

Testimony

of

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on behalf of

CoBank

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Agriculture, Energy and Trade

and

Economic Growth, Tax and Capital Access

of the

Small Business Committee

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Good morning, Chairmen Brat and Blum, Ranking Members Evans and Schneider and Members of both Subcommittees. Thank you for calling this hearing today to focus on the capital needs of rural entrepreneurs and to discuss how those needs are being met.

I am Amy Gales. I serve as Executive Vice President of the Regional Agribusiness Banking Group for CoBank based in Greenwood Village, Colorado. CoBank is a cooperative bank serving a national footprint, with a mission to provide dependable credit and other value-added financial services to agriculture and rural infrastructure businesses for the benefit of rural America. CoBank is a proud member of the Farm Credit System¹, a national network of cooperative banks and retail lending associations chartered by Congress to support the borrowing needs of U.S. agriculture and the nation's rural economy.

We are a financially strong institution – delivering value to our customer-owners

We are immensely proud of the value and service we provide our customer-owners across rural America. Financial strength and stability are critical to our ability to serve and deliver value to our customer-owners and fulfil our mission to support rural communities and agriculture with reliable, consistent credit and financial services for today and tomorrow.

As a cooperative, we pay patronage to our customer-owners. That means CoBank's earnings go directly back to our customers – not outside shareholders. Over the past five years, CoBank has distributed almost \$2.6 billion in patronage to our customers across rural America, highlighting the enduring value of the cooperative model.²

Today, I plan to outline for you how CoBank supports rural entrepreneurs focused on rural America by:

- providing flexible loan products in the form of Co-op Start
- supporting the technical assistance and education needed to create new cooperatives with a recent focus on cooperatively owned grocery stores
- funding rural equity investments
- funding community facilities in partnership with USDA, Farm Credit Associations and community banks with bond investments
- sponsoring predevelopment funding
- financing and advocating for rural infrastructure nationwide
- partnering with Farm Credit Associations to serve young, beginning, small, and minority farmers
- supporting youth entrepreneurs

We are investing in innovation – Growing Rural America Initiative

We at CoBank are acutely aware of the needs for rural America and strive to find flexible innovative ways to address those needs. We call this collectively, CoBank's "Growing Rural America Initiative" and it encompasses a variety of tools to meet the needs of rural entrepreneurs.

¹ <https://farmcredit.com/>

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http://www.cobank.com/~media/Files/Searchable%20PDF%20Files/Newsroom%20Financials/Annual%20Reports%20and%20CSR/2017/COB_AR17_FullBookw10k_030118.pdf

The landscape of agriculture and rural America is diverse and complex. Historically, some small and/or emerging farmer-owned cooperatives have been overlooked when it comes to financing and other technical assistance. To truly fulfill our mission and strengthen our rural communities, we also recognized a need to serve these customers whenever possible.

Co-op Start

To address the capital needs of small and/or emerging agricultural cooperatives, CoBank developed a creative solution. As consumers increased demand for local foods and other specialty crops such as hops for the growing craft brewing industry, we started to see the formation of new farmer-owned cooperatives for distribution and marketing. The Farm Credit Administration (FCA)³, our independent federal regulator, maintains guidelines that we must follow in terms of safety and soundness. When the new, emerging agricultural cooperatives did not meet these underwriting guidelines, CoBank proposed a solution to FCA - creating a separate risk pool designed to provide more flexible financing for these cooperatives. After FCA approval, Co-op Start was launched in 2012. Co-op Start provides flexible financing up to \$250,000 to early growth stage agricultural cooperatives. This program has generated great success stories.

In 2017, the Midwest Elderberry Cooperative used the Co-op Start program for a seasonal line of credit to pool its member's fruit and market their harvest in their first year of business. Owned by eighteen elderberry growers in Minnesota, Wisconsin and Iowa, the cooperative has developed a domestic market for locally grown elderberries by pooling its member fruit – a timeless cooperative principle.

In Waterloo, Wisconsin, the Wisconsin Hop Exchange uses a Co-op Start loan to support their cooperative business dedicated to providing their hop growers with agronomic, processing and marketing services. The Wisconsin Hop Exchange connects local brewers with local hop growers.

Our Harvest Cooperative in Cincinnati, Ohio uses the Co-op Start program to finance its food hub that works to make sustainably grown food available to all of the Greater Cincinnati community. Our Harvest Cooperative has one distribution center that benefits 22 local food producers. It has been in operation for five years and CoBank proudly provided a portion of its initial capital.

Great River Organics is a farmer-owned nonprofit cooperative comprised of eight vegetable farms in central Ohio. They use the Co-op Start program to market their sustainable, organic produce to retail establishments and their Community Supported Agriculture (CSA) program.

Co-op Start has supported urban agriculture, too. In downtown Cleveland, Ohio, Green City Growers works with the Co-op Start program to finance its operation. A worker-owned cooperative that opened in 2013, Green City Growers produces leafy greens from a hydroponic greenhouse. It currently employs 43 worker-owners, all of whom are paid a living wage and are equity owners of the cooperative.

The Inter-Tribal Maple Syrup Producers Cooperative in Sawyer, Minnesota used a Co-op Start Loan for a seasonal line of credit and a lease for maple processing equipment.

³ <https://www.fca.gov/>

Co-op Start has been used by 17 different small cooperatives in nine states with \$2.5 million of total commitments in loans and leases.

Technical Assistance for New Cooperatives

Cooperatives follow a set of principles⁴ that set us apart from other businesses. Three of those cooperative principles include: education, training and information; cooperation among cooperatives; and concern for community. As a cooperative, CoBank's commitment to foster the creation of new cooperatives runs deep through our support of numerous education and technical assistance programs. Locally owned grocery stores are a mainstay of economic and social activity in rural communities across the United States. We believe that local food cooperatives offer a solution to the growing problem of local grocery store closures and an ownership transfer option when an independent rural grocer lacks a succession plan. Forming a consumer-owned cooperative offers a positive option to communities as owners prepares for retirement.

The Food Co-op Initiative (FCI)⁵ is a national cooperative development center that provides free technical assistance for people in the U.S. – including rural entrepreneurs – to start a retail food cooperative that meets the community's needs. New startups can lean on FCI's materials and staff as well as provide consultations for additional technical help. This assistance, during the early stages of development, is vital to the long-term success of a sustainable cooperative grocery store. Last year in Moran, Kansas, (pop. 517) they transferred ownership of an existing grocery to a locally owned cooperative and in Geraldine, Montana, (pop. 261) they have successfully re-opened a grocery store as a cooperative. Interest is growing in this sector, and in Montana alone there have been three new conversions to cooperative grocery stores in the past year.⁶

In June, CoBank joined the National Cooperative Bank⁷ in announcing a joint, multi-year contribution of \$200,000 to FCI in support of their outreach to rural communities.⁸ Rural communities face significant challenges for access to affordable food, whether it is the sheer distance or a complete lack of a grocery store. When communities work together to invest in new local food cooperatives, it can provide small towns with a stronger economic foundation.

Access to equity for rural entrepreneurs

CoBank understands that rural entrepreneurs - the engine driving rural economies - need dependable sources of capital to improve the infrastructure they depend on to grow their businesses. While access to senior debt is generally available, equity and junior debt remain more difficult to source. Few rural-focused investment funds exist beyond funds that focus on acquiring farmland.

Recognizing this gap and the challenges faced by rural entrepreneurs, CoBank and other Farm Credit Associations started to make investments in equity funds focused in rural America. Rural equity

⁴ <https://www.ica.coop/en/whats-co-op/co-operative-identity-values-principles>

⁵ <https://www.fci.coop/>

⁶ <https://montanacouncil.coop/rural-grocery-co-ops-get-down-to-business/>

⁷ <https://ncb.coop/>

⁸ <http://www.cobank.com/Newsroom-Financials/CoBank-News-Feed-2/2018/June/20180625-CoBank-and-National-Cooperative-Bank-Donate.aspx>

investments serve as an effective source of junior capital to increase rural economic prosperity. These rural equity vehicles catalyze private capital investment and create jobs.

Since 2013, CoBank has committed \$52.5 million across four private equity funds that in concert with Farm Credit institutions, commercial and community banks, and other institutional investors are providing over \$300 million in capital to rural businesses. The four funds are: (1) Midwest Growth Partners, West Des Moines, Iowa; (2) Advantage Capital Ag Partners, St. Louis, Missouri; (3) Innova Ag Innovation Fund, Memphis, Tennessee; and (4) Open Prairie Rural Opportunities Fund, Effingham, Illinois. More than 26 rural businesses have received investments from these four funds.

The first fund CoBank supported, Midwest Growth Partners, was in partnership with Central Iowa Power Cooperative, the Iowa Corn Growers Association and other investors to form Midwest Growth Partners. This \$41 million equity fund targets growth stage investments in the upper Midwest in manufacturing, food and agriculture and distribution and logistics businesses.

In Adel, Iowa, Inland Coatings, received an investment from Midwest Growth Partners in 2014 to aid an ownership succession plan and facilitate a business expansion. Started in 1978, the founder passed away and the management team needed an equity infusion to purchase the company from the founder's heirs. One of the potential buyers was a rival manufacturer and there was no commitment to keep the existing plant open. With the equity infusion from Midwest Growth Partners, the management team purchased the company while retaining and adding jobs in Adel.

In Nixa, Missouri, Fresh Market Produce received an investment from Midwest Growth Partners to assist in its expansion plans to provide a wider offering of farm to fork produce options to meet growing consumer demand. The company increased its full-time employment in two years.

The other three funds that CoBank has supported have been with the Rural Business Investment Companies (RBIC), licensed by USDA.⁹ These three RBICs are: Advantage Capital Agribusiness Partners, Innova Ag Innovation Fund and Open Prairie Rural Opportunities Fund. Each RBIC has a different focus.

In 2014, CoBank joined eight other Farm Credit institutions to launch the \$155 million equity fund Advantage Capital Agribusiness Partners. It focuses on investments that grow rural economies, with an emphasis on companies involved in all aspects of the food and agriculture value chain. The fund has invested more than \$85 million in 13 companies in California, Florida, Georgia, Iowa, Missouri, Oregon, Texas, Virginia, and Washington.

American Botanicals, a national products company based in Eolia, Missouri, received an investment from Advantage Capital in 2014 to help finance the expansion of its growing herbal industry business: health food, pharmaceutical, cosmetic and alternative medicines, flavoring and spice companies. American Botanicals buys, sells, and exports different roots, herbs, and spices.

In 2016, CoBank and seven other Farm Credit institutions invested \$31 million in the Innova Ag Innovation Fund to focus on early stage companies that develop advanced technology solutions for the challenges faced by farmers and agriculture-related businesses. This fund has invested \$1.375 million in 9 companies, many of which have received \$50,000 in early-stage equity.

⁹ <https://www.rd.usda.gov/programs-services/rural-business-investment-program>

Kilimo, Inc., based in Ripley, Tennessee, received an investment from Innova to support the development of its decision-support tool for irrigation management. Using satellite, climate and on-site data, Kilimo's Big Data engine enables producers to maximize their irrigation systems to improve their water use efficiency up to 70 percent and improve yields by 30 percent.

Skycision, located in Watsonville, California, received an investment from Innova to finance its drone technology and high resolution aerial imagery technology which provides farmers with precision field scouting capabilities for low-acreage, high value crops such as berries, specialty vegetables, vineyards, and orchards. Every year growers are afflicted with unforeseen pest and disease infestations, which can be catastrophic for a vineyard or an orchard. Blighted trees or vines have to be removed and destroyed. After replanting, it can take three to five years before trees produce any crop. Skycision technology provides farmers a complete view of their fields. By comparing how the pictures change over time, farmers can identify problem areas and target treatment to avoid crop loss.

In 2017, CoBank joined with 11 commercial and community banks, five other Farm Credit institutions, strategic and individual investors to launch the \$100 million Open Prairie Rural Opportunities Fund. The fund is a balanced private equity fund offering debt and equity capital to high-growth-potential companies throughout rural America and the agribusiness value chain.

CoBank continues to evaluate other RBIC opportunities to provide additional equity to rural businesses and their communities. These equity investments to rural entrepreneurs create and retain jobs and sustain rural communities. We applaud Congress in its vision to establish the Rural Business Investment Program and create the opportunities to form funds that focus on the capital needs of rural entrepreneurs. Continuation of this program and increasing its capacity to serve will be important to rural communities going forward.

CoBank has also supported the Farm Bureau Rural Entrepreneurship Challenge that is the first national business competition focused exclusively with food and agricultural businesses. I was pleased to have been a judge in the "Shark Tank" competition held for the four finalists in debut of the Challenge in 2015.

Rural Debt Obligations

Additionally, CoBank—along with other Farm Credit institutions, local community banks, and USDA—delivers critical capital to rural communities in need of hospitals, health clinics, and senior care. Through bond investments, these partnerships ensure that rural community residents have the access to quality health care that they deserve, create meaningful local employment opportunities, and strengthen the long-term viability of rural economies.

Predevelopment funding for rural entrepreneurs

CoBank recognizes a lack in predevelopment funding that often exists when rural entrepreneurs undertake rural development projects. Predevelopment funding is an early stage investment when the risk is highest and collateral is scarce. In 2017, we partnered with Rural LISC¹⁰ in making a \$250,000

¹⁰ Rural Local Initiatives Support Corporation (LISC) <http://www.lisc.org/rural/>

grant to support the [Rural LISC Road to Capacity Predevelopment Fund](#) (RCPF). The RCPF is a zero-interest, “repayable investment” available to Rural LISC partners for predevelopment costs in amounts up to \$50,000 for a period of two years. Examples of the eligible predevelopment costs can be feasibility and marketing studies, environmental reviews or zoning requests. The RCPF is a revolving fund. Once the project has received financing, it repays the investment to allow funding for other projects. Rural LISC has leveraged CoBank’s contribution to secure an additional \$190,000 in grants for RCPF.

Below are the projects CoBank’s contribution has funded to date:

Human Resource Development Council of District IX (HRDC) was awarded \$20,000 to create a Housing First Village in Bozeman, Montana. HRDC plans to create 30-50 private “tiny homes” that will expand the impact of HRDC’s housing assistance work and provide autonomy and safety to the homeless population in Bozeman will contribute to the need for affordable housing for previously-homeless individuals and families.

RCPF awarded the \$20,000 to the **Woodlands Development Group (WDG)** to continue the predevelopment of five significant housing and commercial real estate projects in Elkins, West Virginia. The projects include: renovation of two floors of a downtown historic building for retail and office tenants, rehabilitation of 16 housing units in an apartment complex, and rehabilitation of 32 units and development of a drug rehabilitation facility at a former school. This grant supported Woodland’s predevelopment costs, including hiring a consultant and the associated project fees. These projects are critical to the revitalization of WDG's small community.

Catholic Charities Housing Services – Diocese of Yakima (CCHS) was granted \$20,000 to develop 20 homes for low and very low income families in the community of Wapato, Washington. The development will also incorporate road, water and sewer improvements in an effort to provide safe pedestrian facilities and improve access to affordable housing for the predominantly low and moderate income citizens of the city of Wapato. The proposed development is close to health care providers, hospitals, clinics, childcare centers, schools, grocery markets, restaurants, wineries, churches of various denominations, and it is less than a mile away from the city hall and police and fire departments.

CCHS will determine the economic feasibility of developing lots for low-income homebuilders, engaging a civil engineer to estimate infrastructure costs, hiring an architect to design and estimate the housing cost, paying the city plat mapping fees, and securing an appraisal of the finished homes to establish market value.

Garrett County Community Action Committee, Inc. (GCCAA) was awarded \$25,000 to create Sunrise Gardens, a 32 unit development to be located along Sunrise Boulevard in Romney, West Virginia. The proposed project will be available to households with incomes between 40 to 60 percent of area median income. The site will consist of ten one-bedroom/1.5-bath, 18 two-bedroom/1.5-bath and four three-bedroom/2 bath townhome units with proposed tax credit rents ranging from \$477 to \$650 per month. The project anticipates completion in the summer of 2019. With the help of Rural LISC’s predevelopment grant, GCCAA will assess the feasibility of creating the affordable housing units.

Prairieland Council Inc. NFP (PLC) is working with LISC to rehabilitate 50 units of public housing through a Rental Assistance Demonstration (RAD) conversion with Low-Income Housing Tax Credit (LIHTC) financing and creating 16 additional American Disabilities Act (ADA) compliant affordable units in Havana, Illinois. The Mason County Housing Authority currently owns 50 public housing units in Havana. Through the RAD conversion, they will transition ownership of all property to Prairieland Council. In addition, Prairieland will complete an extensive remodel of the 50 existing units while constructing 16 additional, ADA-compliant units. With the help of Rural LISC's repayable investment, Prairieland Council will assess the feasibility of rehabilitating and creating the affordable housing units, including completing a market study and appraisal, securing permits and determining impact fees, and implementing survey, and environmental work. The RAD conversion will result in 50 LIHTC affordable housing units in Havana plus 16 new affordable units.

Interfaith Housing Services, Inc. (IHS) received \$20,000 to continue its sustainable community work serving low-income families. IHS will develop 48 units of mixed used housing in an adaptive reuse of the abandoned St. Elizabeth's Hospital in Hutchinson, Kansas. The Catholic Church donated the property to IHS in 2015 and the funds received will assist with predevelopment costs including an environmental review, environmental update, structural evaluation, and a market study.

These investments are a proven means to deliver projects that address the critical affordable housing needs in rural communities.

Rural entrepreneurs need rural infrastructure, especially broadband

Another important point to make focuses on the need for adequate infrastructure in rural America to support these rural entrepreneurs. As I mentioned in the beginning of the testimony, CoBank lends to rural infrastructure providers – electric, water, and communications. Without these basic services, rural entrepreneurs cannot grow their businesses and support economic development.

Rural entrepreneurs need access to modern high-speed broadband. CoBank lends to rural communication companies, but in many high cost rural areas, there is no business case to deploy broadband with so few customers per mile. We cannot expect companies to deploy broadband in areas where there is no return on investment unless there is a stable, cost recovery mechanism. We need dedicated federal investment so every American, even in remote, rural America, has access to broadband.

As the report on the federal Interagency Task Force on Agriculture and Rural Prosperity¹¹ highlighted – reliable and affordable high-speed internet e-connectivity will transform rural America as a key catalyst for prosperity.

CoBank is a member of the Rebuild Rural Infrastructure Coalition¹², which is comprised of more than 200 organizations from across the country focused on enhancing rural communities, engaging U.S.

¹¹ <https://www.usda.gov/topics/rural/rural-prosperity>

¹² <http://www.rebuildrural.com/>

agricultural producers, aiding rural businesses, and improving the lives of rural families. The Rebuild Rural Coalition is dedicated to advocating for investment in rural America's infrastructure and understands that rural America's infrastructure needs are fundamentally different. 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 continued leadership and our rural economies demand that infrastructure be improved through increased investment.

Partnering with Farm Credit Associations to serve young, beginning, small, and minority farmers

To support young, beginning, and minority farmers, CoBank partners with Farm Credit East and Yankee Farm Credit, two Farm Credit Associations affiliated with CoBank, on the FarmStart Program. FarmStart supports individuals looking to launch businesses in agriculture, forest products, and commercial fishing in the northeastern United States. Since its inception, FarmStart has made over 250 investments total more than \$11.3 million.

Educating the rural entrepreneurs of tomorrow

The challenges of the future will require creative solutions and CoBank remains committed to supporting youth in rural communities. We need to keep a laser-like focus on the next generation of rural entrepreneurs while we find way to support the ones making a difference in our communities today.

Our support for FFA's Living to Serve grants and the Campus Kitchen Project illustrate the creativity and energy of students to give back to their communities. These two programs help students learn how to navigate the challenges and create unique solutions to issues facing rural communities.

The FFA Living to Serve grants provide an opportunity for FFA members to identify community needs in the categories of Community Safety; Hunger, Health and Nutrition; Environmental Responsibility; and Community Engagement and create a project to address these needs.

The **Richmond Technical Center (RTC) FFA chapter** is addressing local urban food deserts in low-income communities with their Living to Serve Grant. Over the school year, to help families gain greater access to nutritional information and fresh produce, FFA members have partnered with FeedMoore food pantries and Peter Paul Development Center (PPDC), an established non-profit located within Richmond's 19 subsidized housing projects. The chapter is growing assorted produce and to date has donated nearly 500 pounds of fresh vegetables along with informational flyers, recipes, and financial and workout trackers to help community members adopt healthier lifestyles. Students also distributed starter materials for participants to plant gardens of their own. In the coming year, RTC FFA plans to continue its partnership with PPDC by expanding the number of local community gardens and adding cold frames to extend growing periods. Through the chapter's efforts, they want to change the culture of the community, so that residents are able to sustain healthy habits.

Inspired by Heifer International, **North Linn FFA** explored how they could help food insecurity in their small Iowa community. In an effort to provide fresh, locally grown protein sources, the chapter started raising laying hens to donate eggs. Students were so proud that they were donating eggs, that they expanded the project to provide a sustainable source of fresh meat to the food pantry. The new project utilizes the student's Animal Science skills to raise a gilt to market weight to be processed and donated. As if that wasn't enough, the North Linn FFA chapter has started a community garden to include locally grown vegetables in their on-going donations to the food bank.

In August of 2017, **Josè Emillo Lugo FFA**, in Puerto Rico was awarded a Living to Serve grant to focus on providing healthy, locally grown produce in school lunches. That September, Category 4 Hurricane Maria struck the island, thus the project took on much more significance. Instead of teaching the community to supplement their diets with a garden, they were teaching them how to prepare for future natural disasters by gaining skills to grow their own food in case it became scarce again. In addition to creating gardens, the chapter was able to help rebuild a local plant nursery destroyed in the hurricane and distribute food, supplies, first aid materials, water, clothing and other items to those in need.

In California, the **Vista FFA** chapter raises high quality protein for the school's backpack program and food pantry, including over 200 pounds of lamb, 100 pounds of rabbit and hundreds of eggs. The students also produce hundred pounds of produce, including tomatoes, lettuce, strawberries, apples, raspberries and an assortment of other vegetables.

The **Stockdale FFA** chapter in Texas is addressing hunger within the local community by growing vegetables to donate to local families in need. The chapter also grows flowers and plants for the local nursing home residents. The FFA students also teach younger students how to grow plants and importance of helping others.

At **University High School in Orlando**, Florida, the FFA chapter collects toiletries and other supplies to make toiletry kits, snack packs and "go bags" to be donated to the VA Fisher House Orlando.

The Campus Kitchen Project (CKP) empowers student volunteers in 63 schools across the country to recover one million pounds of food each year that would have otherwise gone to waste and transform this food into nutritious, balanced meals for food insecure Americans. Many of these schools are located in rural communities and address rural hunger. CKP students learn that they can leverage the existing resources of school campuses, with commercial kitchen space sitting dark in the evenings and weekends, excess food and eager student volunteers. By re-envisioning these resources, they develop lean, grassroots solutions to work for their own communities.

Many Campus Kitchen Projects are incubators of innovative ideas for addressing rural hunger while incorporating local produce. Students at **Gettysburg College** in Pennsylvania are addressing rural senior isolation by organizing community dinners, increasing the seniors' access to fresh, local produce through a partnership with Meals on Wheels. At **Utah State University**, the students are coordinating food donations from restaurants close to campus to supplement the donations from their campus dining service. At **Washington and Lee University** in Lexington, Virginia, the students created a mobile pantry

to reach out to rural, food insecure residents. At **Elon University** in North Carolina, the students are coordinating with the local faith based community to reach out to low-income seniors.¹³

CoBank provides seed funding for new Campus Kitchen Projects serving rural communities.

The creative solutions developed under the FFA Living to Serve and the Campus Kitchen Project by students are developing tomorrow's innovators. CoBank proudly supports both programs.

Summary

The Chair and Ranking Members of both subcommittees have been leaders in strengthening our rural communities. It has been a pleasure to provide an overview of the various approaches CoBank takes to address the capital needs of rural entrepreneurs. I would be happy to provide further detail in response to your questions.

Thank you for the opportunity to testify before the committee and for all that you do for rural America. I look forward to your questions.

¹³ <https://campuskitchens.org/resources/>