

RURAL BUSINESS-COOPERATIVE SERVICE

**Statement of Lillian Salerno, 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 the Fiscal Year (FY) 2016 Budget for the Department of Agriculture's (USDA) Rural Business-Cooperative Service (RBS). 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.

While urban employment now exceeds pre-recession levels, rural employment remains well below its 2007 peak and many rural counties continued to lose jobs in 2014. 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, but enable rural Americans to compete in the global economy. The Administration's \$1.1 billion program level budget request for RBS for FY 2016 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 32,000 jobs. At the same time, we continue to identify further opportunities for leveraging resources, and increasing program delivery efficiencies.

In FY 2014, RBS successfully delivered approximately \$1.5 billion in funding to rural America that we estimate helped over 10,400 businesses create or save well over 40,000 jobs; including \$1.084 billion in loan guarantees through our Business and Industry Guaranteed Loan Program, \$162.8 million in Specialty Programs Division loans and grants, \$68.8 million in Rural Energy for America guaranteed loans and grants, and \$27.3 million in

Cooperative Program grants. RBS also licensed its first non-leveraged Rural Business Investment Company with a private capital investment totaling \$150 million. Our path forward is to continue to deliver government services necessary to meet the needs of rural communities.

Administration Priorities

In support of the Administration's priorities, RBS remains committed to revitalizing rural communities by expanding economic opportunities, 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. As outlined in Secretary Vilsack's testimony on February 25, 2015, before this committee, USDA will continue our leadership role to strengthen economic development of our Nation's rural communities through expanding the bioeconomy, including supporting opportunities for biofuels and renewable energy, and developing local and regional food systems.

Bioeconomy

During his tenure as Secretary of Agriculture, Secretary Vilsack has been committed to unleashing the full potential of the biobased economy, which will bring jobs to and improve the economy of rural America. RBS is equally committed to growing the bioeconomy in rural areas, supporting both larger scale projects, such as the INEOS New Plant Bioenergy, LLC, located in Florida, that converts woody biomass into ethanol, and smaller scale projects, such as a grant for converting soybean into an on-farm fuel to generate power.

Between FY 2009 and FY 2014, the Rural Energy for America Program (REAP) provided over \$87 million in grants and loan guarantees to 293 biomass projects, such as anaerobic digesters, biodiesel, ethanol, wood pellet and other solid fuels. With an enhanced REAP rule implementing the 2014 Farm Bill provisions in place and FY 15 funding, we look to build upon the great success we have had in expanding the bioeconomy. The agency is

implementing the new rule through significantly increased outreach to our stakeholders, especially to lenders.

Local and Regional Foods

The 2014 Farm Bill continues to build on programs established in the 2008 Farm Bill to promote local and regional food systems. Consumer demand for local and regionally-produced food remains one of the strongest trends in agriculture in decades. USDA and RBS will 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. In FY 2014, RBS obligated approximately \$77.5 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 2016 Budget requests \$13 million for loans and grants to support the Healthy Foods Financing Initiative. 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.

Rural Business Programs

RBS helps rural communities prosper by providing vital funding for loans and grants in rural America that would otherwise not be available. The Business and Industry Guaranteed Loan Program continues to expand economic and trade opportunities for rural businesses, agricultural producers, and other rural residents. We maintain our commitment to providing the best possible service, through our stakeholders, to rural communities.

Business and Industry (B&I) Guaranteed Loans

Businesses in rural communities require the capital necessary for investment resulting in the creation and maintenance of job opportunities. The FY 2016 Budget requests \$31.4 million in budget authority to support \$758.2 million in loan guarantees for the B&I guaranteed loan program. Of the \$31.4 million, up to \$4 million will be used towards assisting in growing the infrastructure necessary to the continued expansion of biofuels. The 2016 funding request will assist 357 businesses create or save approximately 8,950 jobs. In addition, we proposed a rule that will improve implementation and administration of the program.

One example is a \$10 million B&I guaranteed loan to Front Street Shipyard in Belfast, Maine, to support their boat construction and marina. Opened in 2011, the shipyard has grown steadily and now employs 104 people. The company's president has indicated that the loan provides the permanent long-term financing needed to allow it to move forward on future projects with more financial security. The city's development director has said that the loan is helping the company transition from the start-up phase. Another example is a \$10 million B&I guaranteed loan to California-based Marrone Bio Innovations, a global leader of bio-based pest management and plant health products. Marrone will use the funds to expand the production capacity of the MBI plant in Bangor, Michigan, allowing the company to meet projected sales increases over the next 2 years.

Intermediary Relending Program

The FY 2016 budget requests approximately \$3 million in budget authority to support \$10 million in loans to intermediaries. We estimate that the proposed level of funding will help nearly 380 businesses make the investments necessary to create or save over 7,700 jobs over the life of these revolving funds. Just last month, RBS awarded a \$600,000 IRP loan to Mississippi's North Central Planning and Development District (NCPDD). NCPDD provides planning, economic and community development, job training and social services in a rural, primarily agricultural area in north central Mississippi. The area has a large low-

income population with many of its counties having poverty levels above 20 percent and unemployment rates significantly above the November 2014 state average of 7.3 percent.

Rural Economic Development Loan and Grant Program

As part of the President's POWER+Plan, funding for Rural Economic Development loans and grants is more than doubled to help provide opportunities for job creation and growth in rural areas adjusting from the transition away from fossil-fuel energy production. The FY 2016 Budget requests approximately \$85 million in loan program level and \$12 million in grants. The Rural Economic Development Loan and Grant Program (REDL/G) program provides funding to rural projects through local utility organizations. The loan portion of REDLG provides zero interest loans to local utilities that they use to fund local businesses for projects that will create and retain employment in rural areas. The ultimate recipients repay the lending utility directly, who in turn repays the Agency. Loans are then made from the revolving loan fund to projects that will create or retain rural jobs.

In FY 2014, REDLG made 74 loans, totaling \$85.6 million, and 33 grants, totaling nearly over \$9.2 million. Two examples are South Alabama Electric Cooperative which received a \$1 million loan and a \$300,000 grant to provide a loan to Brundidge Industrial Development Board to expand Southern Classic Food Group, LLC, a food sales and manufacturing company and Central Electric Power Association in Mississippi which received a \$2 million loan to finance construction of a new medical office building for Neshoba County General Hospital.

Rural Business Development Grant Program

The 2014 Farm Bill combined the Rural Business Enterprise Grant (RBEG) program and the Rural Business Opportunity Grant (RBOG) program into a single program – the Rural Business Development Grant (RBDG) program. The FY 2016 budget requests \$30 million in budget authority for the RBDG program. The new RBDG program, which will have essentially the same eligibility and program requirements as the two existing programs, will

be in place for FY 2015. In FY 2014, the RBEG and RBOG programs combined made 477 grants totaling more than \$30.4 million, resulting in creating or saving over 8,000 jobs. One example of an RBEG award made in FY 2014 is a \$75,000 grant to Practical Farmers of Iowa (PFI), which will use the funds to provide mentoring, training, and planning for small farm businesses in counties with less than 15,000 people and to facilitate network-building and outreach to give farmers the tools and skills required for a viable agricultural business.

Rural Child Poverty Grant Demonstration Project

New to the agency this year is an important demonstration project, Rural Child Poverty, designed to fight child poverty in rural areas. One in four rural children currently live in poverty—the highest rate since 1986—and the gap between urban and rural childhood poverty rates continues to widen. While poor children living in rural America face similar educational, social, and economic challenges as their urban counterparts, many of these problems are exacerbated by the isolation and limited access to support services commonly experienced in rural areas. Not only is rural and tribal childhood poverty pervasive, it is persistent; rural parents tend to have less education and are more likely to be underemployed than urban parents, putting their children at higher risk of becoming poor. The FY 2016 budget requests \$20 million in budget authority for this demonstration project, which will improve coordination in the delivery of programs to break cycle of child poverty in rural America.

Rural Business Investment Program

The FY 2016 Budget requests \$6 million in budget authority for loan guarantees and grants that supports a program level of \$43.2 million for the Rural Business Investment Program (RBIP). RBIP's 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 \$150,000,000 solely through private funds (no Federal financial assistance).

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. Since 2010, over 100 micro-development organizations have closed over 740 microloans totaling \$58 million assisting microenterprises, creating or saving an estimated 3,800 jobs. The FY 2016 budget requests \$4.7 million in budget authority to support \$25.4 million in loans for this program. RBS estimates that the proposed level of funding will create or save over 1,700 jobs.

In FY 2014, RMAP mandatory funding made 44 loans totaling \$17.7 million and 36 grants totaling over \$2.5 million, helping over 500 microbusinesses create or save over 1,300 jobs. For instance, the Center for Rural Affairs (CFRA) received \$500,000 in loan funding to provide microloans to microenterprises in Nebraska. With the RMAP capital, CFRA has made 18 loans totaling \$664,000 with RMAP capital, leveraging \$144,000 in other funds and creating or retaining 39 jobs, and provided technical assistance to 467 clients. For example, with a \$50,000 loan from CFRA and their own funds, the Koch family was able to open 6 Mile Café in Dawson, Nebraska, which employs 20 local residents part-time in rural southeast Nebraska. When asked about the impact of the RMAP loan, the Kochs stated, “It wouldn’t have been possible without it, simple as that.”

Mandatory Energy Programs

RBS continues to be a leader in promoting renewable energy projects through its energy programs funded in the 2014 Farm Bill for advanced biofuels, renewable energy, and energy

efficiency, which promote a cleaner and more sustainable energy future. Since 2009, these programs have invested over \$1.86 billion in biorefineries, renewable energy, and energy efficiency systems through grants, loan guarantees, and assistance payments.

Creating Superior Delivery for Energy Programs

Last year, I reported on the national office's enhanced ability to provide direction and oversight to our State offices through a region-oriented structure that includes regional coordinators. This year, we have enhanced the delivery of our energy programs in three ways. First, we have created a similar structure of four regional energy coordinators, allowing us to more effectively administer and implement our energy programs, especially REAP. Second, we implemented an enhanced REAP rule that makes it easier for applicants with small projects to apply and requires less time for the Agency to process applications. The rule also enhances the REAP guaranteed loan program to increase the number of guaranteed loan projects assisted by the program. Third, we are significantly expanding our outreach to our stakeholders. Together, these actions will allow us to help more rural Americans reduce their energy bills and increase energy production and to better leverage taxpayer dollars through increased loan guarantee awards.

Rural Energy for America Program

The Rural Energy for America Program (REAP) is the agency's most popular renewable energy program. The FY 2016 budget requests \$10 million in discretionary funding to support a program level of \$80.8 million for this program, which we estimate will generate/save enough energy to power approximately 3,300 typical households each year. In FY 2014, REAP awarded over \$12.3 million in grants and over \$56.4 million in loan guarantees to fund 540 projects in all 50 States and most territories for renewable energy systems and energy efficiency improvements. Haverkamp Grocery Inc. in Centralia, Kansas, is just one example. This rural small business received a \$31,000 REAP grant to assist financing a \$124,000 energy efficiency improvement project to install more energy

efficient refrigeration and freezer cases that will save enough energy to power the equivalent of eight typical households.

On February 12, 2015, an improved REAP rule became effective. This rule implements the 2014 Farm Bill provisions, including streamlining the application process for smaller grant projects and removing administrative barriers to the guaranteed loan program. We are actively reaching out to our stakeholders, especially the lending community, to educate them about the improvements and to utilize this program to its fullest extent for loan guarantees.

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. The 2014 Farm Bill provides \$50 million in budget authority. Total program level depends on the final loan terms for each loan. We anticipate supporting between 3 and 6 projects. In FY 2014, RBS issued conditional commitments to two biorefineries, totaling \$161 million in loan guarantees. We are currently reviewing four new loan guarantee applications totaling \$251 million.

Rural Cooperative Programs

In some rural communities, cooperatives have long been an important business model and the cornerstone for business development. Cooperatives provide rural residents with job opportunities, enhanced educational and healthcare services, and products to compete in today's economy. These locally-created opportunities generate revenues that are recycled back to the community.

Value-Added Producer Grant Program

The Value Added Producer Grant (VAPG) program supports local and regional foods, biobased products, and renewable energy projects. Since FY 2009, RBS has made over 850

grants totaling about \$93 million to support value added businesses across the country. Once a rule is in place implementing the 2014 Farm Bill provisions for VAPG, RBS will be able to give greater priority to veteran farmers and ranchers and to certain projects that better help beginning farmers and ranchers and socially-disadvantaged farmers and ranchers, and small- and medium-sized family farms and ranches.

The FY 2016 Budget requests \$10 million in funding for this program, which we estimate will assist 105 producers. Including \$63 million in mandatory funding from the 2014 Farm Bill, this level of funding allows RBS to maintain the program to provide financial assistance to producers to refine or enhance their products, increasing their value and their returns to producers. In FY 2014, VAPG made 145 awards for approximately \$16.1 million in 40 States and Puerto Rico and the Western Pacific territories creating or saving almost 1,000 jobs and helping over 2,600 businesses. Two examples are Serenity Acres Farm in Florida, which received a \$32,000 grant to help expand the market for their goat milk soap and other goat milk body care products, and Butterbee Farm in Maryland, which received an \$8,571 grant for processing their value-added sustainably grown herbs and delivering them to local businesses.

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.