



# FARM CREDIT

**Testimony of  
Tom Halverson,  
President and CEO, CoBank  
on behalf of the Farm Credit System  
before the U.S. House Committee on Agriculture  
July 19, 2017**

Good morning Chairman Conaway, Ranking Member Peterson and Members of the Committee. Thank you for calling this hearing today to explore the infrastructure needs of rural communities and agriculture.

My name is Tom Halverson and I am President and CEO of CoBank. Today, I am testifying on behalf of the Farm Credit System. CoBank, is a proud member of the Farm Credit System, and we share the Farm Credit mission to support rural communities and agriculture.

Farm Credit is proud to be helping organize the Rebuild Rural Coalition, engaging more than 200 organizations from across the country focused on U.S. agricultural producers, rural communities, businesses, and families. Rebuild Rural is dedicated to advocating for investment in rural America's infrastructure and understands that rural America's infrastructure needs are fundamentally unique.

On behalf of the Coalition, we are grateful for the House Agriculture Committee's interest in rural infrastructure and ask that as infrastructure legislation moves in this Congress, as part of the Farm Bill or other legislation, this Committee work aggressively to ensure that the unique needs of agriculture and rural communities are specifically addressed.

As the Rebuild Rural Coalition pointed out earlier this year, those in rural communities have seen our infrastructure deteriorate, jeopardizing jobs, our agricultural competitiveness, the health of rural families and communities. Past public sector infrastructure initiatives often focused on urban and suburban infrastructure improvements while ignoring or inadequately addressing the unique needs of rural communities.

American agriculture truly feeds the world and creates millions of jobs for U.S. workers. Our nation's ability to produce food and fiber and transport it efficiently across the globe is a critical factor in U.S. global competitiveness and economics. Infrastructure that supports rural communities and links them to global markets has helped make the U.S. the unquestioned world leader in agricultural production. Our deteriorating rural infrastructure threatens that leadership position.

Transportation infrastructure improvement is the most obvious need in rural communities, though not the only one. Highways, bridges, railways, locks and dams, harbors and port facilities all need major investment if we are to continue efficiently moving U.S. agricultural products to domestic and global markets. For example, one-quarter of our road system's bridges require significant repair, or cannot efficiently handle today's traffic and many of the 240 locks and dams along the inland waterways are in need of modernization. Most of our locks and dams have outlived their useful life. Those waterway corridors supported \$128 billion in agricultural exports in 2015. Importantly, 74% of bridges and 73% of

roads are in rural areas. Additionally, critical needs exist in providing clean water for rural families, expanding broadband and other communications capabilities to connect rural communities to the outside world, and enhancing the ability to supply affordable, reliable and secure electric power for the rural economy.

The scope of the investment needed to sustain and upgrade our rural infrastructure is staggering. Clearly the Federal Government must continue to play an important role in providing funding and we believe that those federal investments should increase. However, federal resources likely cannot fill the need entirely. Creative solutions that pair federal investment and state/local government investment with private sources of capital hold promise for raising a portion of the funds necessary to do the job.

The members of Rebuild Rural, including all of us in Farm Credit, stand ready to work with Congress and the Trump Administration on this important initiative. In fact, the Farm Credit System has a long history of supporting rural infrastructure and CoBank has traditionally led those efforts.

### Farm Credit and Infrastructure

Unlike most Farm Credit institutions, CoBank doesn't directly lend to individual farmers. Instead, we provide funding to 23 farmer-owned Farm Credit associations that, in turn, finance more than 70,000 agricultural producers in 23 states in the northeast, plain states, and west. As a cooperative, CoBank is owned by those Farm Credit associations along with our infrastructure and agribusiness customers throughout the country.

CoBank is unique in Farm Credit in that we finance or facilitate the export of more than \$9 billion worth of U.S. farm products annually—by our estimate more than 15% of US bulk and intermediate agricultural exports—around the world. CoBank also lends to farmer-owned cooperatives, agribusinesses, and rural infrastructure providers that are essential to the financial success of farmers and economic success of rural America. The importance of that infrastructure lending is what brings me before you today.

I appreciate that you have called this hearing to examine *The State of the Infrastructure in Rural America*. As you know, the infrastructure needs of the nation are substantial and exist in every state. But the needs in rural America differ considerably from our urban centers and their suburbs. Those unique needs deserve a second look and this hearing is an excellent opportunity to highlight them.

In the critical area of agricultural research, Rebuild Rural has identified \$8.4 billion in funding needs for deferred maintenance in the buildings and infrastructure where cutting edge research is conducted. Investment in facilities provides critical research for ensuring that U.S. agricultural remains the most productive, sustainable, and economically efficient producer of agricultural products in the world.

Rural communities also need access to health care, which has become an increasing challenge. Eighty rural hospitals have closed since 2010 and 673 more facilities have been identified as vulnerable—that's over one-third of the rural health facilities in the nation. Funding is needed to address the 77% of rural counties that are in Primary Healthcare Professional Shortage Areas. Telehealth can ease this pressure but only with significant additional broadband investment to close the rural-urban digital divide.

Financing these improvements is a major part of the challenge we face and I would like to describe some of our experience in lending in these markets.

### Community Facilities

Hospitals, senior care centers, walk-in clinics, schools and other community facilities are critical to the viability of rural communities and are important contributors to the quality of life for rural families. In many rural communities those essential facilities are not available or need modernization.

Federal investments, made available through USDA's successful Community Facilities Loan and Grant program continue to be necessary. Attracting private sector investment in these facilities will help speed up the progress of projects and increase the number of community facilities.

Farm Credit institutions are working to create a scalable solution for financing rural community facilities in partnership with community banks and the USDA. The partnership will focus on building, modernizing and expanding rural healthcare facilities, rural senior care facilities, rural educational facilities and others critical to creating vibrant rural communities.

Farm Credit will identify rural projects and partner with local community and regional banks to create comprehensive financing packages to include short- and long-term bond investments paired with USDA guaranteed and direct loans and grants that fund facility construction and provide stable permanent facility financing.

Previously, under a pilot program authorized by the Farm Credit Administration (FCA), Farm Credit institutions invested in bonds issued by the community developing the facility. In creating many of those bond investments, Farm Credit worked closely with community banks to include them in the financing package and then partnered with USDA's Community Facility Loan and Grant program to ensure the project's affordability for the community.

### **Rural Critical Access Hospital Expansion**

For example, in 2016, Farm Credit institutions partnered with Grand Marais State Bank, Central Bank and Trust, CenBank, Security State Bank and the USDA to finance a \$24.7 million expansion project for Cook County North Shore Hospital and Care Center in Grand Marais, Minnesota (population 1,353). The 16-bed critical access hospital and 37-bed skilled nursing facility plans to add 26,150 square feet and renovate 42,680 square feet of existing space.



Hospital Administrators, county officials and patients break ground on North Shore Hospital's expansion and renovation in 2015. Farm Credit, community banks and the USDA partnered to finance the project in Grand Marais, MN.

A year before CoBank and AgStar (a Farm Credit association that recently merged with two others to form Compeer Financial) led this effort in Grand Marais, they partnered with 3 community banks, 2 additional Farm Credit Institutions and a credit union on a hospital improvement in Moose Lake, Minnesota. They financed a \$38 million dollar addition to Mercy hospital that led to 900 more visits year over year after completion, saving the residents an additional hour drive to urban medical centers in Duluth.

Under the FCA pilot program, Farm Credit institutions invested \$733 million in 210 rural community projects across the country. Commercial banks partnered with Farm Credit on more than 100 of those projects, catalyzing an additional \$315 million of investment.

The original pilot program at FCA ended in 2014 and now the FCA has to provide specific and individual approval for each community facility investment made by each Farm Credit institution. This approach has made the community facilities partnership non-viable.

Under current FCA procedures, Farm Credit institutions have to individually apply to FCA for permission to make each bond investment. FCA staff reviews the investment applications and prepares separate recommendations for action by the FCA Board of Directors. The FCA Board then must consider each application separately and formally vote on approval. This process is expensive, slow and does not result in the robust, sustainable business model necessary to facilitate partnerships between Farm Credit, commercial banks and the USDA that would provide communities with these vital facilities more quickly.

Congress should instruct the Farm Credit Administration to create a more comprehensive, efficient and programmatic approach to approving these investment partnerships. This would greatly enhance financing options for rural community facilities and result in more projects that provide jobs and offer more benefits for rural families.

CoBank finances infrastructure in every state. Our 1267 infrastructure customers have loan commitments of \$31.5 billion with CoBank. That portfolio includes community facilities like those described above; rural water and wastewater treatment companies; wholesale electric generation and transmission cooperatives and retail electric distribution cooperatives; and providers of rural telephone, internet, and cable television and wireless services.

Though CoBank leads Farm Credit's rural infrastructure effort, many more Farm Credit institutions are deeply involved. Partnering together, Farm Credit institutions finance an additional \$9.4 billion in infrastructure. We partner with commercial banks to fund another \$1.6 billion in infrastructure. This Farm Credit partnership means that rural America has a powerful financial ally in supporting its unique infrastructure needs. And, as a cooperative – owned by our customers who live and work in rural America – our primary interest is maximizing the quality and availability of infrastructure to rural communities.

### Water

There are approximately 54,000 community water systems in the United States. The vast majority are small systems with less than 1,000 taps. Supporting rural communities and the businesses that provide their economic lifeblood is a key role for water providers. Without the capacity to deliver enough safe water, communities can't grow, businesses can't expand, and opportunities for new employers to revitalize rural areas are lost. There is significant need for capital in this sector to continue to deliver clean and safe water and to properly treat waste water to ensure environmental safety. The price tag for this investment is high. In 2015 the U.S. Government Accountability Office (GAO) released the results of their study of rural water infrastructure. They found that many communities have a hard time covering the cost of water system improvements or enhancements, in part because of their smaller number of residents and businesses. The GAO estimates that almost \$190 billion is needed to cover the costs of replacing water and waste water infrastructure in rural communities.

The Federal Government is by far the largest provider of capital to rural water systems and will play a vital role for the foreseeable future. The government is able to provide grants and loans with repayment terms of up to 40 years. This allows smaller water systems to make improvements to their infrastructure in a cost effective manner. CoBank offers a variety of loan products to compliment EPA and USDA financing, such as bridge financing, interim financing and long term loans. We also believe innovative public private partnerships can also play a vital role in meeting the unique and vast funding needs for rural water systems.

The EPA has estimated that over the next 20 years more than \$384 billion is needed to repair or update the drinking water systems across the country. Another \$271 billion is needed for the wastewater and storm-water systems. More than 10% of that need is to help systems comply with Safe Drinking Water Act regulations. Approximately \$64.5 billion of that sum would be needed just for the smallest systems

in the nation, which make up 83% of the number of community water systems that need improvements. That is where many rural systems fit in. And for 90% of our nation's water utilities, that need is just to keep delivering safe drinking water to their customers.

Talquin Electric Co-op and Talquin Water and Wastewater serve 53,000 customers in the Florida panhandle. Their location necessitates preparation and specialized construction to address powerful storm impacts. CoBank helped Talquin finance a new sewer main and pumping station to serve Wakulla County residents. The station was deliberately located away from the coastline to minimize the risk of storm damage and associated environmental liabilities. To help the cooperative reduce costs, CoBank provided almost \$22 million in financing to enhance the water and wastewater infrastructure and refinance some of the long-term debt to reduce interest rates. Our leasing subsidiary provides Talquin with leases for their fleet vehicles. With a variety of services, Farm Credit helps Talquin reduce costs to hold rates steady for its customers in four Florida Counties.

In Texas, CoBank financing has allowed rural water and waste systems address immediate needs to address severe drought. CoBank is a primary source of financing for emergency wells and lines of credit for emergency situations. We provide gap funding for grant-funded projects and provide construction financing for USDA projects. We have also helped save utilities significant money by refinancing old expensive debt.

#### Energy

CoBank provides a variety of loan and leasing products to companies that generate and distribute reliable, reasonably priced electricity, natural gas, and other essential energy-related services to rural communities. We have relationships with 58 of the 64 Generation and Transmission (G&T) cooperatives in the U.S. The G&Ts generate electricity and transmit it to our electric distribution customers under long term power purchase agreements. The electric distribution cooperatives then distribute this electricity to serve their local members.

The USDA's Rural Utilities Service (RUS) is a major provider of capital to our electric distribution customers and CoBank frequently partners with RUS under joint mortgage agreements to ensure that our customers are able to fund their extensive capital spending needs. CoBank also maintains a Project Finance division which makes loans directly to independent power producers that specialize in producing electricity for sale to utilities and corporations under power purchase agreements or into the wholesale power markets. Many of our electric distribution cooperative customers are also deploying broadband in their service territories and CoBank leverages its long experience in the communications industry in support of these important initiatives that are helping to close the digital divide. CoBank has lent nearly \$60 million to electric co-ops in districts represented on the Committee to support broadband delivery.

While we continue to see demand for traditional fossil-fuel fired generation, especially natural gas-fired plants, renewable energy is one of the fastest growing sectors in the economy. Our Project Finance division finances many wind and solar projects. Moreover, our G&T and regulated utilities customers are increasingly investing in renewable energy as costs come down, reliability improves, and customer preference for renewable energy increases. Many of our electric distribution cooperatives are also investing in renewable energy projects to reach their own sustainability goals and reduce their reliance on power purchased from others. Bloomberg New Energy Finance analysts estimate that U.S. power infrastructure spending will total \$283 billion over the next 10 years. 70% of this is expected to come from renewables, with about half of that from solar and the other half from wind.

#### Communications

Mr. Chairman, there is not a staffer (and probably not many Members, either) who is not regularly checking their smartphone during this hearing. Like your staff, their friends, family and classmates in

college became accustomed to high levels of service from their communications technology. But when some returned to their rural hometowns and farms, their broadband service did not follow them.

There continues to be a well-publicized “digital divide” between urban and rural broadband subscribers. The FCC’s 2016 Broadband Progress Report estimated that nearly 40% of rural Americans do not have access to internet speeds of 25 Mbps, which is the current FCC target for ideal minimum service. 25% lack access to 10 Mbps. Contrast that with urban areas where less than 5% lack access to 25 Mbps and only about 2% lack access to 10 Mbps.

That lack of access slows the deployment of technology; thus, hampering efficiency on our farms. It stands in the way of adopting telemedicine to manage costs and improve health outcomes for our rural residents. It limits the availability of our rural students to access the internet to enhance their education, and that in turn is preventing some people from bringing their skills and their families to rural communities. It hinders businesses from locating in rural areas, thereby reducing economic activity and rural employment opportunities.

Estimating the costs of closing the digital divide vary according to assumed minimum required speeds. However, most analysts put the cost of meaningfully closing the digital divide at as much as \$100 billion at the 25 Mbps level. 100% coverage of all Americans at the 25 Mbps could cost upwards of \$300 billion. By anyone’s estimate, it is an enormous task and private capital providers, including CoBank, cannot do it alone. Government grants, loans or loan guarantees, public-private partnerships, and a stable regulatory regime that supports adequate cost recovery mechanisms for rural broadband operators will be essential in closing the digital divide.

While the cost of expanding broadband in rural communities is great, the cost of inaction that results in lost jobs and lost communities is even greater.

President Trump emphasized that importance in Iowa last month as he committed to a provision in his infrastructure proposal to promote and foster enhanced broadband access for rural America also, saying, “We have to make sure American farmers and their families, wherever they may be, wherever they may go, have the infrastructure projects that they need to compete and grow.” Access to enhanced broadband infrastructure is essential to the long-term capacity of American farmers to compete globally in marketing their production and manage their farming operations to high degree of efficiency and sustainability. On farm technology has skyrocketed over the past 10 years, and the most effective use of this technology requires access to enhanced communications connectivity.

CoBank provides a variety of loan and leasing products to help communications companies ensure that rural Americans have access to advanced broadband services. CoBank provides funding to all types of communication providers including rural local exchange carriers, cable companies, wireless carriers, and other data infrastructure and telecommunication services companies. The RUS is a major provider of capital to rural communications companies. CoBank partners with RUS in many situations, providing short-term interim financing for capital spending projects until permanent financing through RUS is arranged and longer-term financing for important projects that may not qualify for RUS funding. CoBank also partners with other private sector lenders to catalyze additional capital to finance our communication customers.

Farm Credit firmly believes that a sustainable cost-recovery mechanism is imperative to support the financing of rural broadband in high cost areas. If communication companies don’t have a sufficient, sustainable predictable level of support, deploying affordable broadband in high cost areas is not economically viable and therefore, not financeable. In addition to the high costs associated with constructing broadband infrastructure in rural areas, there are ongoing costs associated with maintaining

and upgrading these networks to accommodate growth of data traffic. The broadband network is a dynamic infrastructure, subject to frequent technological advances that require upgrades and capital spending.

One of CoBank's Customers is Big Bend Telephone in Alpine, Texas, serving 5000 telephone lines and 2800 broadband customers. This small family-owned company has operated for 67 years and serves along 485 miles of the Texas-Mexico Border. Their customers include farmers and ranchers, the U.S. Border Patrol, state and local law enforcement, schools, medical providers the world renowned McDonald Observatory and even Big Bend National Park.

Serving this huge, sparsely populated territory of 17,593 square miles is difficult and expensive. There are just 0.333 customers per square mile. In New York City, there are 27,000 customers per square mile! For their capital needs they rely on the Federal Communications Commission's Universal Service Funds and Farm Credit. CoBank worked with the Farm Credit Bank of Texas and Capital Farm Credit to finance Big Bend. According to Big Bend's General Manager, Rusty Moore, this financing ensures that Big Bend can... "deliver the vast array of technology-centric solutions required to keep our nation's southern border secure and our country stronger as a whole."

#### Conclusion

As I have discussed, the infrastructure needs in rural America are significant and unique. While Farm Credit and others are helping to finance these needs, more needs to be done. As advocated by the Rebuild Rural coalition, infrastructure legislation by Congress should specifically address the unique needs of agriculture and rural communities. We also recognize that the Federal Government needs strong private investor engagement to partner with to meet the infrastructure needs in rural America. Farm Credit stands ready and capable to do its part and work closely with the Federal Government and private investors to meet rural infrastructure funding needs.

I appreciate the big job before you in addressing these challenges and opportunities and the Farm Credit System looks forward to working with the Committee as you begin writing and advancing the Farm Bill.

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