

RURAL BUSINESS-COOPERATIVE SERVICE

Statement of Sam Ridders, Administrator Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies

Chairman Aderholt, Ranking Member Farr, and Members of the Subcommittee, thank you for the opportunity to discuss not only the Fiscal Year (FY) 2017 Budget for the Department of Agriculture's (USDA) Rural Business-Cooperative Service (RBS), but also the tremendous accomplishments we have achieved since 2009. I would also like to thank you and your colleagues for the funding Congress provided RBS so that we can continue to fund and support business and energy project investments in rural areas nationwide.

As you know, Secretary Vilsack has been, and continues to be, a forceful voice for rural America and a stalwart supporter and advocate for RBS programs. We have made tremendous progress in helping rural America under his leadership. Since FY 2009, RBS programs have obligated nearly \$13 billion in funding to rural America that we estimate helped nearly 112,000 businesses create or save nearly 450,000 jobs. This includes \$9.61 billion in loan guarantees through our Business and Industry Guaranteed Loan Program, \$891.5 million in Specialty Programs Division loans and grants, \$2.2 billion in Energy Program guaranteed loans, grants and payments, and \$236 million in Cooperative Program grants.

ADMINISTRATION PRIORITIES

USDA has consistently been the leading advocate for strengthening our Nation's rural economies through increasing access to capital in rural areas, expanding the bioeconomy, including supporting opportunities for biofuels and renewable energy, developing local and regional food systems, and combating rural poverty. RBS remains committed to revitalizing rural communities by expanding economic opportunities, addressing rural poverty, expanding access to capital, creating jobs, expanding markets for existing rural businesses, and helping develop the next generation of farmers, ranchers, and small business entrepreneurs.

Access to Capital

Affordable, available, and reliable capital is the lifeblood of economic development and rural Americans must have improved access to financing - particularly long-term equity and venture capital – in order to thrive economically. RBS administers several loan, guaranteed loan, and grant programs that attract investment capital, such as the Business and Industry Guarantee Loan program. Working with our strategic partners, including banks and other Federal agencies and offices, the nearly \$13 billion RBS obligated from FY 2009 through FY 2015 has a potential leveraging of over \$13.4 billion for those projects. At the individual project level, leveraging additional funding sources demonstrates that others believe in the project, thereby contributing to the sustainability of the project, because those who sign on as partners at the beginning have an incentive to continue supporting the project after the RBS loan or grant is fully dispersed.

Renewable Energy and the Bioeconomy

RBS is committed to increasing the use of renewable energy and growing the biobased economy, both of which bring jobs to and improve the economy of rural America. In fact, Secretary Vilsack was recently named in a leading biofuels magazine as the top leader for the advanced bioeconomy. RBS is equally committed to the bioeconomy and in the same magazine USDA, including RBS staff, was identified as one of the top 50 leaders of the advanced bioeconomy. For example, from FY 2009 through FY 2015, the Rural Energy for America Program (REAP) awarded 2,890 solar projects amounting to over \$330 million in grants and loans, with over 1,000 these projects financed in FY 2015 alone. Supporting both small and large scale projects, RBS continues to be a leader in promoting renewable energy projects through its energy programs for advanced biofuels, renewable energy, and energy efficiency. Since 2009, these programs have invested over \$1.9 billion in biorefineries, renewable energy, and energy efficiency systems.

RBS has also been successful in growing the bioeconomy. For example, between FY 2009 and FY 2015, REAP provided almost \$147 million in grants and loan guarantees to over 320 biomass projects, such as anaerobic digesters, biodiesel, ethanol, wood pellet and other solid fuels. With enhanced REAP and Biorefinery Assistance rules implementing the 2014 Farm Bill provisions in place, we look to build upon the great success we have already had in expanding renewable energy and the bioeconomy.

Local and Regional Foods: As noted last year, consumer demand for local and regionally-produced food remains one of the strongest trends in agriculture in decades. USDA and RBS continue to work to help local farmers, ranchers and small businesses to identify projects that create economic opportunities by linking rural entrepreneurs with demand centers in urban and suburban areas. Between FY 2009 and FY 2015, RBS obligated approximately \$332.8 million to projects that support local and regional food systems.

As directed by the 2014 Farm Bill, priority will be given to projects that benefit underserved communities, including those that are located in areas of concentrated poverty with limited access to fresh locally or regionally grown foods. The FY 2017 Budget requests \$1 million for loans and grants to support the Healthy Foods Financing Initiative. When fully implemented, this initiative will provide financial and technical assistance that will increase access to healthy foods in underserved areas by expanding retail outlets for farm products and increasing the availability of locally and regionally produced foods.

Combating Poverty – A Collaborative Approach

Breaking the chain of rural child poverty and extending our services to areas in persistent poverty are challenges that RBS is addressing in its programs.

Rural Child Poverty. Since last year, rural poverty rates have declined. Still in 2014, roughly 2.5 million children in rural areas were poor and approximately 1.2 million children lived in rural families with cash incomes below half of the poverty line. Not only does the rural poverty rate exceed that in metro areas, we also know that rural communities face distinct challenges, including limited access to critical services, fewer job prospects, and in some places, relative lack of institutional capacity. The FY 2017 Budget requests \$20 million in grants to rural communities to implement two generation strategies that seek to intentionally align ,high-quality, workforce development programs with ,high-quality, child-focused programs. In addition, the FY 2017 Budget requests \$5 million to support data systems alignment across several USDA and HHS programs to gain efficiencies and maximize impact of existing programs.

Promise Zone Initiative: RBS is supporting the Promise Zone Initiative, part of the President’s plan to create a better bargain for the middle-class by partnering with local communities and businesses to create jobs, increase economic security, expand educational opportunities, increase access to quality, affordable housing, and improve public safety. Selected from hundreds of communities that applied, the Choctaw Nation has about 23 percent of its residents living below the poverty line – 7 points higher than the national average – with many impoverished children living in homes that are still without running water. Choctaw Nation officials hope the Promise Zone designation allows the tribe access to grants to bolster programs in the tribe’s service area. Since its designation and through active collaboration across Federal partners, the Choctaw Nation had received about \$140 million of Rural Development and other federal investments by the end of FY 2015.

Strategic and Economic Community Development: Section 6025 of the 2014 Farm Bill authorized Rural Development to give priority to projects that support a multi-jurisdictional plan or regional development strategy, which will enable high-poverty rural communities to have greater access to certain Rural Development funding opportunities and will act as a catalyst for communities to work together and create regional plans that will increase efficiency and creatively use resources for multiple purposes. A Section 6025 award under the Rural Business Development Grant program was made to White Mountain Regional Medical Center, Arizona, which serves a region that is battling decades of high poverty and unemployment. The Medical Center is using the award to increase access to early education as a means to create much needed professional childcare jobs to support local families struggling to balance employment and childcare. This project supports a key objective of the “2015 First Things First Regional Funding Plan,” a multi-jurisdictional early education plan by the Navajo/Apache Regional Partnership Council serving two Strike Force counties – to ensure a comprehensive early education system inclusive of parental outreach and awareness in addition to professional development of childcare providers.

RURAL BUSINESS AND COOPERATIVE PROGRAMS

While rural employment grew in 2015, it remains well below its 2007 pre-recession peak and many rural counties continued to lose jobs in 2015¹. RBS programs and services, in partnership with other public and private sector stakeholders, are critical to improving the lives of rural Americans. Our programs not only promote rural business employment opportunities, they also enable rural Americans to compete in the global economy.

The Administration's \$1.2 billion program level budget request for RBS for FY 2017 builds on our previous successes. We estimate that this level of support for loans and grants will assist thousands of businesses and create or save over 55,000 jobs. At the same time, we continue to identify further opportunities for leveraging resources, and increasing program delivery efficiencies. In some rural communities, cooperatives have long been an important business model and the cornerstone for business development. As directed by the 2014 Farm Bill, RBS launched in FY 2015 the Interagency Working Group on Cooperative Development, which is working to foster cooperative development and ensure coordination with Federal agencies and national and local cooperative organizations that have cooperative programs and interests.

Business and Industry (B&I) Guaranteed Loans

From FY 2009 through FY 2015, RBS awarded under this program loan guarantees totaling over \$9.6 billion for over 3,300 projects assisting over 4,800 businesses and helping to create or save nearly 160,000 jobs. The FY 2017 Budget requests \$36 million in budget authority to support \$892 million in loan guarantees for the B&I guaranteed loan program. The FY 2017 funding request provide businesses in rural communities the capital necessary for investments that will result in creating or saving approximately 11,674 jobs. In FY 2015, RBS made over \$1 billion in loan guarantees to assist over 540 businesses create or save over 15,800 jobs. In addition, we are in the process of finalizing a rule that will improve implementation and administration of the program.

¹ Rural America At A Glance 2015 Edition. Retrieved February 17, 2016, from <http://www.ers.usda.gov/media/1952235/eib145.pdf>

For example, Hood Equipment Company, Inc. (Hood), a family owned business located in the StrikeForce county of Panola in Mississippi received a B&I guarantee on its loan with State Bank and Trust in the amount of \$350,000. Successful since 1967, a slowing economy forced Hood to restructure and reduce their debt service along with adding working capital. Their B&I guaranteed loan in 2010 enhanced Hood's profitability and enabled Hood to not only avoid laying off their employees during this difficult economic time but to subsequently add 6 new jobs. The owners of the company stated that the B&I guaranteed loan allowed them to remain viable during the downturn in the economy.

Intermediary Relending Program

From FY 2009 through FY 2015, RBS made under this program 310 awards totaling over \$158 million assisting an estimated 5,391 businesses help create or save over 121,000 jobs. The FY 2017 Budget requests \$5.5 million in budget authority to support approximately \$18.9 million in loans to intermediaries. We estimate that the proposed level of funding will help create or save 14,450 jobs over the life of these revolving funds. In FY 2015, RBS made 30 awards totaling approximately \$18.9 million to assist an estimated 642 businesses create or save an estimated 14,451 jobs. An example is the Newton Development Corporation (NDC) located in Newton, Iowa, which received \$200,000 in December 2014. The assistance supplements NDC existing revolving loan fund in order to create and retain existing jobs by increasing its outreach and partnerships with financial institutions and non-traditional lenders to encourage access to capital for rural minority business owners.

Rural Economic Development Loan and Grant Program

This program provides funding to rural projects through local utility organizations. The loan portion of the program provides zero interest loans to local utilities who in turn make loans from these funds to local businesses for projects that create and retain jobs in rural areas. The ultimate recipients repay the lending utility directly, who in turn repays the Agency. From FY 2009 through FY 2015, this program made over 600 awards totaling over \$365 million assisting nearly 1,100 businesses and helping create or save over 31,000 jobs. The FY 2017 Budget requests approximately \$85 million in loan program level and \$12 million in grants.

In FY 2015, RBS made under this program 38 loans, totaling \$38.6 million, and 33 grants, totaling approximately \$9.2 million. One example is a \$2 million loan to East Mississippi Electric Power Association to provide a loan to Winston Plywood & Veneer, LLC to purchase machinery and equipment needed for an \$85 million plywood and veneer manufacturing facility to be located in Winston County, Mississippi, a consistent poverty/StrikeForce county. The project is expected to create 300 new jobs.

Rural Business Development Grant Program

From FY 2009 through FY 2015, RBS made through this program (including its predecessors) nearly 3,900 awards totaling over \$285 million assisting an estimated 55,215 businesses and helping create or save almost 90,000 jobs. The FY 2017 Budget requests \$30 million in budget authority for this program. RBS estimates that the proposed level of funding will create or save 8,300 jobs and assist 4,150 businesses. In FY 2015, the program made 360 grants totaling more than \$27.8 million. One example is a \$121,995 grant to the Nez Perce Tribe in Idaho for necessary biodiesel manufacturing equipment, facilities, and infrastructure to assist in the development of a Tribal enterprise involving the production and sale of canola-based biodiesel. The project will create at least four new jobs in a rural area with an unemployment rate significantly higher than the rest of the State.

Rural Business Investment Program

The FY 2017 Budget requests \$6.6 million in budget authority for loan guarantees and grants that supports a program level of \$24.6 million for the Rural Business Investment Program (RBIP), whose goal is to increase private equity or equity-like investments in rural small businesses. Through Rural Business Investment Companies (RBICs) licensed by USDA, high-growth businesses – which create the majority of new jobs in our economy – will have access to the type of public and private investment capital they need to grow and scale their operations in rural America. We estimate this level of program funding will be able to leverage approximately \$59 million in total capital for RBICs to make equity or equity-like investments in mostly smaller enterprises located primarily in rural America over the life of the funds. In July 2014, the agency licensed its first non-leveraged RBIC -- Advantage Capital LLC capitalized at \$150 million solely through private funds, and in FY 2015, RBS has given

the “green light” to two other companies for becoming non-leverage RBICs with another company soon to receive its conditional certification. RBS expects three more companies to apply to RBIP as non-leveraged RBICs in the coming months.

Rural Microentrepreneur Assistance Program

The Rural Microentrepreneur Assistance Program (RMAP) provides capital access, business-based training, and technical assistance to the microenterprises – those with fewer than 10 people. From FY 2009 through FY 2015, RBS made 447 RMAP awards totaling over \$76 million to micro-development organizations (MDOs). Since 2009, over 100 MDOs have closed over microloans totaling \$58 million assisting microenterprises, creating or saving an estimated almost 2,500 jobs. The FY 2017 Budget requests \$4.9 million in budget authority to support \$25.4 million in loans for this program. RBS estimates that the proposed level of loan funding will create or save nearly 5,700 jobs.

One recent RMAP example comes from Maine, where the Midcoast Council of Governments (MCOG) received a \$500,000 loan and a \$105,000 grant. MCOG used the loan to capitalize a Rural Microloan Revolving Fund to make microloans to rural microentrepreneurs and microenterprises and the grant funds to provide technical assistance and training to rural microentrepreneurs and microenterprises. This project is estimated to assist 23 businesses, create 26 jobs, and save 96 jobs.

Rural Energy for America Program

The Rural Energy for America Program (REAP) is the Agency's most popular renewable energy program. From FY 2009 through FY 2015, RBS has made REAP awards totaling over \$357.8 million in grants and over \$429 million in loan guarantees to fund over 10,700 projects in all 50 States and most territories for renewable energy systems and energy efficiency improvements. When operational, these investments are expected to generate/save enough energy to power over 768,000 homes for a year and to reduce greenhouse gas emissions relative to fossil fuel power equivalent to removing over 1 million cars from the road for a year. The FY 2017 Budget requests \$18.5 million in discretionary funding to support a program level of \$90.8 million, which we estimate will generate or save enough energy to

power about 90,000 typical households each year.

In FY 2015, RBS made approximately \$83 million in grant funding and \$161 million in guaranteed loans to fund over 1,900 projects generating or saving enough energy to power approximately 100,000 homes for a year. The \$161 million guaranteed loans obligated in FY 2015 was a record year, tripling the amount obligated in FY 2014 and more than doubling the previous record of \$73.6 million obligated in FY 2010. An example of an FY 2015 project is a \$459,500 grant to GJ TeVelde Ranch Energy, LLC., in Tipton, CA, to install an anaerobic digester to turn dairy waste into biogas, which will power a generator system that will produce enough electricity to meet the annual needs for 639 homes. With an enhanced REAP rule in place to administer the 2014 Farm Bill provisions, we continue to build upon our success in FY 2015 in expanding our loan guarantee portfolio and will continue our extensive outreach to our stakeholders, with a focus on the lender community.

Biorefinery Assistance Program

The 2014 Farm Bill expanded this program to broaden the types of projects that can receive loan guarantees through this program – to include more renewable chemical production and to include biobased production manufacturing facilities - and provided \$200 million in budget authority over its term. From FY 2009 through FY 2015, this program obligated over \$1.1 billion for 14 projects.

In FY 2014 and FY 2015, RBS issued conditional commitments to three biorefineries, totaling \$241 million in loan guarantees. With the new rule in place, RBS received 23 Letters of Intent from prospective applicants, totaling \$900 million for projects with total project costs of \$2 billion. We received six complete applications for the October 1 funding cycle, of which four applicants were invited to submit Phase 2 applications. These four projects are requesting guaranteed loans totaling nearly \$330 million and range from \$75 million to \$200 million. In FY 2016, RBS anticipates that this program will support several biorefineries whose primary product will be a renewable chemical or biobased product. The program is currently reviewing four new loan guarantee applications totaling \$251 million.

Value-Added Producer Grant Program

The Value Added Producer Grant (VAPG) program provides financial assistance to producers to refine or enhance their products, which increases their value and their returns to producers, as well as supports local and regional foods, biobased products, and renewable energy projects. The 2014 Farm Bill expanded this program to enable RBS to give priority to veteran farmers and ranchers and to certain projects that help create or expand marketing opportunities for Beginning Farmers and Ranchers, Socially-Disadvantaged Farmers and Ranchers, and Small- and Medium-Sized Family Farms and Ranches.

From FY 2009 through FY 2015, RBS made over 1,100 VAPG grants totaling over \$139 million to support 9,000 value added businesses across the country. The FY 2017 Budget requests \$10.8 million in funding for this program, which we estimate will assist 105 producers. An additional \$39 million in mandatory funding remains from the 2014 Farm Bill, allowing RBS to assist approximately another 375 producers. In FY 2015, RBS made 259 VAPG awards for approximately \$34 million in 45 States and Puerto Rico and the Western Pacific territories creating or saving almost 1,400 jobs and helping over 6,100 businesses. One example is Buffalo Creek Beef, LLC of Lexington, VA, which received a \$200,000 working capital grant in FY 2015 to produce high-value beef utilizing a unique processing and finishing method that results in a hand-raised, all natural product. This family-owned operation concentrates on local markets and will use grant funds to diversify their product line to include a wider variety of raw and ready-to-eat products.

Conclusion

Thank you for your support, Mr. Chairman and members of the Subcommittee. The Rural Business-Cooperative Service is committed to promoting economic prosperity in rural communities through improved access to capital and economic development on a regional scale. RBS will continue to achieve this important mission while implementing operational efficiencies that result in successful outcomes for our programs and the people we serve. With your help, we will continue improving economic conditions for rural Americans, building stronger and more sustainable economies.