

RURAL DEVELOPMENT

**Statement of Doug O'Brien
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Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations, U.S. House of Representatives**

Chairman Aderholt, Ranking Member Farr and members of the Subcommittee, thank you for the opportunity to present the President's 2015 Budget for the Department of Agriculture's (USDA) Rural Development mission area. I am accompanied this morning by Mr. John Padalino, Ms. Lillian Salerno and Mr. Tony Hernandez, Administrators for Rural Development's Utilities, Business and Cooperatives, and Housing and Community Facilities Programs, respectively. I respectfully ask that their statements be included in the record. Also with me is Mr. Michael Young, USDA's Budget Officer.

I am pleased to represent an agency with the primary responsibility of creating opportunities and improving the quality of life in rural areas. The men and women of USDA Rural Development take seriously the responsibility of supporting people who live in small towns and rural communities. We understand that investments in rural America are more important than ever. Rural growth is essential to national economic growth. And today, people who live in rural places see historic opportunities in areas such as local and regional food systems, the bio-economy, and manufacturing.

USDA is helping farmers and ranchers diversify into new markets, including local and regional food systems, specialty crop production, and expanded market access. Supporting local and regional food systems is important to the economic health of rural areas because, as USDA research shows, money spent on food produced locally tends to stay and circulate in the community, expanding the potential for job creation and spurring economic growth. USDA

estimated the value of local food sales in the U.S. at \$5 billion in 2008, and industry sources put that number at \$7 billion just three years later. The National Grocers Association and the National Restaurant Association have identified local foods as a number-one trend in their industries for several years running. USDA's investments in local and regional supply chains help producers break into new markets and meet consumer demand in underserved communities.

As such, this strategy is a critical piece of USDA's work to support rural economies more generally. This type of agriculture is a growth area in the rural economy – something that is drawing young people back to rural communities, generating jobs, and improving quality of life. Our research shows that money spent on local food often continues to circulate locally, creating demand for other businesses and services in rural communities. USDA's investments in local and regional supply chains help producers break into new markets and meet consumer demand in underserved communities. As such, this strategy is a critical piece of USDA's work to support rural economies more generally.

USDA has invested in local food infrastructure - from cold storage facilities, to processing plants, to farmers markets, to food hubs that aggregate products from many farms and help smaller producers reach larger buyers. There are over 230 food hubs in operation nationwide today, and more than 8,100 farmers markets registered with the AMS National Farmers Market Directory. The 2014 Farm Bill builds on this progress by expanding funding eligibility through the Farmers Market and Local Food Promotion Program to include both direct-to-consumer opportunities like farmers markets, and supply chain projects like food hubs, which will allow USDA to invest up to \$30 million annually in local and regional food systems.

Rural Development programs are supporting these important economic opportunities for rural America. The Business and Industry Loan Guarantee Program, for example, supports critical infrastructure such as cold storage, aggregation, processing and distribution businesses, including food hubs. There are now over 230 food hubs nationwide aggregating products from local producers for sale to large-volume regional buyers such as schools and grocers. Each food hub generates an average of 20 jobs and \$4 million in annual sales.

Rural Development's Community Facilities program is supporting community assets such as farmers markets, which not only provide producers with a local customer base but have been shown to stimulate other economic activity in the neighborhoods where they are located. Between 2008 and 2013, the number of farmers markets nationwide has increased by 74 percent.

As exciting is the emerging bio-economy sector, which is on the cutting edge of science and technology by making products and alternative fuels from the plants that our farmers grow. Rural Development has a number of programs to support this emerging industry. For example, Nebraska's Laurel Biocomposites, received a \$5 million loan for equipment and working capital for a processing facility that will create a new biobased product which replaces and/or enhances traditional petrochemical-based plastics. When operational, the company will produce 48 million pounds of finished bio-resin product and support critical job creation in this community of 964 people.

USDA has also provided a loan guarantee of \$25 million to Myriant Corporation to help construct a bio-based production facility in Lake Providence, Louisiana. The plant is expected to produce 18,000 tons of ammonium sulfate and 15,000 tons of succinic acid per year, currently made from butane using petrochemicals. This platform can be used to produce many of the products we use everyday, such as coatings and adhesive, with ultra-low odor, broad spectrum coalescing solvent.

This funding is an example of the many ways that USDA is helping revitalize rural economies to create opportunities for growth and prosperity, support innovative technologies, identify new markets for agricultural producers, and better utilize our Nation's natural resources.

We believe that growth in the bio-economy will, in large part, be rural-centered due to the proximity to the biomass that will feed production and will help drive economic development in every State in the country, shown by the "Billion Ton Study" update. The results show the availability of over 1 billion tons of biomass without affecting existing farm or forestry products over the next 15 years; potentially a five-fold increase in this industry representing hundreds of thousands of jobs across the supply chain. The assets and the residents of rural areas will be

more important than ever as we explore ways to make the United States less reliant on foreign resources and increase quality non-metro job growth.

The bio-economy, in many ways, marries two important economic engines for rural America: agriculture and manufacturing. In the same vein as George Washington Carver, who discovered hundreds of alternative uses for peanuts, soybeans, and sweet potatoes, today's bio-based innovators are creating alternative uses that reduce our dependence on foreign oil, developing new technologies to make things in rural areas with locally-grown products, and ultimately creating jobs and growing the rural economy.

While opportunities exist in rural America, there are some disturbing trends that we need to recognize. The USDA's annual report, *Rural America at a Glance*, points to stalled job growth in non-metro counties, an increase in poverty – particularly among children – and a declining population, the first population loss in real terms since the Federal Government began tracking this statistic generations ago.

The recession hit rural economies especially hard and significantly impacted job growth. Since 2011, urban areas have experienced steady job growth while rural net job growth has stagnated. Childhood poverty rates in rural areas have increased by nearly one-third since 2001. Today, 27 percent of rural children are living in poverty compared with 21 percent of urban children. Furthermore, 33 percent of rural counties now have poverty rates over 30 percent.

These numbers are deeply concerning because not only do they indicate current challenges in rural communities and the Nation's economy, they also are a troubling harbinger for the future.

In the context of these historic opportunities, as well as significant challenges, Congress provided significant support of a program level of \$180 billion from 2010 to 2014 for rural initiatives. USDA Rural Development uses these resources to provide direct and guaranteed loans, grants, technical assistance, and other payments in rural areas. We provide assistance to intermediaries that make loans or provide technical assistance to the ultimate beneficiaries. We require or encourage recipients, in several programs, to contribute their own resources or obtain

third-party financing to support the total cost of projects, in which case these programs leverage USDA's support with private sector financing.

Rural Development's infrastructure programs make investments in rural utility systems that help improve and expand the rural electrical grid, provide clean drinking water to rural communities, and deliver increased Internet service to rural families and to businesses, allowing them to compete in the global economy. In 2013 alone, we provided nearly 120,000 rural households, businesses and community institutions with new or better access to broadband service, provided more than 8.7 million consumers with new or improved electric service, and delivered 1.8 million rural residents with new or improved water or wastewater service necessary for health, safety and sustainable economies.

Through USDA Rural Development's business and cooperative loan, grant, and technical assistance programs, the agency helped thousands of rural small business owners and agricultural producers improve their enterprises, including those related to renewable energy. Beyond direct assistance to these business owners and producers, financial support from USDA also creates lasting economic development opportunities in the rural communities where the projects are located. Business and cooperative funding helped 11,582 businesses, farmers and ranchers, which we estimate created or saved 44,000 jobs in 2013.

Not only do we support small businesses, but we also support the social infrastructure that makes rural communities a great place to raise a family and own a business. USDA Rural Development's Community Facilities loan and grant program provided assistance to construct or improve 195 educational facilities, and supported 134 health care facilities – part of more than 1,054 Rural Development supported Community Facilities nationwide in 2013. Other key projects included support for local, rural emergency responders.

Finally, the USDA Rural Development housing program ensures that rural families have access to decent, affordable housing. In 2013, more than 170,000 families with limited to moderate incomes purchased homes utilizing our housing programs. We also helped about 7,000 rural individuals or families repair their existing homes under our home repair loan and grant program.

Of the 286,000 rental assistance units, we renewed 190,000 rental assistance units in USDA-financed multi-family housing for low- and very-low income people.

We have used the significant resources that Congress has provided to make a real impact in rural places. Yet the opportunities and the challenges of rural America make it clear to all of us that more needs to be done. The President's 2015 budget proposes to do just that by giving priority to spurring investment in rural businesses that want to take advantage of emerging markets as well as focus resources in areas of greatest need. The budget aids in the development of locally or regionally produced food and products and other opportunities for rural business innovation with proposals to fund programs such as the Value Added Producer Grant Program, the Business and Industry loan program and the consolidated grant program. We also double grant funding to increase broadband access in the rural communities that are least likely to have broadband infrastructure needed for economic development.

The budget proposal for the Community Facilities program will enable 13.7 million residents to benefit from improved health, safety and educational facilities. The proposed investment in water and waste systems will deliver new and improved service to over two million rural residents. Clean water and efficient waste service are basic necessities for healthy communities and successful growth. We again propose to consolidate funding and authorities of existing Rural Development grant programs into an economic development grant program designed to assist small and emerging private businesses and cooperatives in rural areas with a population of 50,000 or less. The consolidated grant program will improve economic development as compared to the stand alone programs through better planning and leveraging of private sector resources. The budget also complements provisions in the Farm Bill, which seek to consolidate duplicative authorities and build a body of evidence on what works best in promoting economic development.

The budget also requests funding to finance the purchase of renewable energy systems through the Rural Energy for America program. We propose a program level of \$1 billion to support environmental upgrades to existing fossil fuel electric generation facilities and target electric funding to support renewable energy projects to significantly reduce carbon emissions.

The budget proposes to help people in rural America, particularly those in greatest need, put a roof over their heads. Direct and Guaranteed housing loans will provide nearly 175,000 families with homeownership opportunities. Rental Assistance totaling \$1 billion will enable the agency to renew all 285,000 outstanding contracts for rental assistance to low-income rural residents. The budget also requests new authorities to improve the flexibility and management of the Rental Assistance Program so that the long-term viability of this assistance is ensured. This includes the legislative authority to verify tenant income eligibility and allowing USDA more flexibility in renewing rental agreements.

The President's budget also provides \$661 million for the salaries and expenses of USDA Rural Development to support the delivery of the direct and guaranteed loans and grants, technical assistance and economic development strategies outlined above. This level of funding includes information technology investments to the Comprehensive Loan Program, which safeguards the portfolio from cyber threats and improves management capabilities, and the hiring of 250 additional staff. The vast majority of these employee hires will fill mission-critical skill shortages resulting in a two-year hiring freeze. This is particularly important since Rural Development's loan portfolio has grown to more than \$197 billion and continues to grow each month.

We also recognize the need to think creatively about how best to serve high-need rural areas in the 21st century. Rural Development is interested in exploring ways to implement our programs that make a greater impact. For example, the budget proposes to develop a small mobile workforce pilot that would be comprised of economic development professionals who provide technical assistance and hands-on support in areas of high need, such as the Delta, Appalachia, and the Southwest Border. We are calling this 10-location pilot 'Rural Corps.' We believe that this mobile workforce will enable us to leverage our resources with other Federal agencies and work more collaboratively with local organizations to deliver resources where they are needed most, rather than where our offices happen to be located.

Aggressively leveraging resources and working regionally has become a focus of our resource management over the course of the last few years. As resources go up and down, we have found that working regionally and with multiple partners – private, public, and non-profit – supports our capacity to get program assistance out in an expedient way while also serving as a good partner to rural communities. The program consolidation in the Rural Business Cooperative Service is another way this Budget leverages resources to do more with less.

USDA's recently expanded StrikeForce for Rural Growth and Opportunity (StrikeForce) initiative illustrates this trend with broad commitment to rally available tools and technical assistance to combat persistent poverty in 20 States. Rural Development has been a leading partner in helping to create resilient, sustainable communities. In Alabama, Arkansas, Georgia and Mississippi, for example, StrikeForce is improving access to capital and markets for small minority farmers. Members of farmers' agricultural cooperatives are now providing locally-grown peas, greens, and watermelons to national grocery store chains for sale in select stores. StrikeForce and other regional poverty targeting initiatives – such as Stronger Economies Together and Promise Zones – are providing rural families the support needed to climb out of poverty.

We believe that by thinking creatively, we can turn Rural Development's transactional work into transformational work. The President has offered a responsible budget that continues to meet key priorities and includes targeted investments to support long-term job creation and renewed economic expansion. I am confident that the agencies of Rural Development will successfully implement the programs needed for a thriving rural America.

I appreciate the opportunity to testify today before members of the Committee. This budget proposal supports our efforts and helps us fulfill the promise of rural communities. Thank you for your support of Rural Development programs. I am happy to answer your questions on the Budget proposals at this time.