia

LAURETTE TUCKER, USDA Rural Development,
Culpeper Building, Suite 238,
1606 Santa Rosa Road,
Richmond, VA 23229,
(804) 287–1594,
Laurette.Tucker@va.usda.gov.

Washington

MARY TRAXLER, USDA Rural Development,
1835 Black Lake Blvd. SW,
Suite B,
Olympia, WA 98512,
(360) 704–7762,
Mary.Traxler@wa.usda.gov.

West Virginia

RICHARD E. SATTERFIELD, USDA Rural Development,
75 High Street, Room 320,
Morgantown, WV 26505–7500,
(304) 284–4874,
Richard.Satterfield@wv.usda.gov.

Wisconsin

BRENDA HEINEN, USDA Rural Development,
4949 Kirschling Court,
Stevens Point, WI 54481,
(715) 345–7615, Ext. 139,
Brenda.Heinen@wi.usda.gov.

Wyoming

JON CRABTREE, USDA Rural Development,

Dick Cheney Federal Building,
100 East B Street, Room 1005,
P.O. Box 11005,
Casper, WY 82602,
(307) 233–6719,
Jon.Crabtree@wy.usda.gov

REAP Results for FY 2009 Applications On-Hand NO

Program	No.	Dollars Obligated	Jobs Created/ Saved	Business Assisted	Preapps/ Apps Pending	Dollars Pending
REAP—EA–REDA	22	$2,173,631	117	1,348		
REAP—Feasibility Study	50	$1,244,600	46	43		
REAP—RES–EEI Grants 20K or Less	904	$12,040,048	1,272	976	93	$1,265,993
REAP—RES–EEI Grants more than 20K	199	$11,167,222	847	167	363	$68,176,176
REAP—RES–EEI Loan Only	2	$8,451,638	650	3		
REAP—RES–EEI Combo Loan and Grant	380	$76,782,100	2,568	385	47	$23,900,819
Section 9003	2	$105,000,000	92	2	1	$60,000,000
Section 9004	N/A	N/A	N/A	N/A	N/A	N/A
Section 9005	N/A	N/A	N/A	N/A	N/A	N/A

$2,173,631		
$1,244,600		
$12,040,048	$8,451,638	G-Loan
$11,167,222	$49,007,390.50	Combo Loan
$5,567,780	$57,459,029	Total
$27,774,710	5,567,780	B/A
$ 59,967,991	$32,009	Balance

Business Programs—Fiscal Year 2008—Projected Annual Performance Plan Measures Reflecting FY 2008 Appropriated Funding

RBS PROGRAMS	PROJECTED NUMBER OF LOANS AND GRANTS	ACTUAL NUMBER OF LOANS AND GRANTS	ACTUAL %	PROJECTED SUPPORTABLE LOAN/GRANT PROGRAM LEVEL	DOLLARS OBLIGATED	OBLIGATION %	PROJECTED NUMBER OF JOBS SAVED/CREATED	ACTUAL JOBS SAVED/CREATED	% JOBS SAVED/CREATED	PROJECTED NUMBER OF SMALL RURAL BUSINESSES ASSISTED *	ACTUAL NUMBER OF SMALL RURAL BUSINESSES ASSISTED *	% SMALL RURAL BUSINESSES ASSISTED	PROJECTED KILOWATT HOURS OF ENERGY PRODUCED/SAVED FROM RENEWABLE ENERGY SYSTEM	ACTUAL KILOWATT HOURS OF ENERGY PRODUCED/SAVED FROM RENEWABLE ENERGY SYSTEM	% OF KILOWATT HOURS	PROJECTED BUSINESS & INDUSTRY DELINQUENCY RATE	ACTUAL B&I DELINQUENCY RATE (Excluding Bankruptcies)	ACTUAL B&I DELINQUENCY RATE (Including Bankruptcies)
Business and Industry Guaranteed Loan Program	462	588	127.27%	$ 993,000,000.00	$ 1,390,531,595	140.03%	16,625	18,703	112.50%	509	645	126.72%				10.50%	7.42%	8.97%
Intermediary Relending Programs (1)	57	40	70.18%	$ 33,536,596.00	$ 33,536,033	100.00%	25,655	25,655	100.00%	335	325	97.01%						
Rural Business Enterprise Grants	521	587	112.67%	$ 44,223,026.00	$ 57,591,299	130.23%	18,799	18,403	97.89%	10,272	10,486	102.08%						
Rural Business Opportunity Grants	38	33	86.84%	$ 2,634,610.00	$ 2,942,083	111.67%	3,405	994	29.19%	397	646	162.72%						
Rural Economic Development Loans	55	45	81.82%	$ 33,120,656.00	$ 32,402,228	97.83%	4,938	4,895	99.13%	71	74	104.23%						
Rural Economic Development Grants	37	34	91.89%	$ 10,000,000.00	$ 10,000,000	100.00%	1,650	1,826	110.67%	62	52	83.87%						
Section 9006 - Renewable Energy loans (2),(3)**	479	183	38.20%	$ 204,953,560.00	$ 15,566,171	7.59%	1,627	1638	100.68%	366	183	50.00%	658,000,000	83,114,411	12.63%			
Section 9006 - Renewable Energy Grants (2),(3)**	445	765	171.91%	$ 15,888,000.00	$ 34,239,636	215.51%	1,195	1,117	93.47%	639	765	119.72%	24,000,000	1,036,418,746	4318.41%			
TOTAL	2,094	2,275	108.64%	$ 1,337,356,448.00	$ 1,576,809,045	117.90%	73,894	73,231	99.10%	12,651	13,176	104.15%	682,000,000	1,119,533,157	164.15%			

* Projects actual number of rural businesses assisted. GLS automation for small rural business reporting not completed. However, based on a review of information available, we estimate that in excess of 95% of businesses assisted meet the SBA definition of small.

** Loan and Grant Combos reported separately in loan and grant categories. Combo jobs and businesses assisted performance measures are prorated accordingly.

(1) on the average, each $100,000 of Intermediary Relending Program money loaned by the intermediary results in one ultimate recipient (business) loan. This loan provides jobs for approximately 20-25 people. The average loan to an ultimate recipient is 8.82 years. Based on an average term of 8.82 years per loan to ultimate recipients, the total loan funds available to the intermediary would revolve 3.4 times over the 30-year term of the loan to the intermediary. Therefore, this would result in approximately 76.5 jobs per $100,000 over the 30-year life of the loans to the intermediaries (22.5x3.4=76.5). (2) Section 9006 Renewable Energy/Energy Efficiency Improvement Program (Section 9006) awards have resulted in the following: generated the equivalent of 1,119 million kWh, representing the energy needs of approximately 183,420 homes. This investment has reduced the need for importing 3.07 million barrels of oil and has reduced green house gas emissions equivalent to .39 million metric tons. (3) Secretary of Agriculgture pledge announced March 6: "Produce or save 682 million kilowatt hours of energy in Fiscal Year 2008 while assisting more than 1,000 rural small businesses, and creating or saving over 2,800 jobs in rural communities."...

Finalized 1/25/2008;refinaled 3/19/08

Pandor- Businesses assisted with combo packages are noted under the loan section. Businesses assisted with grants only are listed under the grants section. Thanks. JR

SUBMITTED LETTER BY TIMOTHY COLLINS, PH.D., ASSISTANT DIRECTOR, ILLINOIS INSTITUTE FOR RURAL AFFAIRS, WESTERN ILLINOIS UNIVERSITY

October 27, 2009

To: Hon. MIKE MCINTYRE, *Chairman;* Hon. K. MICHAEL CONAWAY, *Ranking Minority Member;* U.S. House of Representatives, Committee on Agriculture, Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture

From: TIMOTHY COLLINS, PH.D., *Assistant Director*

Re: Response to Mr. Conaway's question regarding cost of job creation

At the Subcommittee meeting on October 21, Mr. Conaway asked me a question regarding the cost per job from IIRA's RCDI grant that we are using to help small businesses build their IT capacity. I answered that I believed the cost was between $10,000 and $15,000 per job, probably on the higher end. In fact, that estimate was low; the actual figure is closer to $20,000.

After discussing this matter with staff, it appears that one significant reason for the higher cost relates to working with three different communities that are spread across the state. While we do tailor the grant programming to each community, there is considerable travel involved in working with each community and in bringing communities for common trainings, which, as I mentioned in the testimony, cover a wide variety of topics.

I hope that this is a satisfactory answer. Please do not hesitate to contact me if you need any additional information.

Thank you for the opportunity to testify before the Subcommittee.

Timothy Collins

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