

**ENERGY AND ECONOMIC GROWTH  
FOR RURAL AMERICA**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON AGRICULTURE,  
NUTRITION AND FORESTRY**  
**UNITED STATES SENATE**

ONE HUNDRED TWELFTH CONGRESS  
SECOND SESSION

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FEBRUARY 15, 2012  
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## **ENERGY AND ECONOMIC GROWTH FOR RURAL AMERICA**

**Wednesday, February 15, 2012**

UNITED STATES SENATE,  
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,  
*Washington, DC*

The Committee met, pursuant to notice, at 9:36 a.m., in room SD-G50, Dirksen Senate Office Building, Hon. Debbie Stabenow, Chairwoman of the Committee, presiding.

Present: Senators Stabenow, Harkin, Baucus, Nelson, Klobuchar, Bennet, Roberts, Cochran, Johanns, Boozman, Grassley, Thune, and Hoeven.

### **STATEMENT OF HON. DEBBIE STABENOW, U.S. SENATOR FROM THE STATE OF MICHIGAN, CHAIRWOMAN, COM- MITTEE ON AGRICULTURE, NUTRITION AND FORESTRY**

Chairwoman STABENOW. Good morning. The Senate Committee on Agriculture, Nutrition and Forestry will come to order. We appreciate all of your attendance this morning. We certainly appreciate having Secretary Vilsack with us today.

Today's hearing focuses on our efforts around rural development, bio manufacturing, and energy—all of which involve policies that help businesses create jobs in rural America and new markets for our farmers. As I have said many times before, the farm bill is a jobs bill; 16 million people in this country are employed related to agriculture, and we are very proud of that. It is very critical that we pass a farm bill this spring—a sentiment we heard this week from more than 80 farm groups, and I could not agree more.

I count myself lucky to have grown up in the small town of Clare, Michigan, in northern Lower Peninsula, and preserving our rural way of life is something that is very near and dear to me personally and to my family. This can mean helping small towns build a safe drinking water system or affordable broadband Internet access, or it can be in the form of streamlined programs that are more accessible for the people who use them. Cutting red tape and making programs work more efficiently will be a priority as we look at the titles of the farm bill, particularly so in rural development.

Especially with our current budget pressures, we need to think strategically about the best way to achieve long-term economic growth in rural America. One of the most effective things we can do is to encourage leaders to work together on regional economic strategies—and we will hear about that today—allowing them to

create job opportunities that are more likely to stay in their own home town and in their region.

Bio-based manufacturing is a great example of new opportunities in rural America through innovative businesses that create good jobs. The economic benefit is twofold: new markets for our farmers and new jobs and opportunities in town. According to a recent Department of Agriculture study, the bio-based plastic and chemical products industry could create over 100,000 American jobs—and many of those in rural America. Biomass is another critical component of the bio-economy. These companies develop new uses for wood fiber and other forest products and clean, American-grown energy.

Farm bill energy programs promote innovation by entrepreneurs and businesses small and large. Secretary Vilsack and I had a chance to see this firsthand last August at the Pure Michigan 400 NASCAR race, where all of the cars are powered using E15, American-made biofuel. But the energy title is not just about next generation of biofuels. The most popular program is the Rural Energy for America Program, which helps producers reduce their energy costs through renewable or efficiency measures. We know this has created or saved 14,000 rural jobs to date.

This weekend, we remembered the birthday of President Abraham Lincoln, who, 150 years ago this year, created the Department of Agriculture. He called it the “People’s Department.” It is only fitting that today’s hearing focuses on the millions of people whose livelihoods depend on the health of rural economies all across the country and all Americans who depend on what is done for a healthy and secure food supply in America.

I want to thank all of our panelists for being here, and I would now like to turn to my friend and Ranking Member of the Committee, Senator Roberts, for his opening statement.

**STATEMENT OF HON. PAT ROBERTS, U.S. SENATOR FROM THE STATE OF KANSAS**

Senator ROBERTS. Well, thank you. It is always helpful when you turn the microphone on.

Thank you, Madam Chairwoman, and thank you to our witnesses for joining us today. I look forward to hearing from each of you as we talk about the next farm bill, how we should shape policy, specifically in the areas of rural development and energy.

Unfortunately, our current budget situation leaves us with very little room for error, so when making policy decisions on what is best for rural Americans, we will rely heavily on our witnesses to tell us what programs are working, what programs are not working, and how we can make smarter decisions here in Washington that will provide our producers around the country with the tools they need to growth our rural economies in a smart, viable, and lasting way.

I would just like to highlight for a moment, Madam Chairman, some achievements in my home State of Kansas. We have a solid group of leaders who are spending a lot of time, resources, and talent on solutions for growing our rural economies. I commend those leaders, like the Kansas Farm Bureau, the W.K. Kellogg Foundation, Kansas State’s Advanced Manufacturing Institute, as well as

the Rural Policy Research Institute, for the innovative thinking and commitments to this effort.

I am glad we have Mr. Fluharty here from the Rural Policy Research Institute to tell us about these projects, how they are improving the lives and the economies of rural Kansans.

With that in mind, Madam Chairwoman, I ask unanimous consent for the written testimony submitted by the Kansas Farm Bureau to be included in the official record at this point.

Chairwoman STABENOW. Without objection.

[The prepared statement of the Kansas Farm Bureau can be found on page 158 in the appendix.]

Senator ROBERTS. I thank you.

I am also pleased to welcome Mr. Bill Greving and his wife, Diana, from Prairie View, Kansas. Bill is a sorghum and wheat farmer and will share his experiences working with local ethanol facilities both on supplying sorghum and utilization of the distillers drain for his cattle.

I look forward to hearing from our witnesses today about the results from these investments and what each of you sees as the future in renewable energy. I am concerned that after 4 years some of these programs were just implemented within the last year. We need to make sure we are taking into consideration the complexity of these energy programs—and it is not just energy; we are discussing this issue in multiple titles—the complexity of programs and the ability of the Department to deliver the programs effectively and for producers to understand their options.

We also have a responsibility to craft the right type of programs to facilitate new markets without adversely affecting the existing markets or duplicating actions of other Government agencies. Hopefully we can use all of this good insight from our panel of witnesses today as we move forward with farm bill discussions.

I do appreciate very much our Secretary, Secretary Vilsack, for taking his valuable time to testify this morning. I know he has a plane to catch, and I appreciate him being here.

While we are here to discuss other matters, I would be remiss if I did not comment about the President's budget announcement this week. I was very disappointed to see—yet again, I might add—a proposal that cuts nearly \$8 billion out of the Crop Insurance Program. Madam Chairman, this is the number one issue that we have heard about in every hearing we have had in regards to what farmers need and what they rely on. This is on top of the \$6 billion cut from the previous SRA.

What baffles me is that instead of looking for new and innovative ways to protect producers as well as taxpayers, the President's budget simply dusted off old policy proposals that Congress simply has rejected.

Furthermore, with roughly 80 percent of agriculture's budget tied to nutrition programs, his proposal cannot find \$1 of savings from increased efficiencies. Thankfully, this Committee is about to start a process where we will make the necessary policy decisions for the future as opposed to simply looking at numbers and dollars and cuts that have been there in the past.

Madam Chairwoman, I appreciate the extra time for me to make this point. I look forward to today's hearing, and I thank you for your leadership.

Chairwoman STABENOW. Well, thank you very much, and we will proceed with our first witness.

First let me say we have excellent panelists today, and we appreciate everyone who has come to be with us. We will ask members of the Committee to please submit their opening statements for the record.

Also, when we have a quorum of 11 members, we will be proceeding very briefly with reporting nominees from the Committee that we have held nomination hearings on, and so I would ask members to please remain until we can have 11 members to be able to do that.

Let me also say we will be extending our time this morning to 7-minute rounds for Secretary Vilsack, and we very much appreciate, Mr. Secretary, your being here today.

As everyone knows, Secretary Tom Vilsack is the current Secretary of Agriculture, and prior to his appointment, Secretary Vilsack served two terms as the Governor of Iowa. In that role and as a State Senator and the mayor of Mount Pleasant, Iowa, Secretary Vilsack has a remarkable record of making positive change in the lives of those he has served. We appreciate your bringing your talents to this job and welcome.

**STATEMENT OF THE HON. TOM VILSACK, SECRETARY, U.S.  
DEPARTMENT OF AGRICULTURE**

Secretary VILSACK. Madam Chair, thank you very much to you and to Senator Roberts and members of the Committee. Thank you for this opportunity.

You have a copy of a written statement, which we would ask just simply be made part of the record, and if I might just spend a minute or two talking from the heart about the issues that you confront.

I will never forget when I was campaigning for Governor going to a small town in southwest Iowa and sitting down in a coffee shop and having a conversation with a couple of community leaders. They talked about the importance of their school, of their hospital, of law enforcement, and then they stopped the conversation and just indicated to me that the concern that they had about their community was that there was a great dependence on Government-supported institutions for jobs, and that what they really wanted to do was to figure out ways in which the private sector could be more excited about their small community and small communities across the State.

I think this Committee has an extraordinary opportunity, notwithstanding the difficult fiscal circumstances we find ourselves in, to make a very bold statement about the importance of rural America and small towns and to create a new opportunity. I think we started that conversation with biofuels and renewable energy. I think there is an extraordinary potential for a bio-based economy.

We have put the pieces in place to do research, to provide assistance for small business development, to provide resources for manufacturing, to provide opportunities for producers to produce non-

food feedstocks for this bio-based economy. I think as we craft the farm bill, working with the Senate and House Agriculture Committees, we are very interested in providing the technical assistance that you all need to be able to focus on this great opportunity. Not only is it an opportunity to increase farm income, and not only is it an opportunity for smaller producers to have additional markets which are local and regional in nature, but it is a job creator.

You mentioned 100,000 jobs. Well, the reality is that as we move towards the 36 billion gallons of renewable fuel under the Renewable Fuel Standard, and as we fully integrate and coordinate our efforts in the bio-based economy, we are talking about millions of jobs.

The very nature of biomass, the bulk of biomass, suggests that we will not have one large refinery servicing multiple States. We will have these refineries dotting the landscape across America in every part of America. This is not just a Midwestern idea. This is not just a Southeast idea. This is a national opportunity.

So I am excited about the opportunity to visit with you today because I think for the first time in a long time, we have a vision of a rural America where moms and dads and granddads and grandmoms can be able to sit down and talk to their children and their grandchildren and explain to them that they have an extraordinary opportunity to create an economy in rural America that makes us less dependent on foreign oil, that makes us less dependent on moving to cities and suburbs to find real opportunity, that provides us a chance to fundamentally change the character of the economy of this country and get us back in the business of making, creating, and innovating. We do that better than anyone else in the world, and folks in rural communities have been waiting for this moment.

As you consider the farm bill, I hope that you will recognize the importance of streamlining the number of programs we have, providing us the flexibility to be able to use these programs creatively and adjust them to regional differences, and to understand the significance and importance of regional economic development.

These communities by themselves may have a difficult time finding the human capital or the financial resources, but as part of an economic unit, an economic region, they can join forces, they can leverage their resources both human and financial, and with the help and assistance of USDA, can build the platform and the foundation for an extraordinary economy.

So I look forward to responding to questions today and to our team working with the Senate and House Agriculture Committees to take full advantage of this opportunity. And, again, I thank you for the chance to be here today.

[The prepared statement of Secretary Vilsack can be found on page 149 in the appendix.]

Chairwoman STABENOW. Well, thank you very much, Mr. Secretary, and I share your view about the opportunities in the new biofuel, bio-manufacturing, and bio-economy and what the opportunities are for rural America and for the country as a whole.

Before we get into specifics, though, I do want to spend a moment on the budget because it is very, very important as we go into this farm bill discussion. As you know, when the leadership of the

House and Senate Agriculture Committees were asked to make recommendations last year on deficit reduction, we chose to do something a little different than ended up happening anywhere else, which was to sit down and develop something in a bipartisan, bicameral way. We are very proud that we were able to do that even though the full process did not come to a conclusion. We did recommend \$23 billion in cuts.

I would say that agriculture is about a little less than 2 percent of Federal outlays, and the \$23 billion was a little less than the amount in total that needed to be cut. We felt we recommended our fair share.

But in all of that, we placed as a cornerstone crop insurance, and as Senator Roberts had mentioned, we have heard across the country from our field hearing in Michigan to Kansas to people coming in and speaking with us here how critical crop insurance is.

So we need you to speak to the President's proposals on cuts in farm programs, and I am particularly concerned about crop insurance.

Secretary VILSACK. Madam Chair, thank you for that question. You all have two great opportunities to impact the rural economy: the farm bill and the budget. We certainly respect the responsibilities of the House and the Senate with reference to both.

Let me first of all say that I have publicly said this and will continue to say that you in your position as Chair of this Committee and Representative Lucas in his position as Chair of the House Committee did what most Americans want us to do, which is to work together to figure out compromise, to figure out middle ground, to give and take and get things done. I am deeply disappointed that your work was not fully accepted ultimately by the Committee of 12 and replicated by that committee so that we would be in a position to deal with deficit reductions.

Having said that, we are now back to square one. We understand and appreciate the \$23 billion proposal. We also understand that Representative Ryan's budget, which passed the House last year, called for \$48 billion of reductions. We are not certain what will take place this year, but Representative Ryan's statements have indicated that the budget will look similar to what has been proposed in the past. So one has to assume that that number may be higher than the \$23 billion that you all talked about.

Budgets are difficult processes, and they involved, as you well know, choices and priorities. The President, when he looked at the agricultural budget, basically had to decide whether or not to focus on a balanced approach and an approach that basically took resources from farm programs, conservation programs, and nutrition assistance programs. He opted not to take money from nutrition assistance programs. With due respect to Senator Roberts, it is not about efficiencies. That efficiency issue is one that we are dealing with in our operating budget, which has been reduced and which we are currently working on.

The crop insurance proposal basically focuses on four elements:

First of all, a recrafting of the catastrophic coverage, a recalibration of the way in which those premiums are set. It will not impact or affect farmers in any way, but it will provide us some savings.



Secondly, a look at the administrative and operating expense that is provided for the implementation and administration of the Crop Insurance Program and essentially placing a cap on the A&O, which would save several billion dollars over 10 years. That involves, obviously, agents, not necessarily farmers and ranchers and producers.

A substantial piece of the President's proposal also takes a look at the return on investment that insurance companies generate from the sale of crop insurance. Historically, we believe, based on studies, that roughly a 12-percent return is sufficient to adequately support this industry. Today we are significantly above that 12-percent return on investment, and the President feels that 12 percent is an appropriate place to be. I suspect that a lot of Americans would love to have a 12-percent return on their investments. That is several billion dollars.

Then there is a premium adjustment for those farmers who are currently purchasing policies where the subsidy to them is more than 50 percent of the premium. This is obviously a partnership between the insurance industry, Government, and the farmers, and the President felt that something closer to a 50/50 partnership was fair.

That is essentially the proposal, and that allowed us not to take resources away from nutrition assistance programs, and that is basically a choice. So the question is: Who is in the best position to bear the difficult cuts and reductions that must be forthcoming? It is obviously an issue that we will talk about and debate, and everyone's position should be respected for their views. But in the President's view, these insurance companies are perhaps in a better position to withstand these difficult times than the folks who are currently struggling with tight budgets and cannot afford to put enough food on the table for their families.

Chairwoman STABENOW. Well, thank you. I want to ask specifically about our topic today. I do want to also underscore, though, that I am equally concerned, actually more concerned about what the House budget showed last year and what we anticipate, if we are going to try to write a farm bill. So I want to underscore that as well and am very concerned about that.

But let us talk also about particularly around energy. There are two kinds of things happening for us in Michigan. There was a groundbreaking in Fremont, Michigan, the international home of Gerber Baby Food, last year, the first commercial-scale digester project in the United States. It would take over 100,000 tons of agricultural waste and turn it into energy, and this was something supported by USDA. So we have those kinds of projects.

Then we also have bio-based manufacturing where, in fact, we are using agricultural products to replace, as you know, petroleum in products, and we have our Big Three auto makers right now using, for instance, soy-based foam in the seats of their automobiles. So if you are buying an F-150 truck or a new Chevy Volt—I could go on advertising, but I will not—in fact, you are sitting on soybeans. So if you get hungry, you know you have got something you can munch on.

But talk a bit about how we continue to expand on the opportunities there.

Secretary VILSACK. Madam Chair, I think there are two significant proposals that you all ought to consider. The reality is that the energy programs in the 2008 farm bill were not funded through the length of the farm bill and, therefore, are not in the baseline that you all have to deal with. That creates the challenge of whether or not those programs are continued.

In the event you make the decision that you cannot provide the resources in those programs, then what you need to consider is providing flexibility in the existing programs that will remain. The Business and Industry Loan Program is one that is very tightly structured to only provide resources for “commercially viable products.” That limits the capacity to use that program that has billions of dollars of opportunity in it over the course of a farm bill life to be able to utilize for these bio-based manufacturing facilities, because some of this may not be “commercially viable.” So one thing you ought to look at is providing enough flexibility in the B&I Program to give us the capacity to further provide resources for these entities.

The second program is the REAP program. You know, we are excited about the over 22,000 projects that were funded through REAP. Many of them included anaerobic digesters and other mechanisms on a much smaller scale on a farm-by-farm, small community scale. We think that this is a program that requires and needs attention from the Congress and provide us the resources because it can make a significant difference; 22,500 projects have been funded through this program already, and there is enormous potential for it.

Chairwoman STABENOW. Thank you very much. I am over my time. I will turn to Senator Roberts.

Senator ROBERTS. Thank you, Madam Chairwoman.

Let me just say something that I think we are going to agree to disagree on crop insurance, but I look forward to working with you. I think we have made some real progress on crop insurance. During our very unique deliberations, it was a situation that I do not think we have ever had to face before as a Committee. Four principals—the two Rankings, the two Chairpersons—trying to come up with something in regards to deficit reduction. We were the only Committee that submitted \$23 billion to the process. The process broke down.

This time around, we have scheduled four hearings—this is the first—and we have agreed to start over. We have agreed to build on the progress that we think we have made on conservation, on crop insurance, and on other titles. We still have some work to do without question.

The point I would make is that all 21 members will be part of this. It will be an open process. I have visited with all of my side, on the Republican side, and I know the Chairwoman is doing the same thing on her side as well. It is our hope that we can get a bill out as soon as possible after the hearings, and we have to move in a very expeditious fashion. It is our hope that we can get unity on this Committee during that open process where everybody feels that they have an opportunity to participate. That is not in my prepared remarks, but I thought it would be very helpful.

I am going to ask a parochial question, but it does have national security implications. Several years ago, Kansas was selected through a competitive process run by the Department of Homeland Security to be the site of the new National Bio and Agro-Defense Facility. The acronym for that is NBAF. The purpose was to replace the aging Plum Island facility, which, by the way, ranked sixth out of six finalists under consideration for the final site selection.

To date, the Federal Government has spent over \$100 million in design and preparations to build this facility. The State of Kansas is also designated a cost share as part of the proposal, is well over \$206 million. In fact, the land where this facility is to be built at Kansas State University has already been cleared of all the buildings and structures.

I know you support the construction of this new facility. I thank you so much for your time when we talked about this and the dangers to our country and our Nation's food supply and what that threat really poses. As a former member and Chairman of the Intelligence Committee, I can assure you that threat still exists. I know you understand the important need it would fill in our agriculture and food security.

The Secretary of Health and Human Services, Kathleen Sebelius, our former Governor—she was Governor when this all went through—is supportive, and DHS Secretary Napolitano has previously toured the site and expressed her support for the project. So I and most Kansans were surprised—and I think all of agriculture was surprised, stunned actually—when the President's budget came out on Monday and proposed no construction funds in 2013, and it also proposed a task force to determine if a new facility is actually needed.

Mr. Secretary, do you believe construction of this facility is vital to our Nation's food and agriculture security?

Secretary VILSACK. Yes.

[Laughter.]

Senator ROBERTS. Thank you, Mr. Secretary.

Mr. Secretary, since we both agree it is vital and the Plum Island facility is in a sense starting to fall apart, were you surprised at all to see the budget eliminate the construction funding and instead pump more money into research? I want to emphasize that research that the State of Kansas has already agreed to support is part of our share of that Kansas' cost share proposal.

Secretary VILSACK. Senator, we are looking at opportunities, as you and I have discussed, to see if there are ways in which some of the activities or some of the work that is being done in Plum Island, that some of that work may transition, if you will, to the Kansas location, which I am committed to trying to make happen this year. So, obviously, we are going to continue to work with you and work with the Committee and work with the Congress to make sure that folks understand the significance of this facility, to make sure that they understand the concerns that we have with the Plum Island facility, and some of the needed repairs that would be required and the cost of those repairs over a period of 10, 15, 20 years, and whether or not we would be better off as a country having a modern facility.

This is critical for us. It is critical for us in terms of being able to identify problems and being able to accurately analyze the extent of the problem. As we become more engaged in global trade, and as agriculture becomes a great story for American exports, we obviously want to be able to maintain our good reputation around the world.

So this facility is important. We will continue to work with Homeland Security, as we have, and we will continue to work with your office, as we have, to make sure that at some point in time this becomes a reality.

There is still a lot of work that has to be done in terms of the design. We have to make sure that it is adequate to contain some very dangerous materials that they will have to deal with, but my hope is that we can find a way to get this thing built at some point.

Senator ROBERTS. I certainly appreciate your answer.

Let me change subjects with the minute I have left. Last summer, the President announced the creation of the White House Rural Council. It is chaired by you, sir, and it focuses on actions to better coordinate and streamline Federal program efforts in rural America. I was pleased to see such an effort to take down the stovepipes of bureaucracy on behalf of farm country. Oftentimes, actions taken by agencies other than the Department have a tremendous impact on the development of rural America.

What role are our agriculture industries—farmers, ranchers, small businesses, State and local officials, and other rural stakeholders—what role are they playing to achieve the goals of the White House Rural Council?

Secretary VILSACK. Senator, the first thing we are attempting to do with this Council, which is, as you have noted, the first time in the history of our country that such a committee has been put together by an Executive order, is to figure out ways in which initially the Federal Government can work more closely with each other. Let me give you a couple of examples of things we have already done that are in the pipeline.

We recognized the need for more venture capital and more capital to be placed and invested in rural America. As a result of the Rural Council's work, the Small Business Administration has committed to doubling the amount of that type of credit going into rural communities over the next 5 years. It is roughly \$3.5 billion of additional credit that is going to be made available.

As a result of that coordination, USDA and SBA are now holding a series of venture capital conferences across the country where we are bringing people in from regional areas, bankers, agribusiness, institutional investors—and encouraging them to look at opportunities in rural communities. Again, this bio-based economy is one of those opportunities. We want to acquaint them with those opportunities as well as the infrastructure opportunities. We think that there are a number of pension plans and other entities that are looking for stable investments, and public infrastructure investments is a way of providing that stability and that appropriate return. Madam Chair referred to wastewater treatment facilities. That is an example.

We are working with Health and Human Services to better coordinate rural health technology. We announced an opportunity for

USDA and HHS to work together to create the workforce that will allow us to do electronic medical records more effectively in these small rural hospitals. So we are working with the medical community in terms of that proposal.

The Department of Navy and the Department of Energy and USDA are working together in a first-time-ever proposal to help the commercial aviation industry create a drop-in aviation fuel which would be used by our Navy. That is obviously of great interest to agribusiness and to farmers and producers. It is also of interest to Boeing and United and Honeywell and other entities that are trying to build a commercial aviation industry in the United States that is prepared for the 21st century.

So there is a whole series of proposals that are taking place. We meet monthly. I chair the meetings. I physically go to the meetings. We are demanding results from these agencies, and we are getting them. I think you will see over the next month or so a series of announcements coming out that will impress upon you that we are working in a collaborative fashion.

Senator ROBERTS. Well, thank you for such a fine statement and for your leadership.

My time has expired, Madam Chairwoman. I would like to submit several other questions for the record.

Chairwoman STABENOW. Absolutely.

[The questions of Hon. Pat Roberts can be found on page 184 in the appendix.]

Chairwoman STABENOW. Senator Harkin.

Senator HARKIN. Thank you very much, Madam Chair.

Mr. Secretary, thank you very much for a very eloquent opening statement, and thank you for the great work that you are doing at the Department of Agriculture. Two things.

First, thanks for what you said about the nutrition programs. I had my weekly breakfast this morning with Iowans. I had a big group there from the Diocese of Davenport, a Catholic diocese, and that is what they wanted to talk about, not backing off of our support for low-income people who are facing tough times now, with high rates of unemployment, that need the Supplemental Nutrition Assistance Program, or, as it is called, "food stamps." I thought one of the statements made there was kind of profound. They said, you know, "If someone is accusing this President of being a food stamp President," one of them said, "well, he ought to wear that as a badge of honor, that in this country because people face tough times or they are disabled or are unemployed for periods of time, that we do not force them out on the street to beg for food, that we keep their kids well fed and healthy in our country."

To me that is a source of pride for the United States of America, not something to be embarrassed by. So I congratulate you for your strong support of the nutrition assistance program and the President for his budget that also keeps that important safety net there.

Secondly, on the biofuels, again, I hope that the President will get behind those of us here on both sides of the aisle who have been pushing for market access. I do not think it comes down to whether or not we need much financial support. The enzymes have been developed. We have a new plant being built in Nebraska now by Novozymes, producing the enzymes for the breakdown of certain

cellulosic materials—wheat straw, corn stover, things like that, bagasse from sugar. What we need is market access, and that is three elements: we need more flex-fuel cars, which Detroit must build; we need blender pumps at our gasoline stations so that at least half, 50 percent of our gasoline stations should have a blender pump by 2020; and we need a dedicated pipeline to take the biofuels from sources in the Midwest to the East.

We have right-of-way. We got the Tax Code fixed for that. But there is a loan guarantee that should be granted by the Government to get that pipeline built. If you do those things, we do not have any worries. We have got the enzymes now. As you pointed out, these biofuel plants are going to be built all over. They will provide a lot of local jobs. But we need market access, and that is what the oil companies are clamping down on.

I would just say this: I hope that you will take that back to the President and tell him to get behind what some of us are trying to do here in the Congress to open up those markets in those three areas.

Lastly, I have to make a comment about NBAR, as it is called. We have looked at this for years. The National Research Council found serious problems in the Department of Homeland Security's risk analysis. Those issues have not yet been resolved. It is my judgment that NBAR, a billion dollars, with all of the problems it has got and with all the needs that we have in our country now—and I know, okay, we have put some money into it. I heard the same arguments about the Clinch River breeder reactor when we had a Congressman—when I was in the House, we had a Congressman from Tennessee and later a Senator by the name of Al Gore, a big pusher of that. But, you know, we finally realized that even though we had put money into it, we should not chase bad money with good.

Then later on there was something called the Superconducting Super Collider. Do we remember that? I remember a lot of people supporting that here. We had put money into it. We had already dug some tunnels in Texas. We killed that, too, because we decided that we were not going to chase bad money with good.

I think this whole NBAR thing needs a whole fresh look from the beginning as to whether or not it is better economically and also for our national security to upgrade the Plum Island facilities, which are off the coast of America. There is no country that I know of that has a facility like this that is out in a farmland area, plus the fact that we have a neighbor to the north, Canada, that has one of these facilities that we can use at any time. We have very good relationships with Canada, by the way.

So I think this whole—and I understand—I could be wrong, but I understand that the Governor of Kansas recently told the legislature that the State could not afford or would be putting that on hold because they were not going to be funding it. I will have to get the exact words of what Governor Brownback said, but that was sort of the intent of it.

Lastly, the huge issue—the huge issue—of the possible escape of foot-and-mouth disease into cattle in cattle country, I came across one report—again, I do not know if it is true or not—that said that if this got out, they could not—if foot-and-mouth disease got out of

that facility—and there is a high probability it could from this risk analysis—that, in fact, they could not kill the cattle fast enough to stop the spread. They could not kill the cattle fast enough to stop the spread.

I can understand my friend from Kansas. People want things built in their States and stuff. We all fight for our own States and things like that. I understand that. I have no problem with that whatsoever. But I do believe that on the basis of national security, the safety of our population, the safety of our livestock herds, and the probability that it would be cheaper and better to do this off the coast of America someplace—and a redesigned and rebuilt Plum Island might be better for our country, but these are things that we are going to have to discuss and debate.

Mr. Secretary, thank you very much for being here.

Senator ROBERTS. Madam Chairman, could I just say a few remarks?

Chairwoman STABENOW. Yes, Senator Roberts. I do not want to debate this this morning, but I do understand it is important to you, so I will yield for a moment.

Senator ROBERTS. Well, I have been in contact with the Governor of Kansas virtually every day on this project, and the Governor, quite the opposite, did not say that they were not committing funds. As a matter of fact, in talking with DHS, he is trying to work out a solution that, due to the budget restrictions, is there any way Kansas can step up? How can Kansas step up? It is because we have quite a bit of money dedicated to this project in addition to the commitment by the Federal Government, which now has not been forthcoming to the extent that we have. He is sending his top person to meet with Dr. Tara O'Toole as of tomorrow in regards to further negotiation on this. It is quite the opposite in regards to saying that we do not have the money. There were flaws in the National Academy of Science report. They did not take into account all the mitigation efforts that we have already put in place dating back even 10, 5, 3 years ago.

So we do have strong statements on behalf of this facility from the Department of Homeland Security, from the USDA, and from the administration, and more especially from the intelligence community in regard to the secret cities of Russia, one of which I visited and have tremendous bio-weaponry capability that would endanger our food supply. Those secret cities are now closed because we have Mr. Putin in charge as opposed to Dick Lugar and myself running around Russia trying to achieve some degree of cooperation from the folks there, from the scientists in these secret cities. The threat is real. We have complete support, three Democrat Governors, one Republican Governor, the entire Kansas delegation, the entire Kansas State Legislature.

I understand the gentleman's concern. I will be more than happy to talk with him individually. We have always gotten along. I think we can get along on this.

Secretary VILSACK. Madam Chair, can I just make a comment about blender pumps?

Chairwoman STABENOW. Yes, Mr. Secretary. Absolutely, you may do that, and then we will turn to Senator Cochran, who is next up.

Secretary VILSACK. I just think it is important to emphasize the fact that, with some flexibility within the REAP program, we are in the process of trying to assist in the location and development of blender pump distribution. I think Senator Harkin's comment about market access is a good one, and we are trying to use the REAP program in a creative way to address that, at least in a small way.

Chairwoman STABENOW. Thank you very much.

Senator Cochran.

Senator COCHRAN. Madam Chairman, thank you very much for convening this hearing, and I want to join with other members of the Committee in welcoming the Secretary of Agriculture to lead off a discussion of what our hopes are and what the realities are for assisting production agriculture and the programs that are administered by the Department of Agriculture.

We come upon this period of time from occasionally where we review our farm bill to try to make sure that it is up to date, and that is one of the key reasons for the Department of Agriculture and this Committee to exist, in my opinion. It is a big challenge. We have a lot of people who depend upon programs administered by the Department for conservation practices which would be way too expensive for individual landowners to try to handle by themselves without the benefit of farm bill programs and other support they get from our Federal Government.

So thank you for being here, and let me just ask you whether or not you see in the future of this farm bill that we will be writing and extending programs and reauthorizing programs whether programs like the Delta Regional Authority, the Delta Health Alliance, Rural Water Associations, will continue to be able to look to Washington for support and guidance as we try to provide health care, housing, and basic infrastructure needs in rural America.

Secretary VILSACK. Senator, I think it is important for rural America to have programs that have enough flexibility to be able to address the multiple needs. We are, particularly in areas that are poverty stricken, working in a program called Strike Force where we are attempting to go deeper into these communities and to create a bond with USDA that had not existed so that they are comfortable in applying for programs and comfortable in knowing what the rules of the game are.

So it is important for us to continue to figure out ways in which we can work with community-building organizations to make people in these small communities comfortable with the competitive processes that we have to make sure that we leverage our resources as effectively as possible.

The most important thing we can do now, I think, is what this Committee is doing: try to get a farm bill as quickly as possible so that we have some degree of certainty. Recognizing the fiscal challenges that you all face, there may not be the capacity to specifically designate money for a particular organization or entity, but there is a process by which you can create a competitive circumstance in which the best programs will be funded and supported as they should be and giving us the flexibility to work carefully and closely with regions, economic regions, to make sure that their needs are well thought out.



So a long way of answering your question. I think we are probably not going to see specific designations, but we are probably going to see more competitive opportunities and working with communities to make sure that they can be competitive. I think that is a key. So more flexibility, streamline the process, and recognizing the importance of these programs.

Senator COCHRAN. Some of the Department offices in our State are given the responsibility of helping administer assistance programs not only for agricultural producers but rural communities, small towns, where the opportunities for education, health care, understanding how to comply with Federal programs that provide cost sharing for programs that you just mentioned are very important to be continued and reauthorized in the farm bill that we will be writing.

As Secretary, you will be looked to for a lot of assistance in identifying our priorities. Is this administration going to support the reauthorization of agriculture production in rural community assistance programs so that we can continue to see quality-of-life issues addressed with the Federal Government's assistance?

Secretary VILSACK. Senator, let me see if I can respond to that question. First of all, to the extent your question asks whether or not this administration will be supportive of an adequate safety net to ensure that producers stay in business, the answer to that is an unequivocal yes. We do recognize that part of that safety net is some process by which difficult times—revenues can be protected during difficult times, and we know the fiscal constraints that we are working under will require us to recraft and modify existing programs to provide that safety net.

I would also say that part of the safety net in rural America is a good job. Many farm families are relying on off-farm income as well as farm income to be able to meet the needs of their families. So I see the rural development component of our responsibility as part of that safety net.

We need to make sure that we use every dollar as effectively as we can. I can talk to you about the 6,200 community facilities that we have helped build in the last 3 years, a record number of Business & Industry loans that we have made, worked with small entrepreneurial activities through a variety of smaller programs. At the end of the day, we have got 40 programs in rural development. Candidly, we do not need 40 programs. We need fewer programs. But within those existing programs, you need to give us the flexibility to be able to craft them and use them creatively.

Again, I think the potential here is unlimited in every part of the country for a bio-based economy—fuel, energy, chemicals, et cetera—and the job creation opportunities are enormous. But right now the stovepipe nature of what we have makes it difficult for us to be able to really spur that opportunity and that vision on.

The last thing I would say on conservation, that is also an extraordinarily important component of economic activity. It is not just simply the economic and environmental benefits that come directly to the producer from our conservation programs, but it is also the outdoor recreation opportunities that are expanded and created when we have habitat for wildlife. More hunting and fishing opportunities are extremely important and an underutilized op-

portunity for us, I think, in terms of turning the rural economy around. So it is a broad approach.

Senator COCHRAN. Thank you very much.

Thank you, Madam Chairman.

Chairwoman STABENOW. Thank you very much.

We are very close to a quorum as well to be able to report out our nominees, so I would ask patience of the members. We hope to have a quorum in just a moment.

Senator NELSON.

Senator NELSON. Thank you, Madam Chair. Thank you, Mr. Secretary, for being here.

I must say that I was relieved that my good friend from Iowa had more positive things to say about Nebraska's Novozymes than he had positive things to say about Kansas. So I am much more relieved, Senator. Thank you.

[Laughter.]

Senator ROBERTS. Much more promising in the future.

Senator NELSON. I see.

Secretary Vilsack, I know from all of your comments and everything that you have been doing on biofuels that you share the view that the future of our transportation needs and the fuel to run the engine of our economy will depend a great deal, to a great extent on biofuels. I think, you know, all of us have this commitment to producing 36 billion gallons of renewable fuel by 2022. We know that in order to do that, we are going to have to have a greater diversification of feedstocks.

So my first question would be: Is the Department in support of adding a number of feedstocks to the RFS2, including some annual grains like sorghum?

Secretary VILSACK. Senator, there is no question that we have to focus on non-food feedstocks. That is one of the reasons why with the BCAP program we have encouraged the development of camelina and miscanthus, hybrid poplars, and switchgrass as potential opportunities. So we are obviously looking for ways in which we can expand the feedstocks. We are doing research on trying to figure out how to more effectively and efficiently use those feedstocks. We are also providing assistance to bio-refineries in all parts of the country that use different feedstocks so we can determine what is commercially feasible. We are focusing on making sure that we play to the strengths of each region of the country.

So all of that is important, and we will continue to work with industry. We met with the sorghum producers not long ago about this issue. We will continue to work with our friends at EPA to provide them the information, the technical information they need to make the determinations as to what should be or should not be included in the RFS2. But I will tell you we are very much for a broad-based approach.

Senator NELSON. I think if we are able to achieve that goal, you will see more existing ethanol plants in the Great Plains retrofitted to take into account and be able to process feedstocks to move away from some of the other foodstocks that are currently being used. I think it would be in all of our interests to see this move as quickly as we possibly can, so if there is something we can do to be helpful

as well as part of the budget, clearly we ought to be committed to do that.

Secretary VILSACK. Well, let me make one comment on that. One of the things that we have determined is that the credit needs of these facilities are complicated, and they are complicated because Government is normally there at the beginning of an operation to provide credit. The private sector is there at the end after you have established commercial viability. But what we see is there is no one in the middle.

Now, we have used the Biomass Research and Development Initiative as a way of trying to deal with this Valley of Death issue, but it is real, and it is significant, and part of what Congress can do is to look at ways in which that initiative or other initiatives can help us do a better job of bridging that credit gap that exists. I think if we get there, I think you are going to see a substantial increase in the amount of advanced biofuels that are being produced in this country. I know there has been frustration with the pace, but I think we are reaching a tipping point, and you are going to see much more of it come online here soon.

Senator NELSON. Well, if we do not broaden the base for feedstocks, it is going to be nearly impossible to reach the 36 billion gallons requirement by 2022. Is that fair to say?

Secretary VILSACK. It is because we are pretty much almost at the corn-based ethanol cap of 15 billion, so it is absolutely essential for us to move beyond the overreliance on corn-based ethanol. I think we are seeing that. We are seeing algae plants. We are seeing agricultural waste being used in Florida. We are seeing switchgrass and woody biomass being used in other parts of the country. And, you know, there is a great deal of interest here. We just want to make sure we continue the commitment, that we hold firm on the RFS2 and keep that as part of our direction.

Senator NELSON. Thank you.

Switching a little bit now to micro entrepreneur assistance, I have been a supporter of the rural program, getting it in the last farm bill, and I really think that programs like RMAP are critical to rural America, small businesses that make up 90 percent of all rural businesses. More than 1 million rural businesses have 20 or fewer employees. So small businesses in the rural areas need capital to finance those start-up costs as well as for expansion, and the continued success of these entrepreneurs is essential to ensuring that rural communities survive.

As you were talking, many of these jobs could be or are off-farm jobs, will help support agriculture. I recognize the problems that Congress created for the Department by not continuing funding for the program in fiscal year 2012. But I have heard concerns from constituents who have utilized the program that the Department has suspended activities on all RMAP loans and grants even though there is still some funding remaining from past fiscal years.

What is the Department doing here? The reports that we are getting, are they accurate?

Secretary VILSACK. Senator, to date, \$51 million has been dedicated to 236 loans helping nearly 1,000 businesses. The problem comes from the language that was included in the appropriations bill and some concern that we have about precisely what the direc-

tion is from Congress, whether it is basically suggesting that no further resources are going to be available or whether it is suggesting that we ought not to administer the program at all. So we are working with our General Counsel's office to try to figure out precisely what that language will allow us to do.

My personal preference would be that we make good on the commitments that we have made in the past. A lot of folks worked really hard to get to that point and I think are frustrated that they cannot get the resources that will allow them to create the business. We want to be able to do that. I hope we get there. I just want to make sure that when we do it, we do not disregard the intent and direction of Congress.

Senator NELSON. Thank you, Mr. Secretary.

Thank you, Madam Chair.

Chairwoman STABENOW. Thank you very much.

Before proceeding with Senator Johanns, we do have a quorum. [Whereupon, at 10:32 a.m., the Committee proceeded to other business and reconvened at 10:34 a.m.]

Secretary VILSACK. Madam Chair.

Chairwoman STABENOW. Mr. Secretary.

Secretary VILSACK. First of all, thank you for getting Mr. Scuse through the Committee. But, Senator Nelson, in the time that you had this business hearing, I have learned that we have actually been given authority to proceed in funding the 2010 and 2011 RMAP loans, so those are going to go through the process.

Senator NELSON. Thank you.

Chairwoman STABENOW. Senator Nelson, you are pretty powerful there.

[Laughter.]

Chairwoman STABENOW. Can we give you a couple other minutes? Maybe you can come up with some other—no.

Senator Johanns.

Senator JOHANNNS. I have to say that was very impressive, Ben. That is remarkable. Well, let me offer a few thoughts, if I could.

First of all, it is good to see you again. It is good to have you at the hearing. As you know, we are kicking off a farm bill process, although we have had some hearings already, and a fair amount of work has been done on the farm bill. I have been saying for a long time, thinking about this farm bill, that the unwritten story—now it is the written story—is that it is going to be all about budget. It is tough to get a multiyear program in place. You know, we are working on the transportation plan now. In a perfect world, that would be a 5-year plan. We are working on a 2-year plan. That just seems to be, unfortunately, the way of the world these days. Like I said, in a perfect world we would have longer plans, but the world is less than perfect.

So in thinking about the farm bill process, it has occurred to me that I think the more streamlined, the more efficient, the targeted we can make our various programs, the better chance we have of moving it through the Senate process and through the House process. So I am going to throw out a couple of things that I would like your reaction to.

Let me just say, Mr. Secretary, I appreciate the challenge of being the Secretary. You know, you have got a boss, and that is a

pretty powerful boss, to say the least—the President of the United States. I do not expect you, nobody expects you to come in here and talk down a budget proposal that is made by the President of the United States. I get it. I understand it. Yet I also understand that there are probably some things that you look at and say, “Boy, I am going to try to work through this and try to get some flexibility with OMB and the folks at the White House.” So let me run these ideas by you and see what you think.

I look at the risk management aspect, which essentially is crop insurance, and overwhelmingly producers are telling me—not only from Nebraska but when I visit with producers around the country—that they think risk management is really the key issue of the next farm bill, and they, by and large, like crop insurance. They might argue about this feature or that feature, but, by and large, they have felt this to be a very useful tool in their risk management process.

If anything, I would like to do some things to try to improve it, maybe fix some things. You know, a multiyear has—or disasters are difficult and that sort of thing. But without going into the detail, I see our Crop Insurance Program. Then I see another program, SURE, and I have yet to have a producer come to me and say, “Boy, I love that SURE program, Mike. Go up to Washington and make sure you fight to keep every dime and dollar of it.” Quite the opposite. It just has not worked very well. People wait a long time to get anything out of it. I do not think it has done the job, just to be very honest about it. I am not a fan of it.

We cut crop insurance \$8 billion. Maybe you can make a strong case that, “By golly, Mike, that is the right thing to do,” while funding SURE for \$8 billion. I think that is the number that keeps SURE going for another 5 years. I understand the politics of that but, quite honestly, it does not make any sense to me whatsoever.

The second thing I wanted to mention—and then I had better quit talking or you will not have time to respond—is it does occur to me that direct payments, although they made a lot of sense maybe at one point—you know, when I became Secretary, I think corn was \$1.95 or \$1.96 a bushel, and I could go on and on through the commodities. It does not seem to make any sense anymore.

I have said openly that direct payments need to disappear if we are going to make—if we are going to do something with those funds, let us focus on risk management. I can mention some other things, but like I said, we only have a couple minutes left here, and I would like your reaction to some of what I have said.

Secretary VILSACK. Well, Senator, you, probably more than just about anybody else in Washington, have an appreciation for the position that I am in since you held it, with great distinction, for a number of years. Let me start where you ended with direct payments.

When I first came into this job, I remember going to speak to the cotton producers and suggesting—this was very early in the administration—that there were going to have to be changes in the direct payment program, that it was not going to last. I did not get back to the office before I got calls from not only the cotton producers but also my staff going, “You cannot say that.”

Well, here we are today. You and I, I think, would agree that the direct payment system as it exists today is probably not going to survive these conversations, and probably with good reason. It is hard to justify to the 98 percent of America why farmers are receiving payments even in good years. So I think there is a consensus that that has to change.

Now, the question is: How do you change it and what replaces it? Obviously, crop insurance is critical and important. We have expanded the number of crop insurance policies in this administration and will continue to look for ways to make the program better. You have mentioned a couple of issues which I think we do need to work on.

The issue of SURE, I would agree with you, the concept is a good concept because crop insurance does not necessarily get you totally out of the woods if you are hit hard with disaster. We also have to understand that we have seen a significant increase in the input costs in putting a crop in the ground, and it used to be you had enough diversity in your operation that if you had a bad year in one crop, you could pretty much survive.

With as little diversity as we have in terms of crop production on some of these farms and as high cost as it is to put a crop in the ground, one bad year may be enough to put a pretty good operator under.

So I think in addition to crop insurance, you need some kind of mechanism to provide assistance and help when that producer really needs it. The problem with SURE is it is a dollar short and a day late. So whether you continue that program, clearly you are going to have to change the program so it is more relevant than it is today.

Now, what does that look like? We will be happy to work with you on revenue protection processes and concepts on some kind of streamlined disaster program, whatever it might be. We see our role as working with you. You have identified issues and problems, and we ought to be about solutions.

Senator JOHANNNS. I appreciate your openness, and I am a little bit over, but I just wanted to make two last quick comments.

I would love the opportunity to sit down with whatever of your staff would be appropriate to talk about this issue, because I think there is an opportunity to do something within the Crop Insurance Program that gets to what many members on both sides of the aisle were trying to get to with SURE. I would like their best thoughts on what might be the appropriate vehicle.

Then the final thing, Madam Chair, that I just have to put in the record here, my good colleagues Senators Hoeven and Thune point out that corn prices are a lot higher now than when I was Secretary, so Secretary Vilsack must be a far improved Secretary than I was, so congratulations.

[Laughter.]

Secretary VILSACK. You could also make the point that what you and Secretary Schafer did set up the table for better prices.

Senator JOHANNNS. Thank you very much.

Chairwoman STABENOW. Thank you very much.

Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much, Madam Chairman. Thank you, Mr. Secretary. Thank you for visiting my State many times, given how close it is to your home State—it is not that far—and also for the great work that you have done. I just wanted to echo some of the comments from my colleagues about the concerns on crop insurance and also just to emphasize, which I think you know better than any member of the administration, what a huge success we have had in the rural areas and how important this has been to our recovery. I see it in our State. We have 5.7-percent unemployment, and a lot of it has to do with that stability that we have seen in our food production, that interrelationship with energy and the interrelationships with our food manufacturers as well. So I want to thank you for being such a steady hand and also voice my concerns. I thought we were working on a good idea here with the \$23 billion in cuts, and I hope we can get closer in that neighborhood as opposed to some of the other proposals that we have seen.

I was talking to Representative Peterson last night whom you know well, and he was saying the same thing, that this has been one of the positive apples of the eye of the country that we have been able to keep strong rural, and we want to keep that going with our economy.

I thought of asking you about blender pumps and the blend wall, and then you announcing, like you did with Senator Nelson 5 minutes later, that it was done. But I think you know how important those issues are. I thought I would ask first a question in another area. We are a big forest State, and what role do you think the USDA can play in encouraging other departments to make similar improvements that we have seen for the use of wood in the procurement of construction materials for green building designs, something USDA has been working on? What role do you think you can play in encouraging other departments to make those kinds of improvements? How can we improve the BioPreferred Markets Program to encourage the use of traditional bio-based forest products while encouraging the development of new bio-based products that replace oil-based products?

Secretary VILSACK. Senator, thank you for that question. We have made a recent commitment to do a better job of restoring our forests and putting together a forest planning rule and a restoration concept that we think will lead to more opportunities for the timber industry in particular. We have made a commitment to get to 3 billion board feet within the next couple years, and we are well on our way to doing that.

I wish you could have asked me that question about the BioPreferred Program in a week or so because I might be able to do for you what I did for Senator Nelson.

Senator KLOBUCHAR. This is sounding like a really good hearing. Thank you.

Secretary VILSACK. We are very focused on our role at USDA in terms of increasing the number of products that qualify in that program. We are going to make a concerted effort to encourage Federal agencies and their procurement to be more supportive of that BioPreferred effort.

Senator KLOBUCHAR. Very good.

Secretary VILSACK. We are going to do a better job and a faster job of labeling items so not only Federal agencies but also, more importantly, American consumers will have the opportunity to support bio-based products. There are literally thousands of products on the market today that could qualify for that labeling, and we need to work through the process and streamline the process.

So I think you are going to continue—you are going to see some activity and action in this area in the very near future.

Senator KLOBUCHAR. Thank you.

Secretary VILSACK. The last thing I would say on the green building is that the Forest Service has made a commitment to all of its new construction to be green and to use wood products more, which obviously makes sense for the Forest Service, and we would like to see other agencies do as well.

Senator KLOBUCHAR. Thank you.

In your testimony you mentioned the Rural Energy for America Program, or the REAP program. That is the flagship program for renewable energy at USDA. The program has been a success with over 700 projects in my State alone, helping to support on-farm wind and solar and energy efficiency projects.

Given this success, the growing demand for the program, can you talk about how this program leverages private investments and provides a long-term value for rural America?

Secretary VILSACK. Well, in the last couple of years, we have invested roughly \$300 million, \$350 million, to finance several thousand loans which have helped almost 7,500 businesses creating jobs, and these are opportunities to create greater energy efficiency and more focus on renewable energy. I have been to facilities where folks are taking methane producing enough electricity to power their own farm operation and put electricity on the grid. All of those types of opportunities are being helped by REAP.

This is a really good program. You all structured it and created it with enough flexibility that it can deal with a number of different opportunities, and we are trying to utilize that flexibility. It obviously received significantly less support financially in the last budget, but we are going to do our very level best to leverage those resources most effectively.

The key here is leverage, and if I might add, we are looking for partners. We are looking for partners not just in the private sector but also the nonprofit sector. We think that there are opportunities to work with foundations who are making investment decisions to generate income so that they can grant money. We want them to make those investment decisions, a portion of them, in rural communities. We want to acquaint them with rural projects. We need to do a better job of educating them about what is actually going on in rural America, and, frankly, you know, this hearing is a good opportunity to educate the public about what is happening in rural America.

There is something significant. Record income levels and the unemployment rate, at least according to the last report I saw from the Bureau of Labor Statistics, dropping more quickly in rural America than any other place in America. We obviously want to continue that.



Senator KLOBUCHAR. Very good. Then I think I will do my last question in writing. I have to go to a bulletproof vest hearing, and you do not need one here.

Secretary VILSACK. There is nanotechnology using wood products that we are researching for that very issue.

Senator KLOBUCHAR. Okay, wow.

Secretary VILSACK. You might want to look into that.

Senator KLOBUCHAR. Okay. Very good. But my last question, which I will do in writing, is just about kind of what you touched on at the end, these long-term projects and trying to get that financing for water, for infrastructure, electricity, all those things in rural areas that we have just heard a lot about because we have not had the kind of funding that we have had in the past in looking for creative solutions on how to deal with those rural development projects.

Senator KLOBUCHAR. Thank you very much.

Chairwoman STABENOW. Thank you very much.

We were kind of pondering over here a bulletproof vest hearing. Good luck with that.

Senator Grassley is next. I believe he has left. Senator Hoeven.

Senator HOEVEN. Thank you, Madam Chairman.

Secretary, good to see you. Thanks for being here today. I just want to start off with a couple comments regarding the President's budget relative to the farm bill.

First I want to echo my concern, and you have heard it from the others here today, and that is crop insurance. Everybody, you know, throughout our State, all the producers are telling us that crop insurance is absolutely the number one priority. Number one. So I think the \$8 billion reduction there does not work. I think that we are going to have to address that as we work on a farm bill, and I think really that goes to what we are trying to accomplish, which is the strongest possible safety net for our producers on a cost-effective basis. That is what we are shooting for with crop insurance. So, again, that is an absolute priority. Whether it is the commodity groups, whether it is producers throughout my State or throughout the country, that is what I am hearing; that is what all of us are hearing. So, again, I really want to emphasize that point, and so we have work to do there, and we look forward to doing it in this Committee.

The other thing I want to mention right at the outset is university-based ag research. At North Dakota State University, we have just built, largely with State money, an ag research greenhouse, state of the art, incredible. NDSU and our other universities are doing amazing research in agriculture, which is bringing enormous productivity, not only dramatically increasing productivity on the farm and the ranch, creating jobs, creating exports of favorable balance of trade in agricultural forests. So incredible opportunity there. That is a real priority and a tremendous leveraging of the Federal investment through what the States provide on that university-based research as well as the private dollars that are raised and go into university-based ag research. So I really want to emphasize that to you as well.

Then picking up on something that Senator Johanns said and it is true, Senator Thune and I did tease him about corn prices being

higher under your watch than his or Secretary Schafer's, but all three of you have done a fine job, and we appreciate the work you do. But we are working myself, Senator Thune, Senator Baucus, certainly Senator Conrad, and others—on the whole ACRE SURE program and how do we develop a commodity title package overall that works well, again, with crop insurance being the centerpiece.

With that, I am going to switch to biofuels—unless you have some advice for us as we tackle this farm bill—and we really want to lead that effort here in the Senate—I believe we have a very strong Committee on a bipartisan basis with a lot of background in agriculture and really need to lead writing that farm bill. Any advice or input you have relative to any of those comments?

Secretary VILSACK. Senator, just one comment. I think you have heard me talk about crop insurance and our view. We obviously recognize the importance of it and the significance of it. I think the question is, you know, how much of a profit margin do you need in order for it to be sustainable. That is obviously something we can talk about.

But let me focus a comment that you made that is extremely important, in my view, and that is, the issue of ag research. Agricultural research has not received the attention that it deserves by the country. We have seen significant increases in a lot of other research areas within the Federal Government and in other areas, but ag research has been flat-lined for an extended period of time.

The President's budget does propose an increase, a significant increase, in the competitive grant process of our ag research, our external opportunities, the opportunities that you alluded to working with universities and the private sector. I would strongly encourage this Committee to take a look at the historical data that suggests that productivity in agriculture is directly related to the investment in research and that we need to really do a good job of supporting that research opportunity.

There are countless reasons why it is important, but I appreciate your bringing this up because it is something that is often not talked about enough, in my view.

Senator HOEVEN. I am glad you brought up that point on the competitive grant piece, and we will absolutely look at that. That may fit with exactly what I am talking about, so we will take a look at that, and I thank you for that.

I do want to go back to—again, when we are talking ag research, it is about food, fuel, and fiber. I see this as an opportunity, I see this as a real job creator opportunity, just like you started your remarks with that comment, you know, about creating jobs in rural America. No question about it.

Back to what do we do now with biofuels, I really feel like—in our State we started a program that we provided some assistance to get blender pumps out there, and it has really worked. We have, I think, more blender pumps than any State in the Nation now. We have got to somehow get blender pumps so that—we have got something like 10 million flex-fuel vehicles on the road. That is growing. That is a simple thing to make these vehicles flex-fuel. We have got to get EPA to simplify the rules and get the higher blend allowances. We have got to do more with blender pumps. We

have got to do more with the liability laws. We have got to do more with the equipment, I think.

How can you help us with legislation or other ideas to advance this thing? We are kind of stuck here. This is going to be important to get more ethanol in the fuel supply and particularly as we get into the cellulosic second-generation stuff. So what help can you give us in either moving some legislation or getting some things going here?

Secretary VILSACK. Senator, I think the key here is for you to—given the fiscal constraints that we are operating under, whatever programs you decide to fund, making sure that they have enough flexibility for us to be able to use it creatively for the infrastructure that is necessary to get the fuel to the market more conveniently in all parts of the country, we are currently using the REAP program for blender pumps, but there has been some resistance to that in Congress, and we would encourage and work with you to sort of break down that resistance so that that flexibility in that program can be created and it can be adequately funded to reach our goal. We wanted to put 10,000 blender pumps out into the marketplace in a relatively short period of time. That is hard to do if there are restrictions on what we can do with the REAP dollars.

Secondly, again, the flagship project or program in our rural development job creation toolkit is the B&I program, and to the extent that we can create flexibilities in that program, because that is the one that is going to be supported and funded probably more extensively than some of the other programs—more flexibility there would be helpful as well.

Senator HOEVEN. I could work with your staff to get some of that language that we should maybe look at?

Secretary VILSACK. Yes, sir.

Senator HOEVEN. All right. Thank you very much.

Chairwoman STABENOW. Thank you.

Senator Bennet.

Senator BENNET. Thank you, Madam Chair. Senator Hoeven's comments on crop insurance, I think we all share his view there, and I want to thank you for the work that you have done—when the Super Committee was supposed to be doing its work, and not doing its work terribly well—and the Ranking Member for your leadership, and my hope is that this Committee is going to be able to come together on this farm bill in a way that not only is good for agriculture and the country but sets an example for the Senate and for the House in these difficult fiscal times. So thank you for everything you have done.

Mr. Secretary, thank you very much for your leadership. Sitting behind you is one of the smartest people in the State of Colorado, Flo Raitano, who is a constituent of mine, and it is not because she is there—but I am delighted that she is there—that I am going to ask you a question about the bark beetle. We, as you know, have had a terrible epidemic in our State. It has killed 3.3 million acres since we first saw the beetles in 1996. The Forest Service has a critical role to play in helping address the issue. You have worked hard on this, and I appreciate it, and Senator Udall appreciates it as well. But I am wondering if you could talk a little bit about the

Forest Service's evolving approach to managing this epidemic in Colorado and throughout the Rocky Mountain West.

Secretary VILSACK. Senator, let me—

Senator BENNET. She was the mayor of Dillon, Colorado, I should tell you—twice. She lives in the middle of it.

Secretary VILSACK. Specifically, the budget this year will allocate somewhere in the neighborhood of \$100 million for the States that have been impacted and affected by the bark beetle epidemic. So we are targeting specific resources, and we are doing this in a priority way. First and foremost, it is about life and property protection. Where do we think the falling tree challenge is the greatest in terms of threats to people and property? Then, secondly, how do we mitigate the impact on fire hazard? So that is primarily the focus of where that \$100 million will be invested in terms of managing this issue.

Secondly, on a larger scale, we think that there really does need to be a forest planning rule that really gives our foresters the capacity on a local level to do a better job of the multi-uses of forests and do a better job of restoring those forests and making them more resilient to pests and disease. So in the short term, we are addressing critical areas with \$100 million. In the long term, the forest planning rule and a restoration focus we think over the long haul will mitigate future situations like the one we are dealing with in your State.

The targeted resources are also part of a collaborative landscape approach. We are not just simply focusing on individual forested areas. We are looking at proper maintenance of those forests in relationship to the landscape and also better coordinating with private landowners. So it is a collaborative process. It is looking at whole-scale landscapes, it is focused on resilience, it is focused on water preservation and specific dollars targeted to trying to protect as best we can people and property.

Senator BENNET. We have, as you know, an enormous sense of urgency about it because there are the safety issues that you mentioned; also, to the extent that there is any commercial value to this timber at all, that obviously over time is going to diminish, which means that we have got to get after this.

Secretary VILSACK. Two things. One, our commitment to get to 3 billion board feet I think is an indication of our understanding of the need for this for us to get a more robust commitment to timber.

Secondly, we have 57 biomass research projects and programs underway within the Forest Service property to take a look at ways in which we can use this as an energy and fuel source. We think there are, again, tremendous opportunities here with woody biomass to be able to provide electricity and power and heat as well as turning them into the fuel and the chemicals we have talked about throughout this morning. So we are very committed to this, and the Forest Service is very committed to it.

Senator BENNET. Moving away into the Rural Council that you lead, Senator Roberts asked a great question of the panel about 6 months ago or maybe it was even a year ago. he said, "What keeps you up at night?" There were several producers from around the country, and we went down the row, and the person in the middle

said, "What keeps me up at night is immigration." Everybody nodded their heads.

I wondered whether that topic has been something that is being addressed in your Rural Council or someplace, what you are hearing from producers around the country. I am hearing from producers in our State that this broken immigration system is jeopardizing, seriously jeopardizing their farms and ranches and our businesses.

Secretary VILSACK. Senator, this is one of the more frustrating issues that we deal with on a regular basis at USDA. There is no question that a substantial percentage of food that is picked and processed in this country is done so by immigrant hands. It is also true that there are certain parts of the country today where things are not being picked and packaged simply because there are not sufficient hands.

It is frustrating for us to step back and understand that everyone—everyone—believes the system is broken. There is no disagreement about that. And, frankly, there is very little disagreement about the basic elements of what needs to be done. Clearly, border security needs to be front and center, and it has been in this administration and will continue to be. But there has to be a system and a process by which we solve this problem. But I think there are some who want to use it to separate this country and divide this country. What really needs to happen is that there needs to be the political courage to stand up and say we are not going to have this issue divide this Nation. We are going to do what this Nation needs done, which is we are going to solve this problem because we are Nation of immigrants. Our story has been written in large part because of the enormous diversity and power of immigration and welcoming people. We need a process by which we make sure that the workforce is adequate to do the jobs that need to be done to provide the extraordinary advantage we have in America.

People take this for granted, and they should not. We are food secure in this country.

Now, you travel all over the world, you are going to go to countries big and small. I am going to be spending time tonight in my home State with Chinese leaders. They need our soybeans to be able to feed their people. We do not really need anybody's food to feed our people.

We also walk out of a grocery store with far more in our pockets as a percentage of our paycheck than virtually anybody on the face of this Earth. There are reasons for that, and one reason is that we are extraordinarily productive and our farmers do an extraordinary job and an underappreciated job; and, secondly, we have got a processing process and facilities that allow us to produce these things and put them in our grocery stores for pennies on the dollar. I mean, 10 percent of our paycheck goes to food, a maximum on average. In most other countries it is 15, 20 percent.

So, you know, I am encouraging this Congress to basically say we have had enough of this divisive discussion; let us solve this problem. The country needs it, and certainly agriculture needs it.

Senator BENNET. Well, I appreciate your leadership very much and agree completely with what you have just said, and I think if

we do not solve this problem, what we are going to see is these farms moving south of the border to where the labor is, and that is not a good outcome for rural America.

Thank you, Madam Chair.

Chairwoman STABENOW. Thank you very much.

Senator Thune.

Senator THUNE. Thank you, Madam Chair, and, Mr. Secretary, thank you for being with us today.

I would echo what has been said by most of my colleagues with regard to that the number one priority of South Dakotans in the farm bill is a strong Crop Insurance Program. Hands down, it is what people want to see maintained. It is the thing that they are most concerned with and, that is, that we have a good risk management tool available to them. That is not the only priority we have in the next farm bill, but that is certainly, I think, the most important one in terms of the people that I represent.

Let me ask you, though, about the energy and rural development title of the next farm bill because that is critical in terms of the future of rural America as well. We have got forecasts of \$4 gasoline now, perhaps by Memorial Day, and the full potential yet to be seen for rural America to contribute to our Nation's energy independence is going to be really important in terms of drafting the next farm bill energy title. We all know it creates jobs. It has been a tremendous economic boom for rural America, but it is really important that we get past corn-based ethanol and move on to next-generation biofuels and get to cellulosic ethanol.

I know that we have got a fiscal crisis here in Washington, D.C., that is going to impact the next farm bill. There is no spending baseline for rural energy programs in the next farm bill. We know we are going to have to do more with less. But I am interested, I guess, in knowing with regard to the energy title in the last farm bill, the Biomass Crop Assistance Program, which Senator Nelson and I included in that last farm bill, has two components for collection, harvest, storage, and transportation. I am interested in knowing kind of what your thoughts are with regard to that, whether that is an important part of the BCAP program.

I met yesterday with the CEO of a major enzymes research and development company who told me that BCAP and that particular component of it—the collection, harvest, storage, and transportation component—is extremely important to the future of the biomass harvest and delivery to energy-producing facilities.

So what are your thoughts on that? Do you believe that that particular component is important to furthering the development of cellulosic ethanol?

Secretary VILSACK. Senator, first of all, American consumers, because we have a robust biofuel industry, are probably paying, it is estimated, somewhere 90 cents and \$1.30 less for their gas than they would otherwise be paying but for that industry, so we need to understand the importance that the industry does and provides in terms of consumer choice. And, obviously, the more that we do, the better those prices will be.

As it relates to BCAP, as you well know, that program received a 96-percent reduction in funding last year, so we have \$17 million to deal with a several hundred million dollar need.

Two aspects of BCAP. You have mentioned one, the collection, storage, transport, and harvesting. Clearly important in order to be able to encourage producers to do what they have to do to accumulate the biomass necessary to fund these new ways of producing fuel. At the same time, we do have to diversify away from corn-based ethanol, so we have also focused on the second part of BCAP, which is the project area portion. With \$17 million, there is not a whole lot you can do relative to the collection, storage, and harvesting. You really need more resource to be able to provide that assistance. Several hundred million dollars has been used in the past for that part of the program. We will continue to fund those contracts, but in terms of expansion of the number of contracts, it is going to be impossible with \$17 million.

So the question is: How do you use that limited resource for the biggest bang for the buck? I think you will probably see a majority of that being used in project areas. So I would encourage, if the Congress decides that BCAP is worth keeping—and I think you ought to very seriously think about this. If you are going to have it, it needs to be adequately resourced. We need to basically decide whether or not it is pilot project areas or whether it is collection, storage, and harvest. Playing two masters makes it difficult, especially if resource are tight.

Senator THUNE. Let me go back to the issue that was raised by my colleague from Colorado, and that is the pine beetle issue. I guess what I would say, I think we have a request probably in to you right now to reprogram some funds to the Black Hills National Forest. We have an epidemic problem with the pine beetle in the Black Hills, and it is home to Mount Rushmore, a huge economic impact on the State of South Dakota every year with visitors who come to visit. And, you know, it is tragic to see what has happened. We have 350,000 to 400,000 acres that are now impacted by the pine beetle, which had we been better on the front end of this, I think we could have really done a much better job of preventing this from spreading. There is a certain amount of this that you are going to be dealing with all the time, but it has really gotten out of control.

So I would hope that to the degree that you can help with the Black Hills issue that you will do that. I just wanted to reiterate that for the record here today. It is something that we have a written request in on in terms of reprogramming some 12 funds to the Black Hills. It is a very isolated area. It is one of our national treasures, and it has just been tremendously adversely impacted by the pine beetle.

Let me ask just one other question in the time I have left. I am curious to know your thoughts on this and whether or not you have had any consultation with the Labor Secretary on this. But as you perhaps know, there are some new regulations that have been proposed by the Department of Labor that apply to young people working on farms and agricultural operations which would be very restrictive in terms of what young people can do, limiting them to working at levels—anything over 6 feet would be prohibited, which would eliminate a lot of farm activity; working with farm animals that are older than 6 months old; you know, working around grain elevators, stockyards, those sorts of things, certain types of equip-

ment. They have said that they are going to modify this. We do not think they have modified it enough. They are going to modify, evidently, the definition of "farm," but there are still a lot of areas that would impact profoundly the way that farm operations function, particularly with regard to how young people contribute to the success of those operations.

I am curious if you have conveyed concerns on the part of the agriculture community and the Department to the Department of Labor about these proposed regulations. It is insane to people in farm country.

Secretary VILSACK. Senator, I think one of the reasons why a portion is going to be reprogrammed and the rest of the rules being looked at is because we worked well with the Department of Labor. I actually personally talked to Secretary Solis about this issue, so rest assured that we have been engaged in it, will continue to be engaged in it.

You know, I think all of us care about child safety, as we should, and all of us recognize that there are certain circumstances and situations in a sophisticated farming operation, as sophisticated as agriculture is generally, that pose unusual risks. So we obviously want to deal with those.

At the same time, what I explained to Secretary Solis and others in the Labor Department was that this is not just about safety. It is also about a values system that in many farm families the value of hard work, the importance of hard work, and the responsibility associated with pulling your weight and doing your share of the chores, that these lessons are taught in the very chores that they were discussing in this rule, and that they needed to be sensitive to the fact that this values system could be threatened by too restrictive a set of categories. I think to their credit they listened, and they now recognize that they have got a lot of work to do on this particular proposal, and we will continue to work with them.

Senator THUNE. I hope you will stay engaged. We really need a voice of reason, so thank you.

Secretary VILSACK. Thank you.

Senator THUNE. Thank you, Madam Chair.

Chairwoman STABENOW. Thank you very much.

Senator Baucus.

Senator BAUCUS. Thank you, Madam Chairman.

Mr. Secretary, thanks so much for taking the time to come visit with us. I would like to talk to you a little bit about infrastructure needs. Montana is an agricultural State where 50 percent of our economy is based in agriculture. We are spread out. There are six people per square mile, and we are very proud of the agricultural contribution we make to the country and to the world.

We are also a diversified State. There is manufacturing, mining, coal, oil and gas, and so forth. As you well know, in the eastern part of Montana, there is a big boom in oil. It is called the Bakken formation. It is in eastern Montana as well as western North Dakota. The estimates are that the Bakken is one of the largest plays in U.S. history, estimated about 4 billion barrels of oil with the new fracking technology that has developed not just in the Bakken formation, as I said, in eastern Montana and western North Da-



kota, but also the shale development in other parts of the country. But I am talking about Montana right now.

The Bakken is a great blessing. Unemployment in eastern Montana is at rock bottom, as you might guess, and it is a great opportunity for businesses and all the ancillary companies that build up around the oil production.

The trouble is it is coming too fast. There are just too many people coming too soon, putting incredible pressure on the communities there. Roads just cannot take the beating from all the trucks. Sewage cannot handle all these new people. There are man camps there, a lot of them developed, just these guys living in basically trailers, and people living in heated garages. There is a shortage of school teachers. There are all the pressures you might expect with a great influx of people in a very short period of time.

So I am wondering if you could help us out a little bit. For example, the USDA has jurisdiction over lots of different agencies that have a lot of relevance here, including the Rural Development Office. I might say the nearest USDA Rural Development Office is 5 hours away from the main focus of all the pressures here. But what efforts can you take to address this situation?

Last month, I sent a letter to the President asking him to coordinate his efforts to address the need here and develop some kind of a temporary multi-agency office in the area, if we could set an office up in the area physically in eastern Montana that people could go to and help coordinate Federal and State efforts. It would make a huge difference. Right now we are just—not to mix metaphors, we are at sea, just struggling, just doing our doggonedest to try to meet all these pressures. I met with the mayor, I met with the county commissioners, and law enforcement. It is a huge issue now. I talked to a sheriff nearby, not just in Richland County where Sidney, Montana, is located, but a sheriff from a nearby county and all the law enforcement problems they are facing, too. There was a recent murder in the area. They finally found this lady's body after it was gone for almost a month.

So if you could tell us a little bit about what you might be able to do and what efforts you could pledge to undertake to help us and work together to solve this, it would make a big difference to us.

Secretary VILSACK. Senator, I am not specifically familiar with whether or not that area of Montana has a Regional Planning Commission. Do you know if it does?

Senator BAUCUS. I do not know.

Secretary VILSACK. Well, I guess my first suggestion would be to consider, if they do not have a Regional Planning Commission, to work with the local officials that you have mentioned to form one because a Regional Planning Commission can essentially do much of what you are asking us to do, which is to coordinate efforts to ensure that you have a prioritization of assets and resources directed at trying to solve the problems that you have identified.

The second thing I would suggest is that the folks in eastern Montana consider, if they are not already part of this, applying to USDA for what we refer to as a "Great Regions Initiative." We are trying to encourage folks to think regionally, and obviously those folks in eastern Montana have an economic engine that impacts and affects the communities surrounding that engine, and we will

be willing to work with them in creating sort of a strategic plan in how to address the needs that they have and where the resources can come from to address those needs. That regional process will basically bring in a lot of the Federal agencies that need to be brought in to consider how would you fund a highway or how would you fund a wastewater treatment facility or what grant is available from HUD or from Commerce or from EPA or from us. That is the process and vehicle through which I would suggest and encourage that it be done, and I would be happy to work with your office to facilitate the application process.

Senator BAUCUS. I appreciate that very much, Mr. Secretary.

North Dakota is in a little bit better situation because a little bit more of the production is in North Dakota as opposed to Montana. North Dakota was quite farsighted, actually, in putting together a fund, a trust fund, where a certain percentage of the revenue, royalties, are dedicated to the trust fund. The fund is then used to address needs such as this. That is something that maybe the State of Montana has to do as well.

Secretary VILSACK. Senator, that is essentially what we attempted to do with the regional approach that we suggested for USDA. We have 40 different programs that are stovepiped. It makes it hard to coordinate multiple applications to meet multiple needs. So we suggested Congress giving us the capacity and the authority to essentially take 5 percent of those programs and put it into a pot and basically use that pot to help regions who are confronting the kinds of situations that you are talking about so that we would not have to worry about the stovepipes. We would be able to coordinate grants and applications and so forth within USDA.

Now, what Congress has done is it has basically said you can do this, but—as we interpreted the language, you can do it, but you cannot do it until we authorize it. Well, you sort of authorized it but you did not. So we are a little bit confused about what our authorities are here.

I would strongly encourage you, as you look at this farm bill, as you look at putting together programs in the future, that you give us the capacity to do this. If you are going to have 40 different programs, give us the capacity to put together a pot of money from all 40 that will encourage regional economic development, because at the end of the day you are going to be far better off and leverage those dollars more effectively if you do it that way.

Senator BAUCUS. I totally agree, but I hear you saying you do not think you have sufficient authority today.

Secretary VILSACK. We are confused. That is probably not the first time you have heard that from a Secretary, but we are a little uncertain as to precisely what the language was in the appropriations bill.

Senator BAUCUS. Well, let us see if we can make you less confused in the right way.

Secretary VILSACK. Thank you.

Senator BAUCUS. Thank you very much. Thanks for your attention to this. It makes a big difference to a lot of us.

Thank you.

Chairwoman STABENOW. Thank you.

Senator Boozman.

Senator BOOZMAN. Thank you, Madam Chairman.

It is good to have you with us, Mr. Secretary, and I enjoyed getting to visit with you the other day at the prayer breakfast. That was a great event.

A lot is being talked about about the safety nets, and that is so important for a variety of different reasons. I think our banks, you know, with the regulation that they are under now and just the situation with the economy, if our producers do not have a strong safety net, I think there is a real question as to whether or not they will actually get a loan to put the crops in.

The other thing is the recognition that there really are real differences—and you know this better than anybody. I know I am preaching to the choir. But there are real differences in production and input costs, and it is difficult to come up with, you know, something, kind of a one-size-fits-all. Then we have the worries of making it WTO compliant. It is going to take the wisdom of Solomon to figure it out. There is real concern by producers that, you know, one safety net is going to go down and then reinforce another safety net, which we do not want. Then the other problem is that if this is not done right, you are going to incentivize certain crops too much, and then we will have this imbalance.

As you said earlier—and the statistics that you gave are great, and we just need to hammer on that, you know, our producers are doing a tremendous job with low prices and things, and we are feeding the world. But if it is not done right, then food costs will rise, and our single moms or people on fixed incomes, those kind of folks really will suffer the most.

So, again, I know it is a big job, and we are looking forward to working with you to try and figure that out.

Secretary VILSACK. Senator, you obviously come from a State that represents that diversity. A lot of different crops are grown in the State of Arkansas, and the input costs for some are more and significant, the land needs are more and significant, and the risk is greater. It will be difficult but not impossible, and I think eventually working together we can create a safety net that utilizes crop insurance appropriately, that has some kind of revenue protection mechanism that will provide assistance and help to folks when they need it the most, and that we will begin to understand that part of the safety net is rural development, economic opportunity, and jobs for off-farm income, which for many producers and many families is very important.

You know, I think there is enormous opportunity here. I really appreciate the Chair's willingness to take this on and get it through the process quickly because this uncertainty—you know, we have got a good thing going here. We obviously want to continue the momentum, and the sooner we get certainty as to what the rules are going to be, the better it is going to be for the market, the better for producers, and better for us to plan for rural economic opportunity.

So I certainly agree with you, and we look forward to working with you on trying to figure out precisely what that right balance is.

Senator BOOZMAN. Well, thank you. We appreciate that. I think the certainty, you know, as you brought up, really is a key to the whole thing.

The other thing, I would like to echo the Senator from Minnesota about the BioPreferred Markets Program. As you know, our forest industry is really struggling right now. In fact, I would like, with your permission, Madam Chair, to put a statement in the record from a number of landowners and forest industry organizations that are expressing their concern with the program.

Chairwoman STABENOW. Without objection, we will put that in the record.

Senator BOOZMAN. Thank you.

[The information can be found on page 159 in the appendix.]

Senator BOOZMAN. It is difficult, you know, if you have a product, bamboo or something like that coming in from someplace else and then the mature markets, one is USDA certified in a sense or it appears that way, and the other is not, there is real concern that that will create a problem with consumers.

Secretary VILSACK. Senator, what we are attempting to do, first of all, is to do a better job of restoring forests, which will create, in our view, more opportunity for the timber industry that we recognize has been dealing with some tough times. We think getting to 3 billion board feet is a good step in the right direction, number one.

Number two, as far as the BioPreferred Program is concerned, we are looking for ways in which we can streamline our processes within USDA to identify more products that basically qualify, and I think you will see a significant increase both on the Federal procurement side and on the private sector labeling opportunities for consumers. We are going to focus on that this year. We think this is a way of underscoring the enormous potential that rural America has to produce virtually everything we need in an economy from what we grow in a renewable way. By doing that you create jobs and create new income opportunities for producers.

Frankly, we are looking for creative opportunities here, and if I might say, one of the concerns that we have which we have not talked about today is whether or not we are going to have the next generation of producers to do all of this. We are very concerned about beginning farmers, as I know you are, and I would strongly urge this Committee to think creatively not just within the bounds of the farm bill, where you have fiscal constraints—I probably should have said this when Senator Baucus was here, but there are Finance Committee opportunities as well.

As you well know, the way this works today, I own a farm. That farm has appreciated in value. I could not afford to sell it today to a young farmer. I would have to wait and my kids would have to wait for me to die, and hopefully the estate tax is where it needs to be so that I do not have too—you know, so they can sell it with a stepped-up basis and they do not incur tax.

We ought to really be thinking about our tax structure and ways in which we can encourage more incentives for folks to sell to beginning farmers and socially disadvantaged folks. That may not cost a lot of money, but it may be an extraordinarily helpful thing

as we look at the aging nature of our farm population and the fact that we have got to have young farmers.

Senator BOOZMAN. Right. Well, thank you. Another area—I mean, I understand as well as anybody and am very supportive of us reining in spending. We have a situation with the USDA office closures, and I guess the only thing I would say in that regard is that you would really look at those. You have a number of meetings, you know, with local input, and those were very well attended in Arkansas. I think the comments were very constructive, you know, in trying to give good guidance. So I would hope that you all will actually look at those, the results of those meetings, the comments. I know that you will. Then also really look at the 20-mile limit. I think that the intent was that that was actually 20 miles versus the crow flies. You know, again look at that, but I would say, just, you know, depending on the comments, use some common sense in regard to that. Certainly 20 miles in Kansas is different than 20 miles in very rural Arkansas where it is really hilly, you know, where it might take 45 minutes to an hour to get someplace, with, as you mentioned earlier, a pretty elderly farm population now that we are facing as the ages go up.

We had a great meeting—I want to compliment your staff. We had a great meeting with them. They were very—you know, they listened to us and made some good suggestions.

Secretary VILSACK. Senator, these are tough decisions, and, candidly, if you were designing this system today, you probably would design it a little differently than it is. Despite the numbers of closings we have announced, we are still going to have several thousands offices open. Here is the problem: When your operating budget is reduced, as it was—and I am not complaining about this. I am just stating the fact that it was reduced. When you have an aging workforce, which we have at USDA, and we are seeing retirements accelerate, and in order to manage this, we encouraged some early separations so that it would be easier for us to do this without furloughs or layoffs. Basically we saw 7,100 folks retire in the last 15 months from USDA. So you have less money, and you have got fewer workers. But at the same time, we have actually more work. Commercial bank are not doing as much on the farm side, so that created a lot of concern in terms of loans, Rural Development doing record numbers of grants and loans, and I think with good results.

So we had to do something, and the choice was either what we did or a furlough or a layoff, which basically would impact thousands of offices and farmers across the country, or taking money away from the investments that we are making in new technology. We have such an antiquated technology system servicing our farmers today, we really want to get to a point where maybe that visit to the office is infrequent because they can do stuff at home.

So these are hard questions, tough choices, and tough calls, but that is basically what happens when budgets get reduced. And, you know, we tried to do it in a thoughtful way. We tried to do it as consistent with the direction of Congress. You know, how many offices are the right number? You all said those offices that have one employee or two employees. We found in this process that there were 35 offices that had no employees.

So, you know, it is an ongoing process, and I want to assure you—and I know my time is up, but I want to assure you that we are also looking internally in terms of how we do business with ourselves, and we have 379 recommendations for better, more efficient operations within USDA, how we do property management, procurement, security, human resources, budget, and finance, et cetera. So we are really tasking our people with trying to figure out how to do better work, more work, with fewer dollars and fewer people.

Chairwoman STABENOW. Thank you very much.

I would ask unanimous consent that Senator Lugar be able to submit a written statement for the record. So ordered without objection.

[The prepared statement of Senator Lugar can be found on page 63 in the appendix.]

Chairwoman STABENOW. Secretary Vilsack, we very much appreciate your time this morning. We know that it is an extraordinarily busy week, and I would like to just underscore your desire to work with us to consolidate, reduce paperwork, create more flexibility. We are in a time where that is absolutely necessary, and it is a time that—we should always be focused on that, but certainly we have great opportunities in rural development and in the areas of energy, both of which are absolutely critical to be able to develop ways that we can provide the opportunities to create jobs and opportunities for quality of life in rural America and do it in a way that is more flexible and more effective. That is really our goal as we write this farm bill.

So we thank you very much for coming this morning, and at this point we will ask our second panel to come forward. Thank you.

Secretary VILSACK. Madam Chair, thank you very much.

Chairwoman STABENOW. Thank you.

[Recess.]

Chairwoman STABENOW. Well, good morning. We are so pleased to have all of you with us to continue a very important discussion this morning. We will ask each of you to limit your remarks to 5 minutes, but we certainly welcome any additional written testimony that you have this morning. We will be having 5-minute rounds on questions as well.

Let me first introduce each of our panelists and welcome you, and then we will ask each of you to make an opening statement and then go to questions.

I am very pleased to introduce our first panelists, Mr. Matt McCauley. Mr. McCauley is director of regional planning and community development with Northwest Michigan Council of Governments in Traverse City. He assists communities with coordinating planning efforts through education, training, technical support, issue analysis, and guidance. This work supports the quality of life in northwest lower Michigan, which is one of the most beautiful places in the country. We welcome you to come and have the opportunity to visit one of the beautiful places in Michigan. Mr. McCauley holds a bachelor's degree in business administration and a master's degree in public administration, both from Grand Valley University. I am so pleased to have you with us today.

I will now turn to Senator Bennet who I believe would like to make the introduce of our next panelist.

Senator BENNET. Thank you, Madam Chair. We are fortunate indeed to have Dr. Florine P. Raitano here today. She is currently a member of the Board of Directors of the Rural Community Assistance Corporation. She is a third-generation Coloradan, the former mayor of Dillon, Colorado, having been elected I think twice and having served on more boards and commissions than anybody could ever imagine. She received her bachelor's degree from the University of Colorado, Boulder; her doctorate of veterinary medicine degree from Colorado State University in Fort Collins, Colorado. There could be no finer representative from the State of Colorado than Flo, so thank you very much for being here today.

Thank you, Madam Chair.

Chairwoman STABENOW. Thank you very much.

Next we have Mr. Mark Rembert. We are very pleased to have you here as the co-founder and co-director of Energize Clinton County. He co-founded the organization in November 2008 in response to the announced loss of nearly 9,000 jobs in his home town. The organization works to develop community-based initiatives that engage citizens in the process of economic development. He is also the director of the Wilmington-Clinton County Chamber of Commerce, and we welcome you as well. We are very, very pleased that you are here.

I believe Senator Roberts would like to introduce the final witness on this panel.

Senator ROBERTS. It is my privilege to introduce Mr. Charles Fluharty, who is president and CEO of the Rural Policy Research Institute. He is a research professor from the Truman School of Public Affairs—we have to be bipartisan here—at the University of Missouri—and that is really being bipartisan—in Columbia. It shows that we are able to work together, but his efforts are regional, and he has really been a leader for so many years in regards to rural development. He brings the experience necessary, hands-on experience, and I have several questions for him which I think will be good questions, and he will provide even better answers.

I appreciate it. Thank you.

Chairwoman STABENOW. Thank you very much.

Mr. McCauley, welcome. Please proceed.

**STATEMENT OF MATHIAS J. MCCAULEY, DIRECTOR OF REGIONAL PLANNING & COMMUNITY DEVELOPMENT, NORTHWEST MICHIGAN COUNCIL OF GOVERNMENTS, TRAVERSE CITY, MICHIGAN**

Mr. MCCAULEY. Thank you, Chairman Stabenow, Ranking Member Roberts, and members of the committee, for the opportunity to testify today on the 2012 farm bill's rural development title and the important role it plays in helping regional and local organizations provide financial and technical assistance to rural communities, entrepreneurs, and businesses.

My name is Mathias McCauley. I serve as the director of Regional Planning and Community Development for the Northwest Michigan Council of Governments, a multidisciplinary regional

planning and workforce development organization serving the ten-county region of northwest lower Michigan. I am pleased to also be representing the National Association of Counties and the National Association of Development Organizations with my testimony this morning.

Madam Chairman and members of the Committee, I will focus my remarks today on three key areas related to USDA rural development and the future of our rural communities.

First, the mission area of USDA rural development is a critical piece to the overall competitiveness of rural regions as we work to foster job growth, regional innovation, and economic prosperity. This includes basic yet essential investments for infrastructure and utilities, housing and community facilities, and access to capital and entrepreneurial development. In today's era of intense budget pressures and growing local needs, we should be focusing on making more strategic investments, especially investments that strengthen regional and local competitive advantages and coordinate our public sector resources.

Second, with rural regions facing increasingly global competition but also opportunities, we need to ensure USDA Rural Development has the tools, resources, and flexibility to assist rural communities and regions with cutting-edge, asset-based regional innovation strategies and investments. To be successful in the modern economy, rural entrepreneurs and communities must be connected to global and domestic markets. This includes virtually, digitally, institutionally, and physically networked approaches. This will take a new level of sophistication and capacity within our rural regions and at USDA Rural Development. It will also mean improving Federal interagency collaboration, fostering stronger public-private-nonprofit partnerships, and leveraging existing strategy processes, such as the U.S. Economic Development Administration's Comprehensive Economic Development Strategy, or CEDS, framework.

My third and final point is that USDA Rural Development applications, policies, and reporting requirements should be streamlined and broadened to reflect the scale of rural investments, emerging needs and opportunities of rural regions, and capacity of local organizations. While retaining the necessary financial and performance accountability standards, Congress should ensure USDA Rural Development has a modern set of policies, programs, and incentives to help all rural communities pursue community and economic development growth. This should entail assisting rural communities with the fundamental building blocks of quality communities in addition to more advanced regional innovation and globally competitive development strategies.

Let me use our region of northwest lower Michigan as an example of this vision. USDA has been a highly valuable partner for us and an essential source of capital as we embark on these strategies. In the last two fiscal years, the USDA Business & Industry Program guaranteed in excess of \$27 million of loans within our region, helping create 165 jobs and retaining another 441. These include "head-of-household" type jobs at manufacturing facilities, lumber mills, food processors, and the like.



We have also used the Rural Business Enterprise Grants, RBAG, and the Rural Energy Assistance Program, REAP, funding to assist with leveraging our agricultural, energy, and natural resource assets. These individual projects are important because they often flow from our region's EDA Comprehensive Economic Development Strategy, or CEDS, as well as our broader regional collaboration known as the "Grand Vision," which includes the Grand Traverse County area.

In recent years, our region has spent considerable time and resources engaging the public with more than 12,000 people—that may not seem like a lot to many in this room, but that represents about 8.5 percent of our total population—being involved throughout a six-county area and about 98 units of Government. Governmental bodies are collaborating, business leaders are endorsing a focused vision for the future, community members are engaged, and projects are being conceptualized and implemented.

The Grand Vision is succeeding by demonstrating the importance of regions working with existing assets as a means to focus efforts towards programs and projects that create conditions for job growth and ensure a high quality of life for all.

In closing, I urge your continued support of rural development programs and funding in the 2012 farm bill, especially those built around regional, asset-based development strategies that create conditions for quality job growth. USDA Rural Development is an essential partner and funding source for rural people and places. That is why NADO and NACo are joined by a broad base of 30 other national organizations in advocating for USDA Rural Development through the Campaign for a Renewed Rural Development. The campaign's joint principles mirror much of this testimony and demonstrate the wide support for USDA Rural Development and consensus on the critical policy changes needed in the upcoming reauthorization of the farm bill.

Thank you again, Madam Chairman, Ranking Member Roberts, and members of the committee, for the opportunity to testify today. I welcome any questions.

[The prepared statement of Mr. McCauley can be found on page 110 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Dr. Raitano, welcome.

**STATEMENT OF FLORINE P. RAITANO, IMMEDIATE PAST PRESIDENT, RURAL COMMUNITY ASSISTANCE CORPORATION, DILLON, COLORADO**

Ms. RAITANO. Thank you, Chairman Stabenow, Ranking Member Roberts, members of this Committee, and my esteemed Senator from Colorado, for this opportunity to discuss the USDA RD programs and their importance to rural America.

My name is Flo Raitano, and I served two terms as the mayor of Dillon. Dillon has a population of 904 individuals. We worked with USDA back in the days when it was known as Farmers Home Administration. We were able to secure a 515 multi-family loan to build some much-needed affordable housing in the community of Dillon. We could not have done it if we did not have an experienced development partner. There was no way that I as a 32-year-old

mayor, absolutely brand-spanking-new to the job, would have been able to figure out the rules and regulations. I would have taken one look at the letter of conditions from USDA and run screaming from the room. So, you know, that is one thing that RCAC does, and I am on the Board of Directors of the Rural Community Assistance Corporation. We are the western RCAP, the Rural Community Assistance Partnership, and we serve the States of Colorado, Arizona, Alaska, California, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming, and the Pacific Territories, including the Mariana Islands. It is really important to understand the role of technical assistance providers as an asset and a way to extend the reach and the impact of the USDA rural development programs.

Just down the road from my community of Dillon is Silver Plume. Silver Plume is a little community of 203 people, and that is if you count the dogs, the drop-ins, and the ground squirrels. A couple years ago, Silver Plume had a major rock slide in a relatively geologically unstable location, and it completely obliterated their water delivery system. I mean, it was squished flat. RCAC was able to step in within a week and to marshal the resources of the Colorado Department of Public Health and Environment, the Department of Local Affairs, and USDA Rural Development to put together a package to replace the water system for this community of 203 people. They had a part-time town clerk. You can imagine what that town council must have been going through. So, again, it was the ability of an RCAP provider, Rural Community Assistance Corporation, to step into the breach and provide that bridge.

Across the United States, Rural Development has over 18,000 active loans through the water and environmental programs at the Rural Utilities Service. They serve more than 19 million rural residents with those programs, and with the help of technical assistance providers they have a delinquency rate, Madam Chairman, of less than 0.18 percent. Maybe you should put us in charge of Fannie and Freddie.

[Laughter.]

Ms. RAITANO. It is really about the efficiency, and the work that we do to make sure that after the ribbon cutting and after the grand opening of the plants and the facilities that we stick around and do the heavy lifting and the harder work of building the human capacity and doing the board training and working with the water boards to really be able to manage and operate and sustain what we have just handed them. So we do a lot of the front-end loading for the analysis for rural development. So, again, it is a great partnership that we have.

One of the emphases is on regionalization. I live in Colorado. That is one of the big-box States out West, and we have counties in Colorado that are bigger than some of the Eastern seaboard States. When we talk about regionalization, you have got to remember there is a lot of dirt between light bulbs in our communities, and it is not always feasible to build pipes to serve multiple communities off a single system. But we have had some success doing that. In New Mexico, we had the Lower Rio Grande Mutual Domestic Water Company, which is now serving five very small, very poor colonias near the Mexico border. Two of those commu-

nities, one of which was Desert Sands, had a high arsenic level and was actually issued an out-of-compliance notice by EPA in 2008 because of arsenic. The community put together a compliance plan, but the annual cost of that plan was over \$120,000 for 580 households.

So as you can imagine, there are a lot of challenges out in rural America, and we appreciate the fact that Rural Development has programs in place to address those. Our role is to extend their efficacy.

Thank you, Madam Chairman and Ranking Member Roberts.

[The prepared statement of Ms. Raitano can be found on page 118 in the appendix.]

Chairwoman STABENOW. Well, thank you very much.

Mr. Rembert, welcome.

**STATEMENT OF MARK REMBERT, CO-DIRECTOR, ENERGIZE  
CLINTON COUNTY, WILMINGTON, OHIO**

Mr. REMBERT. Chairwoman Stabenow, Ranking Member Roberts, Ohio Senator Brown, and members of the Committee, thank you for the opportunity to share the story of Energize Clinton County and our experiences rebuilding our community following the loss of our largest employer.

I grew up in Wilmington, Ohio, a rural community of 12,000 in the southwest part of the State. Like most young people who grow up in small towns, I left after graduating from high school and attended college in Philadelphia, where I studied economics. Like most of my generation, I had no plans to return home. The world changed for me—as it did for so many—in 2008. I had decided to put my training in economic development to work and join the Peace Corps. I was preparing for my departure when news from home reached me in Philadelphia. DHL, the region’s largest single source of employment, was ending its operations at the Wilmington Air Park. Realizing that the community where I grew up would be changed forever by this crisis, I decided to return home for the final months before my departure to reconnect with the community.

Not long after my arrival, I was joined by Taylor Stuckert—another Wilmington native—who had been prematurely evacuated from his Peace Corps service in Bolivia. As we witnessed the economic equivalent of a hurricane hitting our home town, we talked to people throughout the community and quickly recognized a new energy brewing. There was a desire to push for increased involvement and ownership in the redevelopment of our devastated local economy. By re-engaging with our home town, we realized that we could best serve our country by working in our own community rather than working overseas. We decided to stay home and contribute to the redevelopment of our region.

As Taylor and I set out on our economic development project, our perspective was heavily influenced by the Peace Corps model, which approaches development at the community level and emphasizes the importance of grassroots analysis and action. We believed that the Peace Corps approach in our community could generate solutions that were more immediate, actionable, and sustainable than traditional solutions and would complement ongoing efforts by

community leaders to acquire the DHL-owned airpark and leverage it as an asset to attract new employers.

In late 2008, Taylor and I founded Energize Clinton County, a nonprofit community economic development organization. We quickly built a strong partnership with Chris Schock and the Clinton County Regional Planning Commission and began developing programs that invested in our local assets and transformed citizens into agents of economic change.

While our work has primarily focused on Clinton County, we have recently begun working regionally with the six other rural counties impacted by the departure of DHL. With the assistance from Ohio USDA State Director Tony Logan, ECC received a \$48,000 USDA Rural Business Opportunity Grant to transfer strategies and techniques developed by ECC to engage the community in supporting local businesses. This grant has given us the ability and the opportunity to build new regional partnerships, to coordinate strategies that strengthen local assets, and invest in our shared future.

For many rural communities in our region, it can be challenging to understand how we fit into a globalized world. If our communities are to survive, it is critical that we establish a vision for rural places that inspires a new sense of ownership and investment in our future. Without a long-term vision and strategy, communities are at high risk of continued decline. When communities lack a clear plan and a clear sense of direction, citizens are less likely to invest in necessary changes that have large up-front costs, public officials are more likely to make reactionary rather than strategic decisions, and there are fewer mechanisms for a community to hold itself accountable.

Given the economic challenges our communities face and our declining local resources, planning and long-term visioning are absolutely critical to the development of our communities. Unfortunately, many of us lack the resources or the capacity needed to do the planning required to move beyond a purely reactive economic development approach.

Given the critical needs present in our communities, we encourage rural development to explore new ways to assist communities in rural regions and economic development planning and visioning.

My thanks to you, Chairwoman Stabenow, Ranking Member Roberts, Senator Brown, and the Committee, for considering my testimony and for your focus on meeting the needs of America's rural communities and citizens.

[The prepared statement of Mr. Rembert can be found on page 126 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. Fluharty, welcome.

**STATEMENT OF CHARLES W. FLUHARTY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, RURAL POLICY RESEARCH INSTITUTE, AND RESEARCH PROFESSOR, TRUMAN SCHOOL OF PUBLIC AFFAIRS, COLUMBIA, MISSOURI**

Mr. FLUHARTY. Madam Chair, Ranking Member Roberts, it is a privilege to be with the Committee again. We live in a very ego-centric domestic policy framework, and I would like to applaud you

and the members of this Committee for your continued tenacity to assure that rural considerations make a difference in this town.

I am also pleased to be joined by three practitioners who are making huge differences in the lives of rural people.

I am also extremely pleased by the consensus today that appears to be evidence that, with less money, we have to first ask: Should the Federal Government do it? Second, should USDA do it? And, third, how should USDA do it leveraging resources? I commend you to stay on that track. I think it is very much the right one. I think your Committee's approach to ag policy in this farm bill gives us an apt analogy for what I would argue must occur in rural development.

We are in a new commodity world, and risk management and a safety net for our ag producers is absolutely essential. This is exactly what is needed for our rural communities, our regions, and our counties. It is very important also that this Committee have both those obligations at this point in our history.

Yesterday, ERS released their 2010 Farm Household Income Report which showed \$49,500 of the \$54,000 in median U.S. farm household income was generated off the farm. Most farm households earn the majority of their income from off-farm employment. For those with up to a quarter of a million dollars in farm sales, it is 75 percent of that family's income. For our very largest commercial farms, it is 20 percent.

So vital rural economies are key not only for all rural Americans, but for agriculture. In the future, energy will be rural development. Bio futures in entrepreneurship for agriculture will be rural development. In the future, as everyone has said, this will align.

So the very same risk management tools that you are approaching ag policy with—innovation, flexibility, streamlining, and leverageable safety net mechanisms—they are exactly the same ones we need for economic development and entrepreneurs as we are seeking for our ag producers. This is what this Committee is being asked to do: create risk management tools for public entrepreneurs, like the three at this table today.

I would just urge three principles be thought about. You have to streamline, make more flexible, and leverage your existing programs, I would argue in a regional context wherever possible. You are going to need to think about asset-based innovation and entrepreneurship in everything from value chains to how the Federal, State, and local public sector responds, and we are going to have to figure out ways to give Secretary Vilsack what he asked for, which is indeed the ability to work across other Federal programs.

Finally, and most importantly, and a thing that I think perhaps was not focused upon enough in the earlier hearings, we are going to have to expand, align, and leverage very, very scarce rural resources. We are going to have to assure debt equity and venture capital is still there. And, lastly, I would like this Committee to do all in its power to take a look at the rural giving by America's foundations. In this regard, as I close, I would like to suggest two numbers be seared in your mind, Madam Chairman: \$28 billion and 1 percent.

The \$28 billion are additional rural community and economic development resources that would have been available in 2010 in

rural counties if they received the same per capita funding as urban counties. Twenty-eight billion dollars.

Secondly, with rural development budget authority continuing to reduce, the real question this Nation has is: Where does rural America go? Perhaps to America's foundations. Here in 2010, the same year, \$46 billion was contributed by our Nation's foundations, and less than 1 percent went to rural programming. Less than 1 percent.

The geographic inequity here is growing worse as rural capacity is threatened and as the safety net grows worse. For years our Nation's foundations have decried perceived redlining on the part of Government, and yet this de facto rural redlining by foundations is longstanding. The funding has never been more critical, and I urge this Committee to assess whether this ridiculously low rural payout may, in fact, call into question the very solemn public trust that our American foundations have in exchange for the loss of tax revenues that are received because of that public good.

Thank you, Madam Chairman, and I look forward to questions.

[The prepared statement of Mr. Fluharty can be found on page 86 in the appendix.]

Chairwoman STABENOW. Well, thank you very much, and you certainly raise some very important questions with some startling statistics, so I appreciate that very much.

I would like to ask each of you, because you are all talking about efforts to collaborate on economic development strategies and projects: From your perspective, as you look at current rural development programs, are there programs right now or are there barriers right now to doing what you believe you need to do? How do we have better regional collaboration? Are there specific things that we need to focus on that you run up against as barriers?

Mr. McCauley.

Mr. MCCAULEY. I think a couple barriers come to mind. One, the very intensive nature of Federal programming can often be an impediment for local communities to apply for the resources that they dearly need. We have wonderful and very smart individuals in our region, but as Dr. Raitano said earlier, once they get that packet from USDA—or any other Federal agency, for that matter—that talks about the terms and conditions, they often run out of the room as well. So I would mention that, one.

I would say that, two—and Secretary Vilsack mentioned this earlier—sometimes the inflexible nature of specific Federal programs. I believe he mentioned that there are 40 different USDA programs, and a stovepipe approach to rural development is not one that benefits rural America, that we need the flexibility to meet our needs, to meet our regional economic development strategies in such a way where they benefit our regions and the country as a whole.

Chairwoman STABENOW. Thank you. Since the beginning of our process on the farm bill, I have suggested we focus on principles instead of programs, and the idea being let us look at the functions of what needs to be done. I really have a question about whether or not we need 40 different programs. Why can't we bring those together in a more flexible way?

Dr. Raitano, could you speak to the question of barriers?

Ms. RAITANO. Thank you, Madam Chairman. I have to agree with my colleague Mr. McCauley that one of the challenges we have is the stovepiping of this. But as my colleague and mentor to my left, Dr. Fluharty, has pointed out many times, once you have seen one rural community, you have seen one rural community. So the flexibility and the adaptability of those Federal programs are absolutely key to being valuable and staying fresh and applicable to rural communities.

One of the challenges we have is that there is not a comprehensive approach to technical assistance, and so one program facilitates technical assistance, another program has no provision at all for facilitating technical assistance. There is not a single silver bullet for solving the needs of rural communities. It is going to require the whole arsenal.

So we really need to make sure that we have an integrated, holistic approach across all of the programs in RD.

Chairwoman STABENOW. Thank you very much.

I believe we are just discussing the fact that there is a vote that has been called. We are going to attempt to do this in a way where I can step away and vote, and then Senator Roberts can do that. We will take turns and keep going, but we apologize in advance if we are stepping away.

Mr. Rembert, would you speak to the question of any barriers?

Mr. REMBERT. I think when it comes to especially leveraging regional collaboration to engage with USDA programs, one of the challenges that we continually face is that we do not have in our region a cross-county set of goals or strategies or vision for how multiple counties work together.

Just to give you a sense, when DHL departed the Wilmington airpark, we realized that it was the largest employer for seven rural counties in southern Ohio. Those seven counties had never had a shared vision about how they interlock together as a region. So it has only been in the last 3 years that we have even realized what our region was.

So until we have that established plan as a region to understand what we are trying to achieve and where our common goals lie, it is going to be difficult for us, I think, to really engage with USDA in a streamlined fashion and leverage our regional resources to take advantage of partnerships with USDA.

Chairwoman STABENOW. Mr. Fluharty, I am going to ask you to speak while I ask you to excuse me, and I will be back in just a moment.

Mr. FLUHARTY. Sure. Two or three quick points.

First of all, RUPRI has been honored for now heading into our third decade to work with a number of different administrations and a number of different committees, and we have tried to take our nonpartisan external mandate and humble honor in a very, very serious way. So we have been able to look at a lot of programs over the last three decades. We have also worked extensively in most States in the United States and, frankly, all over the world.

The first thing I would say is in Europe they automatically commit 3 percent right up front when they give a grant to technical assistance because they recognize capacity does not exist. We are not going to be in a world where we can do that any longer. But

we have Federal programs that are doing it already in our sister agencies. And I would simply say that a comprehensive economic development strategy currently in EDA in Commerce, it is not something you do any longer to get a grant. It actually is turning into the vehicle that my colleague here mentioned. We need to figure out a way to align where this Committee takes very scarce resources with other functions in the Federal Government that will enable us to do risk management. And by "risk management," I mean rigorously assessing: Is this the right thing for us to do? Most small county commissions have no research staff. Secondly, where can I go to get help? Thirdly, are there Federal, State, local, private, or philanthropic resources that might align?

We need to think about a suite of services that can do this, frankly, in USDA. This is my fifth farm bill, and, Senator, you and I go way, way back to the other chamber. We have asked for five farm bills to actually move from silos to a vision. And I think the vision is private sector based, innovations in value chains and governance, entrepreneurship, and asset-based development, developed by local regions rigorously assessing their own future. That is what we lack right now.

I think USDA is reaching out to try to do that. I know it is hard because there are programs that are essential that will not fit in this compendium, and they need to survive as well. But I hope you can move toward an integrated framework that finally says let us use all the resources of the Federal Government the way, frankly, cities do because they have CDBG and they have foundations with millions of dollars supporting program integration. And here is a 20-year-old county commissioner saying, "What do I do?"

I think it is time for this Committee to simply say, "The people are way ahead of our policy development process. Let us catch up and let us work with this administration to do what these three fine practitioners are asking." I really believe that is the key, Senator.

Senator ROBERTS. Mr. Fluharty, as usual, you are an effective voice, very articulate voice on behalf of rural development, and mixed in a big batch of common sense. Seven farm bills for me.

Mr. FLUHARTY. Exactly, Senator.

Senator ROBERTS. I hope I can get to eight this spring.

Mr. FLUHARTY. I do indeed hope that.

Senator ROBERTS. Can you talk just a little bit about Project 17, the economic development initiative which I think speaks to this?

Mr. FLUHARTY. Absolutely, Senator. I would love to very quickly because I know the hearing has been long.

I was honored a year and a half ago to go into Garden City and Dodge City to look at a regional development framework for southwest Kansas, and it got a lot of interest in southeast Kansas. So in the last year, with Governor Brownback's support and the commitment of four State Senators, we initiated a 17-county project to build a 1-year dialogue which says, "What are the major institutions that could change this region? How will we align our resources? How will we move forward in a public-private-philanthropic partnership to change southeast Kansas?"

Now, that is very much an unnatural adult act in southeast Kansas. I recognize that, as do all of the other institutions, and the



journey is just beginning. But all of the major players in Kansas have come to this agenda: Kansas Farm Bureau, Network Kansas, the Department of Commerce, the State legislature, the Governor, the philanthropic communities, the Advanced Manufacturing Institute at Kansas State that I think is one of the cutting-edge engineering schools for innovation value chains in rural America, and on and on and on. They are beginning a cadenced, deliberate set of regional dialogues to figure out a way to build a business plan that has a logical value statement within it, and, Senator, we are going to be honored to work with them.

I will simply say this is going on at this level more and more in more and more areas, and if we could help it rather than have them do it in spite of the fact that it is kind of hard in USDA to get it going, it would truly matter, I think, for the businesses in this region. It is a wonderfully exciting Kansas venture. It is really exciting.

Senator ROBERTS. Well, thank you for describing that. Count me in. Anybody that could get Liberal, Kansas, Garden City, Kansas, and Dodge City, Kansas, with the rivals that we have out there, to finally decide on one regional airport, you must be a miracle worker.

I want to go to Mr. McCauley and your plea, is there some way that we can streamline the application process and reporting requirements. Basically are you saying when you get that packet of information on the criteria, all the regulations, I would think it would be so overwhelming that you would wonder whether you want to even apply or not? The good mayor sitting next to you said exactly the same thing. What on Earth do you do if you are 32 years old and a mayor and all of a sudden you are presented with all this information? Who do you go to? How do you wade through all of that?

Mr. MCCAULEY. Well, Senator, you are exactly right, and in the case of our region, and I am sure in the case of many other regions across the country, a lot of the people that are vested with the trust to handle this have day jobs. They are the hardware store owners, they are the farmers and so on and so forth.

Senator ROBERTS. Exactly.

Mr. MCCAULEY. Again, these are smart, capable people, but this may be a volunteer opportunity for them, and simply put, as the rules and regulations and terms and conditions are put forth right now through many of these programs, they cannot handle it because there is just simply not enough time in the day.

So how they handle it is oftentimes through organizations like ours, through regional planning commissions across the country. Also counties help the communities that are located within their boundaries. We can provide that technical assistance to communities, to individuals, and to businesses who are having a tough time with this. But similar to them, there is only so much staff that we can commit to this and so many hours in the day as well. For our case, it is ten counties—

Senator ROBERTS. Well, let me interrupt.

Mr. MCCAULEY. Yes.

Senator ROBERTS. There is only so much time in a vote, and I understand there is 1 minute left. It is going to be sort of a super-

human effort for me to get over there. The Chairwoman will be right back, and the Committee will stand in a short recess, and I shall return as well. Thank you so much. Just stay put, enjoy yourself, talk to each other.

[Recess.]

Chairwoman STABENOW. Well, good afternoon. We very much appreciate all of you on our panel testifying. Senator Roberts has gone to vote. He indicated he will be submitting additional questions to you in writing, as will I. We care very much and very much appreciate your perspectives. I know you understand, but we are juggling votes on the floor and so on. So we will dismiss our panel, and thank you very much for your efforts on rural development. We look forward to working with you and take very seriously your recommendations regarding flexibility and how we might consolidate and streamline what we are doing so that the part-time mayor can have the opportunity to be able to weave through all the rules and be able to get things done, which is what we are all about.

So thank you very much. We will ask our second panel to come forward. Thank you.

[Pause.]

Chairwoman STABENOW. Well, good afternoon. We very much appreciate your patience. We know you have traveled long distances to be able to be with us, and your experience and this panel particularly on energy is very, very important to us, very important to me personally. We have a number of challenges that relate to the budget, as you know, and how we are going to proceed to be as aggressive and supportive as we can be for energy. But this is, I think, a very important part of developing economic opportunities in rural America and for all of America, and we very much appreciate the work that you are doing and the fact that all of you are with us.

I am going to proceed and introduce each of you. We will proceed with your testimony. Senator Roberts will be returning as soon as he votes, and, again, we appreciate your patience today.

Our first witness—we do not quite have this in order, but I am going to proceed here—is Mr. Steve Flick, who is the current chairman of the board of Show Me Energy—I like that name—Show Me Energy Cooperative in Centerview, Missouri. Show Me Energy Cooperative is a cellulosic biomass facility owned by 612 farmers. It was the first project supported by the Biomass Crop Assistance Program in 2011. Mr. Flick is participating with the Meridian Institute Council for Sustainable Biomass Production, Farm Bureau, and is a plenary speaker for bioenergy conferences throughout the United States, and we welcome you.

Our next witness is Mr. Lee Edwards. Mr. Edwards is the president and CEO of Virent, Incorporated, a company in Madison, Wisconsin, and Virent creates chemicals and fuels from a wide range of naturally occurring renewable resources that can be used in products traditionally created with petroleum and chemicals. The company has received numerous honors, including the World Economic Forum Technology Pioneer Award and the EPA's Presidential Chemistry Award. Mr. Edwards is a graduate of the Wharton School at the University of Pennsylvania and holds a B.S. in

chemical exchange from Bucknell University, and so we welcome you also.

Our third panelist is Mr. Bennie Hutchins. Mr. Hutchins is the energy program coordinator at Ag Energy Resources, a consulting group in Brookhaven, Mississippi. In that capacity he assists agricultural producers and small businesses nationwide in applying for USDA programs such as Rural Energy for America, the REAP program. Prior to his work, Mr. Hutchins worked for 35-1/2 years for USDA's Natural Resources Conservation Service, and we welcome you as well.

Our final witness is Mr. Bill Greving. Mr. Greving and his family have owned and operated their family farm for the past 121 years—you look very good for 121 years.

[Laughter.]

Chairwoman STABENOW. —in Prairie View, Kansas, and I know that Senator Roberts will be back to welcome you as well. The Greving Farm produces sorghum and other crops and beef cattle. Bill and his wife, Diana, are shareholders in the nearby Prairie Horizon's ethanol plant. They sell sorghum to the plant for its use and purchase wet distillers grains to feed their livestock, and Mr. Greving is active in his community, his church, his school board, and retirement center board as well.

We welcome all of you today and appreciate the work that you are doing. At this point we will go back to where I just ended with Mr. Greving, and we will ask you to proceed first this morning—or “this afternoon,” I guess we should say now.

We need you just to push—there is a button there that will activate the microphone. Thank you.

**STATEMENT OF WILLIAM GREVING, SORGHUM FARMER,  
GREVING FARMS, INC., PRAIRIE VIEW, KANSAS**

Mr. GREVING. Madam Chairwoman, Ranking Member Roberts, and members of the Committee, I would like to thank you on behalf of Kansas grain sorghum farmers for the opportunity to share my insights into sorghum, ethanol, and energy.

Greving Farms is a diversified family farm located in north central Kansas. We produce grain and wheat on our dryland acres as well as corn and alfalfa on our limited irrigated acres. Our livestock operation consists of 500 mother cows as well as a thousand head feedlot where we finish our cattle for slaughter.

Since inception of the ethanol plant in Phillipsburg, we have realized approximately a 30-cent-per-bushel increase in price for the sorghum delivered to the plant. In addition, we bring wet distillers grain back from the plant for use in our feedlot rations.

Now for some facts about Kansas sorghum and its usage in Kansas ethanol plants. Last year, 51 percent of U.S. production in the sorghum crop was produced in Kansas. Of that, 40 percent was turned into ethanol in our Kansas plants.

Grain sorghum is a unique crop in that it is drought and heat tolerant. It lends itself well to our western Kansas semi-arid climate, and we believe in the future it will have more importance as the declining water table in the Ogallala aquifer occurs.

My wife and I invested in the ethanol plant in Phillipsburg approximately 8 years ago. We had three reasons for doing so: one,

we knew it would benefit our farming operation economically; the second reason as a retirement investment; and the third reason, we wanted to help promote the economic activity in our local area.

Prairie Horizon Agri-Energy has accomplished that. It provides 33 good-paying jobs in the area, not to mention the jobs that are generated by the local trucking industries and other businesses that are associated with it.

The jobs, the economic activity created, and the tax revenue generated by the plant have a large economic impact on Phillipsburg and the surrounding area. In addition, our plant is an active member of the community and sponsors many activities in our area.

I have always felt that taking a raw product such as grain sorghum and corn and turning it into a high-value energy product which reduces our dependence on foreign oil is a win-win situation. It also provides jobs and economic activity, as I have stated.

I would like to touch on the 9005 portion of the farm bill energy title which provides payments to energy producers to support their expansion of advanced biofuels.

Grain sorghum is an eligible feedstock for the production of advanced biofuels. Eight ethanol plants in Kansas benefitted last year from the payments under this program, which provided incentives to ethanol plants to use grain sorghum, thereby leading to more acres of a drought-and heat-tolerant crop being produced.

I would also like to mention the potential for sweet sorghum and biomass forage sorghum to be used in ethanol production. Both crops qualify as feedstocks for advanced biofuel production. Much research and work has been done on these crops, and this year, the first commercial-scale sweet sorghum-to-ethanol plant is expected to break ground in Florida. Sweet sorghum is the next logical step for ethanol production in the United States, and the continuation of the 9005 program is essential in supporting the development of commercial production of sweet sorghum ethanol. We believe that sweet sorghum can be successfully grown in Kansas, and we think it has a lot of potential if the juice from the sweet sorghum plant can be incorporated into the feedstock stream of our Kansas ethanol plants. This past year, in Arizona, a company demonstrated that this process is feasible.

In conclusion, I would thank Chairwoman Stabenow and Ranking Member Roberts for inviting a farmer to appear before you today to talk about agriculture and energy. While those who have spoken before me are focused on policy, I am focused on the production of food, fuel, and feed in a synergistic system which I believe will make our operation and operations like ours profitable into the future.

Again, thank you, and I would entertain any questions.

[The prepared statement of Mr. Greving can be found on page 96 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. Flick, I understand there was a typo in your introduction. You are active with the Farmers Union, and I want to make sure that is clear. So thank you very much, Mr. Flick.

**STATEMENT OF STEVE FLICK, CHAIRMAN OF THE BOARD,  
SHOW ME ENERGY COOPERATIVE, CENTERVIEW, MISSOURI,  
ON BEHALF OF NATIONAL FARMERS UNION**

Mr. FLICK. Chairwoman Stabenow, Ranking Member Roberts and members of the Committee, thank you for inviting me to testify today on the energy title of the 2012 farm bill and how we can continue to provide energy and economic growth in rural America. My name is Steve Flick, and I am a Missouri Farmers Union member and the board chairman of Show Me Energy Cooperative, a next-generation biorefinery owned by 612 farmers in western Missouri. Today I am testifying on behalf of NFU's approximately 200,000 members in support of a strong, bipartisan energy title in the 2012 farm bill.

For years, renewable energy of all sorts has served as a significant boom for rural America. It provides well-paying jobs and helps support our local economies. The energy title is especially important in reaching the goal of energy independence and promoting rural economic development. Specifically, we support an energy title that includes robust funding for REAP, BCAP, and the Biorefinery Assistance Program, and other renewable energy programs.

Show Me Energy Cooperative is a perfect example of how the farm bill renewable energy programs are successfully working to spur real economic development, create jobs, and reduce oil dependence. Show Me is in the business of growing, processing, and refining dedicated energy crops into fuels to provide energy security for the U.S. The cooperative provides numerous good-paying jobs for families in the region.

In 1983, I purchased my own farm by saving money from hauling small square bales during and before college. Since then my operation has continued to expand and diversify. In 2008, Show Me built its first biorefinery, creating 21 direct jobs and 516 indirect jobs. Our entire board consists of volunteer farmers and producers. From day one, farmer innovation was the mind-set, and this country was built on that mind-set. Our members were committed to accomplishing the same in building the first U.S. biorefinery owned by farmers.

Show Me farmers succeeded. We built the plant which currently produces a biomass pellet that is used to heat homes, livestock barns, and produces power. In 2009, Show Me partnered with our local electric utility to test burn around 29,000 tons of biomass pellets with coal. From this experiment, we learned that biomass and coal can successfully be combined in old boilers and power plants. We are currently negotiating a PPA with that local utility to generate base-load power from our facility.

BCAP is the program that led to the next phase of our cooperative's development. In May 2011, Show Me submitted to BCAP an "energy hub" area under the FSA guidelines to cover 32 counties in western Missouri and 7 counties in eastern Kansas. The proposal was to grow native grasses on marginal land under a program called "Plant, Baby, Plant." These native grass poly-cultures will harvest the power of the sun, developing through the typical growing seasons and will be harvested for their cellulose content by the farmers after a killing freeze, by either round or square bailing.

Farmers in the project area seized on the opportunity and signed up their acres. On May 5, 2011, Secretary of Agriculture Tom Vilsack announced the approval of the first BCAP project area. By September, 26,000 acres were enrolled. Farmers will begin the process of planting these energy crops on these acres this year.

Show Me Energy's BCAP project will be deployed over 39 counties. In the process, it will lead to the creation of hundreds of direct jobs and thousands of indirect jobs. By planting these acres yielding an average of 5 tons per acre, we will produce 130,000 tons of material per year.

Show Me's plant in Centerview currently pelletizes the crops into biomass fuel for heat and electric power. Eventually, our technology will provide liquid fuels that will replace petroleum based jet fuel. Thousands of farmers in the Midwest will be growing energy crops.

We plan for our BCAP area to provide the necessary feedstock for our biorefinery's next phase, manufacturing jet fuel from butanol. Our goal is to produce 3 million gallons of high-quality fuel for the Department of Defense from dedicated energy crops produced in this decentralized feedstock area.

BCAP helped our cooperative tremendously, and I am confident that with the continued implementation we will lead the proliferation of advanced biorefineries with American farmers, providing power, heat, and liquid fuels in commercial quantities. Yet even after a successful project, the President's budget zeroes out funding for BCAP.

As it relates to Show Me Energy Cooperative, I believe that Congress needs to adequately fund BCAP and the rest of the energy title. These programs should not be seen as a handout but, rather, a handup that will change the way we live in rural America. It will change the way we produce energy, and it will change us as a country for the better.

The United States is a country with unlimited potential to do great things. I believe that American farmers, ranchers, and rural residents have a bright future ahead of them with the right incentives. Renewable energy is the future of rural America. As such, I urge your Committee to pass a farm bill this year with a robust energy title to continue essential progress on these vital renewable energy programs while providing energy security for the U.S..

On behalf of the members of the National Farmers Union and Show Me Energy Cooperative, thank you for the opportunity to outline our priorities. My written testimony goes into more details on these programs, and I would be happy to answer any questions you have.

[The prepared statement of Mr. Flick can be found on page 73 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. Edwards, welcome.

**STATEMENT OF LEE EDWARDS, PRESIDENT AND CHIEF  
EXECUTIVE OFFICER, VIRENT, INC., MADISON, WISCONSIN**

Mr. EDWARDS. Thank you very much, Chairwoman Stabenow, Ranking Member Roberts, and distinguished members of the Com-

mittee. It is an honor and a privilege to be here today to speak to you about energy and economic growth for rural America.

My name is Lee Edwards, and I am the CEO of Virent, now in my fourth year in this position. Prior to Virent, I was an energy executive at BP for 25 years.

Virent is in the business of replacing crude oil. The company was founded in 2002, spun out from research at the University of Wisconsin. We have 117 proud employees, growing at about 20 percent per year.

Virent has been able to attract global leaders like, Shell, and Honda as investors and partners. In December, we also announced a new strategic partnership with The Coca-Cola Company to develop and commercialize renewable, recyclable beverage packaging.

Virent is commercializing technology that transforms renewable biomass into gasoline, diesel, jet fuel, and chemicals that are the same as those currently refined from crude oil.

Because these products are chemically identical to those made from petroleum, they are “drop-in,” and by that I mean they can be seamlessly integrated into existing infrastructure and work in all engines that are used today.

Virent has proven our scalability with a demonstration facility producing 10,000 gallons a year of renewable gasoline and chemicals. We also have 20 pilot-scale plants that convert a wide range of biomass into drop-in products.

To date, Virent has attracted \$75 million in private sector investment, and I have to say this would not be possible without R&D grants from the Federal Government, including the USDA Biomass Research and Development Initiative.

Government grants facilitated early discoveries at the company and spurred investment from the private sector. In fact, for every dollar received from Government grants, we have matched that with more than \$4 from the private sector.

The deployment of first-generation biofuels has already created significant opportunities in rural communities. Deployment of the next generation of biorefineries has the potential to increase markets for cellulosic materials from every region of the country—from corn stover in Michigan, Iowa, and Kansas, to switchgrass in Georgia, to woody biomass in places as diverse as Arkansas and Vermont.

Currently, Virent is working on our first commercial-scale plant to produce gasoline and chemicals from renewable biomass to open in 2015. This facility will create over 200 temporary construction jobs and 50 permanent jobs.

However, like any innovative company, Virent faces obstacles. The capital required to build a biorefinery today is daunting, well beyond the investment limits of venture capital. Private lenders are unlikely to loan funds at reasonable cost to pioneer plants using new technologies. Equity investors raise concerns around the long-term stability of policy and tax initiatives.

Compounding these issues are significant commodity price risks, volatile pricing and uncertainty in feedstock supply, as well as fluctuating prices for crude oil and petroleum products. Fortunately, several of the programs within the energy title have been well positioned to address these challenges.

To start, the Biorefinery Assistance Program has been successful in bringing private lenders to the table. However, the program currently requires that biorefineries manufacture at least 51 percent fuels. Given private sector interest in renewable chemicals, USDA should allow the production of any mix of fuels and other products that the market demands.

Further, the definition of “advanced biofuel” does not include the full array of technologies, feedstocks, and products that companies are seeking to develop today. On the feedstock side, the Biomass Crop Assistance Program has the potential to serve as an important tool for helping farmers and other feedstock developers produce and deliver cellulosic materials. And, finally, the Biomass Research and Development Initiative remains critical in seeding innovation and leveraging private dollars into these new technologies.

In conclusion, it is possible to replace imported crude oil. Virent is using cost-competitive, domestic, renewable resources to create direct replacement drop-in products, providing our Nation with the opportunity to build energy security, long-lasting jobs, and a healthier world. American farmers and foresters will be essential in realizing this potential, and the farm bill has a significant role to play in this effort.

I appreciate the opportunity to testify today and look forward to working with the Committee on these issues.

[The prepared statement of Mr. Edwards can be found on page 67 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. Hutchins, welcome.

**STATEMENT OF BENNIE HUTCHINS, ENERGY PROGRAM COORDINATOR, AG ENERGY RESOURCES, LLC, BROOKHAVEN, MISSISSIPPI**

Mr. HUTCHINS. Thank you, Chairwoman Stabenow and Senator Roberts and members of the Committee. I do appreciate this opportunity to come before you today to give you my views about the Rural Energy for America Program, or REAP, that we have heard talked about and the critical role that REAP is playing across our country in helping our rural small businesses and ag producers implement energy efficiency and renewable energy projects.

Three points I hope you take from my comments today: First, REAP has application in every State across this country; second, REAP has application in every agricultural sector and small business basically that you can imagine; and then, third, the REAP participants through this program are reducing their energy consumption, of course, or bringing in other additional income from renewable energy sources. Doing so, though, saves jobs and increases their financial stability, of course, creates jobs. But in my work as the energy program coordinator with Ag Energy Resources out of Brookhaven, Mississippi, I have worked with several hundred applicants, REAP applicants, participants from across the country, 12 or 15 different States. Most of these are agricultural producers. I am here today to put a face to those producers and those small businesses.



A lot of them have been poultry producers, like Tara Adams, a single-mom poultry producer in Haleyville, Alabama; or David Craig, a poultry producer in Blackville, South Carolina; Billy Whiteley, a Native American poultry producer in Berryville, Arkansas; or Pakou Her and Kao Xiong, poultry producers in Ottawa County, Oklahoma. I wish I had time, but you can look at my written report to see all the data, the statistics as to how these people have benefitted.

But just real quickly, we took a recent survey of 40 participants, poultry producers from Mississippi that had participated in REAP, and we found that after the implementation of the REAP project, they are saving each year 6 percent on their electricity consumption and 41 percent on their propane consumption in their poultry houses.

Now, to put that in perspective, that is a \$12,000 value, and that is in an agricultural enterprise with a net bottom line on their Schedule F in a typical year of \$20,000 to \$30,000. So a \$12,000 increase in their net bottom line is a huge impact. So better financial stability and jobs saved, of course.

I have worked with other agricultural sectors out there: the pork producers, Spring Hill Pork Farm in Virginia; and Gulf American Shrimp in Port St. Joe, Florida; and White Rock Fish Farm in North Carolina; and quite a few aquaculture catfish producers across the Mississippi Delta. These farms are all small family-owned farmers, two to three people employed, up to dozens, some of them, on the larger farms.

But I am here to tell you today that REAP is much more than just a Midwest grain dryer program. It reaches every State and ag sector across the country.

Then there are the renewable energy projects that we have heard talked about, the methane digesters and the solar PV systems like for pecan orchard drip irrigation system, or for broiler farms in Mississippi. Then there are biomass energy potentials with sawmills and dry kiln operations and so forth, like Beasley Forest Products in Georgia, Browder Veneer Mill in Alabama, that I have worked with. Then biomass heating systems in poultry houses across the country.

So what is the future potential for REAP? Of course, ag producers primarily have been participating, but the rural small businesses can participate, too. So the story is still yet untold out there. There are thousands of rural small businesses in areas less than 50,000 population that could qualify to benefit from this program. Small businesses like a laundromat in Mississippi or South Alabama Grocers in Ozark, Alabama, or Mike's Supermarket in Rio Hondo, Texas—all of these employ up to two to three dozen people, and REAP is helping reduce their operating costs, increase sales, and save jobs.

As far as the current trend of participation in REAP, last year, Rural Development received 3 times more requests than they had money for.

Another point about REAP, REAP stimulates private investment. This is one Federal program that for every \$1 in Federal funds, it mandates that \$3 in private funds be invested. Usually it is the other way around. But this 25-percent incentive is just enough to

get people to install cutting-edge new technology in real-world situations so that others hopefully will follow suit. REAP creates jobs, REAP saves jobs. Think of just the confined-animal operations across the country, the pork, the poultry, the dairy, the aquaculture type operations. They are huge energy users, and just the confined-animal operations across this country, that agricultural sector, contribute over 1.8 million jobs across the Nation, and this is up more than 100,000 jobs from 10 years ago.

So my testimony here today is just to encourage you to consider strong funding for REAP and for the other core energy title programs in the next farm bill.

I thank you again for the opportunity to come before this Committee, and I welcome any questions.

[The prepared statement of Mr. Hutchins can be found on page 100 in the appendix.]

Chairwoman STABENOW. Well, I thank each of you very much, and I very much appreciate all the work that you are doing.

First, I would have a question for each of you. Given the challenges that we have in the energy title with there not being baseline going forward and not having funding after September 30th of this year, which is a great concern to me, because what you are talking about are real opportunities, current investments we have made, opportunities to expand, it seems to me there are very important opportunities that we should not walk away from.

But knowing the obstacles and with each of your areas of experience, what would you prioritize if you were in our shoes at this point, and why?

Yes, Mr. Greving.

Mr. GREVING. Well, I think it was talked about earlier today. In production agriculture, a safety net is vitally important. Crop insurance is just vitally important to us. And, of course, we would also like to see the continuation in some form of the 9005 program that will help us to develop new sources of ethanol from forage sorghum and sweet sorghum.

Chairwoman STABENOW. Mr. Flick.

Mr. FLICK. We believe at Show Me Energy that the BCAP program is the baseline for any type of project going forward. If we do not have the feedstocks, no matter what technology one has, those feedstocks themselves are the drivers of those technologies, and those producers that grow that feedstock are a key one. Because of that growing, there is actually no Federal crop insurance for them, either. They are taking that risk on themselves. So we believe that the idea of utilizing the Biomass Crop Assistance Program is first and foremost in order to develop the new technologies for advanced cellulosic refineries in the future.

Chairwoman STABENOW. Thank you.

Mr. Edwards.

Mr. EDWARDS. Thank you for the question. From my perspective, to get through the Valley of Death that was referenced regarding new technologies, I spend a lot of my day trying to attract capital for the first plant. So when I look at the opportunity, we need to be able to compete against industries that have been in place for decades, and to do so we need affordable financing. So within the energy title of the farm bill, the Biorefinery Assistance Program

has provided an instrumental tool to help leverage private sector funds with low-cost financing.

I also think in the feedstock area a lot of investors get concerned around the overall commodity price volatility between agricultural-based feedstocks and crude oil-based feedstocks. So to the extent possible, I think BCAP provides a good tool to help mitigate some of those feedstock risks that are keeping large company capital on the sidelines waiting for some greater certainty between does the technology work, have you reduced and mitigated some of the commodity price uncertainty, and do we have policy certainty that we can invest hundreds of millions of dollars on and expect to get a return from.

Chairwoman STABENOW. If I might just do a follow-up on that, you are suggesting that right now if we focused on BCAP in terms of commercialization, which I absolutely understand what you are saying in terms of where we lose these important projects, so rather than something new, you are saying focusing in this area would address it from your perspective?

Mr. EDWARDS. Would help a great deal.

Chairwoman STABENOW. Okay. Thank you.

Mr. Hutchins.

Mr. HUTCHINS. Yes, thank you. Of course, I am more familiar with the REAP program, having worked with it, but still, for the reasons I stated earlier, I would prefer obviously more funding for REAP because it makes a bigger bang for the Federal taxpayer dollar since it does require \$3 for every \$1 on Federal grant funds invested. Again, that 25-percent incentive is just enough to get those small farmers, small businesses to install this cutting-edge technology without a lot of R&D budgets and things like that. They are basically ready, see they have the need to save energy, but just need that little incentive, that 25 percent. So it is a great program from that respect.

Chairwoman STABENOW. Well, I might just say on REAP that there has been some really excellent work done in Michigan, in my home State. I understand what you are saying, and I think it is impressive as you talk about the jobs that have been saved or created. I wonder if you might speak just a little bit more about the jobs, the impact really beyond the farm, and how REAP is having a broader impact in terms of saving or creating jobs.

Mr. HUTCHINS. Right. Well, one study—and it is referenced in my written statements—indicates that there are 18 jobs created for every \$1 million of REAP funds invested. Then, of course, if you quadruple that because of the private funds invested, the numbers come up to about \$14,000 per job created. This is not only just saving the jobs on the farm, making them more financially viable, but for the industries, the contractors that are manufacturing the equipment, the technology to be installed on these farms, and installing them and that sort of thing, so it goes on up the line.

Chairwoman STABENOW. Thank you very much.

Senator Roberts.

Senator ROBERTS. Bill, if I may call you that, I could not help but notice that in 1969 you graduated from Fort Hays State University.

Mr. GREVING. That is correct.

Senator ROBERTS. About that time, I was climbing into a car with Kate Sebelius coming from Frank Carlson's office, Senator Frank Carlson, and we left north and headed for Colby on his big first listening tour, and 52 counties—and now, as you know, it is 69 or 72, or whatever it is. But it is certainly a big area. We ran into a blizzard. We were counting telephone poles to try to stay out of the ditch. Had we headed east, it would not have been so bad. We could have come to P'burg and gone to that cafe? sitting on the corner and just had a cup of coffee with you and Huck Boyd and solved the world's problems.

But at any rate, I feel a certain identity with you in regards to how you started off. You have obviously found the right balance between crop production, ethanol, and distillers grain, and your livestock operation. How did you find the balance? How did you do that? Is it just by experience and trying it out? I mean, you know, how did you come to that? What can you share from your experience as a crop farmer and a livestock operator and an investor?

Mr. GREVING. I think it probably started 20-some years ago. We have a nutritionist that develops our rations, feed rations for our livestock. I think this was back in 1989, and he told us about dried distillers grain. At that time there were very few ethanol plants—there were none in Kansas, or maybe one. We hauled dried distillers grain 100 miles out of the Hasting ethanol plant. It did not take us long to find that this dried distillers product was a real benefit in our feeding rations.

At this time we were not finishing our cattle. This was prior to my son graduating from Fort Hays and coming back to the farm in 1993. When he came back, we were looking for ways to expand our farming operation without taking on a lot of debt. We felt that finishing our cattle to slaughter weight was one way we could generate extra income.

About the time we did this, U.S. Premium Beef program came along. We were an initial investor in U.S. premium beef. This has been a hugely successful program for our operation. So when you combine that with the fact that when the ethanol plant came in, we could see we could hold wet distillers grain, which is much improved over dried distillers grain in a feedlot ration. We could haul it out of our plant 15 miles away, and as I said in my testimony, we could gain 30 cents in the price of our grain.

All of these things just kind of fit together, and we have been doing this now for the last 7, 8 years, and it has been very good for our operation.

Senator ROBERTS. How can you share that experience with others? Or are others just sort of taking note of what you have done? I think that is a splendid story of being an entrepreneur, if I can apply that word to a farmer stockman. But at any rate, your experience, I think, you know, gives us hope in regards to—well, basically to make sure your son continues to have a successful farming operation. I thank you so much for coming.

Let me ask Mr. Edwards: Virent, how many Federal Government departments or agencies did actually provide assistance? You mentioned a bunch.

Mr. EDWARDS. Three, primarily. USDA, Department of Energy, and Department of Commerce have been the three primary funders.

Senator ROBERTS. Now, were the processes different depending on which Department? Did you stay on the same trail, or did one of those departments sort of force you off your basic course? Or were they coordinated?

Mr. EDWARDS. Different timelines, and, you know, I should also say we also received a grant from the Department of Defense through the Navy.

As the technology emerged, we kind of discovered new opportunities and new uses for what the core catalytic conversion technology could provide. So starting out looking at hydrogen for fuel cells, the company then merged into liquid fuels and now into biochemicals as kind of our key success factors. So what we found important was that the nature of these grants gave us funding to help leverage our private sector dollars for research we wanted to do anyway, and it allowed us to do it faster with more focus to help broaden the feedstocks that are potentially available for us to convert and also broaden the products that we were making for customers.

Senator ROBERTS. Mr. Hutchins, my first question is: How is your son doing in his baseball? Is he a pitcher or second base or what?

Mr. HUTCHINS. Basically shortstop or wherever I decide he needs to play.

[Laughter.]

Senator ROBERTS. All right.

Mr. HUTCHINS. Thank you.

Senator ROBERTS. I have looked at the map, and the participation in regards to REAP is concentrated in the Midwest. But your testimony said that you have hippety-hopped all around the country sort of like a circle around where there is the most participation. Are people familiar with REAP, or is that part of your work basically simply presenting the information? Is it word of mouth or, you know, how do we get this word out?

Mr. HUTCHINS. I think the first few years it was a lot of word of mouth, but primarily the way we promoted it was working with ag commodity groups, whether it be poultry associations, catfish growers, Farm Bureau, groups like that to get the information out, and their producer-grower meetings, and also working directly with the companies, the integrator companies, as far as the poultry producers.

Senator ROBERTS. Well, I thank you all for your testimony. I see I am over time by a minute, and we have stretched on and on. Thank you for your patience. Thank you for contributing.

Madam Chairman, I have no more questions.

Chairwoman STABENOW. Thank you very much. This is a very, very interesting panel, and we look forward to working with you on the issues that you have raised.

We would indicate for all of the members that additional questions for the record should be submitted to the Committee clerk 5 business days from today. That is 5 o'clock on Wednesday, February 22nd. We look forward to working with you. Thank you again, and the meeting is adjourned.

[Whereupon, at 1:08 p.m., the Committee was adjourned.]

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**APPENDIX**  
FEBRUARY 15, 2012

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February 15, 2012 – Senate Ag Committee – Statement by Senator Chuck Grassley

I appreciate Madam Chairman setting this hearing today. The rural development and energy programs administered by the Department of Agriculture are important to rural America and Iowa.

Rural utility programs help provide vital infrastructure and services for rural Iowans. In addition, we have some very important rural water programs that assist communities have access to safe and affordable drinking water; And there are wastewater programs that help small communities deal with requirements placed upon them by the Clean Water Act.

People all too often forget the folks in rural America are largely responsible for producing this nation's food. Rural Development programs help preserve the way of life in these small communities so young people grow up and live in these communities to become the next generation responsible for feeding this nation.

I appreciate the Secretary's comments regarding the importance of the Rural Energy for America Program (REAP). The REAP program has helped expand market access for renewable fuels as this country continues to look for ways to reduce dependence on foreign oil.

In addition, the topic of the Biomass Crop Assistance Program has been discussed in today's hearing. The Secretary and I discussed the BCAP program a couple weeks ago, and I appreciated him taking the time to discuss some of my concerns. And I trust the Department of Agriculture is continuing to do what it can to resolve the concerns I raised, and I thank the Secretary for his attention to the matter.

In the Secretary's prepared comments, he noted there is an opportunity for Congress to streamline some of the farm bill programs. It never ceases to amaze me how many programs USDA has to administer. While most of them serve a very good purpose, we have a responsibility to cut out redundancies and inefficiencies and bring commonsense and thoughtfulness to some of the programs. I am confident this committee is up for this task.

One example where we may need to focus more attention is the Broadband Initiatives Program (BIP) under the Rural Utility Service (RUS) created by the American Recovery and Reinvestment Act. There is a need for rural America to be wired so broadband can be made available to where it is currently not available. Yet, we need to focus more on unserved areas and be very careful about allowing taxpayer loans to be disbursed to underserved areas where there is already a network funded with private capital.

I and many others are concerned with the funding of duplicative broadband networks and the costs this incurs. I have learned the RUS is looking at revising the BIP financial models to reflect the changes in the Federal Communication Commission's 2011 Universal Service Fund Reform Order. Perhaps this is an opportunity for the RUS to revive its approach regarding loaning to areas where private providers are already offering broadband service. I hope this leads to helpful steps to ensure the BIP keeps to the original goal of bringing broadband to unserved rural America.



Senate Committee on Agriculture, Nutrition, and Forestry  
Opening Statement for Hearing on Energy and Economic Growth for Rural America  
Senator Richard G. Lugar  
February 15, 2012

Thank you, Madam Chairman. Rural energy is about jobs in Indiana's rural communities, about Hoosiers saving money, and about our contribution to making America more secure. I appreciate you convening this hearing today to discuss these vital priorities. Renewable energy and energy efficiency offer just that opportunity to rural America. Through research and development efforts for diverse fuels, enabling investment in efficiency to help save money, and opening energy opportunities for rural entrepreneurs, we can both expand agricultural markets and decrease oil dependency.

Today's growth in renewable energy production is creating jobs and bringing new sources of revenue into our communities from local sales of goods and services, to improved rents, to higher tax bases for towns and schools. Because of our energy demands across the United States and around the world, we are witness to a palpable sense of optimism in rural communities for economic growth in these rural areas. Spreading the economic benefits of diverse biofuels production nation-wide will require breakthroughs in technologies and agricultural techniques to make more fuels and products from farm, municipal, and industrial wastes available from coast to coast. Strong support in the Farm Bill will help galvanize private investment and bring jobs across the country.

Yet the opportunity before us involves more than economic growth. Dramatic advancements in biofuels will help build a more secure and self-reliant America by reducing our dependence on foreign oil. Global competition for oil continues to grow as demand soars and oil-rich states tighten their control over supplies. Each year, Americans spend hundreds of billions of dollars to import oil. In today's tight oil market, even a small disruption in oil supplies could cause shortages and send prices even higher.

Biofuels alone will not make America completely independent of energy imports – we need more domestic oil, fuel-saving innovations, and trade with our secure partner, Canada. But, biofuels can strengthen our leverage over oil-rich regimes hostile to the United States, give greater freedom to our policy options in the Middle East, help protect our economy, and foster rural development.

In addition, progress on energy efficiency is a particular need and opportunity for our rural communities. More than 42 million Americans live in rural communities, and many of these Americans reside in homes that are significantly less efficient than those typically found in urban communities. In fact, the USDA has found that rural households spend \$200 to \$400 more per year on their utility bills than comparable urban households. This utility bill disparity is significant, especially given that rural households earn \$10,000 less per year than the national average.

Reaping the economic and energy security benefits of biofuels, efficiencies, and other rural energy can be accomplished by Indiana's entrepreneurs and farmers. The government's role through the Farm Bill is small, but it is vital in partnering with Hoosiers for research, demonstration, and education. This is one reason why I introduced the Rural Economic Farm and Ranch Sustainability and Hunger (REFRESH) Act, S. 1658, on October 5, 2011. The REFRESH Act creates real reforms to U.S. farm and food support programs. These reforms create a true producer safety net that will serve more farmers more fairly, while being responsive to regional and national crises that endanger the continuing success of America's farmers. The reforms also improve accuracy and efficiency in federal nutrition programs, while protecting America's hungry. The REFRESH Act accomplishes all of this while saving \$40 billion in taxpayer dollars over the next ten years.

The REFRESH Act includes an energy title that will create private sector jobs in rural American and reduce foreign oil dependence. Even as farming and ranching will continue to be the backbone of the rural economy, energy offers a bright opportunity for America's rural families, towns, and small businesses. The REFRESH Act focuses on programs that demonstrate the technological and economic opportunity for energy innovations. It orients programs away from grants and focuses priority on loan programs. It does not offer big subsidies or guaranteed profits, but it does give entrepreneurs and farmers a chance to build more robust private sector rural growth. In doing so, it eliminates or consolidates the Farm Bill energy title to just 6 core initiatives, half of the previous Farm Bill.

I appreciate the Agriculture Committee taking up energy opportunities for America in this hearing today. I look forward to working with my colleagues on a strong Farm Bill energy title, with clear policy and mandatory funding. I offer the REFRESH Act to begin those discussions and ask that it be entered into the record.

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SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY  
FULL COMMITTEE HEARING

**STATEMENT: SENATOR THUNE**

**Energy and Economic Growth for Rural America**  
**Wednesday, February 15, 2012 — 9:30 a.m.**  
**G50 Dirksen Senate Office Building**

Madam Chairwoman and Ranking Member Roberts, today's hearing begins the "Post Super Committee" Farm Bill debate, and I thank you for resuming an open and transparent Farm Bill process.

The Energy and Rural Development Titles of the next Farm Bill development are critical to Rural America. With forecasts of \$4.00 gasoline by Memorial Day and the full potential yet to be seen for Rural America to contribute to our Nation's energy independence, drafting an effective Farm Bill Energy Title is critical.

As we all know, alternative energy development creates jobs in Rural America, as we have seen with the development of corn based ethanol over past 15 years. We can't abandon the potential of value added agriculture and renewable energy development in rural America.

However, Rural America must expand beyond producing corn based ethanol to expanding production of cellulosic ethanol and other forms of alternative energy.

Considering our growing national debt and the lack of a spending baseline for rural energy programs, we all know the Energy Title in the next farm bill will have to do more with less.

Because this Farm Bill will not be written in the same budget environment as the 2008 Farm Bill, which included a number of new energy programs, I believe this committee will have to consolidate energy programs within USDA and better focus the remaining programs on top priorities rural America including job creation and reducing our dependence on foreign oil.

I look forward to comments and testimony on which programs should be prioritized and which ones we can do without in the next Farm Bill. I also look forward to learning improvements that can be made to increase effectiveness and to save taxpayer dollars while benefiting our rural economy.

Madam Chairwoman, I look forward to hearing from Secretary Vilsack and other members of the panels present for this hearing.

Testimony of Lee Edwards, President and CEO, Virent, Inc.

Before the Senate Agriculture Committee

Hearing on Energy and Economic Growth for Rural America

February 15, 2012

Thank you Chairwoman Stabenow, Ranking Member Roberts, and distinguished members of the Committee. It is an honor and privilege to be here today and to speak with you about energy security and economic growth for rural America, issues that are critical to our nation.

My name is Lee Edwards, and I have been Chief Executive Officer of Virent, Inc. since 2009. Prior to joining Virent, I spent 25 years at BP, including as CEO of BP Solar, President for BP Pipelines North America, and Vice President of BP's Global Brand where I led the strategy, design, and launch of the current BP branding. I am also the Chairman-Emeritus and member of the executive committee of the Advanced Biofuels Association (ABFA) representing 38 member companies and a wide range of technologies, feedstocks, and products within the advanced biofuels and bioproducts industry.

**Virent: Replacing Crude Oil**

Virent is in the business of replacing crude oil. Headquartered in Madison, Wisconsin, the company was founded in 2002 and was spun out of Chemical Engineering research at the University of Wisconsin. Since that time the company has grown to 117 employees, doubling in size since 2007. At Virent we believe that our biggest strength lies with our people, from chemists to accountants to plant operators to machinists.

Virent's technology has proven the ability to scale, as evidenced through our state of the art, on-site demonstration facility, which is capable of producing volumes up to 10,000 gallons/year of direct-replacement biogasoline. In addition, our 25 pilot-scale plants, produce renewable diesel, jet fuel, and chemicals from a wide range of plant derived sugars. Virent's strong science and engineering pedigree combined with an experienced leadership team has attracted leading global companies in agricultural products (Cargill, Inc.), the oil industry (Royal Dutch Shell), and the automotive sector (Honda Motor Co.) as investors and partners. Virent's biogasoline is currently used by Shell to fuel the Ferrari Formula 1 race team. Most recently, in December 2011, Virent announced a new strategic partnership with The Coca-Cola Company to accelerate the commercialization of renewable, recyclable materials for 100% plant based beverage packaging.

Virent is replacing crude oil by commercializing patented technology that transforms renewable biomass into products that **are the same as** the fuels and petroleum-based products that

currently come from refining a barrel of crude – including renewable gasoline, diesel, jet fuel, and chemicals that can be used for plastics, packaging, clothing and other fibers. Unlike first generation biofuels that are focused singly on blending into gasoline or diesel, Virent’s renewable fuels and products have the potential to replace more than 90 percent of the petroleum-based products that make up a barrel of crude (Figure 1). Further, because these products are chemically identical to those made from petroleum, they are “drop-in”, meaning they can be seamlessly integrated into existing refineries, transported in existing pipelines, dispensed from existing tanks and pumps, and used to fuel any gasoline, jet, or diesel-powered engine (including marine engines) used today. This eliminates concerns around infrastructure investment, engine warranties and blending limitations. And Virent is not the only company at this stage – there are many that have exciting opportunities at the threshold of commercialization.

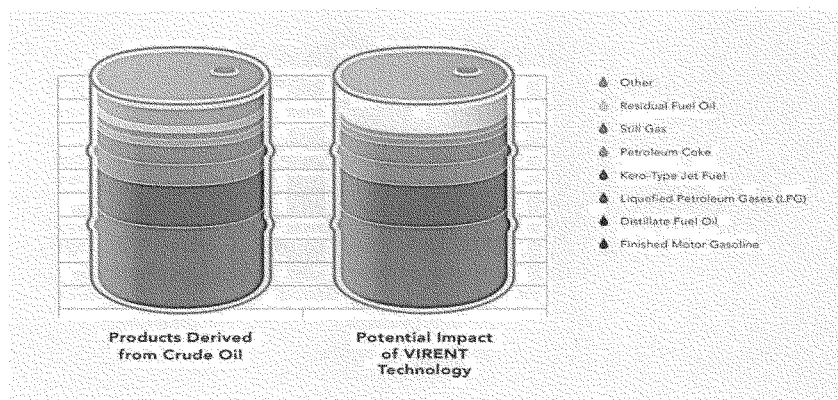


Figure 1. Replacing Crude Oil

Virent is a product of our longstanding national commitment to innovation. Programs historically supported by this committee have played a part in creating the environment for companies like Virent to thrive. To date, Virent has attracted \$75 million in private sector investment, from angel investors, venture capital and global strategic partners. Our success in securing private capital would not have been possible without several early stage research and development grants from the Federal government, including the USDA Biomass Research and Development Initiative (BRDI), the Department of Energy (DOE), and others. These Federal investments have provided critical research funding to test new concepts and develop the technology at the pilot and demonstration scale. There is no doubt that Virent’s conversion technology would not be where it is today – ready for commercialization – were it not for early R&D investments from the Federal government that facilitated early technical discoveries that

garner interest and investment from the private sector. To date, every government dollar Virent has received has been matched by nearly four private sector dollars.

#### **Energy Security**

The advancement of the biofuels and bioproducts industry will make a significant impact on America's energy security by replacing oil that is currently imported, often times from countries that are unstable, unfriendly, or both. By creating alternative pathways to liquid fuels and chemicals historically derived only from petroleum, we decrease our nation's reliance on foreign petroleum resources and diversify the marketplace, creating more competition. In particular, the efforts of USDA, DOE and the Department of the Navy to spur the development of biorefineries utilizing existing authority under the Defense Production Act funding have the potential to accelerate private investment and technology deployment. Additionally, the production of advanced aviation biofuels will also benefit our commercial and business aviation industries by reducing both price volatility and carbon emissions. I encourage the members of this committee to support these efforts.

#### **Economic Growth and Job Creation: The Feedstock Value Chain**

In addition to the energy security benefits of biofuels and bioproducts, biorefineries have the potential to transform the economic landscape of rural America. Currently, Virent is working toward deploying a first commercial scale plant to produce gasoline and chemicals from renewable biomass. The likely capacity of the first plant will be approximately 20 million gallons per year (or 42,000 tonnes per year of chemical products plus 6 million gallons per year of biogasoline). Deployment is estimated to create over 200 temporary construction jobs and 50 permanent jobs to operate the plant. However, even better than the job creation of the biorefinery itself, are the long term jobs and economic growth that will be realized along the agricultural feedstock value chain.

The deployment of first generation biofuels have already successfully opened up significant new opportunities for growth and wealth in rural communities. Deployment of the next generation of biorefineries producing a variety of renewable, drop-in molecules from a variety of feedstocks have the potential to exponentially increase markets for cellulosic material in every region of the country – from corn stover in Michigan, Iowa and Nebraska, to switchgrass in Georgia, to woody biomass in places as diverse as Arkansas and Vermont. And because new biorefineries will be most cost-effective if they are geographically close to their feedstocks, rural areas around the country will see the long-term economic benefits as these technologies are deployed at scale.

Virent is developing ways to break down a variety of cellulosic feedstocks into sugars that can be processed by a biorefinery. At our Wisconsin facility, Virent has utilized a variety of

feedstocks – including plant sugars from commodities such as corn starch, sugar cane, and sugar beets, as well as sugar from deconstructed corn stover, switchgrass, and woody biomass. The research done by Virent and its partners (which include private companies as well as two national labs, the National Renewable Energy Laboratory and Pacific Northwest National Laboratory) has proven the technical viability of deconstructing cellulosic biomass and converting it to biofuels. For example, in June 2011, Virent announced that it had successfully produced biogasoline from corn stover and pine harvest forest residuals as part of the National Advanced Biofuels Consortium funded under the American Recovery and Reinvestment Act (ARRA). Additionally, Virent jet fuel converted from cellulosic material was tested at the Air Force Research Lab at Wright Patterson AFB, Ohio and found to be a suitable alternative to petroleum derived fuel. However, feedstock producers and biofuels companies will need to continue working together to scale cellulosic deconstruction technologies on a timeline and at the volumes consistent with the deployment of biorefineries.

#### **Challenges: Getting to Commercial Scale**

The good news is that today the barriers to realizing this future are less about technology and more about commercial and policy risks – things we can control. In addition to accessing the feedstocks to convert to energy, we need to build biorefineries at a scale at which the volume of products are economical and be competitive with the existing refining sector. However, the capital required to deploy a commercial scale biorefinery is at least an order of magnitude higher than the cost of developing the technology or proving it at demonstration scale, and typically beyond the investment limits of venture capital (ranging from at least \$100 million to more than \$1 billion, depending on size and other factors). Private lenders are likewise unlikely to offer low-cost debt to finance a first-of-its kind, innovative technology, and even tax equity investors can be put off by the on-again, off-again nature of the tax incentives currently available in the biofuels sector.

Compounding these issues is a unique hurdle to attracting private investment for biorefineries - significant commodity risk on both sides of the value chain. On the input side, there is volatile pricing for commodity feedstocks such as corn starch or sugar and unknown or uncertain pricing (and uncertain availability) of cellulosic feedstocks. On the output side, biorefinery products must compete against crude oil prices that are even more volatile and that, further downstream, vary considerably by product (e.g. gasoline, diesel, jet fuel, or various chemicals).

#### **Role of the Federal Government in the Farm Bill**

Fortunately, several of the programs within the Farm Bill Energy Title are uniquely positioned to address these challenges. The Sec. 9003 Biorefinery Assistance Program, first established in the 2008 Farm Bill, has been successful in bringing private lenders to the table by guaranteeing a



portion of a loan for eligible biorefinery facilities. However, the Biorefinery Assistance Program currently requires eligible biorefineries to produce at least 51 percent *fuels*. Given that private sector interest in renewable chemicals to make products such as packaging and clothing is one of the biggest drivers for commercializing biorefineries, USDA should be allowed to give companies the flexibility to produce any mix of fuels and other products that the market demands.

Further, an inherent danger in defining eligibility for a program is that often technology and markets evolve faster and in different ways than government can anticipate. The Sec. 9001 definition of “advanced biofuel” – which sets eligibility for the Sec. 9003 program, among others – does not necessarily contemplate the full array of technologies, feedstocks, and products that companies are seeking to develop today. I urge the Committee to continue the Biorefinery Assistance Program, but also ensure that it does not preclude support for new innovative solutions with the potential to be more cost-competitive and with the ability to be most successful in the marketplace.

On the feedstock side, farmers and feedstock producers face significant hurdles in deploying the technologies and infrastructure necessary to bring commercial volumes of cellulosic feedstocks to market. The Sec. 9011 Biomass Crop Assistance Program (BCAP) has the potential to serve as an important tool for helping farmers and feedstock developers produce and deliver cellulosic feedstocks – which is a critical function if we are to realize the potential of affordable biofuels and bioproducts from non-food feedstocks.

Finally, the Sec. 9008 Biomass Research and Development Initiative (BRDI) program remains critical to seeding new agricultural and energy innovations and leveraging private dollars into early-stage development of more efficient and effective technologies. Since the 2008 Farm Bill, the program has focused on three areas critical to the success of the biofuels and bioproducts industries: feedstock development, biofuels and biobased products development, and biofuels development analysis. USDA biomass R&D can continue to play a significant role in advancing a variety of renewable, drop-in fuels and products and should be continued in the next Farm Bill.

#### **Conclusion**

Our country has unmatched agricultural and technological competitive advantages which should be true global differentiators. Historically, we have used these capabilities to fill our basic needs at a society, which certainly includes food, but also products such as clothing and energy. It is my view that we should continue to treat our country’s biomass resources as the strategic commodity they are. Technologies like Virent’s mean that plant sugars, the most plentiful substance on earth, have the potential to equal petroleum as a source of energy. Replacing crude oil with economical, domestic, renewable feedstocks offers our nation the

opportunity to build energy and economic security, long lasting jobs and a healthier world. American farmers and foresters, as stewards of our national biomass resources, will be essential to realizing this potential, and the Farm Bill has a significant role to play this effort to increase energy security and revitalize our rural communities.

I appreciate the opportunity to testify today and look forward to working with the Members of the Committee on energy programs in the Farm Bill.



TESTIMONY OF STEVE FLICK  
NATIONAL FARMERS UNION  
PREPARED BY NFU STAFF

SUBMITTED FOR THE RECORD TO THE  
U.S. SENATE COMMITTEE ON AGRICULTURE

TO DISCUSS ENERGY AND ECONOMIC GROWTH IN RURAL AMERICA

FEB.15, 2011  
WASHINGTON, DC

## Introduction

Chairwoman Stabenow, Ranking Member Roberts and members of the committee, thank you for inviting me to testify today on the Energy Title of the 2012 Farm Bill and how we can continue to provide energy and economic growth in rural America. My name is Steve Flick and I am a Missouri Farmers Union member and the founder and board chairman of Show Me Energy Cooperative, a next-generation biorefinery owned by 612 farmers in Western Missouri. Today I am testifying on behalf of National Farmers Union (NFU), an organization that has been representing family farmers and ranchers since 1902. NFU is the second-largest general farm organization in the United States and has members in all 50 states, with organized divisions in 32 states. NFU is also a member of the Agriculture Energy Coalition, a membership-based coalition committed to what I will be testifying in support of today: a strong bipartisan energy title in the 2012 Farm Bill.

NFU supports a balanced energy policy that seeks energy independence by 2025 for the United States and, at the same time, protects our nation's environment and recognizes the special energy needs of America's agricultural sector and its potential contributions. We support a broad policy framework and the Farm Bill Energy Title is especially important in reaching the goal of energy independence and promoting rural economic development. Specifically, we support an Energy Title that includes robust funding for the Rural Energy for America Program (REAP), Biomass Crop Assistance Program (BCAP) and the Biorefinery Assistance Program.

NFU acknowledges the challenging budget environment that Congress faces, and we agree that agriculture should do its part to help to get the U.S. fiscal house in order. However, we must be careful not to eliminate successful incentives that are currently creating jobs in rural America, stimulating economic development, creating new revenue streams for farmers and ranchers, and reducing our nation's dependence on foreign oil.

Show Me Energy Cooperative is a perfect example of how farm bill renewable energy programs are successfully working to spur rural economic development, create jobs and begin to wean our nation off our addiction to foreign oil while at the same time protecting our environment. Show Me Energy is in the business of growing, processing and refining dedicated energy crops into fuels that provide energy security for the U.S. The cooperative provides numerous good paying jobs for families in the region.

On May 5, 2011, U.S. Secretary of Agriculture Tom Vilsack announced the approval of the first BCAP project area, covering approximately 50,000 acres in 38 counties in Missouri and Kansas. Individual farmers within the boundaries of the project area can now sign contracts with the U.S. Department of Agriculture (USDA) to grow dedicated energy crops. Show Me's plant in Centerview currently pelletizes the crops into biomass fuel for space heat and electric power. Eventually our technology will provide liquid fuels that can replace gasoline and diesel. I am proud of Show Me's progress to date and I am confident that with continued funding of energy title programs like BCAP, even greater numbers of farmers and ranchers will usher in a new generation of biofuel feedstock growers and biorefineries.

## Benefits of Renewable Energy Programs

For years, renewable energy of all sorts has served as a significant boon for rural America. It provides well-paying jobs and helps support local economies. In today's rural America, there must be economic opportunities available such as renewable energy for young people to stay in their communities.

### *Biofuels*

The genesis of renewable energy began in rural America with the development of ethanol plants in the 1970s and 1980s. At the time, corn farmers were looking to add value to rock bottom corn prices in order to stay on their farms. So, farmers came together and started forming ethanol plant cooperatives. The model proved a success and the ethanol industry took off with the help of government support. At the time, serious oil supply shocks from the Middle East necessitated the emergence of an alternative to oil. American ethanol became a viable solution to achieving energy independence.

The relationship between oil consumption and biofuels is a clear national security issue. Despite ethanol's success over the years in reducing our nation's dependence on foreign oil, the U.S. is still at the mercy of supply shocks from overseas. The recent uprising in Libya and threats by Iran to choke off oil supply routes are just the latest examples.

In response to oil supply shocks, other countries such as Brazil have made impressive gains in reducing oil consumption by creating policies to increase ethanol consumption and infrastructure. It is important that the U.S. not take its foot off the gas on an industry that not only provides national security benefits, but also provides jobs and keeps our country on the cutting edge of this strategic sector of our economy.

Oil is currently trading at over \$100 per barrel, while ethanol prices are trading at significantly lower prices. Because ethanol is cheaper and is currently blended into gasoline, gas prices are markedly lower than they would be if we did not blend ethanol. In fact, according to researchers at Iowa State University and the University of Wisconsin, ethanol reduced the price consumers pay at the pump by 89 cents per gallon in 2010.

The main policy driver of the biofuels market is the Renewable Fuels Standard (RFS), created under the Energy Policy Act (EPAct) of 2005. It mandated that the U.S. produce 7.5 billion gallons of renewable fuel by 2012. The Energy Independence and Security Act (EISA) of 2007 updated the RFS and required that 36 billion gallons of renewable fuel be produced by 2022. Of those 36 billion gallons, 15 would be conventional biofuels and the rest would be cellulosic and other advanced biofuels.

It is clear that the industry is already an important part of our nation's economy and contributing to reducing dependence on foreign oil. According to the Renewable Fuels Association (RFA), in 2010 the U.S. ethanol industry helped employ over 400,000 people. It also contributed \$53.6 billion to the national GDP, added \$36 billion to household income, and displaced the need for 445 million barrels of oil. Even more significantly, biorefineries support local jobs and serve as

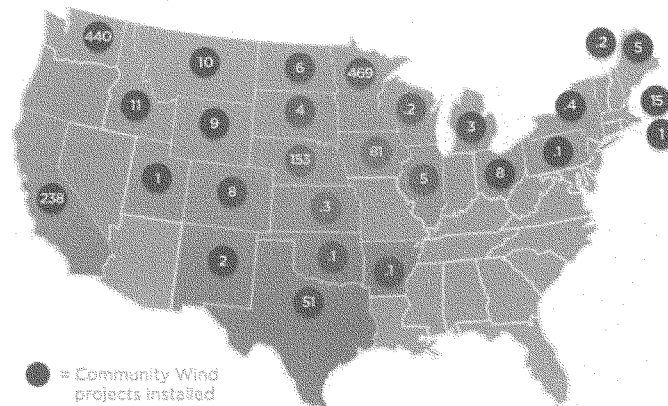
an economic multiplier in rural America. A 100 million gallon per year biorefinery adds \$367 million to local GDP. That same biorefinery helps create 2,400 new jobs all the way from the biorefinery down to the agricultural sector. As a result, local household income is increased by \$100 million.<sup>1</sup>

#### *Wind, Solar, Biomass*

Beyond biofuels, other renewable energy technologies such as wind, solar, and biogas are also transforming rural economies and creating jobs and new income streams for farmers and ranchers nationwide.

Wind power is one of the great rural economic success stories. There are two main types of wind energy generation: large, commercial scale projects and smaller, community wind projects. According to the American Wind Energy Association (AWEA), commercial scale projects account for 98 percent of installed wind power. Landowners can receive lease payments from these types of projects up to \$120,000 over a 20 year period. Lease payments serve as an additional revenue stream for farmers and ranchers and payments are more stable than commodity prices.

On the other hand, community wind is much smaller in size but has a significant local ownership component not present in traditional commercial scale projects. According to AWEA, community wind is defined as any wind project of 20 megawatts (MW) or smaller in nameplate capacity or a project larger than 20MW up to 100MW in nameplate capacity where local owners own at least one-third of the project. While community wind represents a smaller portion of total U.S. wind capacity, in 2009 community wind represented 5.9 percent of installed wind in the U.S (1,521 MW).

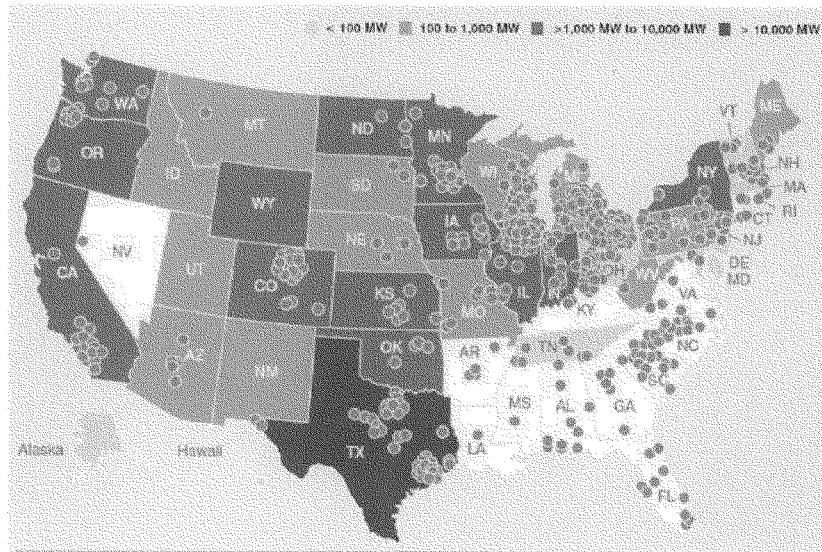


<sup>1</sup> "Contribution of the Ethanol Industry to the Economy of the United States." LECG, LLC, Feb 2008.

Community wind can lead to even more rural economic development than traditional commercial scale projects. Because of the significant local ownership of wind projects, much of the profit is retained in the community. This additional money is then recycled in the local community, creating jobs and spurring local economic development. According to a study by the Energy Foundation, two to five operations and maintenance jobs are created for each 50-100 MW in capacity, while each megawatt under construction provides 1-2 jobs plus revenues for local businesses. Landowners can also earn \$2,000-\$10,000 annually per turbine depending on the level of production and royalty rate. Finally, each 100 MW of additional capacity generates annual property tax payments of \$500,000-\$1 million. This adds up to a significant boon for local economies.<sup>2</sup>

The wind industry is leading to significant economic results up and down the supply chain. Not only do wind projects provide additional revenue streams for rural landowners, they support jobs for construction and maintenance of the turbines and a robust manufacturing industry.

### Wind Manufacturing Facilities

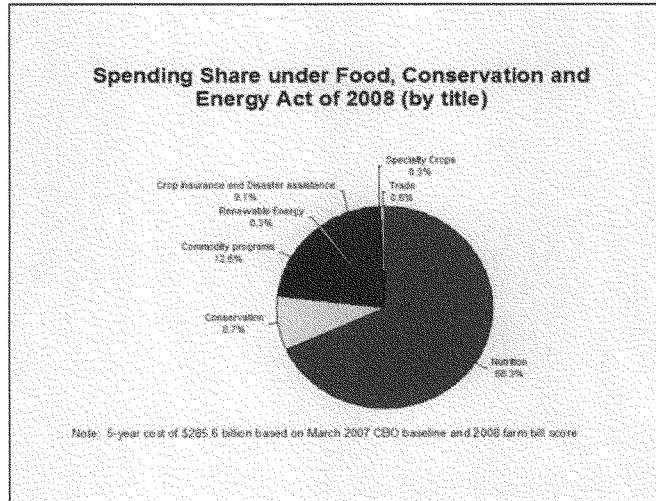


### Specific Energy Title Programs

The bipartisan-backed Energy Title of the 2008 Farm Bill included \$1.1 billion of mandatory funds and \$1 billion of discretionary funds for renewable energy programs. The Energy Title

<sup>2</sup> Community Wind 101: A Primer for Policymakers [http://www.ef.org/docs/CommWind\\_web.pdf](http://www.ef.org/docs/CommWind_web.pdf)

contains eight programs with no baseline past Sept. 30, 2012. According to the March 2010 Congressional Budget Office (CBO) baseline score, extending the energy title programs five years would cost \$1.9 billion- a tiny fraction of the total cost of the farm bill. In fact, the Energy Title only accounts for less than 1 percent of farm bill spending and produce outsized benefits.



Preference for grants and loan guarantees for renewable energy facilities should be given to projects with significant local ownership for all farm bill energy programs. The next farm bill should include incentives for local development and ownership of renewable energy production in all forms. Local ownership by farmers, ranchers and rural communities of renewable energy resources retains economic benefits for rural communities. According to the National Renewable Energy Laboratory (NREL), locally owned wind projects generate 2.6 times more jobs and 3.1 times more rural economic benefit than those with outside ownership.<sup>4</sup> A study by Oregon State University found that local ownership of wind turbines would result in five times the annual projected income versus entering into a land lease agreement.<sup>5</sup>

At a time when economic realities often provide incentives for rural residents to move into cities, farm bill energy programs are keeping high-skilled jobs in rural America. These programs create an additional revenue stream for farmers and build new markets while reducing pollution and improving the environment.

<sup>3</sup> Agriculture Energy Coalition

<sup>4</sup> National Renewable Energy Laboratory

<sup>5</sup> Oregon State University, 2006



There are also significant energy security benefits associated with these programs. Programs such as REAP, BCAP and Biorefinery Assistance reduce energy consumption on farms through energy efficiency upgrades and have led to distributed energy projects from local energy sources.

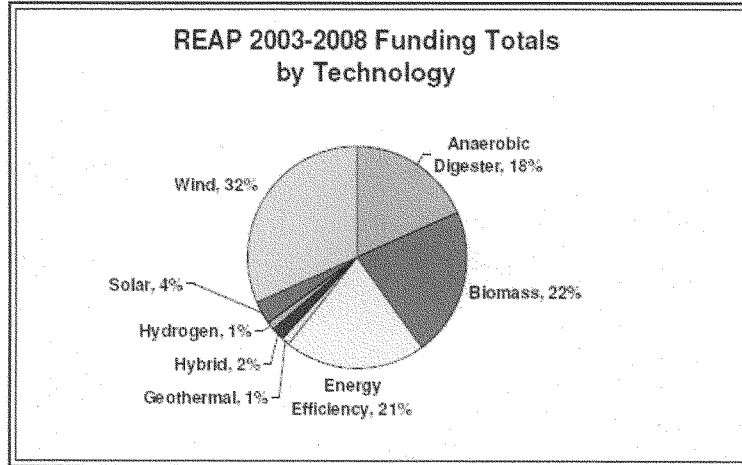
It is crucial that Congress continue funding for these vital programs while we are on a path toward a stronger rural economy and increased energy security. We must address our nation's budget issues, but we must not throw the baby out with the bathwater. If we end our funding for these critical programs, we risk ceding the clean energy race to the Chinese and Europeans who are redoubling their efforts in this industry of the future.

*Rural Energy for America Program (REAP)*

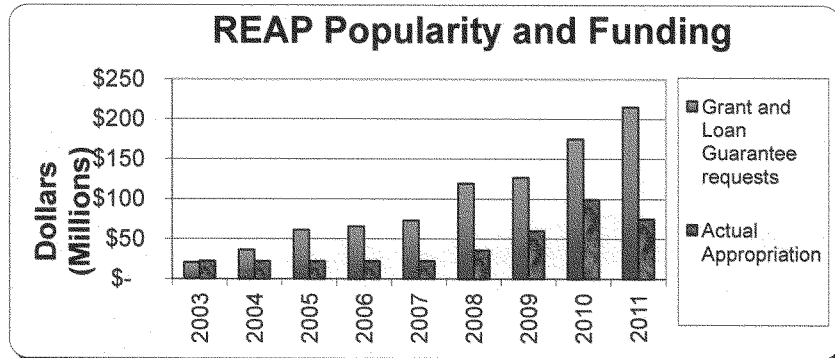
Created in the 2002 Farm Bill, REAP provides grants and loan guarantees for energy efficiency and renewable energy projects, including biofuels and flex fuel pumps, anaerobic digesters and other biomass, geothermal, solar, and wind projects. It also includes support for feasibility studies and energy technical assistance. Because it supports such a broad range of technologies, REAP has been utilized in all states to fund the renewable energy technology appropriate to the location.

REAP funds critically important flex fuel pumps. With the goal of installing 10,000 flex fuel pumps nationwide, the USDA has signaled its clear support for the build out of biofuels infrastructure critical to creating a level playing field with traditional gasoline. REAP is the only federal program that funds this expansion of flex fuel pumps so it is vital that REAP include funding for the expansion of biofuels infrastructure.

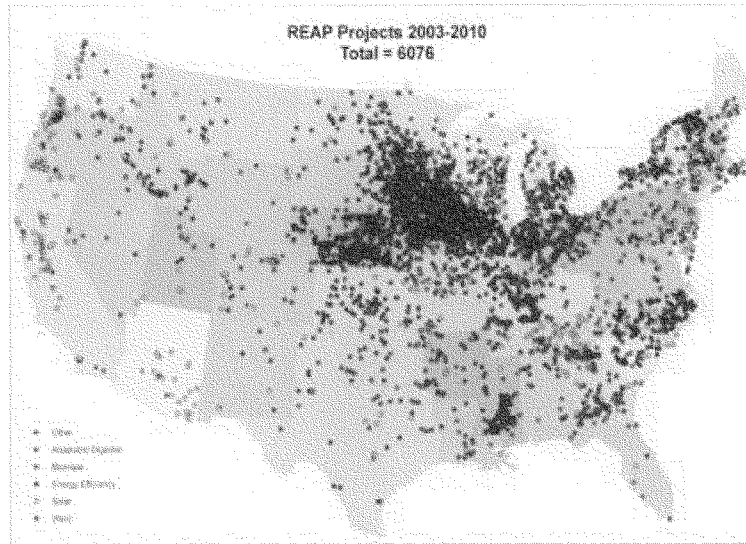
The program also funds the development of locally-owned energy projects, including community wind. Farmers and ranchers can take advantage of grants for feasibility studies to determine if their land has ideal resources for wind. These smaller grants for meteorological towers are crucial for many landowners considering installing a wind system on their property.



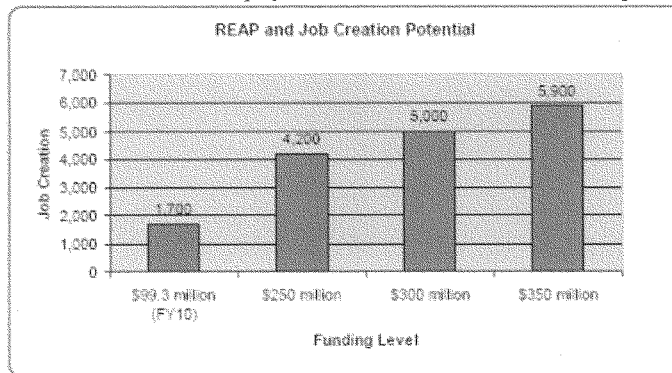
An incredibly popular program, demand for REAP funding far outpaces available resources by nearly a 3 to 1 margin.



To date, there have been REAP funds awarded in every state, totaling over 8,000 projects. According to USDA Rural Development, in FY 2011, REAP helped fund over 2,000 projects, provided grants and loans totaling \$17,268,083 and saved or generated over 2,000 MWh. Since 2003, REAP has saved or created approximately 21,688 jobs.



According to the Environmental Law and Policy Center (ELPC), with higher job creation levels than most other government-funded programs, REAP could create between 5,900 and 6,300 jobs in the US per year at a funding level of \$350 million a year. The funding level in 2010 was \$99 million and the USDA reports it created 1,700 jobs and saved another 500 jobs. The jobs analysis is based on economic and employment data from the USDA and U.S. Department of Commerce.



REAP has excellent job creation ability because it leverages private capital. REAP's maximum grant amount is 25 percent of the project's total capital cost. According to USDA, in 2011, REAP awarded \$57 million in grants and \$34 million in loans. This leveraged an additional \$374

million in private capital with a total of \$465 million of investments stemming from REAP, a 4 to 1 ratio of total investment per federal dollar spent. According to USDA, in FY 2009, 2010 and 2011, REAP created around 15,000 jobs.

#### *Biorefinery Assistance Program*

The Biorefinery Assistance Program provides grants and loan guarantees to help build advanced biorefineries and is critical to jumpstarting advanced biofuels production. The program is the only federal program to do this and guarantees up to 90 percent of a private loan (up to \$250 million per plant) and up to a 30 percent grant for demonstration-scale plants. Loans can be used to retrofit existing biorefineries or construct new advanced biorefineries.

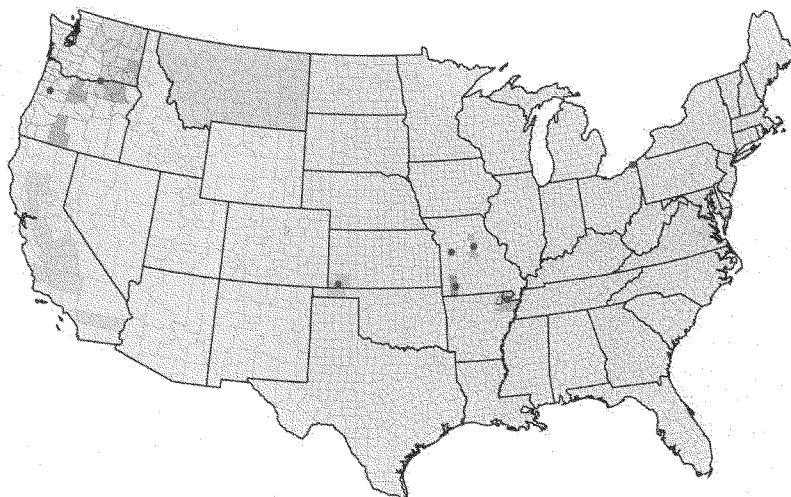
So far, USDA has approved 8 loans totaling \$647,675,000. These projects will leverage \$1,049,200,638 in other funding outside the Biorefinery Assistance Program. These projects are projected to create 461 jobs.

#### *Biomass Crop Assistance Program (BCAP)*

BCAP is the first-ever energy crop program to help encourage farmers to grow sustainable energy crops such as switchgrass. The primary goal of the program is to assist in commercializing cellulosic ethanol. The transition to this next generation of biofuels is critical if we are going to meet the goal of 36 billion gallons of biofuels by 2022 established in the RFS. BCAP is the only federal farm program that seeks to accomplish this transition so it is critical that robust funding be made available going forward.

There are two types of support through BCAP: establishment and annual payments and matching payments. Establishment and annual payments for up to 75 percent of the cost for growing energy crops dedicated for production of cellulosic biofuels are given to farmers. The payment is guaranteed for up to five years for non-woody crops and up to 15 years for woody crops. Matching payments are given to producers for the collection, harvest, storage and transportation of cellulosic feedstocks for use in an advanced biorefinery.

BCAP helps solve the chicken and egg scenario with commercializing the next generation of biofuels. By incentivizing farmers to grow cellulosic feedstock through matching and annual payments, advanced biorefineries can be assured of a steady stream of feedstock necessary for operation. Outside investors will then feel more comfortable financing a commercial-scale plant because they know there will be feedstock supply. Likewise, farmers will grow the dedicated energy crop because there is a guaranteed market from the biorefinery.

**Current BCAP Project Areas**

USDA has made great strides in perfecting the implementation of BCAP to establish new energy crop production to lead to the commercialization of cellulosic biofuels. In the BCAP final rule, USDA limited the Matching Payment component of BCAP and issued new rules for Establishment and Annual payments. We encourage Congress to adopt the language of the USDA Final Rule in the 2012 Farm Bill. The continuation of BCAP is vital to rural America and our ability to produce clean, advanced biofuels.

According to USDA, in FY 2011, BCAP provided an investment of approximately \$54 million in obligations to nine project areas amongst 168 counties in 10 states. With the intent of producing advanced biofuels, fuel pellets, drop-in jet fuels and biobased products, 860 contracts were approved, supporting the production and establishment of 49,908 acres of dedicated energy crops. USDA has estimated that 700,000 new jobs can be created from continuing the BCAP program.

**Show Me Energy**

As I mentioned before, I am the Board Chairman of Show Me Energy Cooperative. BCAP helped our cooperative tremendously and I am confident that with continued implementation,

BCAP will lead to the proliferation of advanced biorefineries and American farmers providing power, heat, and liquid fuels in commercial quantities.

In 1983, I purchased my own farm by saving money from hauling hay before and during college. My operation has continued to expand and diversify and we are now in the biomass business. In 2008, Show Me Energy Cooperative built its first biorefinery, creating 21 direct jobs and 516 indirect jobs. Our entire board consists of volunteer farmers and producers. Our mindset from day one was that this country was built with the simple mechanics of hands-on farmer innovation. Our members were committed to accomplishing the same in building the first biorefinery.

Show Me Energy's farmers succeeded. We built our first biorefinery, which currently produces a biomass pellet that is used to heat homes, livestock barns, and produces power. In 2009 Show Me Energy partnered with our local electric utility to test burn around 29,000 tons of biomass pellets with coal so that we could learn how the fuel would react and how it could be utilized to reduce pollution. From this experiment, we learned that biomass and coal can successfully be combined in old boilers and power plants. We are currently negotiating a Power Production Agreement (PPA) with local utilities to generate base-load power from the biomass at our facility.

BCAP is the program that led to the next phase in our cooperative's development. In May 2011, Show Me proposed a BCAP "energy hub" area under FSA guidelines to cover 32 counties in Western Missouri and 7 counties in Eastern Kansas. The proposal was to grow native grasses on marginal land under a program called "Plant Baby Plant". Under the program, these native grass poly-cultures will harvest the power of the sun, developing through the typical growing seasons and will be harvested for their cellulose content by farmers after a killing freeze, through round or square baling. Farmers in the project area seized on the opportunity and signed up their acres. On May 1, 2011 signups began at all the local FSA offices. By September, 26,000 acres were enrolled. Farmers will begin the process of planting energy crops on these acres early this year.

Show Me Energy's BCAP project will be deployed over 39 counties. In the process, it will lead to the creation of hundreds of direct jobs and thousands of indirect jobs. By planting 26,000 acres yielding an average of 5 tons per acre, we will produce 130,000 tons or 115,000 typical large round bales. Thousands of farmers in our part of the country will be growing energy crops. BCAP's initial assistance will be used to purchase sheer bolts, twine, wrap and other supplies in order to achieve the added expansion of harvesting and baling their new energy crops. Equipment dealers, insurance vendors and truck salesmen will all benefit as a result.

In the next phase of our project, we plan for our BCAP area to provide the necessary feedstock for our biorefinery's next phase-manufacturing jet fuel from butanol. Our goal is to produce 3 million gallons of high quality fuel for the Department of Defense from dedicated energy crops produced in our decentralized feedstock area.

## **Conclusion**

As it relates to Show Me Energy Cooperative, I strongly believe that Congress needs to adequately fund BCAP and the rest of the Energy Title. As I mentioned before, we recognize that there are obvious constraints on the budget. However, programs like BCAP, REAP and Biorefinery Assistance should not be seen as a handout, but rather a hand up that will change the way we live in rural America. It will change the way we produce energy and it will change us as a country for the better.

The United States is a country with unlimited potential to do great things. We have overcome major obstacles in the past with our ingenuity and can-do attitude. I strongly believe that America's farmers, ranchers and rural residents have a bright future ahead of them with the right incentives. Renewable energy is the future of rural America. As such, I urge your Committee to pass a Farm Bill this year with a robust energy title to continue essential progress on these vital renewable energy programs.

On behalf of the members of National Farmers Union and Show Me Energy Cooperative, thank you for the opportunity to outline our priorities.



**Written Statement for the Record**

**Charles W. Fluharty  
President and CEO, Rural Policy Research Institute  
Truman School of Public Affairs  
University of Missouri**

**Before the  
United States Senate  
Committee on Agriculture, Nutrition, and Forestry**

**Washington, D.C.**

**February 15, 2012**

*The Rural Policy Research Institute provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places.*

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Thank you, Chairman Stabenow, Ranking Member Roberts, and members of the Committee. It is an honor to appear before you again, as we begin a new Farm Bill process. Thank you for inviting me to testify today, and for holding this hearing. I applaud your leadership in ensuring that rural development concerns receive greater attention in Farm Bill discussion and decisionmaking, and encourage you to craft a bold and innovative rural policy framework for rural economic and community development.

I am Charles W. Fluharty, President and CEO of the Rural Policy Research Institute, and a Research Professor in the Harry S Truman School of Public Affairs at the University of Missouri. RUPRI is a non-partisan, external policy research institute, originally envisioned in 1990 by the Agriculture Committees of the Congress, and funded since then to provide objective analyses regarding the rural implications of public policies and programs. We are honored to have entered our third decade of service to the Congress last year.

RUPRI is a national research institute, with founding sponsorship from Iowa State University, the University of Missouri, and the University of Nebraska. Continual service is provided to Congressional members and staff, executive branch agencies, state legislatures and executive agencies, county and municipal officials, community and farm groups, and rural researchers. Collaborative research relationships also exist with numerous institutions, organizations, and individual social scientists worldwide. To date, over 300 scholars representing 16 different disciplines in 100 universities, all U.S. states, and 30 other nations have participated in RUPRI projects, which address the full range of policy and program dynamics affecting rural people and places. Collaborations with the OECD, the EU, the German Marshall Fund, the Inter-American Institute for Cooperation on Agriculture, the International Rural Network, and other international organizations are framing RUPRI's comparative rural policy foci.

***Rural Policy Recommendations***

Madam Chairman, and members of the Committee, in this testimony I offer three specific policy recommendations, to advance this more innovative Rural Development framework:

- I. Given current budgetary challenges, it is critical that this Committee create a more innovative, streamlined, flexible, and regional approach to enable USDA RD to administer the remaining suite of recently-downsized, but very effective economic development programs in a more integrated, aligned, and leveraged framework, and wherever possible, in a regional context.**
- II. This regional framework should advance asset-based innovation and entrepreneurship, and above all else, align much more effectively and efficiently with other programs at sister federal agencies addressing similar needs.**
- III. Given past, current and future RD funding reductions, this Committee must ensure a sufficient level of rural debt, venture and equity capital, as well as an appropriate and flexible suite of federal instruments through which they are delivered, to meet rural**

**financing need. In addition, this Committee should also explore why there continues to be a glaring lack of rural investment by our nation's major foundations.**

*Overview*

Madam Chairman, as you know, I have been honored to appear before this Committee many times, over the years. With each Farm Bill reauthorization, I have attempted to frame a federal policy perspective which outlines the most critical dynamics to be addressed, in order to lessen the differential comparative disadvantage to rural people and places. During the past three Farm Bill hearings, my testimony has been quite detailed, and, frankly, little has changed in terms of the RUPRI perspective regarding these critical elements. In testimony before the House and Senate Agriculture Committees in 2001, I offered seven recommendations to build a more relevant rural policy framework in the 2002 Farm Bill:<sup>1</sup>

1. *Develop a comprehensive national rural policy, driven by specific federal policy goals and outcomes measures*
2. *Sustain existing categorical program and funding support.*
3. *Build rural community capacity, collaboration, and leadership.*
4. *Develop a more integrative, cross-sectoral, place-based policy approach.*
5. *Address the lack of rural venture and equity capital.*
6. *Support approaches which exploit the interdependency of agriculture and the broader rural economy.*
7. *Support rural entrepreneurship, in both the public and private sector.*

Six years later, during testimony preceding passage of the Farm, Nutrition, and Bioenergy Act of 2007, I returned to that testimony to assess whether the intervening years had altered our policy perspective, or policy prescriptions recommended had been so successfully executed, as to no longer merit policy action.<sup>2</sup> In that very detailed testimony, I offered the *raison d'être* for an innovative rural policy change, and suggested priorities below which should frame a 21st century U.S. rural policy. I urge members seeking more substantive detail to refer to that testimony. Here were those recommendations:

1. *Three critical federal policy dynamics must be addressed:*

- The federal government must increase the current level of federal rural investment in essential public services, including infrastructure, broadband and community capacity.
- To do this, the federal government must overcome a significant and ongoing rural federal funding disadvantage.
- In doing so, the federal government must also reverse recent disinvestments in rural programs.

<sup>1</sup> U.S. Senate Committee on Agriculture, Nutrition and Forestry. *Charles W. Fluharty Written Statement for the Record, testimony re: Farm, Nutrition, and Bioenergy Act of 2007*. February 13, 2007. 100<sup>th</sup> Congress. <http://www.rupri.org/Forms/testimony021307.pdf>

<sup>2</sup> *ibid*

2. *A new rural policy framework must be created:*

- It should center upon rural innovation, entrepreneurship, collaboration and strategic investments.
- This must incent public, private and philanthropic investment cooperation, and build regional frameworks for action.
- Special attention must be given to diversity, gender, poverty and immigration concerns.

3. *Several "North Star" principles must drive program design, including:*

- Asset-based development.
- Flexibility and local input.
- Investment in new intermediaries.
- Attention to the importance of working landscapes and natural resources; arts, heritage and culture; and renewable fuels, energy and entrepreneurial agriculture.

4. *The federal government must create a framework which acknowledges and builds upon the growing interdependence of urban, suburban and rural areas and constituencies.*

As you may recall, I also suggested several important contexts which should focus federal investments in this more innovative rural policy. These remain unchanged:

- *Current ag policy has many goals, but we must acknowledge it has failed to adequately assure broad-based rural economic growth. This Committee must, finally, address this structural challenge within your jurisdiction.*
- *Rural development investments must move beyond categorical programs and grants. A new vision must be sought, and systemic commitments to change the rural landscape must be funded.*
- *Rural entrepreneurship and innovation systems are essential, if we are to optimize new federal commitments to assist rural regions in capturing their competitive advantage in a global economy. These approaches must be framed in systemic ways, to link with other public, private, NGO and philanthropic resources.*
- *New governance models must be lifted up, and successful new public and social entrepreneurship efforts replicated.*
- *There is no one rural America. It is a diverse, dynamic and ever-changing landscape, and public policy must address these new realities.*
- *Rural poverty remains a searing and silent national tragedy.*

While successes have occurred in the ensuing period, major structural challenges remain. In testimony before the House Committee on Rural Development, Research, Biotechnology, and Foreign Agriculture a year ago this week, I offered this assessment of where we stand on the journey:

“It is gratifying to acknowledge major advances on a number of these issues, since passage of the last Farm Bill. However, we are all aware that we are in a very different place today. As tectonic structural shifts in our economy have transformed broader economic policy approaches, driven by global competition, policy innovations to adapt to these dynamics in ways which specifically address our nation’s rural regions have lagged behind. This challenge has been exacerbated by the Great Recession, which has created unprecedented budget deficits for state and local governments, and reduced available resources to support innovative efforts to address these capacity disadvantages.

For over a decade, RUPRI has encouraged new policy and practice approaches to create a brighter future for rural communities, families, and economies. These have been posited upon asset-based development, entrepreneurship, innovation, and new governance models, within a regional framework. Many of these once misunderstood or resisted approaches are now becoming mainstream rural economic development components. However, if these innovations are to succeed, we must acknowledge that in today’s world, rural and urban outcomes are increasingly intertwined, and are becoming ever more interdependent, as are their citizens and economies.

Acknowledging this reality will challenge those with entrenched political advantage from continuing reliance upon categorical programs and grants, in both rural and urban constituencies. However, while these categorical grants are very necessary for rural communities, particularly those in underserved regions, they are no longer sufficient. Just as rural communities must unite in regional innovation collaborations, metropolitan policymakers and advocates also must acknowledge the dependence of their citizens upon the rural resources which sustain their urban existence.

For these innovations to truly advantage rural people and places, the Agriculture Committees of Congress must move to a new Rural Development vision. This must link rural communities, small urban areas, and rural regions, while providing new approaches to scale and leverage federal, state, and local investments, across the public, private, and philanthropic sectors.<sup>3</sup>

*New Rural Development Priorities, Given New Economic and Budgetary Realities*

The challenges and opportunities facing rural America are both daunting and exciting. The impacts resulting from the global recession, constrained public resources, global competition and

<sup>3</sup> February 15, 2011, U.S. House Agriculture Committee, Subcommittee on Rural Development, Research, Biotechnology, and Foreign Agriculture. Charles W. Fluharty Written Statement for the Record, February 15, 2011. [http://www.rupri.org/Forms/Fluharty\\_HouseAg\\_Feb2011.pdf](http://www.rupri.org/Forms/Fluharty_HouseAg_Feb2011.pdf)

instability, limited institutional capacity, and the need for new forms of governance have serious repercussions across rural America today. Yet opportunities in local and regional food systems, bio-energy, telecommunications, stewardship of natural resources and amenities, and climate change mitigation and adaptation all represent game-changing prospects for rural economies.

However, the global recession will have a lasting impact upon U.S. federalism, forcing local jurisdictions to do even more with far less. Rural communities must build regional strategies to address these deepening capacity disadvantages, which will further exacerbate these dynamics. This will demand fresh and innovative approaches in funding, strategy, policy and program design, service delivery, and program and policy evaluation.

One of RUPRI's most valuable policy contributions has been our prescience in identifying emerging public policy opportunities for rural America, and seeking to advantage them through public discourse, policy research, and policy development. Over a decade ago, we identified the growing importance of regional innovation and entrepreneurship—both public and private—for sustainable rural regions. In 1990, with founding support from the Ewing Marion Kauffman Foundation, RUPRI created its Center for Rural Entrepreneurship, designed to provide research and assessment of promising practices related to rural entrepreneurship development, strategic engagement with communities committed to entrepreneur-focused economic strategies, and outreach to practitioners and policymakers to share what we are learning. The Center has completed numerous Transfer of Wealth (ToW) studies for regions across the nation, collaborated with state partners - including the Entrepreneurial Communities work in Kansas, in partnership with Kansas Farm Bureau, Network Kansas, and other partners, and continues work supported by the Ford Foundation regarding Wealth Creation and Retention in rural regions.

At approximately the same time, in collaboration with the Kansas City Federal Reserve Bank, RUPRI began to explore the rural potential for regional competitiveness, innovation and new governance strategies, and held numerous national convenings to engage public sector stakeholders, and seek their counsel. Shortly thereafter, this led to the creation of RUPRI's Center for Regional Competitiveness, which has now evolved into our Regional Rural Innovation Initiative.

Over a decade later, we believe these are the two most critical policy opportunities which this Committee can and must advantage in this Farm Bill process, given the federal government's scarce resources, the groundbreaking work exploding across rural America to achieve these advantages, and their singular impact upon rural competitiveness, job and wealth creation, and rural resilience. Finally, if we are to truly benefit from these approaches, we must ensure linked and leveraged investment strategies among the federal, state, and local governments, as well as our private, not-for-profit, and foundation partners.

In each of these issues, the people appear ahead of the policy development process. Regional innovation and entrepreneurship based development are occurring in very diverse rural geographies, and in very different organizational and jurisdictional contexts. But it is clear that rural communities have realized how critical these collaborations are to their future competitive advantage.

As but one example, I have been honored to assist in the development of an exciting new initiative in Ranking Member Roberts' home state, where 17 counties in southeast Kansas recently formed a regional initiative, designed to create a new framework for economic development there. With support from Governor Brownback, four state senators representing those counties, county and municipal officials, and a diverse set of private and not-for-profit organizations and institutions, a new future is being envisioned, aligning federal, state, and local investments, contributions from the public, private, and philanthropic sectors, and strong support from state, regional, and community colleges and universities, as well as the private sector.

This "Project 17 Economic Development Initiative" anticipates support from many of the state's leading organizations and institutions, including Kansas Farm Bureau, the Kansas Leadership Center, USDA Rural Development, the Advanced Manufacturing Institute at Kansas State, the University of Kansas, the Kansas Department of Commerce, Network Kansas, the Southeast Kansas Regional Planning Commission, the Southeast Prosperity Foundation, the Kansas Association of Community Foundations, and the Kansas Association of Regional Development Organizations, among others.

At the federal level, we are encouraged by the practical policy and program progress made since the Obama Administration's August, 2009 guidance regarding a "Place-Based" domestic policy framework. Since then, we have witnessed a rather amazing collaboration across numerous federal agencies, and rural America has been an important beneficiary. As but one example, RUPRI is honored to be collaborating with the National Association of Development Organizations (NADO) and the National Association of Counties (NACo) in support of a capacity building and technical assistance program to assist rural and small city grantees under the Partnership for Sustainable Communities, a collaboration between the Departments of Housing and Urban Development, and the Department of Transportation, as well as the Environmental Protection Agency. Nearly 40% of the first round grantees under this program were located in rural regions.

Several recent GAO reports regarding duplicative federal programs in economic development highlight our nation's need for further integration across these sister agencies, and USDA Rural Development, the Small Business Administration, and the Economic Development Administration/Commerce should continue their exploration of further program alignments, wherever possible.

Secretary Vilsack has been a very strong champion for USDA engagement in these efforts. Unfortunately, economic development practitioners always attest to the fact that USDA RD programs remain among the most cumbersome for which to seek funding, and the most time-consuming for which to apply. USDA administrators, state offices, and field staff are not to blame. The statutory mandates under which these civil servants must operate are among the least flexible and most onerous within the federal suite of economic development programs. As this Committee reassesses current Rural Development programs under your purview, we would urge that rational consolidation be accompanied by greatly increased flexibility, and that strong statutory support be developed to enable these programs to operate in a more rigorous regional

framework, and/or leveraging concomitant funding commitments from other federal, state, and local agencies, as well as the private and philanthropic sectors.

*Expanding, Aligning and Leveraging Rural Investments*

This is now becoming essential. The very significant reductions in Rural Development Budget Authority, resulting from continuing reductions in annual RD appropriations over the past decade, are now being reflected in one of the largest rural disadvantages in federal per capita community and economic development funding ever witnessed, in comparison to urban per capita spending on the same program categories. In 2010, metropolitan counties received \$1,519 per capita for these programs, compared to only \$929 per capita in nonmetro counties<sup>4</sup>. This difference would represent over \$28 billion more in rural community and economic development resources, were the same level of per capita funding delivered to nonmetropolitan counties.

Unfortunately, the USDA RD program areas with some of the larger percentage funding reductions are smaller but very flexible business and community development programs, which are also known for the leveraging they achieve. The Intermediary Relending Program, the Rural Community Development Initiative, and the Rural Business Enterprise and Opportunity Grants all have been downscaled so severely that national program impact as a standalone entity must be examined.

As we all know, the importance of diverse public sector programs that can be layered to meet regional capital needs is key. While IRP is excellent for larger deals, and SBA programs work well, but present challenges in covering the up-front technical assistance costs needed to make responsible, small loans, the Rural Microentrepreneur Assistance Program (RMAP) provided a good mix of technical assistance support, quick turnaround and low paperwork, which justified the cost of microloans. Together, these three provided intermediaries a suite from which to choose. Without RMAP, some small loans will not be made. Finally, none of these address the micro-equity issue, or firm start-up, thus the angel investor component remains critical.

In a similar vein, assuring that larger rural business entities have access to credit and capital on the same basis as urban competitors, through as diverse a suite of private lenders and secondary markets as possible, augments declining federal credit program funding, and should be strengthened wherever appropriate.

As part of a cooperative agreement between RUPRI and USDA, a RUPRI research team has been reviewing literature and data regarding rural capital access. Several early observations are relevant for this hearing, related to the federal role in ensuring that rural entrepreneurs and business owners have access to a range of capital resources and the support to effectively use that capital to grow their businesses. In general, we are making some progress in increasing rural capital access. While the aggregate amount of loans to small businesses in both urban and rural regions declined over the past four to five years, detailed National Federation of Independent

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<sup>4</sup> USDA Economic Research Service analysis of Consolidated Federal Funds Data, FY2010.  
<http://www.ers.usda.gov/Data/FederalFunds/>

Business survey data show the ability to obtain credit and loans is relatively strong for most business.<sup>5</sup> These data also indicate that a greater portion of rural businesses are obtaining desired levels of credit than their urban counter parts. This may result from relatively stronger local networks connecting businesses and financial institutions. These strong relationships may play a role in the relative success with which rural businesses seeking capital from local banks actually acquire needed capital, and may underscore the importance of local relationships and local banking institutions across rural America. We need to understand whether these patterns also hold true in our nation's more distressed rural regions.

Our initial assessment suggests that there are real opportunities for equity funding in rural and micro regions. Data clearly show that rural-based venture investments performed just as well in terms of return on investment and job creation as counterparts in places such as California or Massachusetts. So performance is not the primary obstacle to equity funding. Large venture funds are not the only source of equity capital; there is as much equity capital coming from non-institutional sources such as angel investors, angel funds, corporate or strategic investors and community-development venture funds. These sources tend to invest in smaller scale and more diverse businesses than venture capital institutions. Exploring the public sector role in expanding the scale and scope of rural angel investors and community development financial institutions remains an important topic for further analysis.

Supply side considerations related to the amount of debt and equity capital flowing into rural regions provide only one side of the capital access equation. Research suggests that you need a skilled and growth-oriented entrepreneur (the demand side) in combination with a diverse mix of capital (the supply side), and that with access to quality business advisors and networks, entrepreneurs are more able to obtain and effectively use capital, as well as being more successful in operating their business. This points to the importance of intermediary organizations that provide robust advisory and entrepreneurial services beyond basic business formation planning, that provide advanced hands-on mentoring, as well as connections to regional, national and international networks. The public sector could have an important role to play here, recognizing the critical link between business advisory services and capital, and offering programs to support the provision of these services in rural regions where private sector service provider alternatives are often lacking.

We will keep this Committee apprised as this research moves forward.

Beyond these public sector challenges, a concomitant rural disadvantage in philanthropic funding also remains significant. A 2004 report by the National Committee for Responsive Philanthropy, "Beyond City Limits: The Philanthropic Needs of Rural America,"<sup>6</sup> found that out of 65,000 grant-making foundations, only 184 made grants characterized as "rural development."

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<sup>5</sup> William J. Dennis, Jr. Financing Small Business: Small Business and Credit Access, NFIB Research Foundation, January 2011

<sup>6</sup> "Beyond City Limits: The Philanthropic Needs of Rural America," [http://www.ncrp.org/files/Beyond\\_City\\_Limits.pdf](http://www.ncrp.org/files/Beyond_City_Limits.pdf)



Rural America remains challenged by this long-standing, differential disadvantage in philanthropic investment in its people, organizations, and institutions. And this is now more critical than ever, as federal, state and local government resources continue to decline. Because of the generous tax subsidies granted foundations and their donors, their presidents and trustees enter into a covenant with the American people, in which our government and these institutions jointly assume an obligation to steward this awesome public trust so as to optimize the public good achieved, in exchange for the lost public sector revenues and resources, as a result of tax deductions and exemptions. An awesome challenge, indeed.....As with all subsidies, deductions, and exemptions, federal budgetary pressures are again calling these dynamics into question, as both more research and more transparency are sought.

While redlining has been decried by national foundations for years on the part of government, a current *de facto* foundation redlining of rural America simply must be addressed. Federal funding for community capacity continues to decrease, and rural safety net resources are in dire need. Yet, American philanthropy continues to distribute less than 3% of its annual payout to the people and places of rural America, which comprise 20% of our population and 80% of our natural resource base. In fact, foundations have withdrawn further from rural commitments in the past five years, as need has increased exponentially. These foundations, and the generous tax subsidies provided to donors, create a public partnership in pursuit of the public good. This geographic inequity must be named. It is an institutional and moral failure; and one so long-standing that serious inquiry regarding whether this is an abuse of a solemn public trust should be considered.

Chairman Baucus explored this question, and sought some rural accommodation, five years ago. Chairman Stabenow, you may recall a conversation we facilitated with then Chairman Harkin, and a number of national foundation leaders prior to the development of the last Farm Bill, seeking a similar outcome. Regional and community foundations are doing excellent work in seeking to fill this gap. But the gap remains, and it is vast. Current arguments center around whether the total outlay in rural America is one or three percent, and yet we are unable to calculate the exact number, as pathetic as it is, because zip code data is not required. This should be rectified. Such a public trust merits greater transparency.

With payouts to rural America so ridiculously small, shouldn't the current rural capacity and safety net crisis warrant a percentage payout increase, as a good faith gesture from America's largest foundations to rural America, in exchange for the revenue losses incurred, without the benefit of proportional foundation giving, over these many years?

Thank you, Madam Chairman, Ranking Member Roberts, and members of this Committee, for the opportunity to testify before you today. I would be pleased to answer any questions you may have.

**Testimony of Bill Greving before the  
U.S. Senate Committee on Agriculture, Nutrition & Forestry**

**February 15, 2012**

**Washington DC**

Madam Chairwoman, Ranking Member Roberts and members of the Committee, I would like to thank you on behalf of Kansas grain sorghum farmers for the opportunity to share my insights into sorghum, ethanol and energy.

Greving Farms is a diversified family farm near Prairie View, Kansas. My wife Diana and I operate the farm with our son Colby and his wife Cher. We are located in north central Kansas, about 15 miles west of Phillipsburg. We primarily grow wheat and grain sorghum on our farm and also grow corn and alfalfa under irrigation. In addition to crops, we operate a cow/calf operation with approximately 500 head of cows and also have a licensed feedlot with 950 head of age and source verified cattle we sell to U.S. Premium Beef.

Kansas is the nation's leading producer of grain sorghum, accounting for 51 percent of U.S. production in 2011. Although growing conditions in Kansas can often be challenging, sorghum works and is one of the few crops we can grow with limited rainfall. It is naturally drought tolerant, heat resistant and does well on marginal land. With limited rainfall (less than 21 inches per year), and a declining Ogallala Aquifer, sorghum is becoming even more valuable in our crop rotation.

The renewable fuels sector is the fastest growing value-added market for the sorghum industry, and ethanol production now accounts for more than 30 percent of domestic grain sorghum use. Sorghum is used in most Kansas ethanol plants and has proven itself as a viable feedstock of choice. Sorghum and corn are interchangeable in these plants, which has greatly benefited Kansas ethanol, farmers and cattlemen alike.

My wife and I own shares in the Prairie Horizon Agri-Energy ethanol plant in Phillipsburg and were among the original investors because we believe in providing value to our community as well as rural

economic growth. Not only do we sell grain sorghum to the plant to make ethanol, but we also buy wet distillers grains from the plant, which provide a high nutrient feed additive for our own cattle to eat.

As a cattle producer, Greving Farms is seeing significant savings due to the availability of wet distillers grains from the ethanol plant. More than a third of the sorghum used at the plant returns to the livestock feeding stream as high protein distillers grains. The nutritionist we work with estimates a savings of 10 cents per head per day using wet distillers grains in our feedlot. That is how much we save in protein costs. The cost of gain savings is about 2 to 3 cents per pound of gain on a finished animal. That's 19 to 20 dollars per animal in feed ration savings. Farms like ours are proof that ethanol production, grain production and meat production work together. In this synergistic system we are growing feed, fuel and food on my farm.

The Phillipsburg ethanol plant created competition and generated a domestic market that added value to our sorghum crop. We estimate the Phillipsburg plant has increased the price of sorghum by about 30 cents per bushel to those selling to the plant. In addition, Prairie Horizon Agri-Energy is a major employer in our town, providing 33 good paying jobs. This figure doesn't include many other jobs created by the plant like the truck drivers who haul grain, ethanol, and distillers grains. At our plant, 100 to 150 trucks come through on a daily basis. The jobs, the economic activity created, and the tax revenue generated by the plant has a large economic impact on Phillipsburg, a town with a population of 2,500. In addition, our plant is an active member of the community and sponsors many community activities in our area. On a state-wide basis, Kansas ethanol plants directly employ more than 325 people in ten rural communities, and create many more jobs in related businesses.

Our farm has been in the family for 121 years. The migration of young people away from rural areas is a known fact. Phillips County has seen a 6 percent decline in population in the last 10 years, according to the census. It is crucial to our farm and to our communities that we support industries in our rural areas that will help keep young people and young families in rural Kansas. Homegrown fuels like ethanol are a perfect fit for rural communities, with a wide range of benefits.

The Bioenergy Program for Advanced Biofuels, Section 9005 of the Farm Bill Energy Title provides payments to energy producers to support expanding production of advanced biofuels, which are derived from renewable biomass other than corn-kernel starch. Grain sorghum is an eligible feedstock for the

production of advanced biofuels, and sorghum based ethanol is supplying several hundred million gallons of advanced biofuels today.

Eight ethanol plants in Kansas benefited from payments under this program in 2011, which provided incentives to ethanol plants that used grain sorghum. The 2011 payments from the 9005 program to Kansas ethanol plants accounted for 69 million bushels of grain sorghum, over 40 percent of the 2010 Kansas grain sorghum crop.

The 9005 program is a program that works and encourages alternative feedstocks for ethanol. This program has encouraged the use of grain sorghum in Kansas ethanol at a time when we are all paying more attention to water conservation. Sorghum makes sense in Kansas and growers will plant it if they have strong markets for their crop. The 9005 program helps to ensure that our ethanol plants will remain committed to using grain sorghum as a feedstock.

When we are talking about job growth and economic growth, programs like the 9005 program that encourage ethanol production with sorghum are important to our ethanol plants and communities. Farmers aren't the only ones who benefit—schools, restaurants, hotels, stores and other local businesses all get an economic boost from the ethanol plants.

I'd also like to mention the potential for sweet sorghum and high biomass forage sorghum. The 2008 Farm Bill defined an advanced biofuel as a fuel made from renewable biomass other than corn starch. Grain, sweet and forage sorghum all qualify as an advanced biofuel, and currently only grain sorghum is being made into ethanol on a commercial scale. However, the first commercial-scale sweet sorghum-to-ethanol plant is expected to break ground in Florida for construction sometime this year.

Sweet sorghum is the next logical step for ethanol production in the U.S., and the continuation of 9005 is essential in supporting the development of commercial production of sweet sorghum ethanol. Sweet sorghum can also help diversify the geographic distribution of ethanol in the U.S. by expanding production from the Midwest to locations such as Florida and California.

I understand sweet sorghum can be grown in a variety of climates and is naturally drought tolerant, like grain sorghum. I've long thought that sweet sorghum can be successfully grown in Kansas, and I think it

has a lot of potential if the syrup can be incorporated into the feedstock stream of our Kansas ethanol plants. This would allow for more diversification in advanced biofuel feedstocks.

Another point to consider when discussing sweet sorghum is the need to develop a viable crop insurance program that will guard against production losses due to weather. Until producers can build production history, it will make sense to use a rainfall index product, but the industry will need protection from excessive rainfall, as well as inadequate rainfall, because the first growers will be in areas where weather events like hurricanes could potentially damage production.

In conclusion, I would thank Chairwoman Stabenow and Ranking Member Roberts for inviting a farmer to appear before you today to talk about agriculture and energy. While those who have spoken before me are focused on policy, I am focused on production, and building a farming business that will sustain my family for generations to come. Economic growth brought by ethanol plants has been a benefit to agricultural producers and communities, as well as our state and local economies. Programs that bolster rural economies benefit us all.

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**Feb. 15, 2012**

Good morning, Chairwoman Stabenow, Ranking Member Roberts, and members of the Committee. I want to thank you for this opportunity to share my views on the Rural Energy for America Program (REAP) and its urgent role in the new Farm Bill. But first, thanks to Sen. Cochran for his past support of this program that has greatly benefitted the poultry and catfish production sectors in MS and across the nation.

**REAP's Role in "Energy and Economic Development for Rural America"**

Rural Energy for America (REAP, Section 9007 in 2008 Farm Bill Energy Title) has application in every state across the country in just about every agricultural production or small business enterprise imaginable. My experience is in working across the Southeastern States so references I use today are from actual REAP grantees, most of which I have worked with over the last 2 program years. Like the following **Energy Efficiency** projects:

- **Tara Adams, a single-mom poultry producer in Haleyville, AL**- \$20,000 grant to energy efficiency retrofits in 3 broiler houses; projected to reduce energy use by 31% with a 3-year payback period. Her energy cost of \$14.13 per 1000 pounds broilers before project was consuming 30 cents of every dollar she was getting for her birds.
- **David Craig, poultry producer in Blackville, SC** - \$8,700 grant to install more efficient gas brooders in his 6 broiler houses; projected to reduce energy use by 21% with payback period of 2.5 years.
- **Billy Whiteley, a Native-American poultry producer in Berryville, AR** - \$50,000 grant to install energy efficiency retrofits in his 6 broiler houses; projected to reduce energy use by 39% with a payback period of 11 years.
- **Pakou Her and Kao Xiong, poultry producers in Ottawa County, OK**- \$20,000 grants for each to retrofit broiler houses; projected to reduce annual energy consumption by 21% with payback period of 6 years.

Then in Mississippi, where we have assisted more than 200 poultry producers in securing REAP grants. A survey of 40 of those grant recipients recently conducted shows that:

- They are averaging a 6% reduction in electricity use and a 41% reduction in propane consumption each year.
- The value of this annual energy savings is \$12,000 per grantee producer. But most important, that's \$12,000 per year saved, \$12,000 more income for an ag enterprise that typically shows a net bottom line on Sch. F of \$20 -\$30 K.
- Combined those 40 farms are saving 28.7 billion BTUs per year. That's equal to 314,000 gallons of propane being saved each year since completing their REAP projects. That's enough to heat 2,000 homes each year.
- They are seeing improved bird performance allowing, these producers to compete better under their contract for increase pay.
- Better financial stability. Jobs saved.

Then, we've worked on successful REAP projects in **other agricultural sectors**, like the following:

- **Spring Hill Farm, a pork producer in Halifax County, VA** - \$3,300 grant to install more efficient fans and water heaters in his farrowing houses; projected to reduce annual energy consumption by 9% with a payback period of 2.7 years.
- **Gulf American Shrimp in Port St. Joe, FL** - \$9,700 grant to install solar-powered oxygen monitoring systems with computer controllers for his pond aeration systems; projected to reduce energy consumption by 36% with a payback period of 5.6 years. The farm produces 200 tons of Pacific White Shrimp each year on 300 acres of inland, freshwater ponds and employs 3.
- **White Rock Fish Farm, a striped bass producer in Craven County, NC** - \$6,700 to install oxygen monitoring system with computer controllers for pond aerators; projected to reduce energy consumption by 36% with payback period of 6.5 years. Farm employs 2.
- **Jubilee Farms, a catfish producer in Sunflower County, MS** - \$43,500 grant to install a 1600-ft. deep well to extract 82-degree water to eliminate the need to heat 60 million gallons of water used annually by the farm's catfish hatchery; projected to reduce energy consumption by 75% with a payback period of 10 years. The farm employs up to 35 workers annually.

**Summary of REAP Project Savings to 21 Catfish Producers in MS, LA and AL,  
2010-2012**

<u>Producer</u>	<u>Energy Cost per 1000 pounds live catfish BEFORE</u> \$	<u>Energy Cost per 1000 pounds live catfish AFTER</u> \$	<u>Annual KWH savings</u>	<u>baseline annual energy cost</u>	<u>pounds fish produced</u>
TOTAL (21)	1,223.44	780.31	3,061,813	\$1,290,292.94	22,554,519
<b>AVERAGE</b>	<b>\$58.26*</b>	<b>\$37.16</b>	<b>145,800 kwh</b>	<b>\$61,443</b>	<b>1,074,025</b>

\* This energy cost of \$58/1000 pounds live fish represents 6% of total value. At \$950/1000# received for live catfish, 6% of income goes to pay energy costs.

These are all Energy Efficiency projects, just one component of REAP. Then there are **Renewable Energy** projects (the other component of REAP) across the country. There is a huge potential for working with poultry and other confined animal production sectors (swine, dairy) on Renewable Energy Systems, specifically wood heating system, methane digesters, and solar PV and solar thermal systems.

Like these **Solar PV Systems** installed through REAP:

- Solar PV System to power drip irrigation system for a **GA pecan orchard**.
- **MS poultry producer (Spencer Pope, Leake County)** installed a solar PV system on one broiler house in 2009 using a REAP grant of \$20,000. System is producing 1000 kWh monthly, replacing more than 50% of the electricity demand of the target broiler house. Projected payback period is 6.4 years. The average poultry house has adequate southern-exposure roof space to install 500 solar PV modules.

As for **Biomass Energy Systems** potential, MS, GA and NC were identified in the top 5 states in a recent Forbes report on the potential for alternative energy production from biomass. REAP examples are:

- **Beasley Forest Products in GA, a hardwood sawmill or Browder Veneer in AL** – Each needed to expand its dry kiln facilities, but high fossil fuel costs were preventing that. In came a REAP-funded biomass drying system burning the mill's wood residue; reduced waste, increased income, saved jobs. The two mills employ more than 200.



- **Dan Peachy, poultry producer in Maysville, AR** - \$8,300 grant to install a Renewable Energy System (wood-burning heater) in his 2 broiler houses; projected to reduce his propane consumption by 90% with a payback period of 3.3 years.

#### **What is the Future Potential for REAP?**

We have only scratched the surface on the potential for the **poultry industry** in the US and the Southeast to benefit from REAP. Mississippi, which ranks 5<sup>th</sup> in nation in poultry production, has 2,000 poultry farms; only 10% have participated in REAP. Poultry producer participation in REAP has been even lower in the top 4 poultry producing states of GA, AR, AL and NC. Same holds true in the rest of the top 10 poultry states of TX, KY, DE, MD and VA.

The potential within the **aquaculture industry** for participation in REAP is significant, especially with catfish producers. Centered primarily in the Delta of MS, AR and LA, the industry has been hit hard in recent years by foreign imports increased feed and energy costs. Then many received heavy losses and are just now rebounding from the flood of 2011. REAP can make a difference for many by reducing energy consumption and thereby reducing production costs.

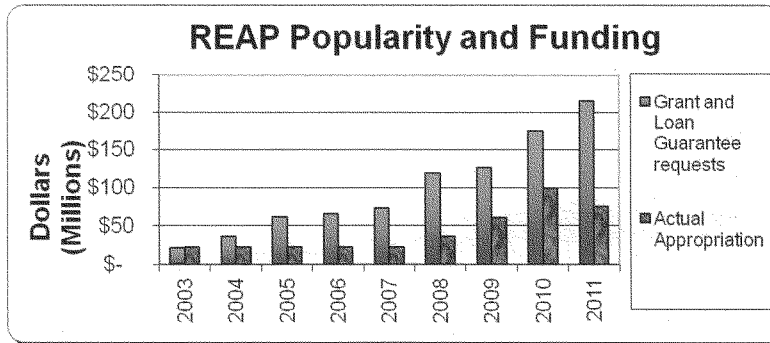
There is a huge potential for greater participation by **Rural Small Businesses** in REAP. There are thousands of small businesses across the US in population areas of less than 50,000, however to date the large majority of REAP participants have been agricultural producers. This program has gone mostly unnoticed by small businesses, like the following that I assisted:

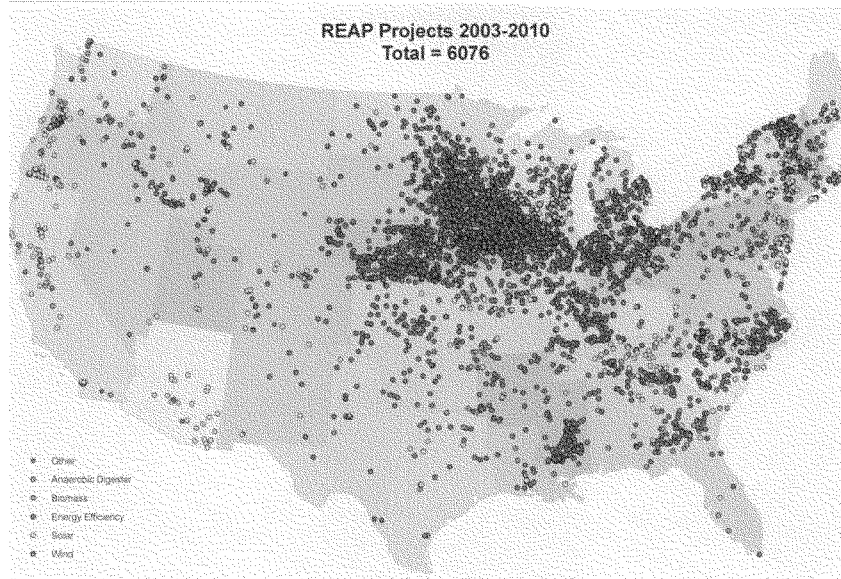
- **J&L Family Laundromat**, a small minority and woman-owned business in rural Bassfield, MS; received a \$5,800 REAP grant in 2009 to upgrade clothes dryers and water heater.
- **South Alabama Grocers, Ozark, AL**, a small, independent, family-owned grocery employing 28; received REAP grant to replace old inefficient refrigerated display cases; projected to save \$53,000 in annual energy cost with payback period of 6.4 years.
- **Mike's Supermarket in Rio Hondo, TX**- identical project to replace 30-year-old freezer and display cases; projected to reduce energy use by 10% with an 11-year payback period. That family-owned rural grocery employs 20.
- These REAP projects are reducing energy costs and therefore operating costs, increasing sales, saving jobs!

**What is the current trend in interest if participation in REAP?**

State	REAP Applications Received			\$ Request for Grants	\$ REAP Funds Available
	2009	2010	2011	2011	2011
Alabama		17	37	not provided	not provided
Arkansas	6	49	75	4,300,000	862,408
Mississippi		34	62	3,000,000	707,318
Missouri		60	80	2,200,000	656,000
North Carolina	70	120	179	5,800,000	600,000
Oklahoma		14	21	not provided	not provided
Virginia		20	47	2,000,000	641,901
<b>TOTAL</b>		<b>314</b>	<b>501</b>	<b>\$17.3 million</b>	<b>\$3.5 million</b>

**REAP is popular and far over-subscribed and underfunded:**





**Rural Energy for America Program (REAP):**

- REAP is a diverse, national program that has supported projects in every ag sector in every state. (map above)
- REAP supports the full range of renewable energy options for agriculture.
- Cuts in 2012 to REAP are far out of proportion to other farm programs (approx. 80% cut)
- Cutting REAP reduces private investment share, reducing overall rural development.
- Cutting REAP results in higher farm production costs, fewer jobs saved, less renewable energy development.

**REAP:**

- Improves producer margins by cutting energy consumption – and *bills* – with modern energy efficiency and renewable energy technologies.
- Helps agricultural producers diversify and increase farm income with energy sales.
- Improves local economies through new jobs for system development, installation, operation and maintenance.
- Increases America's energy independence with homegrown energy.
- Benefits the public with improved environmental quality by reducing or eliminating water, air and land pollution.
- Provides the financial leveraging power to help rural small businesses and agricultural producers afford these commercially-proven technologies.

**REAP stimulates private investment. REAP mandates that at least \$3 in private funds are provided for every \$1 in REAP grant funds.** (Most other federal grant and cost-share program require only \$1 private match for each \$3 in federal funds provided.) But this 25% incentive is enough to encourage participants to install new technologies and provide real-world examples to inspire others to follow suit.

**REAP creates jobs.** According to a study conducted by the Environmental Law and Policy Center, with report issued in 2009, there are 18.45 jobs created from each \$1 million invested in Energy Efficiency Improvements by small businesses and agricultural producers. (These estimates are based on Political Economic Research Institute green jobs creation rates derived from U. S. Dept. of Commerce industrial economic output data.)

That's \$54,000 federal grant funds per job. Then add another 55 jobs created or saved by the \$3 million in private funds spent for each \$1 million in REAP grants!

Specifically, for REAP participants, the projects improve their balance sheets by cutting energy bills and/or developing new income streams.

With the limited funding the program has had over the past 9 years, REAP has only begun to serve the agricultural community and small rural businesses. But the word is out about the program and the interest and participation is very high!

"REAP is important and helps rural, small businesses and ag producers jump-start solar energy projects that serve as excellent sources for long term electrical power sources in rural areas. Using REAP grants to help drought-proof orchards and croplands is becoming vital to farmers. Not only does solar driven irrigation work well, it increases property value. Solar panels lower operating costs and improve farmers' bottom line. That translates right into our kitchens."

~Robert E. Green, CEO; Greenavations Power, LLC, Georgia, rgreen@greenavations.com

#### **Where are REAP Projects located?**

REAP projects are located in every state and include:

- Irrigation systems
- Poultry house retrofits
- Grain dryers
- Dairy and swine energy efficiency retrofits
- Aquaculture aeration controls for reduced energy use
- Wide array and technology of Renewable Energy Systems
- Rural Small Business EE and RE projects

**Consider the potential impact of REAP on just the Confined Animal Ag Operations (poultry, pork, dairy, aquaculture, etc.) sector of this nation. They are huge energy users than can benefit greatly from an adequately funded REAP.**

These confined animal operations in the US contribute:

- 1,818,843 Jobs; almost 113,000 more jobs than 10 years ago
- \$41 Billion Impact on Household Incomes
- \$6 Billion in Property Taxes Paid
- \$10 Billion in Income Taxes Paid
- More Than 5% of the Gross State Product for 13 States (AL, AR, ID, IA, KS, MS, NE, NM, ND, OK, SD, WI and WY)

Source: Animal Agriculture Economic Analysis: 1999-2009, Promar International

In summary, **REAP** (Rural Energy for America Program):

- Supports a wide array of ag and forestry-based energy efficiency and renewable energy projects, including wind, solar, geothermal, anaerobic digesters, biomass energy, biofuels, marine energy, and small hydroelectric.
- Allows farmers, through grants and loan guarantees, to save on energy bills and even become energy producers.
- Promotes real-world examples, inspiring others to follow suit.
- Creates jobs in manufacturing, installing, and maintaining renewable energy and energy efficiency systems.

While my testimony today generally focused on the attributes of the Rural Energy for America Program, this program is just one of several that is designed to help America attain multiple economic, ecological, societal and security goals. In short, Farm Bill Energy programs:

- *Create jobs* – According to a recent analysis conducted by the University of Tennessee, achieving the goal of providing just 25% of our nation’s energy from farms, forests, and ranches has the potential create 4.7 million new jobs and generate \$646 billion in new economic activity by 2025.
- *Strengthen our national security* – Energy Title programs support home-grown energy, reducing our reliance on energy sources from abroad.
- *Diversify our rural economy* – These programs provide agriculture with new and different sources of income for agricultural communities that provide returns for decades.
- *Unlock hundreds of millions of dollars in private investment* – Many of these programs match private investment, often less than dollar for dollar.
- *Create new, self-sustaining industries* - Unlike other programs, strong investment in the Energy Title will enable the young industries they support to eventually stand on their own.
- *Positively impact every state* – Energy Title programs have awarded funding for every state across the nation.
- *Improve our environment* – Programs supporting the development and deployment of renewable energy improve the quality of our air, water, and habitat.
- *Present a low-cost, high yield investment* – Despite all of benefits mentioned above, the Energy Title accounts for less than one percent of the total Farm Bill, making it a bargain.

**In the coming months, as you work to develop the new Farm Bill, I hope you will continue to support the core Energy Title programs in a way that demonstrates an honest commitment by Congress to achieving these crucial goals.**

**Why is a strong Energy Title for the new Farm Bill so important?**

- Maintaining agricultural productivity in America is indispensable to our economic security. Reducing operating costs through energy efficiency and renewable energy measures increase net income so critical to maintaining productivity.
- Abundant, affordable, clean energy and a healthy economy that can once again create new jobs are also essential national priorities.
- Advancing renewable fuels and energy efficiency can help farmers, foresters and others in rural America make a sizeable contribution to the nation's energy and economic security.
- America's agricultural producers want and need energy programs that create new markets for their products and new jobs.
- Commercializing innovative technologies cannot always be left to market forces. Supportive federal policies are needed to accelerate job creation.
- REAP projects now underway in every state are creating thousands of jobs across rural America, while contributing to U.S. energy security and improved environmental quality.
- Farm energy programs, such as those authorized in the Energy Title of the Farm Bill, help farmers put Renewable Energy and Energy Efficiency technologies into place. Renewable Energy technologies can be a critical tool in turning liabilities, like animal waste use and disposal, into high-value assets.

**I want to again thank the Committee for their time and consideration of my remarks in testimony and of this expanded document.**

Bennie Hutchins, Energy Program Coordinator, Ag Energy Resources LLC, PO Box 3670, Brookhaven MS 39603, phone 601-748-2622, email bhutchins@wildblue.net.



WRITTEN STATEMENT FOR THE RECORD

**Mathias J. McCauley,**  
**Director of Regional Planning & Community Development**  
**Northwest Michigan Council of Governments**

*In partnership with the*  
**National Association of Development Organizations (NADO)**  
**and the National Association of Counties (NACo)**

*Before the*  
**U.S. Senate Committee on Agriculture, Nutrition, and Forestry**  
**2012 Farm Bill Hearing: Energy and Economic Growth for Rural America**

**Washington, D.C.**  
**February 15, 2012**

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**Thank you, Chairman Stabenow, Ranking Member Roberts and members of the committee, for the opportunity to testify today on the 2012 Farm Bill's Rural Development Title and the important role it plays in helping regional and local organizations provide financial and technical assistance to rural communities, entrepreneurs and businesses.**

My name is Mathias McCauley. I serve as the Director of Regional Planning and Community Development for the Northwest Michigan Council of Governments (NWMCOG), a multi-disciplinary regional planning and workforce development organization serving the ten-county region of northwest lower Michigan (including Antrim, Benzie, Charlevoix, Emmet, Grand Traverse, Kalkaska, Leelanau, Manistee, Missaukee, and Wexford Counties). I am pleased to also be representing the National Association of Counties (NACo) and the National Association of Development Organizations (NADO) with my testimony this morning.

The NWMCOG's mission is to build stronger communities and improve the quality of life in northwest lower Michigan. We provide a variety of programs and services within our region,



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with particular emphasis on partnerships, economy of scale, and leveraging of resources to address common concerns among multiple members and across sectors.

In this capacity, our organization serves as the Economic Development District (EDD) designated by the U.S. Economic Development Administration (EDA), regional planning partner to the Michigan Department of Transportation (MDOT), regional administrator of the Small Business Development Center Program (SBDC), regional administrator of the Procurement Technical Assistance Center (PTAC) of Northwest Michigan, and the business-led workforce investment board (WIB) for our region. I also serve as a Board Member to the Michigan Association of Regions (MAR) and the Michigan Economic Development Corporation's (MEDC) Community Development Council.

Before I begin, let me first thank the committee in advance for your leadership and support of the rural development mission area as part of the 2012 Farm Bill reauthorization process. The broad portfolio of USDA Rural Development programs for business development, infrastructure, value-added agriculture production and marketing, regional strategic planning and broadband deployment are essential to the long-term economic competitiveness of our nations' rural communities. We firmly believe America's rural regions are essential to the overall economic health of the nation. As such, your continued commitment and focus on the success of small town and rural America will further strengthen our shared goals of promoting economic prosperity and opportunity across the entire nation.

**Madam Chairman and members of the committee, I will focus my remarks today on three key areas related to USDA Rural Development and the future of our rural counties and regions:**

- 1. The mission area of USDA Rural Development is a critical piece to the overall competitiveness of rural regions as we work to foster job growth, regional innovation, and economic prosperity.** This includes basic yet essential investments for infrastructure and utilities, housing and community facilities, and access to capital and entrepreneurial development. In today's era of intense budget pressures and growing local needs, it is important that we make more strategic investments that strengthen regional and local competitive advantages and coordinate our public sector resources.
- 2. With rural regions facing increasingly global competition and opportunities, we need to ensure USDA Rural Development has the tools, resources and flexibility to assist rural communities and regions with cutting-edge, asset-based regional innovation strategies and investments.** To be successful in the modern economy, rural entrepreneurs and communities must be connected to global and domestic markets—digitally, institutionally, and physically. This will take a new level of sophistication and capacity within our rural regions and at USDA Rural Development. It will also mean improving federal interagency collaboration, fostering stronger public-private-nonprofit partnerships, and leveraging

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existing strategy processes, such as the U.S. Economic Development Administration's Comprehensive Economic Development Strategy (CEDS) framework.

3. **USDA Rural Development applications, policies, and reporting requirements should be streamlined and broadened to reflect the scale of rural investments, emerging needs and opportunities of rural regions, and capacity of local organizations. While retaining necessary financial and performance accountability standards, Congress should ensure USDA Rural Development has a modern set of policies, programs, and incentives to help all rural communities pursue community and economic development growth.**

First, Madam Chairman, the mission area of **USDA Rural Development** is a critical piece to the overall competitiveness of rural regions as we work to foster job growth, regional innovation, and economic prosperity. With USDA's assistance over the decades, rural communities across the nation are now in a better position to pursue regional asset-based and innovation-focused development strategies that are resulting in new job and local wealth retention opportunities.

However, continued gains are increasingly at-risk due to Rural Development funding cuts in recent years. In the final FY2012 USDA appropriations bill, the Budget Authority for the USDA Rural Development mission area was cut by nearly \$200 million, including reductions of \$45.76 million in the Rural Utilities Service, \$133.72 million in the Rural Housing Service and \$18.59 million in the Rural Business-Cooperative Service. Over the past two years, water and waste water grants have been cut \$41.61 million, community facility grants are down 44 percent and support for rural microenterprise lending and technical assistance was eliminated this fiscal year (including for previously appropriated program support for intermediary lenders and technical assistance providers.)

While some of these cuts have been masked by increases in USDA's direct loan and loan guarantee program levels (especially due to the historically low subsidy level for the community facilities program), the reality remains that the most distressed rural communities will increasingly struggle to make the improvements necessary to remain economically viable. In addition, the areas hit hardest by recent budget cuts include the agency's smaller, more flexible business and community assistance programs, such as Rural Business Enterprise Grants (RBE), Rural Business Opportunity Grants (RBOG), and the Rural Community Development Initiative (RCDI), as well as the Intermediary Relending Program (IRP). Combined, these three community and economic development programs have been cut \$17.27 million, or 36 percent, over the past two years. The program level for IRP, an important access to capital resource for rural businesses and entrepreneurs, is down 47 percent over the same period.

While we understand this committee is not directly responsible for the annual appropriations for USDA Rural Development, the committee can strengthen the agency's position by, at a minimum, maintaining the \$150 million mandatory funding level of the 2008 Farm Bill and by

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updating the agency's policies and program structure. Additional funding for Rural Development's programs would certainly lead to job creation in rural counties. Therefore, it is essential that we maintain mandatory funding, look to improve existing programs, and ensure program investments are tied to regional and local strategies.

During challenging fiscal times, it is often easy to get caught up in the numbers and forget the real impact federal programs like USDA Rural Development have on the communities and people across America. In northwest lower Michigan, our organization is using a USDA Rural Business Enterprise Grant (RBE) to work with many area farmers, businesses, local governments, and citizens to leverage our regional and local assets for economic growth and improved community health. We are developing the data, facilities, technical expertise, and partnerships necessary to develop feasible and competitive regional food innovation hubs. This includes establishing food innovation districts, improving regional branding initiatives, and increasing the integration of these efforts with growing opportunities with agri-tourism and culinary-tourism.

The USDA's Business and Industry Guaranteed Loan Program is also very important to supporting small businesses in rural regions. In the last two fiscal years, this program has guaranteed loans in excess of \$27 million within our region, helping create 165 jobs and saved another 441. These include "head-of-household" type jobs at lumber mills, high-tech manufacturing facilities, and food processors. Northwest lower Michigan is competing globally and strengthening communities because of these jobs. Additionally, the Rural Energy for America Program (REAP) has provided northwest lower Michigan with the resources to explore and implement renewable energy and energy efficiency projects. REAP has supported wind turbines, insulation improvements, and solar feasibility studies for small businesses throughout our region, with a total investment of approximately \$230,000.

Second, Madam Chairman, it is a simple fact that our nation's rural communities are facing enormous pressure from our global competitors. At the same time, our rural regions have the assets and drive to compete and take advantage of new opportunities and innovations. Therefore, it is imperative that USDA Rural Development has the tools, resources, and flexibility to assist rural communities and regions with cutting-edge, asset-based regional innovation strategies and investments. To be successful in the modern economy, rural entrepreneurs and communities must be connected to global and domestic markets—digitally, institutionally, and physically. This will take a new level of sophistication and capacity within our rural regions and at USDA Rural Development. It will also mean improving federal interagency collaboration, fostering stronger public-private-nonprofit partnerships, and leveraging existing planning frameworks, such as the U.S. Economic Development Administration's Comprehensive Economic Development Strategy (CEDS) process.

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In January 2012, General Electric's (GE) "Global Innovation Barometer" examined the state of business innovation in a volatile global economy. This global study of business executives confirmed the belief that innovation is the main driver of prosperity, competitiveness, and job creation today. The survey of nearly 3,000 senior business executives in 22 countries also indicated that "innovation and competitiveness are more connected than ever before." As a result, there is a growing necessity for increased collaboration between partners (and sometimes competitors), greater value being placed on the creative power and contributions of smaller organizations and individuals, and the importance of tailoring solutions to meet local needs.

While the *GE Global Innovation Barometer* and similar studies by the McKinsey Global Institute and others are often focused on corporations, many of these findings and observations are transferable to our rural regions and communities. Just like any business, communities must constantly reevaluate and sharpen their community and economic development strategies, including their competitive advantages, to stay at the forefront. Otherwise, they will be left behind in today's ultra-competitive economic climate.

One of the many specific ways the NWMCOG supports regional development is through our long partnership with the U.S. Economic Development Administration (EDA). The EDA, through its national network of 380 economic development districts, provides vital seed capital and matching funds for local communities to craft and implement regional economic development strategies. As such, the vast majority of rural America is supported by a Comprehensive Economic Development Strategy (CEDS).

The CEDS is an invaluable framework for identifying the economic conditions, shared development goals, and the regionally impactful investments that will enhance the competitiveness of rural America. Because they are regionally based, locally owned strategies, the CEDS would provide USDA with an established system to help make more strategic investments. In addition, USDA should be given additional resources and authority to assist rural counties and regions with more robust support for developing and implementing in-depth rural asset mapping, key industry analysis, and regional innovation readiness assessments that build upon the groundwork of the CEDS process and document.

In northwest lower Michigan, we have been embarking on a regional project that demonstrates the importance and power of connecting often disparate issue areas for the purposes of regional development. After years of public participation (direct involvement of more than 12,000 people, or 8.5 percent of the total regional population) and relationship building across a spectrum of often divergent stakeholders, *The Grand Vision* is beginning to be realized throughout a six-county region representing over 100 local units of government. Governmental bodies are collaborating, business leaders are endorsing a focused vision for the future, community members are engaged, and projects are being conceptualized and implemented

within regional networks that include *Food & Farming, Energy, Growth & Investment, Affordable Housing, Natural Resources* and *Transportation*.

*The Grand Vision* is succeeding by demonstrating the importance of regions working with existing assets as a means to focus efforts towards programs and projects that create conditions for job growth and ensure a high quality of life for all. National organizations such as NADO have recognized our unique approach as a national model. However, it will require stronger leadership, technical assistance and capacity building, including the support of federal partners like USDA, to bring efforts like *The Grand Vision* to scale across small metropolitan and rural regions.

In this last year alone, *The Grand Vision* has inspired a variety of communities in the region to create planning processes and documents that integrate their assets into a singular plan for managing growth and creating prosperity for their residents. Villages such as East Lake, Elberta, Kalkaska, and Mesick are taking leadership roles in northwest lower Michigan as communities moving beyond traditional land use planning. Each of these communities now chooses to integrate land use, housing, energy, food and farming, economic development, and transportation into their policy making. Finally, *The Grand Vision* is demonstrating positive change in transportation projects in the region. It has inspired and provided support to a complete overhaul of the streetscape in the Village of Buckley, provided a much needed arterial connector in Traverse City, and has connected critically important commuter corridors in Garfield Township—all for the purposes of improving traffic flow, safety, aesthetics, and contribution to the region's economic development infrastructure.

Additionally, NWMCOG's "Economy, Environment, and Energy (3E)" Planning Initiative helped build local economic development capacity and implement the goals of the CEDS by convening a local sector-based strategic initiative related to renewable energy and water resources. It is intended that the *3E Initiative* will lead to action that will create jobs, educate our regional workforce, and cultivate business. The 3E business strategy now promotes renewable energies and water resources as significant economic development drivers for northwest lower Michigan.

A criticism of USDA Rural Development is that its investments are not always driven by local and regional priorities. Instead of rural communities and small businesses working regionally on common goals, they often are forced to fit their economic development initiatives into federal priorities and funding stovepipes. I would urge a greater recognition and support of existing regional development strategies, including the EDA CEDS and our region's Grand Vision and the 3E Initiative, which could assist Rural Development in making sound decisions regarding their investments.

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Federal programming should incentivize and support, not restrict or universally define, regional approaches that have demonstrated a path and culture of cooperation among citizenry, business leaders, governmental entities, nonprofits, and educational institutions. Our nation's villages, townships, and counties are working internally, and through multi-jurisdictional and multi-state partnerships on these regional approaches. Our national network of regional development organizations, such as the NWMCOG, are uniquely positioned to serve as neutral conveners, facilitators, and technical assistance providers to counties and communities looking to use their own asset base as means to compete in today's global marketplace.

Finally, Madam Chairman, USDA Rural Development applications, policies, and reporting requirements should be streamlined and broadened to reflect the scale of the rural investments, emerging needs and opportunities of rural regions, and capacity of local organizations. While retaining necessary financial and performance accountability standards, Congress should ensure USDA Rural Development has a modern set of policies, programs, and incentives to help all rural communities pursue community and economic development growth.

Northwest lower Michigan is much like other rural regions across America. Communities and small businesses in this region often lack the staff capacity to apply for USDA Rural Development's programs. Too often, I am made aware of a community's feelings of intimidation about federal programming. This is unfortunate yet fixable, since programs like USDA Rural Development were established specifically for the purpose of assisting rural communities, especially those with severe distress and poverty.

Every federal program should be adjusted to meet not only the needs, but the capacity of all rural communities and businesses. In order to maximize access to the services and programs that rural regions need to create conditions for job growth, Rural Development should strongly consider a process to identify the current concerns felt by their customers and enter into a program of continuous evaluation and improvement for the purposes of maximizing program impact. Rural Development should also strongly consider providing a linkage and support to localized entities, such as regional development organizations and counties, to provide technical assistance to rural communities and small businesses.

Lastly, all federal programs, including Rural Development, should strongly consider an integration of applications, policies, and reporting processes as a means to create a consistent message of service and accessibility to rural regions. Federal applications, policies, and reporting processes need to be streamlined in such a way that there is consistency in access and ease for everyone looking to improve the conditions of rural America.

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In closing, I urge your continued support of Rural Development programs and funding in the **2012 Farm Bill**, especially those built around regional, asset-based development strategies that create conditions for quality job growth. USDA Rural Development is an essential partner and funding source for rural people and places. It is also a vital tool for regional development organizations, such as the NWMCOG, and our local government and community partners as we strive to position our communities for the future. That is why NADO and NACo are joined by a broad base of 30 other national organizations in advocating for USDA Rural Development through the Campaign for a Renewed Rural Development. The campaign's joint principles mirror much of this testimony and demonstrate the wide support for USDA Rural Development and consensus on the critical policy changes needed in the upcoming reauthorization of the Farm Bill.

On behalf of our nation's counties, regional development organizations and the rural communities throughout northwest lower Michigan, I urge you to make Rural Development a top priority in the 2012 Farm Bill.

Thank you again, Madam Chairman, Ranking Member Roberts and members of the committee, for the opportunity to testify today. I would welcome any questions.



**Testimony to the  
Committee on Agriculture, Nutrition, and Forestry  
United States Senate**

**Dr. Florine Raitano  
Rural Community Assistance Corporation  
(the Western RCAP)**

**February 15, 2012**





Thank you, Chairman Stabenow, Ranking Member Roberts and members of the committee, for this opportunity to address the importance of USDA Rural Development (RD) programs to rural America. As a former small town mayor, I have experienced firsthand the vital role that these programs play in improving the quality of life in the rural communities that form the backbone of our heartland.

My name is Flo Raitano, and I am the former mayor of Dillon, Colorado, population 904. I am a member of the Board of Directors of the Rural Community Assistance Corporation (RCAC), based in California and serving the states of Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. RCAC is part of the national RCAP network, whose regional service providers help small, low-income, rural communities address water, wastewater, and other community development needs in all 50 states, Puerto Rico, and the Virgin Islands. I am the former Executive Director of the Colorado Rural Development Council and currently serve as the Chairman of the Board of Directors for the Colorado Association for Manufacturing and Technology, Colorado's Manufacturing Extension Partnership (MEP) Center.

RD programs are a key component of economic development in rural America. Without the basic infrastructure they provide—clean drinking water; sanitary sewers; high-speed, reliable broadband internet; public safety facilities and equipment; housing and access to local healthcare for workers; and more—industries will relocate or close factories and small businesses will decline and eventually disappear. The entrepreneurs and small business owners who are the engines of our economy won't open new shops or restaurants on Main Street and won't be able to set up websites to market their products to the world.

For example, in my hometown of Dillon, we needed to develop affordable housing for our tourism industry workers and their families. At the time, RD was known as Farmer's Home Administration. We were clueless about how to access those programs. Thankfully, Dillon was approached by a private developer who knew how to work within that framework and secured funds for a multi-family affordable housing project. 24 years later those homes are still serving a genuine need in our community. Without those funds, it would have been difficult to attract and retain the workers necessary to power one of the region's largest economic engines.

While Dillon may have had success in both being discovered by a private developer and in eventually obtaining funding for our project, many rural communities are not so fortunate. Without the help of technical assistance providers like the RCAP network, many small, low-income towns and counties have difficulty accessing RD programs. The application process and eligibility requirements for each program are slightly different, and each poses unique challenges. Local leaders are most often volunteers who lack professional staff and the resources to find out what funding sources are available or the requirements for funding eligibility. Their first look at the Letter of Conditions on an RD loan can seem overwhelming and discourage worthy applications. With a little help from an experienced hand, however, even communities with no staff and limited planning resources can develop the local leadership capacity to manage needed infrastructure projects.

For example, Silver Plume, Colorado, small town with a population of 203, just 20 miles from Dillon, once had its water system knocked out by a rock slide. The town had little local capacity to handle the crisis; its staff consisted of just one part-time town clerk. RCAC, the western RCAP, intervened and was able to pull together resources from the State of Colorado and RD to respond to the critical situation within a week. After replacing the old, damaged water

system, the community now has a modern system that can deliver clean, safe drinking water to its residents.

For the past 38 years, the RCAP network, including RCAC, has partnered with RD to bridge the gap between RD and the communities they serve. RCAP assists not only with funding applications and every phase of the project development process, but also provides training and technical assistance after construction is complete, helping communities understand how to properly manage and operate their system in a fiscally sustainable manner. We work to ensure that RD borrowers are able to meet the terms of their Letters of Condition and that they are able to repay their loans on time.

With the help of technical assistance providers like RCAP, the Water and Environmental Programs at Rural Utilities Service (RUS) have enjoyed tremendous success: over 18,000 active loans; more than 19 million rural residents served; and a delinquency rate of just 0.18%.<sup>1</sup> In fact, the Technical Assistance and Training Grant Program has been so successful that many state RD offices and local community officials have asked the RCAP network to assist with other, non-water-related RD-funded projects. While we try to work with as many communities as we can by relying on non-federal resources, Congress can help by authorizing changes to existing programs, like Rural Housing Service's Essential Community Facilities Program, to allow for set-asides to fund technical assistance. This will make Rural Development more efficient and effective, while allowing technical assistance providers to stretch taxpayer resources by leveraging small federal investments to attract additional capital that will go directly to rural communities.

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<sup>1</sup> United States. Dept. of Agriculture. Rural Development. *Water and Environmental Programs Annual Activity Report, Fiscal Year 2011*. Washington, DC: USDA, 2012.

As the success of the water and wastewater programs has shown, technical assistance benefits both rural communities and the agency by improving access to the programs and ensuring a positive return on federal investments. By expanding technical assistance to other programs at RD, you can make taxpayer dollars go further while still providing necessary services to rural communities. In addition, a broader technical assistance program would help ensure a more coordinated approach to economic development in rural communities. Experienced planners who are familiar with the application processes for federal and state programs could help communities better coordinate the timing of their development projects. This would help prevent communities from tearing up Main Street one year to replace sewer pipes, then tearing it up again the following year to install fiber optic cables, simply because that's when the funding was available. A comprehensive federal approach to technical assistance would allow local leaders to better plan and coordinate their construction activities and eliminate such inefficiencies.

Another way Congress can improve existing RD programs is to encourage applicants to look for opportunities to regionalize. In the water/sewer context, many clusters of small towns can better and more affordably be served by having one large treatment plant with pipes running to each town than by having a separate treatment facility in each town. For example, in New Mexico, the Lower Rio Grande Mutual Domestic Water Company is now providing service to five small colonias near the Mexico border. Two of the communities, including Desert Sands, had high arsenic, and one had a limited supply of water. In 2008, EPA notified Desert Sands that it was out of compliance with the maximum contamination level for arsenic. The community put together a plan to address the compliance issue, but the annual cost of \$120,000 was prohibitively expensive for the mostly low-income town of only 580 households.

RCAC assisted Desert Sands and four nearby water systems to form the Lower Rio Grande Mutual Domestic Water Company, which allowed the communities to look at regional solutions to address their issues and challenges. The regionalization of the system allows the costs of improvement to be shared by residents of all five colonias, giving them greater efficiencies of scale, and making clean water more affordable. As a result of funding from RD and the state of New Mexico, the five communities addressed their pressing concerns and to this day remain interconnected and working as one to ensure that all residents have safe drinking water.

In order to maximize limited resources, communities need to realistically examine whether operating their own facilities is cost effective. Of course, regionalization may not be feasible in all cases, especially in western states, where towns may be miles and miles apart. Regionalization is not just the interconnection of systems, it is also shared management or shared maintenance staff, and these strategies can work in large geographic areas. By giving priority to projects in which the applicants can demonstrate that they have weighed the costs and benefits of regionalization, RD can encourage regional projects where appropriate without disqualifying communities that are geographically isolated.

Finally, though there are many proposals floating around to standardize the definition of “rural” in all of RD’s programs, and it is tempting to think that a single definition of rural would be beneficial, it makes sense to target some resources differently. Though the definition of “rural” may change, certain programs should remain targeted to smaller communities. If the definition is expanded to, say, 50,000 and under, my hometown of Dillon, with only 904 residents would never rise to the competitive level if we were forced to compete for funds for our water and sewer infrastructure with much larger towns that have departments full of full-time

staff and grant writers. At the same time, the housing advocates RCAC partners with are very concerned about the number of rural communities that may no longer be eligible for the rural housing programs because they are located in metropolitan counties. There is no easy solution to the definition problem, but the fact that one of the richest agricultural areas in the country, the San Joaquin Valley of California, is classified entirely as “metropolitan” testifies to the complexity of the problem.

Solving the challenges facing rural communities requires a multi-pronged approach that includes adequate funding, along with steps to ensure that grant funding is available to all communities that truly need it, and a comprehensive approach to technical assistance to maximize the efficiency and effectiveness of RD’s programs. It also includes an emphasis on regional economic development and cost-effective investments in infrastructure that provide maximum return on scarce federal, state, and local resources. Non-Farm Bill programs, like rural housing loans and rental assistance, must be integrated into the solution as well, but the Farm Bill reauthorization is an opportunity to replicate the success of the water/wastewater technical assistance program and modify existing programs to encourage a regional approach to rural development.

Thank you for considering my testimony on the importance of Rural Development as you prepare for your Farm Bill deliberations. I welcome any questions you may have at this time.



**SUBMITTED TESTIMONY OF  
MARK REMBERT  
CO-DIRECTOR OF ENERGIZE CLINTON COUNTY  
WILMINGTON, OHIO**

**SENATE COMMITTEE OF AGRICULTURE, NUTRITION, AND FORESTRY  
HEARING ON ENERGY AND ECONOMIC GROWTH FOR RURAL AMERICA  
FEBRUARY 15, 2012  
DIRKSEN SENATE OFFICE BUILDING**

Chairwoman Stabenow, Ranking Member Roberts, Ohio Senator Brown, and Members of the Committee, thank you for the opportunity to the story of Energize Clinton County and our experiences rebuilding our community and region following the departure of our largest employer.

First allow me to provide a brief background. I grew up in Wilmington, OH, a rural community of 12,000 in southwestern Ohio. Like most young people who grow up in small towns, I left home after graduating from high school and attended college in Philadelphia to where I studied economics. Like most of my generation, I had no plans to return home.

The world changed for me—as it did for so many—in 2008. I had decided to put my training in economic development to work and the Peace Corps. As I was preparing for my departure, news from home reached me in Philadelphia. DHL, the region's largest single source of employment, was ending its operations at the Wilmington Air Park. Realizing that the community where I grew up would be changed forever by this crisis, I decided to return home for the final months before my departure to the Peace Corps to reconnect with the community. Not long after my arrival in Wilmington, I was joined by Taylor Stuckert—another Wilmington native—who had been prematurely evacuated from his Peace Corps assignment in Bolivia in the fall of 2008.

As we witnessed the economic equivalent of a hurricane hitting our hometown, we talked to people throughout the community and quickly recognized a new energy brewing. There was a desire to push for increased involvement and ownership in the redevelopment of our devastated local economy. Something clicked and we realized that we could best serve our country by working in our own community, rather than by working overseas. We decided to stay home and contribute to the redevelopment of our region.

As Taylor and I set out on our economic development project, our perspective was heavily influenced by the Peace Corps model, which approaches development at the community level and emphasizes the importance of grassroots analysis and action. We believed that a Peace Corps approach in our community could generate solutions that were more immediate, actionable, and sustainable than traditional solutions and would complement



ongoing efforts by community leaders to acquire the DHL-owned airpark and leverage it as an asset to attract new employers.

In fall of 2008, Taylor and I founded Energize Clinton County (ECC), a non-profit community economic development organization. We quickly built a strong partnership with Chris Schock and the Clinton County Regional Planning Commission (CCRPC) and began developing programs that invested in our local assets and transformed citizens into agents of economic change. Together—along with an array of other community partners—ECC and the CCRPC have:

- Collaborated with citizens and local officials to establish the City of Wilmington as the country's first Green Enterprise Zone and assisted the city in developing a \$350,000 solar field at a city owned industrial site. Last year Clinton County joined the City of Wilmington in adopted green development legislation, becoming one of the first counties in Ohio to adopt legislation that allows for the creation of Alternative Energy Zones.
- Partnered with Dr. Kevin Hallinan, director of the University of Dayton's Building Energy Center to provide free energy report cards to Clinton County residents through an innovative data-driven approach that the University is developing. With the report cards homeowners are able to identify potential savings through energy efficiency. To date, ECC and the University of Dayton have provided assessments to more than 100 homes and 50 businesses. Following these assessments, 20 businesses received in-depth audits performed by a team of UD faculty and students. UD estimates that there is more than \$1 million in annual savings to be achieved by assisting 1,000 Clinton County homeowners to improve their efficiency to be on-par with the efficiency of the average home in the community.
- Established the Buy Local First Clinton County campaign to assist small businesses and entrepreneurs. The campaign now has nearly 250 participating businesses and 3,000 actively engaged consumers. The BLF campaign has been able to demonstrate the value and importance of a diverse and vibrant local economy to our community and has successfully shifted local consumer preferences towards locally owned businesses. In its most recent holiday promotion, the campaign accounted for \$158,525 during a three week period, equivalent to \$266,322 in local economic activity, a 25% growth over the previous year.
- Developed the Clinton Community Fellows program to provide professional experiences to the best and brightest from Clinton County. The CCF program provides stipends to college students and/or recent grads that are from Clinton County. The program coordinates a partnership with the Fellows and area local businesses and non-profits which have identified ways that the Fellows can help their organizations. The Fellows have provided over 3,200 hours of service to area

businesses and non-profits working on projects ranging from architectural designs to marketing research to social media education.

Now we are working regionally with the six other rural counties in our region most impacted by the departure of DHL. Last fall—with assistance from Ohio USDA state director Tony Logan—ECC received a \$48,000 USDA Rural Business Opportunity Grant (RBOG) to fund a technical training initiative aimed at transferring strategies and techniques developed for supporting local businesses. These strategies make use of existing and emerging technologies, as well as traditional community organizing techniques to help create an environment in which locally owned businesses can thrive. This grant has given us the ability and the opportunity to build new partnerships and relationships with community economic development leaders in our region and coordinate strategies that strengthen local assets and invest in our shared future.

Whether it is expressed through green development, farmers' markets, buy-local campaigns, or efforts to develop sustainably, we've discovered an underlying desire in ourselves, and our community for ownership: ownership of our economy, ownership of our environment, and ownership of generations of culture and tradition. I cannot overstate, however, that this ownership comes with a great responsibility. It requires people to recognize that the preservation of place and community demands activate and committed participation in shaping the future.

If our community, and others like it, are to survive, it is critical that we establish a new vision for the place of rural communities in the world. A vision rooted in local ownership, resilience, and a commitment to place. The economic and social challenges of rural and small town America are often documented, and these challenges were further exacerbated locally in rural southern Ohio with the closing of the DHL Air Park in Wilmington, Ohio in 2008. The Wilmington Air Park facility had been the largest employers in seven southwest Ohio counties and the largest employer in the rural counties—where job opportunities had become scarce. Recovery was especially challenging because many of the small towns in the region lost young professionals, much of their skilled workforce, local stores and the diversity of local employment during the latter half of the 20th century. During this time, many small towns lost their identity and an understanding of their role in the broader region and global system. Many rural communities that have lost their sense of place have either been swallowed by the suburban sprawl of the metropolitan areas or experienced decades of decaying Main Streets and community life.

Today, communities like Wilmington stand at a crossroads; quickly develop a vision for themselves in the 21<sup>st</sup> century to inspire current and future generations of rural citizens to reinvest and rebuild their communities, or continue to suffer decline and decay. In our region we've come to see that for us the model need not be filled with prescribed programs and initiatives (as has so often been the case in the past), and instead should focus on building the capacity of communities to innovate and develop locally grown solutions to fulfill a long term vision.

To develop a new sense of place and ownership, communities must have a clear understanding of their resources, how local resources and opportunities fit into the broader regional, state, national, and global contexts, and agreed upon strategies for building on existing resources to accomplish achievable development goals. It is our belief that economic development planning, community development planning, and long-term visioning are essential component of a successful economic development strategy.

Without a long term vision and strategy, communities are at high risk of continued decline because they are likely to make poor decisions about how to use resources and likely to miss potential opportunities due to inaction. Without a plan and clear sense of direction, citizens are less likely to invest in necessary changes because they have large up-front costs, public officials are more likely to make reactionary rather than strategic decisions, and there are fewer mechanisms for a community to hold itself accountable.

In recent years, there has been a surge in the attention to the need and importance of developing broad, regional plans especially in rural parts of the country. Undoubtedly, this reflects the growing recognition of the interconnectedness of rural communities, irrespective of county lines, to one another and to neighboring urban centers. We have experienced this reality ourselves, as seven other counties were severely impacted by the loss of DHL in our community. We have a shared past and a shared future with these countise, and there is no doubt that regional solutions are critical. However, we have found that the process of re-envisioning rural communities must begin at the most local level possible—the township, the village, the city—before expanding to the county or multi-county scale.

We've found the need to localize the planning process to be critical for two reasons.

First, in the processes that we have observed, we have found that the planning process can have value in and of itself. Genuinely engaging citizens in asking questions about their shared future and exploring the realities of their economic and infrastructure situation gives them a stake in the future. A planning process built around creating a sense of ownership, individual responsibility, and commitment to place are critical to insuring that the process has a lasting impact. Such a process can only be achieved at the most local level.

Second, planning should begin as the smallest level possible to ensure that regional plans reflect the diversity of rural regions, even between neighboring counties. What we typically refer to as a region is less a unified concept, and more a network of unique, interconnected community nodes. Regions are strong when each node has both a strong sense of their identity as well as a commitment to the broader region. Therefore, we recommend that a program focused on rural planning take a ground up approach that allows for the development community level plans that can feed into larger regional plans that explore the interconnections between the diverse nodes.

Unfortunately, many rural communities lack the resources or the capacity needed to do the planning required to move beyond a purely reactive economic development approach. We

encourage Rural Development to explore new ways to assist communities and rural regions in planning. These planning processes need not focus on bold changes that would be too difficult and expensive to implement. Instead, they should be focused on helping communities and regions set achievable goals for themselves based on local needs and local resources.

We are confident that transformation can be accomplished with limited resource allocation. For the record and the Committee's review, I have included a case study of a plan planning process completed for Lynchburg, Ohio—a village of 1,300—by the Clinton County Regional Planning Commission and a student planner from the University of Cincinnati immersed in the community for a ten week period. This plan is an excellent example of a low-cost strategy for community planning with demonstrated results of increasing ownership, including: catalyzing investment in the community's parks and natural resources, reviving a festival that benefits local businesses and non-profits, coordinating community volunteer projects, and inspiring citizens to become engaged in public service.

Expanding the involvement of institutions of higher education in rural development is critical to providing critical resources to rural communities that build capacity and great self-reliance. We have received positive responses from institutions of high education—even beyond our land grant college—interested in involving their faculty and students in the process of rural planning and development. We believe that USDA can play a critical role in bringing partnerships together of universities and rural communities to complete community and regional planning.

My thanks to you, Chairwoman Stabenow, Ranking Member Roberts, Senator Brown, and to the Committee for considering my testimony, and for your focus on meeting the needs of America's rural communities and citizens.

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## **A Village Plan for Lynchburg, Ohio**

This key loss of identity—the product of lost storefronts, local jobs and local talent—is characteristic of small towns which have little capacity to execute a planning process that addresses the economic development, community development and the vision for the community. The Clinton County Regional Planning Commission (CCRPC)—recognizing these challenges at the village level—adapted from the traditional focus of broad county comprehensive plans to working with specific villages who wanted to proactively address these issues. The Village of Lynchburg, Ohio was the first in this effort. The village of 1,300—like most small villages—had never had a plan and incoming Mayor Jeremy Shaffer recognized that the plan process would be key to developing long term strategies.

Understanding that a village needing its first ever plan would need extensive outreach, and public participation, the CCRPC devised a strategy of “immersion planning.” The CCRPC reached out to the University of Cincinnati’s School of Planning—which has long history as the pioneer of cooperative education—communities and hired a student team for the challenge and the opportunity of being immersed in Lynchburg, living and working with the Village to develop practical strategies.

David Alpern, an undergraduate in the School of Planning from Ann Arbor, MI accepted the immersion assignment and spent 10 weeks in the small village. Living in the village without a car, David spent much of his time getting to know local businesses and stakeholders and working with CCRPC staff in developing a first ever plan for the Village. The plan process was sensitive about proposing ideas which would be too difficult to implement anyway, but rather the goal of plan was one of self-awareness—the process of finding and reinforcing the identity of the place.

The planning process was considered a success, but its impact was most clearly demonstrated by through village politics. In the following village council election, three local women—who had gotten involved in the plan process but had never served in elected office—ran for village council on a platform of implementing the recommendations in the plan. The community rallied behind their vision, and all three women won. Energized to implement some of the plan recommendations and carry the plan forward, they got to work on the plan’s main recommendations including downtown cleanups and the development of a neighborhood park area for which they won a grant for the improvements. But just as the loss of identity was a gradual process in small towns, the planning process is just the start for the Village of Lynchburg. The plan highlighted various physical improvements, infrastructure needs, future land use and other recommendations and efforts which will take time and additional resources to implement.

The reality of globalization has changed small towns and the plan attempted a pragmatic center between waxing nostalgia and grandiose futures. Of course, the long term success of the plan is dependent on leadership and implementation. The CCRPC has continued to acknowledge that strategic plans are but a first step in building more self-reliant and more aware communities, the CCRPC continues with programs which proactively address the elements highlighted during the planning process.

[Please find excerpts from the plan attached]



## Introduction

Lynchburg, Ohio was described as a quiet place where nothing ever happens by all of the people I met immediately after moving into town. That was all anyone would say after telling them that I have been living in Cincinnati, which by comparison might as well be New York City. For the most part, it was a quiet little town of just under 1,500 people. The grander entertainment opportunities that I had been accustomed to my entire life were no where to be found. But the air was clean and I could hear birds chirping at all hours of the day. And as if those simple pleasures weren't enough to instill a new found respect for small town America, the characters of Appalachia that I met behind every door and across each service counter were some of the most genuine people that I have met in my travels across the country.

Monday, January 19th marked the beginning of my time in Lynchburg and immediately, though it was a cloudy, breezy day, I was instantly met with smiles and welcomed to the town. As the mayor showed me down the street to the place that I would call home for the next 2 months, I realized that my commute to work was going to be a ONE minute walk. As we climbed the rusty staircase that rose from the back alley to the doorway that symbolically marked the passage way between my private life and personal experience thus far in life and the drastically different world that I was now officially immersed into, I caught my first glimpse of Lynchburg's setting. The landing at the top of stairs was on the west side of the building, only two blocks from the western edge of town. The view overlooked a small but locally important river valley. Beyond fields dominated the westward expanse until the treeline; that scene has become my new visual definition of Ohio.

Once I stepped inside, I found the Mayor's mother and the police chief's daughter readying my new abode. The Mayor then helped me bring in my things, including the mattress. In a small town, even those at the top of the social ladder will provide the most basic helping hand. Perhaps my viewpoint is a bit skewed as I wasn't in town long enough to experience the downsides of living in a place where the trees, walls and of course the neighbors talk, but at one point over lunch a few weeks later, the Mayor suggested that I appreciate small town community more than the people who have lived it their whole lives.

That theme has dominated my understanding of the planning field; we don't know what we have until it's gone and often we take the simplest things, the most important things in life, for granted. It was from this perspective that I began to develop the concepts behind what would become the plan. In short, the approach was to protect and enhance the positive attributes of the Lynchburg lifestyle, its natural environment and its identity.

By the end of the initial physical analysis of Lynchburg, it had become rather apparent that the town had good bones, but the flesh had fallen away. The overall layout of the old section of town was not only intact but incorporated alleyways into the circulation system. In a conversation with the Mayor one afternoon, I had mentioned to him that a current trend in the field of urban design has been to go back towards the "old urban fabric" - the basic framework that the New Urbanists have been pushing as a development doctrine. The Mayor nodded with understanding.

It was this understanding that was a critical component of formulating this plan. The Village of Lynchburg, as had been made expressly clear in various conversations with the local townspeople, has had a poor history in regards to progress. But from our first telephone conversation, the Mayor conveyed to me that things were different under his administration. No longer

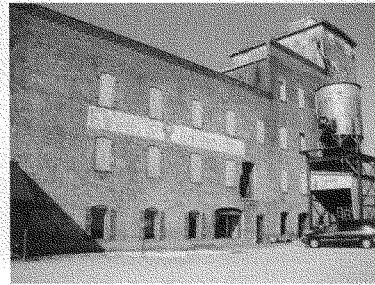
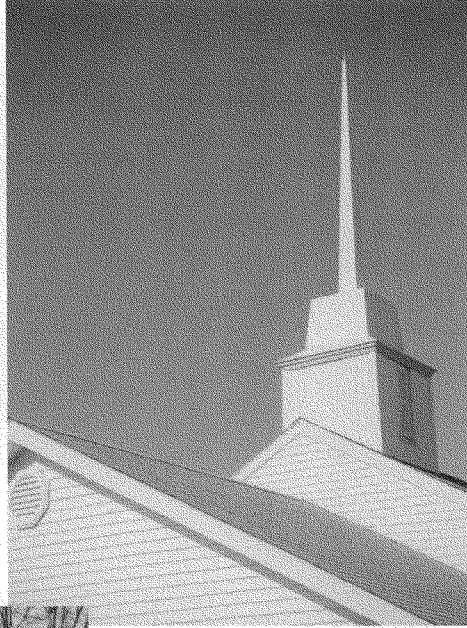
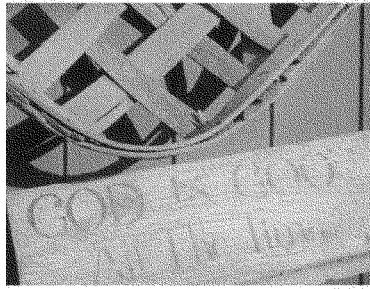
would opportunities for the village slip through the cracks. No longer would the future of the village happen haphazardly without any foresight or intervention.

Knowing that we could more or less throw the old books out the window and start anew in Lynchburg with a progressive outlook was the greatest gift a planner could ask for. From that perspective, the freedom to suggest more creative solutions was there. In my opinion the best solutions are the more creative and unique as they respond directly to the challenges and opportunities present in the localized situation.

Thus the plan is not necessarily a comprehensive plan but a hybrid plan that, while still looking at the larger picture, it incorporates some strategic planning influences to tackle specific issues such as economic development, hence the focus on Main Street and the park infrastructure. As these two physical aspects of Lynchburg can be easily influenced by the village itself, it made sense to emphasize their redevelopment. After all, it is those two pieces of the built environment that can be shared by everyone.

And finally, it was that idea of everyone that we really desired to see in the plan. Most of all we wanted to see the villagers in the process. On one of my first days in the office, I was surveying the Mayor's bookshelf and noticed *Bowling Alone* by Robert Putnam sitting there. I was in the process of reading that same book at the time and the Mayor and I often referred to it as the inspiration for exciting each of our own interests in civic engagement in every step of the planning process from thence forth. For too long the mentality of us and them dominated the mind set of the average citizen of Lynchburg. The construction of this plan proved to be one of the best opportunities in a long while that called on the citizenry to take hold of their own future.

After it has been said and done, I would really just like to thank everyone who pitched in along the way, whether it be a ride to grocery store in Hillsboro, as there was no full grocery in town and I did not have a car, or for the use of a washer and dryer on laundry day. Not only did I get to learn about a way of life that had been foreign to me until January of 2009, but there was an exchange involved for all of us and we were able to bridge one of the most forgotten cultural divides in our country: the gap between urban and rural.






 History
 

When developing goals, objectives and plans for the future, it is important to first understand the past. The precept is simple: you don't know where you're going unless you know where you've already been. More concretely, the current state of affairs is always a product of the past and key insights into what should be done to remedy the problems of the present are often found in the past. In the case of urban composition, both social and physical, this analysis is imperative.

So where does that story of Lynchburg, Ohio begin? According to Hugh Isma Troth, an amateur yet thorough local historian, the tale begins in Virginia. From there, the Byrd family claimed land in the Virginia Military District as payment received from the Commonwealth of Virginia for service during the American Revolution. This land was in what would become southern Ohio. The owning family had ties with Lynchburg, Virginia and the property in Ohio then inherited the name.

1806 marked the first year that Westerners settled permanently in the area. The names Van Meter and Miller came from Kentucky while the name Stroup came from Pennsylvania. These families located in Dodson Township in the area that would become Lynchburg. At some point two additional names that would contribute to the future of the area arrived; they were Smith and Botts. In 1830, the village was officially platted by the two latter arrivals and the recorded history of Lynchburg began.

The first plat of the town shows two streets, Main and High, being the first crossroads of the town. There were 12 lots, six on either side extending north along Main Street from the intersection. Additionally, the system of alleys originated at this time. Main and High Streets formed the nucleus from which the town grew. By 1833, the rail line that once ran through Lynchburg had been established and ran diagonally across Main Street to the south of Pearl Street. The grid pattern of streets and alleys was fully taking form by this time. By 1898 the village had stretched eastward to Park and Grand Avenues and South to Turtle Creek.

Growth did not return until 1940's and that was when the subdivision and in-fill period of development in Lynchburg began. The northeastern corner of town was developed at this time and, given the differences in lifestyle preferences between the two centuries, the individual parcels developed in a different manner from the original sections of town. The automotive paradigm had taken hold; driveways replaced alleyways and the lot sizes increased. Architectural differences emerged as well. The Glenavy subdivision was begun in the middle 1990's and typified the modern subdivision with curvilinear streets, large lawns and long driveways. It is important to note that this development is situated on the other side of Turtle Creek from the rest of town. This site is still in the process of being completed.

The railroad tracks that ran across the town were removed half-way through the last century. This act left a major axis perpendicular to the only other through right-of-way, that being Main Street, void of any development. Buildings were constructed in this space blocking the land from being used as a transportation corridor. There has been a mix of commercial and residential uses ever since.

But the economic history of Lynchburg is one of the most important pieces for discussion in this section of the plan. Given that the town was settled shortly after the turn of the 1800's and was located in land previously unsettled by Westerners, the initial residents were primarily subsistence farmers and much of the rest of the nearby areas functioned as agricultural land. Once a critical mass of production was reached, certain individuals could operate services for the community concentrated in the town.



1857 marked a distinct changing of the guard in Lynchburg. That year, the Freiburg and Workum whiskey distillery opened its doors and began employing people in the vicinity of Lynchburg. The distillery eventually became the largest employer in the town and fostered the existence of a manufacturing base in the town. This was a dynamic shift from an agrarian economic base as, in accordance with the history of industrialization in other areas of the county, the jobs paid in cash allowing the workers to partake in the larger economic world (i.e. the Sears and Roebuck Catalogue).

However, Prohibition was a death sentence for the distillery and its doors were closed just before the 1920's began. The loss of the largest employer in town, especially one that provided a trade surplus, was a major blow to the overall livelihood of Lynchburg. Sadly, many note this incident to be the beginning of the end for a vibrant local economy. Ever since, the shift to small scale production of goods and, more recently, the reliance upon the retail/service sector has increasingly forced residents to find employment outside of the incorporated area.

There have been two key actions made by the local government to first actively, and then passively reinforce this process with policy. In the 1970's the village government, primarily through the office of the mayor, set the village on a path to being a bedroom community instead of a relatively small employment center. This was done by denying industries from setting up their works in the village. This course of action was a direct choice made in light of the intended consequence.

Again in the 1990's the village government blocked an industrial use within the village limits. This time however, it was not for development reasons. An offer was made to rekindle the distillery as a production facility once again for the purpose of making whiskey. However, the reopening of the distillery doors was denied on the grounds that alcohol production was inappropriate for village values. This was an act that inadvertently withheld jobs from being located in the community.

The sum of these events has left Lynchburg with little means of local employment and lent the town to the mercy of the industrial cycles in Hillsboro and Wilmington. The critical mass of economic activity needed to keep the system moving has been dwindling for quite some time. However, it has not disappeared and it will be crucial for the vitality of the village to capitalize on suitable offers in the future.


 Context and Demographics
 

Lynchburg is located approximately 50 miles from Cincinnati, Dayton and the Ohio River. From this position the village enjoys reasonable access to a large network of jobs in the southern and central sections of the state. Additionally, the recreation opportunities that come with the aforementioned areas are nearby as well. While the village is not located immediately off of a US Interstate route, its proximity to various state routes and extremely short distance to US 50 keep Lynchburg connected to the overall network of key transportation corridors.

There are two major regional centers serving Lynchburg. Both Hillsboro and Wilmington provide most of the jobs and services demanded by the citizens of the village. Very often, as casual social surveying evidenced, individuals and households often enjoyed the services of the regional center in which employment was located. Cincinnati and Dayton fill the rest of the service gap when necessary and also provide job opportunities.



Demographically speaking Lynchburg has a very homogeneous population but has a diverse age distribution. Over half of the population is under the age of 44 with over 50 percent of that grouping over 18 years of age; there is a prime workforce contingent living in Lynchburg. Women hold a slight advantage over men in numbers.

Household makeup is primarily of the family variety. The majority of these households are traditional family units. However, a quarter of the population is counted as nonfamily households. Elderly people living independently also count for nearly a sixth of the total number of households.

Most people own their own home in Lynchburg leaving renters as the minority. The average size of these units, distinguished along the same lines is remarkably close. The most glaring difference between owners and renters, other than the ratio of the two, is that rental vacancies are higher than owner occupied housing.

Educationally speaking, most residents of Lynchburg completed high school or attained an equivalency or sorts. Just under 15 percent of the village residents have completed a higher education program including associates degree programs. While the school district is one of the best in the area, taking the next step seems to be an issue.

Due to recent events in the economic landscape, the data collected for measuring employment in the year 2000, is extremely obsolete. As a general point, interpretation of that data should factor in an extreme downturn in larger economy hitting the "Production, transportation, and material moving" sector of the economy very hard; this of course was the largest employment area at the time of information collection.

 Open House
 

On Saturday, January 31st, we conducted an open house during which the attendees were asked to participate in a survey. This arose from the need to engage the citizenry of Lynchburg in order for them to become more active in local government processes. Right from the beginning of the project, the Mayor's office had indicated that this was a top priority of the administration. For decades, participation and faith in local governance had been in a substantial decline. The comprehensive planning process provided one of the best opportunities to canvass the public and invite them back into the fold of what should ultimately be their government.

Even though the Village of Lynchburg had made attempts to draw the public inside the decision making process, efforts mustered little, if any, turnout. Thus, aided by the Planning Committee of Council, we hit the streets and spread the word about the event by going into businesses and politely asking to post an event flier while simultaneously informing the recipients on some of the critical details regarding the what was to take place.

As a result, we managed to attract a solid number of participants; most of whom had not been engaged in local government in quite some time, if ever. Eight of the fourteen participants had not been involved with the comprehensive plan previous to the open house. The remaining members were made up of a couple of council members, the Mayor and village employees. While they may have a slightly different background for answering the questions due to their employment status, we can consider their votes relevant nonetheless since they reside AND work in the village; this is to say that they more or less spend their entire lives interacting with Lynchburg. The gender distribution was fairly equal with six women and eight men. The age of the responders was slightly above the average age of all adults in the village.

As shown on the opposite page, there were eight boards placed on the walls and each participant was given a colored marker. They went around the room at their own leisure and were asked to prioritize each item in relation to the others on the sheet. There was little need for extra direction after this as the participants picked up the programming of the exercise in stride. If a question did arise, the designer of the survey was on hand at all times to provide any clarification.

The questions are all displayed at right so we will now summarize the results in the following narrative providing the mode value and then the average of the responses to each subheading in parentheses following the question:

When asked what is nice about Lynchburg, "Natural/rural setting" (Mode: 1; Average: 1.64) dominated the polling. Each of the other sub-questions fared relatively equally and do not need extra prioritization. The second board, which asked the converse of the previous board, the responders indicated that "Loss of community/culture" (1; 1.73) was the gravest problem facing the community. "Limited personal growth" (2; 2.67) and "Amenities" (3; 2.73) were next and were only statistically separated by the switching of one vote. "Size of the community" (5; 3.6) and "Slow-paced lifestyle" (5; 3.87) were not seen as problems facing the community.

Parks and Recreation headed the third board and saw "Type of facilities" (2; 1.93) rise to the top of the charts. "Availability/Accessibility" and "Features/Amenities" (both 2; 2.71) tied for second and had identical voting patterns. "Location" (3 and 4; 2.86) closely followed and "Number of facilities" (5; 4.07) was an outlier at the bottom of the list.

Housing issues were presented on the fourth board. "Maintenance and upkeep" (1; 1.73) was far and away cited as the biggest problem with the housing stock. "General quality," "Utility costs," "Affordability"

and "Size/space" all shared the same mode (3) but can be ranked in descending order by their respective averages (2.87, 3.0, 3.33, 3.67).

Fifth came transportation and the "Street lighting" (1; 1.14) was clearly the dominant issue on this sheet. "Parking" (2 and 3; 2.92) came next and was closely followed by "Circulation/flow" (3; 3.14). "Alternative Methods" (5; 3.64) had a greater mode value but a lesser average than "Traffic" (4; 4.07). The statistical inference that we can make here is that "Alternative Methods" was a higher priority to more people than "Traffic."

The sixth board, relating to economic development, was the first format variation of the boards. This one had only three subheadings to comparatively rank with an optional fourth. "Service Businesses" (1; 1.36) held a narrow priority margin over "Industry/manufacturing" (2; 1.64). "Agriculture" (3; 2.5) was a clear last. Only one "Other" optional response was submitted as a fourth priority: "Eco-friendly energy."

A main street wish list followed in the seventh spot. "Grocery" appeared 9 times out of the 14 responses. Three other responses can be considered as a component of a grocery (bakery, "Save-a-lot" and meat market + produce). The other two responses were still food related (sports grill and a place for women to gather over tea and pie).

The final board was labeled "Critical Issues" and was designed to be the integration of most the other boards. "Amenities/Services" (2; 1.87) and "Economic development" (1; 2.6) emerged as top priorities. "Appearance" (3; 2.8) followed next. "Housing" (4; 4.17), "Parks and Recreation" (4; 4.33) and "Transportation" (5; 4.47) were generally considered of less importance among the respondents.

As a brief summary, economic development, appearances and a better diversity of services are the biggest issues facing Lynchburg. The loss of community/culture came as no surprise given the attitude towards the Village of Lynchburg as noted in the period leading up to the event. This also can be understood to connect back to the identified physical problems in the village, specifically the appearance. Civic pride is certainly in need of bolstering.

1. What's Hot / Cool / Interesting?

- AMBIENT / NOISE / VIBRATION
- QUAL. OF LIFE / UTILITIES
- AFFORDABILITY
- THINGS FEEL RIGHT / FEEL
- SIZE OF THE COMMUNITY

2. What's Not So Hot?

- CHILD PERSONAL GROWTH
- SLOWING D. UTILITIES
- VIBRATIONS
- LOSS OF CHARACTER / CULTURE
- SIZE OF THE COMMUNITY

3. Parks and Recreation

- TYPE OF FACILITIES
- AVAILABILITY / ACCESSIBILITY
- LOCATION
- FACILITIES / AMENITIES
- NUMBER OF FACILITIES

4. Home

- AVAILABILITY
- QUALITY OF LIFE
- SIZE / STYLE
- AMENITIES / FEATURES
- UTILITY COSTS



5. Transportation

- TRAFFIC
- STREET DESIGN
- CIRCULATION / FLOW
- PARKING
- ALTERNATIVE METHODS (BICYCLE, VAN, ETC.)

6. Economic Development

- INDUSTRY / MANUFACTURING
- SMALL BUSINESSES
- RECREATION
- OFFICE / PROFESSIONAL

7. Historical / Architectural

- CHARACTER
- CULTURE
- QUALITY OF LIFE
- UTILITIES
- AVAILABILITY
- ACCESSIBILITY
- LOCATION
- FACILITIES / AMENITIES
- NUMBER OF FACILITIES

8. Other Issues

- VIBRATIONS / SERVICES
- VIEWS / NOISE
- ECONOMIC DEVELOPMENT
- HOUSING
- PARKS AND RECREATION
- TRANSPORTATION


 Future Land Use
 

As the previous pages presented the associable problems with landuse, these two pages propose remedies.

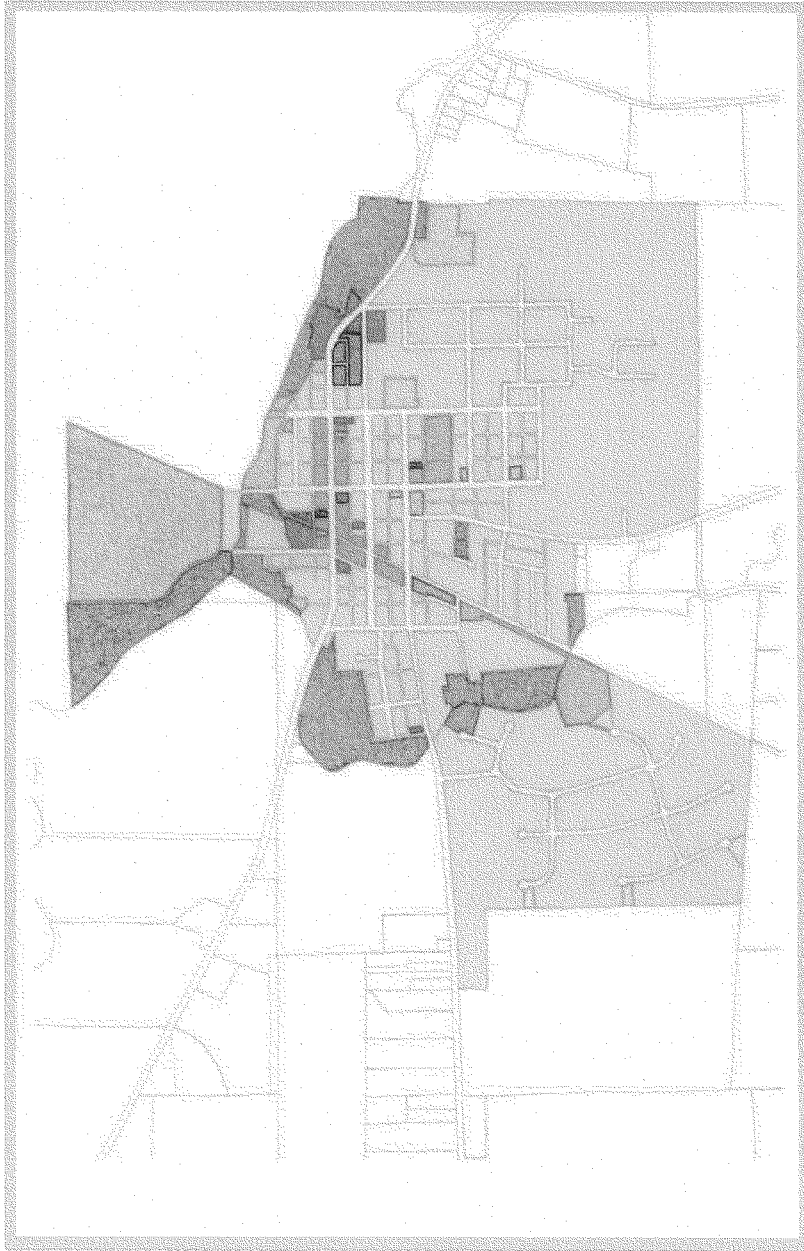
Working backwards through the listed problems, most of the land in the floodplain is designated for passive recreation, shown in dark green. This land would remain undisturbed; whatever survives naturally in these areas is allowed to stay. It would be feasible to locate trails within these areas as well as they can double as recreation and transportation spaces without compromising their purpose.

As far as the locales already functioning as park space go, they all remain as such. The only modification needed in these areas is the updating and enhancement of the facilities. As mentioned earlier in the plan, adding an additional park space in the Glenavy subdivision would be extremely advantageous. Locating this space on the northern edge of the subdivision would be the most preferable scenario. From this position (the middle shade of green on the map) we can take out two birds with one stone. First of all, the need for an accessible park in that area of town is met. Secondly, locating it there, with the addition of a pathway bridging back to the terminus of Washington Street on the other side of Turtle Creek, will create a bridge of another sort as well. With a literal common ground between the residents of the adjacent areas, a social bridging can take place. Truthfully, the potential for children to meet in this space offers the most promise of all. More on the connection back through to Main Street will be made later under the expanded section concerning parks.

Vacancy is a simple problem to solve on paper; on the ground it becomes a more complex issue. For the purposes of this plan, the strategy for resolving the general issue of vacancy in Lynchburg is twofold. First, effective economic development and growth should act to flesh out the community at large beyond its existing situation. Second, development should occur within the existing boundaries of the village before taking place elsewhere. While it would be logical to save existing structures first, unoccupied land weighs in at a close second. Nonetheless it would still be a good idea to develop a means to take better care of unoccupied buildings and barren lots.

Single family, detached housing will continue to dominate the Lynchburg landscape. Because of the village's role within the region as well as its size, this is the most suitable housing type for the foreseeable future. This is the vernacular housing typology and should remain as such for one primary reason: culture is largely contingent upon living arrangements. Drastic changes would be destabilizing to the population. However, the inclusion of new housing types to augment the existing pattern will help to increase lifestyle flexibility. This can be done by expanding attached and multifamily housing units. These uses should be placed near the heart of town primarily along Main Street; this, of course is the most accessible section of town.

Working back towards Main Street then, as well as the old railroad corridor, the designation of mixing uses (orange) will further this endeavour. Beyond the expansion of housing types, buildings that have the capacity to mix uses will also fill out the street frontages, better defining the neighboring spaces. This is especially critical for the redevelopment of Main Street seeing as how it is the most suitable corridor for both use and appearance. In other words, Main Street will have a more complete look, feel and function. This will really give the village a stronger center of town.



## Main Street Revitalization

As we transition now into the first of the strategic elements of the plan, we find ourselves back on Main Street between High and Pearl Streets. This is the northern portion of a two block target area for a redevelopment plan of Main Street. Since Main Street is the life line of Lynchburg, it makes sense to concentrate activity along its route through town. This way there can be a critical mass of businesses that can combine to serve the demands of the community. There are currently plenty of available spaces, within a building or not, that can be made use of for economic development purposes.

Looking back upon the results of the open house, there were a number of results relevant to Main Street including economic development. Expansion of services and amenities, cleaning up the appearance of town and establishing a grocery store are all things that will have their grandest impact on Main Street. As these projects move forward, an opportunity to preserve the identity and history of the town arises. While some buildings need more work than others to be fully rehabilitated, the architectural character is worth saving. After all, they don't build them like they used to.

Utilizing the Community Investment Corporation (CIC) to monitor and assist in implementing a redevelop program is the avenue of choice for making the necessary changes to the strip. Under the control of the CIC, economic stimulus funding can be applied for to reduce the overhead of starting a business. This reduction in the cost of doing business will allow for business creation or expansion in a market otherwise not conducive to such an activity. Called a Retail Business Incubator, jobs can be created or retained in sectors including services and office work. The CIC will administer the program and will be responsible for the functions of applying for funding, aligning potential businesses for the funding, and making the sites relatively job ready.

The drawing at right shows a less intensive redevelopment of Main Street. Infill projects have filled the voids left between the buildings on the east side of the street near Pearl and on the abandoned lot south of the post office. These buildings should be constructed in a manner where the scale and form match with the surrounding context. Also, they should be compatible to mixing uses. This way the old style of main street development, retail on the ground floor and apartments or other services on top, is feasible. The thriving businesses are left untouched and allowed to flourish. Repairs and facade refurbishments are a must and are the responsibility of the property owner.

The street space is laid out according the previously displayed right of way designs. The street trees, vintage lighting posts and reorganized parallel parking instantly impact the appearance of the street. The bump-outs are best placed at the intersection of the alleyways and the street. This prevents vehicles from blocking these access points to the rear of the lots. A regular dispersal of street elements occurs naturally in this layout as well.

Two public spaces occupy principle points on this block. The post office features a public posting area that is highly visible. Since there is no mail delivery, this is a location that is visited by more people, more frequently, than anywhere else in town. The purpose of this element is to bolster community communication. Civic engagement and community involvement were highlighted as major issues from the perspective of both the citizens and the mayor's office. The posting area is conceived to foster the fundamentals of this effort. Across the street and down the block, the site that formerly was occupied by the gazebo has been redesigned to serve as a more inviting public space that before. The large trees and hedges that physically and visually cut the space off from its surroundings have been removed. At the corner, the old fire bell from across the street has been transplanted to server as a sculptural piece of historic value. In the heart of the space, a landscaped mound gently rises about

two to three feet above grade. Snaking through the middle of the space is a vector of flower gardens and a believer seating platform. From this perch, a person can overlook the life in the plaza and the intersection of the two main streets in town. Behind the exaggerated bench are more flower gardens. Individual plots can be given to different community groups so as to enable a little friendly competition. And for the hot and humid summer months, the space is complete with a drinking fountain. Meanwhile, overlooking this plaza is a perfect location for a mural to cover the large brick wall of the juxtaposed building.







## Parks and Recreation

The second strategic element of the plan deals with the park and open spaces system around town. These areas are crucial to the long term health of Lynchburg. Parks not only add significantly to property values but also foster better physical and emotional well being among residents. While these areas require a public investment in construction and maintenance, the return is substantial.

Per earlier discussion in the plan, we found that a good volume of park space already exists within the village but is lacking in crucial areas. Also, almost a third of the land area of town has no immediate access to the greenspace infrastructure. Additionally, there is land in the floodplain of both the East Fork and Turtle Creek that can be reclaimed as a higher use in the form of passive recreation spaces. The task at hand is to appropriately expand the park facilities and connect them in a manner conducive to park like activities.

On the diagram at right, the darker green hues mark the places where the passive recreation spaces should be located. Most of these are on parcels that are predominately in the floodplain. The others occupy lots that are tough to access via a public right of way; basically this will assign a definite value to lots that are not suitable for private development. Largely due to geographical features, these spaces generally form a ring around most of the village. While not intended to be a greenbelt, this will form a good transition between Lynchburg and its contextual milieu.

The lighter green areas are the active recreation parks. The western most of which is Crampton Park. This park will fulfill its role best with an open layout, a picnic shelter, barbecues, a playground, and possibly a band shelter or stage to complement the covered bridge at the north end of the park. This should be a place for community wide events during the appropriate seasons. Due east of Crampton Park lies the park where the old school building once sat. The design of this park will be detailed more on the next page; for now we will mention that it should be more of play oriented space than a gathering place. South of this park, the vacant property in between Washington and Jackson streets should be redeveloped into plots for community gardening. Like the flower beds at the corner of Main and Pearl, some more of that friendly competition between different community groups could produce (no pun intended) interesting results. Following Washington Street out east, we can find the other new park space primarily for the use of the Glenavy residents. This park should be similar to the park in the center of town. Playgrounds and fields as well as other sporting facilities should be located here to complete the availability of amenities. This park is of the utmost importance for both play and social reasons. We have already mentioned that there is no such space available to that section of town at present. Placing a park here will also have an important social ramification. When a pathway is built in between this park and the terminus of Washington Street, it becomes a point of interest and a meeting ground for residents from two distinctly different sections of town.

But it is the connection aspect of this strategic plan that is the most important. Serving both recreational and transit purposes, making attractive and effective connections between the park spaces will dramatically enhance the quality of life in Lynchburg. When it comes to attracting new residents, this will be a major selling point. It is safe to say that no other community in the immediate region has any type of network even remotely similar to this proposal.

To accomplish this task, reclaiming a portion of the wide right of way on Washington Street is mandatory. Continuing back along the old railway corridor, back towards Main Street, Washington and Jackson Streets should be converted into one way streets in order to narrow the designated area for vehicular traffic freeing space for the main pathway. The South Main Revitalization diagram shows the intersection of this path and Main Street, the location that most necessitates

an intricate design. Out of the entire comprehensive plan, this feature is one of the most important elements. It is in this manner that the town can once again be unified into one coherent social unit.

Lastly, the other two parks (Crampton and the former school site) should be connected via the alleyways. Pedestrian traffic is already following these right of ways and can be further directed to do so by an alternative paving scheme for the center section of the alleyways. This will denote that the alleyways, those of course being the one east of Sycamore Street and north of Pearl Street, make a formal and important connection between two nodes of activity.









**Statement by  
Thomas Vilsack  
Secretary of Agriculture  
Before the Committee on Agriculture,  
Nutrition, and Forestry, U.S. Senate  
February 15, 2012**

**The Rural Economy and Rural Development**

Madam Chairwoman and Members of the Committee, I am pleased to have this opportunity to discuss the leadership role USDA plays in the economic development of our Nation's rural communities, as well as the impact that the development of renewable sources of energy will have, not only for rural America, but for all Americans.

I want to start by emphasizing what many of you no doubt already recognize: a vibrant American economy depends on a prosperous rural America. Home to our Nation's agricultural industry, rural America supplies a healthy and abundant source of food for our country and the world, and it is also a vital contributor to employment and exports from the United States. While many sectors of our economy are running trade deficits, American agriculture has enjoyed a trade surplus for nearly 50 years. Agriculture is responsible for one out of every 12 jobs in America, and America's farmers and ranchers are the most productive in the world. Last year, agricultural exports reached record levels of sales—\$137.4 billion, resulting in a \$42 billion trade surplus. Moreover, in recent years, rural communities have experienced strong job growth, particularly in the manufacturing and clean energy sectors. Despite this job growth, rural communities are still facing significant challenges, including outmigration, lower incomes, higher poverty rates, and access to capital. Yet this Committee recognizes we can build upon our successes of the last few years by realizing the significant economic opportunities that exist in rural America, not only in agriculture, but also in other sectors such as manufacturing, broadband infrastructure, and clean energy.

Through the Consolidated Farm and Rural Development Act of 1972 (Con Act), Congress charged USDA with leading the Federal Government's efforts to ensure a prosperous rural America and declared this task "so essential to the peace, prosperity, and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas." Today, the USDA has the responsibility to implement a suite of programs with the sole mission of improving the quality of life and economic condition of rural communities.

President Obama and I care deeply about rural communities. Over the last three years, we've made historic investments in rural America designed to drive job growth and form the foundation of a rural economy that is built to last. We want to build a better future for the men and women who live, work and raise their families in rural communities - and to extend the promise of middle class jobs where hard work pays off and responsibility is rewarded.

As you know, rural America has unique challenges and assets. Rural communities are characterized by their isolation from population centers and product markets and benefit most from

initiatives that integrate local institutions and businesses with state and federal agencies that have intimate knowledge of their local needs. Delivering effective programs to rural America, that comprises over 75 percent of the total land mass of the United States, is a continual challenge. USDA is the only Federal Department with the primary mission of serving rural areas and has a field office structure in every state that helps us serve the specific needs of local rural communities. The long-standing relationships established through the communities and direct personal contact has allowed us to deliver our programs with great success. Our footprint in the field allows us to provide critical technical assistance and credit counseling among other services that might otherwise be unavailable in rural areas.

For example, Rural Development's direct and guaranteed rural credit programs help families to find affordable housing, assist businesses to create economic opportunities, and allow communities to build or improve essential infrastructure and facilities. Between Fiscal Year 2009 and Fiscal Year 2011, Rural Development provided homeownership opportunities for over 435,000 families, provided grants and loans to assist over 50,000 rural businesses in creating or saving 266,000 jobs, upgraded community facilities, boosted the reliability of the electric grid, funded renewable energy and energy efficiency projects, and made available reliable internet service to people across rural America.

Recognizing that a strong rural economy is a strong American economy, President Obama established the White House Rural Council last year to reinforce the Federal Government's commitment to rural America. The Rural Council, which I chair, is comprised of 25 heads of Federal executive branch departments and agencies. Over the past year, numerous Cabinet members and senior officials have participated in over 100 White House rural roundtables across the country talking with stakeholders about how USDA and the rest of the Federal Government can best support economic development in rural America.

#### **Rural Energy**

I would first like to talk about a particular opportunity that this Committee wisely focused on in the last Farm Bill – energy policy. Because biofuels, biomass, wind and solar rely primarily on farm, ranch, and forest lands, the potential for renewable energy development resides predominantly in our Nation's rural regions. Certainly, renewable energy is an important source of jobs and economic growth in rural communities across the country, while biofuels and biomass offer exciting new opportunities for entrepreneurs and, in particular, for American agricultural producers. Our nation's future depends on out-innovating, out-investing, out-educating, and out-building our competitors in an increasingly integrated and competitive world economy. The President has shared his vision for a new era in American energy, with an economy built to last fueled by homegrown and alternative energy sources designed and produced by American workers. This is why the accelerated deployment of clean and renewable energy has been a high priority for the Obama Administration, as well as for Congress on a bipartisan basis, for many years. The President is committed to reducing our imports of oil by one-third by 2025. We are all partners in this effort, and I welcome this opportunity to discuss USDA's role in helping to build a cleaner, more secure, more sustainable domestic energy sector for future generations.

A 2011 study produced in collaboration with the Department of Energy, the USDA, the University of Tennessee, and other university and industry representatives found that the U.S. has the potential to produce more than a billion dry tons of biomass each year for the energy industry by mid-century, without impacting other farm and forestry products. That would be enough to displace



approximately 30 percent of our country's present petroleum consumption. This is encouraging, but we as a nation have much work ahead of us to develop this capacity and bring renewable energy to market.

In an effort to better inform citizens about the impact our energy programs are having, USDA recently launched an Energy Website that includes an interactive map, graphing analysis tools, and the USDA Energy Matrix. These instruments provide a user-friendly environment where visitors can explore past USDA investments, learn about USDA energy programs, and compare and analyze biofuels and bioenergy data from the USDA, and we invite everyone here to take some time to explore the site.

The Rural Energy for America Program, or REAP, is USDA's renewable energy flagship. Initially authorized under the 2002 Farm Bill, this program was reauthorized and expanded in the 2008 Farm Bill. REAP is authorized to provide grants and loan guarantees to agricultural producers and rural small businesses so that they can purchase, install, retrofit, and construct renewable energy systems and make energy efficient improvements to buildings and facilities.

One recent example of REAP's success is the construction of anaerobic digesters, machines that collect methane-rich biogas from organic farm waste. In FY 2011, USDA awarded \$7.8 million in grants and \$13.1 million in loan guarantees for 19 anaerobic digester projects. These projects alone will help create 86 jobs, generate 140 million kilowatt hours of renewable energy, and reduce greenhouse emissions by the equivalent of an estimated 153,000 metric tons of CO<sub>2</sub>. New Energy Two LLC in Idaho is one of four anaerobic digesters in the state that generate electricity from manure delivered by local dairy farmers, who then receive high-quality bedding material and nutrient management services in exchange.

Our programs are also encouraging the production of biofuels across the United States. The Agricultural Research Service (ARS) and the Forest Service (FS) have formed five regional Biomass Research Centers (the Central-East Region, Southeastern Region, Northern-East Region, Western Region, and the Northwestern Region). These intramural research centers have developed regionalized strategies for developing different feedstock systems using the resources available in the different regions with an emphasis on partnerships with other federal agencies, universities, 1890s, Tribal Nations, and Hispanic Serving Institutions. These regional efforts leverage the Agricultural Technology Innovation Partnership Program (ATIP) to strategically form geographic partnerships with well-established economic development entities to increase the likelihood that USDA research outcomes are adopted by the private sector and commercialized.

USDA's National Institute of Food and Agriculture's (NIFA) bioenergy programs include the Agriculture and Food Research Initiative (AFRI), the Biomass Research and Development Initiative (BRDI), and the Small Business Innovation Research (SBIR) Program. The Agriculture and Food Research Initiative is specifically taking a regional approach to developing bioenergy systems through Coordinated Agricultural Projects (CAPs) that consist of partnerships between academic, government, and industry experts, and drawing upon research, education, and extension to develop a variety of regionally appropriate feedstocks, conversion facilities, and end-use products. This program represents experts from 23 states, 28 Land-Grant Universities (including 5 minority-serving institutions), 20 industrial partners, and several federal and non-land-grant universities.

Under Section 9008 of the Farm Security, and Rural Investment Act of 2002, NIFA and the Department of Energy's Office of Biomass Programs jointly implement the Biomass Research and Development Initiative (BRDI). The majority of funding for 2011 and 2012 is awarded through USDA. This collaborative effort supports research that will improve the entire cycle of production, development, and delivery for biofuels, bioenergy, and bio-based products. Most recently it has focused on rural-based

processing and manufacturing, with an interest in small scale production of advanced biofuels and biobased industrial products. USDA has shaped the program to be a source of bridge funding for developing and emerging technologies to cross the “economic valley of death.” The intent of the program is to help develop and demonstrate technologies to the point that they might attract additional private or public financing to scale-up and/or produce commercial quantities of biomass-based energy and/or materials.

Through BRDI, for instance, the USDA was able to fund a project at the University of Colorado that focused on the solar-thermal conversion of cellulosic biomass to synthetic gas, a project that involved the direct participation of 11 Ph.D, Master’s, and undergraduate degree students and exposed over 100 other undergraduate students to bioenergy concepts. The principal investigators were able to use the project to spin-out a start-up company that has been purchased by Sun Drop Fuels, and three students working on the grant landed jobs with Chevron and Sundrop Fuels. Research initiatives like this spur innovation in the minds of our young people, create jobs and new technologies, and will likely have far-reaching ripple effects on our economic future.

The Biomass Crop Assistance Program (BCAP), created in the 2008 Farm Bill, is designed to help grow the volume of crops needed for the U.S. to meet the Renewable Fuels Standard, which requires 36 billion gallons of renewable biofuels to be used in our nation’s fuel supply by 2022. Unlike conventional crops, where there are millennia of experience among producers, growing energy crops in the sustainable quantities we need and in the time we need them is an unprecedented endeavor. That’s why last year USDA awarded \$54 million for farmers in 10 states to grow miscanthus, switchgrass, hybrid poplar, and camelina – energy crops that do not take away from food commodities. USDA anticipates offering a new round of funding this spring. BCAP has the potential to enhance prosperity in rural America by providing for new sources of crop revenues and job creation in the countryside while allowing family farms and forest owners to play even a bigger role in ensuring our domestic energy security.

Our Biorefinery Assistance Program is sharing risk with private lenders for construction of first-of-a-kind commercial-scale biorefineries that will produce advanced biofuels. Three loans have closed and the loan guarantees have been made to projects in Michigan, Florida, and New Mexico. Applicants in four other states, Mississippi, Oregon, Iowa, and Alabama, have been issued conditional commitments and are at various stages of meeting those commitments and closing their loans. Similarly, our Advanced Biofuels Payments Program is building on the success of corn-based ethanol production by making payments for the production of advanced biofuels that are derived from biomass other than corn kernel starch. In many respects, our biofuel production potential will only be realized through the work of all fifty states, and these two programs move us in that direction. Proof of concept from refineries like these have willing customers demanding development. Both the military and commercial air transportation sectors spend a tremendous amount of budget every year on a fuel which currently has no substitution. With our Farm-to-Fly effort, working across the supply chain, USDA is accelerating the development of commercial scale, cost competitive aviation biofuel, creating competition in the marketplace and reducing cost with a cleaner alternative. And last year we entered a partnership the Department of Energy and U.S. Navy to invest up to \$510 million in funding from the three departments during the next three years to produce advanced, drop-in aviation and marine biofuels to power military and commercial transportation.

The Woody Biomass Utilization program, administered through the U.S. Forest Service, helps to improve forest restoration activities by using and creating markets for low-valued material and woody

biomass removed from forest creation activities on both public and private forest lands. These funds are targeted to help communities, entrepreneurs, and others turn residues from hazardous fuel reduction and forest health activities into marketable forest products or energy products. For example, last June USDA awarded a grant for almost \$200,000 to F.H. Stoltze Land and Lumber in Montana to develop engineering, designs, and permits to replace an aging boiler system with a new biomass boiler. On January 31<sup>st</sup>, Stoltze Land and Lumber announced a power purchase agreement with Flathead Electric Cooperative for the renewable energy produced at the lumber plant.

As you can see, across the supply chain, from research to feedstock production to the development of conversion technologies for biofuels and other biobased products – USDA programs will help the United States to become a global leader in the renewable energy and bio-based product marketplace.

In addition to renewable energy, the production of bioproducts continues to be a growing opportunity for rural economies. Bioproducts range from plastic made from corn starch to rubber made from dandelions. The feedstock that fuels biofuel production can also fuel production of chemicals from biomass, and other bioproducts, and can be co-products from integrated biorefineries, or be part of entirely different supply chains that start with biomass and end with a high value product for consumers or the industrial sector. A bioproducts sector marries the two most important economic engines for rural America: agriculture and manufacturing. To sustain a bioeconomy, agricultural and forestry sectors must be able to cost-effectively provide a variety of feedstocks at a range of scales for increasingly diverse end-use purposes while conserving the natural and human resources that make up our rural lands. Encouraging this kind of economic diversity will increase opportunities for the producers, reduce risks for manufacturers, and advance the sustainable production of bioproducts. Producers of food, feed, fuel, fiber, and other biobased products will need to utilize the full potential that improved biomass feedstocks can bring to ensure cost-effective biobased products can be produced. Innovative scientific research enables feedstocks to be genetically improved and sustainable production systems to be developed so a wide array of bioproducts can be produced. Here too, USDA's intramural and extramural research programs have made significant contributions in developing new biobased agricultural and industrial products and chemicals that can replace the use of petroleum.

A great success story in this growing sector will be testifying later this in hearing – Virent Energy Systems. In 2007 USDA provided funding to Virent through Section 9008, the Biomass Research and Development Initiative (BRDI) for research on high-value chemical production from biodiesel-derived glycerol. From this seed money Virent developed a biobased bottle that would be 100 percent recyclable. Just this last month Virent has signed on as a partner with Coca-Cola, whose goal is to have all their bottles made solely from biobased ingredients by 2020.

USDA also is encouraging the development of the bioproducts industry under the Biobased Markets Program. Initially authorized under the 2002 Farm Bill, this program was reauthorized and expanded in the 2008 Farm Bill. Under the "BioPreferred" program, USDA designates categories of biobased products for preferred Federal procurement and oversees a voluntary labeling program to increase consumer awareness and stimulate retail markets. You may have seen an example of this in your local grocery store where our "USDA Certified Biobased Product" label can now be seen on Seventh Generation laundry detergent. While we have made good progress in stimulating the growth of biobased product markets - which in addition to growing rural economies also reduces our reliance on imported petroleum - I urge the Committee to consider how our current programs could better align with this important opportunity.

### **Rural Regionalization Initiatives**

Several of USDA's innovative rural initiatives are important support mechanisms for President Obama's "Blueprint for America" and building a prosperous American economy that is "Built to Last." Through a number of regional efforts, USDA is supporting rural communities that are building durable, multi-county coalitions that foster economic development on a regional scale. In addition to providing direct economic benefits, regional collaboration allows rural communities to capitalize on economies of scale in infrastructure and public services, to encourage the development of specialization in industrial sectors that would make them more competitive, and to locate facilities and services where they provide the greatest benefit at the lowest cost.

In 2011, we highlighted seven regional projects as part of the Great Regions effort. For example, South Carolina is focused on value-added food processing and agribusinesses; Iowa is promoting small and emerging agricultural businesses interested in regional food systems and technologies that will enable fruits and vegetables to be grown year-round; California is focused on biomass utilization, value-added livestock processing and marketing, and alternative energy, in addition to developing regional food systems.

In addition USDA, together with the Nation's four Regional Rural Development Centers (RRDCs) and their land-grant university partners, is leading a collaboration called Stronger Economies Together, that brings together key state and federal agencies, land-grant university extension programs, and other organizations, to provide 35 hours of training and technical assistance to regional teams in 19 states. USDA is also working with the Economic Development Administration, the Appalachian Regional Commission, and the Delta Regional Authority on a job accelerator program to help rural regions capitalize on the benefits of regional innovation clusters.

Historically, innovation and small business development have been essential to our global competitiveness and regional economic development. As such, USDA's Agricultural Research Service established the Agricultural Technology Innovation Partnership Program (ATIP) to strategically form geographic partnerships with well-established economic development entities to encourage commercialization of USDA intramural research outcomes would be adopted by the private sector for commercialization. Ten organizations across the U.S. have Partnership Intermediary Agreements with ARS Office of Technology Transfer.

Later this year the Economic Research Service will administer a survey to collect information on innovation happening on the ground in the form of new products, services, marketing methods or ways of doing business. These innovations represent the true genius of America, but we know little about them from official statistics. A better understanding of these issues is critical to providing an environment where resilient businesses can thrive.

### **Reaping the Opportunities in the Next Farm Bill**

As you consider the next Farm Bill, I would like to suggest you consider two key themes: streamlining and flexibility. This Committee and Congress has provided USDA with an impressive range of authorities to provide grants and direct and guaranteed loans to communities and rural businesses. Over the years, as the programs have been added in each successive Farm Bill, we are left with 40 programs in Rural Development, many of which have overlapping authorities and goals. I would like to

work with this Committee to consider how we might streamline our grant and loan authority to reduce the number of programs, but maintain the flexibility in authority to continue to serve rural communities and businesses in an effective and comprehensive way.

In particular, I would like to suggest more flexibility in the way USDA and Rural Development supports regional development. While we have looked to our current authorities for every opportunity to support communities that are working regionally, more could be done. In the budget released this week, we repeated our call to target resources for projects or communities that are part of a regional strategy. I urge the Committee to consider this strategy to encourage communities to take on what can be a little more organizational work on the front end, but that will yield better and more lasting results.

In addition to these themes of streamlining and flexibility, I would like to suggest that an essential component of building a rural economy that lasts is new farmers. As the average age of farmers continues to increase, and interest in farming continues to grow, I believe this Committee has a unique opportunity in the next Farm Bill to craft policy to ensure that there are people to take care of our rural lands in the future. While this area is challenging, there are a number of tools to encourage new entrants into farming and current landowners to pass on their farm to a new producer. Now is certainly the time to focus energy on what policies will be most effective.

#### **Conclusion**

Thank you for this opportunity to speak briefly about what USDA has accomplished through authorities in the last Farm Bill, in particular in renewable energy and regional economic development. I look forward to working with you as you craft the next Farm Bill on how you can streamline our authorities, provide flexibility so that USDA can effectively deliver the programs, and continue to focus on emerging opportunities such as renewable energy and bioproducts.



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**DOCUMENTS SUBMITTED FOR THE RECORD**

FEBRUARY 15, 2012

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**Testimony**  
**Committee on Agriculture, Nutrition and Forestry**  
**United States Senate**

On behalf of Kansas Entrepreneurial Communities Initiative (KECI) and Kansas Hometown Prosperity (KHP) we are pleased to provide the following testimony to the Committee on Agriculture, Nutrition and Forestry regarding the Rural Title of the U.S. Farm Bill.

The purpose of this testimony is to share with the Committee a potential model for rural development or the Kansas Entrepreneurial Communities Initiative (KECI). KECI is an innovative and collaborative strategy to accelerate rural job creation through targeted support for entrepreneurs. The Committee may want to conduct further exploration of this model and its potential to inform and guide rural economic development elsewhere in the United States.

USDA Rural Development has been a cornerstone partner in KECI. Other partners include Network Kansas, the Kansas Small Business Development Centers, Advancing Rural Prosperity, the RUPRI Center for Rural Entrepreneurship and Kansas Farm Bureau. Additionally, we have prepared a report titled Search for Solutions: The Future of Rural Kansas that would provide additional information on the potential impact of KECI and KHP. We would particularly encourage the Committee to review the case study on Atwood, Kansas beginning on page 33.

You may find the report here: <http://bit.ly/oznX9I>

KFB and our partners stand ready to assist should you have questions or need additional information.



**Questions and Additional Information**

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DWM:KECI:USDA Testimony

**Kansas Entrepreneurial Communities Initiative**  
 February 13, 2012



**Testimony  
Submitted on Behalf of  
American Forest & Paper Association  
American Forest Foundation  
American Wood Council  
Hardwood Federation  
National Alliance of Forest Owners  
National Association of State Foresters  
Paperboard Packaging Council  
Society of American Foresters  
Southeastern Lumber Manufacturers Association  
On the Hearing on Farm Bill Energy Title Programs  
Senate Agriculture Committee  
February 15, 2012**

Our organizations appreciate the opportunity to present the forestry and forest products community's views on how the farm bill can promote energy and economic growth in rural America. Today, we would like to concentrate on one program that is implemented by the U.S. Department of Agriculture (USDA) that could expand the number of jobs in rural America, but does not currently. The Voluntary Labeling Program for Biobased Products (the Voluntary Label Program) allows the USDA to authorize manufacturers and vendors of biobased products to use a USDA Certified Biobased Product mark. The Voluntary Label Program augments a federal procurement program called the BioPreferred program, which gives a preference for the purchase of biobased products by the federal government. These programs are authorized under section 9002 of the 2002 and 2008 Farm Bills.

The forestry and forest products community supports the intent of these programs – increasing the use of biobased products, including forest derived biobased products, has the potential to decrease fossil fuel use and create American jobs and support American manufacturing. The program focus on products derived from biological material will also help support American innovation in the development of agricultural products.

However, in implementing this program, USDA has excluded the majority of U.S. forest products. As a consequence, forest products could be excluded from marketplace acceptance as renewable, biobased products that help reduce greenhouse gas emissions while also lowering use of fossil fuels.

In other efforts, USDA has been a leader in promoting wood-based products, particularly green building products, as a way to reduce energy use and greenhouse gas emissions and promote rural economic development. Forest products have been used for centuries and are one of the most biobased products in existence. Whether using wood to build and furnish homes or using wood fiber to produce paper and other products that Americans use every day, forest products are central to American life.

A better approach to a USDA's biobased labeling program is a program that not only promotes innovative products but also promotes products that can be used in place of those that are fossil-fuel intensive — which is inherently the reason for promoting biobased products.

### **How USDA is Excluding Most Forest Products**

In implementing the program, USDA has added a limitation — not found in the authorizing law — that products are ineligible if they have so-called “mature markets” as of 1972. Despite vigorous objections, USDA concluded that Congress intended this program to “stimulate the production of new biobased products and to energize emerging markets for those products.” 1972 was selected because it was the time of the first “energy crisis” and USDA is trying to promote those products no longer made primarily from fossil-based materials.

The mature market exclusion results in a number of unintended consequences – the most serious being the replacement of wood and paper products made from close to 100 percent biobased materials for those with as little as 7 percent. The forest products industry has been greatly transformed over the past 40 years – the way trees are grown and harvested have reached a level of resource sustainability that is unmatched by other industries. The processes used to make products are different, and the products themselves have evolved to address new demands and technology (examples include laser printer papers, inkjet papers, and papers with post-consumer recovered fiber content as well as engineered wood products designed to match the strength of materials such as steel and concrete); hence many of the papers used to print today and many of the wood products used to build the nation’s homes were not in existence in 1972. Forest products should not be excluded from either the BioPreferred Program or the Voluntary Label program.

### **Forest Products Are Biobased, Replace Fossil Fuel-based Products, and Store Carbon**

Many forest products are comprised solely of biological materials from trees. Some have other materials like glues and fillers, but the basic ingredients are plant-based. Encouraging the use of forest products, as could be done through USDA’s biobased labeling program, will help replace the use of more fossil-fuel intensive products such as steel, concrete, or plastics.

Life cycle assessment studies of wood products used in building construction, funded by the USDA Forest Service, show that wood-frame homes had 16-17 percent less embodied energy than homes framed in steel and concrete. These same studies show that wood framed homes had between 14-26 percent less air emissions than those framed from steel and concrete. And lastly, with respect to greenhouse gas emissions, wood framed homes performed between 26-31 percent better than homes framed in steel and concrete<sup>1</sup>. Not only can forest products be used in place of fossil-based products, but their manufacturing processes are much less carbon intense, using less fossil fuels in their manufacturing.

Despite USDA’s praise touting the innovative nature and environmental benefits of forest products, it does not appear that USDA is following any of their own recommendations and research to evaluate the benefits of the products that receive the biobased label. We encourage the incorporation of USDA’s research on forest products into the Biobased program to ensure products are truly helping reduce reliance on fossil fuels while supporting domestic job creation.

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<sup>1</sup> *Life Cycle Environmental Performance of Renewable Building Materials in the Context of Building Construction*, Bowyer, J., D. Briggs, B. Lippke, J. Perez-Garcia, J. Wilson, Consortium for Research on Renewable Industrial Materials, 2005

### **Using Forest Products Helps Keep Forests as Forests**

Contrary to popular thinking, strong markets for forest products mean we will have healthier, more viable forests. The families, businesses and individuals, especially the 10 million family forest owners who collectively own the largest segment of U.S. forests — more than the federal government or industry — depend on the returns they get from the products their forests produce to make additional investments in sound, long-term forest management. When markets for their products are strong, they provide forest owners the means to keep their land forested by keeping their forests economically competitive with other uses. However, the imposition of regulatory or other market restrictions reduces their ability to maintain their land as forested and at some point will tip the balance in favor of the non-forest use.

Today the greatest threat of deforestation comes from the conversion of forests to non-forest uses that produce a higher economic value. The U.S. Forest Service predicts that over the next 20 years, 57 million acres of forests are expected to face significant development pressures<sup>2</sup>. That is an area about the size of Pennsylvania and New York combined. And while development has hit a lull in many locations because of the economy, the stifled economy has also led to low land prices, giving developers and others opportunity to buy inexpensive land for development once the economy has turned around.

### **Using Forest Products Supports American Jobs**

In addition to the environmental and conservation benefits of strong forest products markets, forest products industries employ roughly 900,000 people, many in rural communities that have suffered significant losses during the economic downturn. Studies have shown that wood products manufacturing supports at least 25 percent more jobs per unit product than materials such as steel and concrete, and the forest industry employs more people than the automotive, chemical, or plastics industries.

By excluding the majority of forest products from the biobased programs, USDA is directly impacting these jobs, as purchasers choose other products, many with less biobased content, hurting rural economies across the nation. In fact the Bureau of Labor Statics shows that employment in just the wood products sector fell by 45 percent from 1999 to 2010. With the current economy, now is not the time to be discouraging the use of forest products and undermining the jobs the industry supports.

The hardwood sector of the forest products industry demonstrates how the industry is susceptible to constriction and job loss if the biobased label continues to discriminate against forest products. The hardwood supply stream involves forest owners - primarily families, loggers, and sawmills for finished products. If the sawmill operators do not have customers to ship lumber then they will not produce. This puts in jeopardy the livelihood of timber owners, keeping forests as working forests and jobs from loggers to sawmills to finishing mills, all of which support rural America.

Output of hardwood nonstructural products peaked in 1999 at 12.6 billion board feet and fell

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<sup>2</sup> *Private Forests, Public Benefits: Increased Housing Density and Other Pressures on Private Forest Contributions*, Susan M. Stein, Ronald E. McRoberts, Lisa G. Mahal, Mary A. Carr, Ralph J. Alig, Sara J. Comas, David M. Theobald, and Amanda Cundiff, U.S. Department of Agriculture, Forest Service 2009

to a record low in 2009 at 5.73 board feet. Consumption of U.S. hardwoods has declined significantly, primarily due to the housing crisis. Use of U.S. hardwood products has decreased almost 50 percent since 1999.

Like other forest products, traditional U.S. hardwood products are not included in the USDA biobased labeling program because they are considered a "mature market." Competing products such as imported bamboo plywood and veneer used in cabinets and flooring, and melamine panels for interior panels, office furniture, and cabinets are included in the BioPreferred program.

Today, the U.S. cabinet industry consumes 42.7 percent less lumber than in 2009. The conclusion that can be drawn is that more imported species, parts and finished goods made from bamboo and melamine products were used. The flooring industry was the largest consumer of U.S. hardwood lumber. It has gone from 1.5 billion board feet (BBF) in 2005 to 0.6 BBF in 2010. Again, competing with products such as bamboo flooring has had a significant impact on the flooring industry. The furniture industry has seen a fundamental shift in consumption by U.S. manufacturers. In 1999, the furniture industry consumed 2.6 BBF of hardwood lumber and today only 350 million board feet. That is a decrease of 2.25 BBF. Estimates are that the U.S. has lost 70 percent of the entire furniture manufacturing industry. (*Hardwood Market Report*, July 2011)

USDA's decision has direct impact on U.S. forest products mills. Mills in many forested states directly compete with the products that would be eligible under the biobased labeling program, some of which are already approved under the BioPreferred program. Two American Wood Council member Oriented Strand Board (OSB) mills in Michigan compete directly with compressed wheat board listed under the BioPreferred program, and wheat board for counters competes with a Medium density fiberboard mill in Pennsylvania. USDA should not be picking winners and losers in biobased manufacturing, but promoting the use of all renewable resources, to replace more fossil-fuel intensive products.

#### **The US Forest Products Industry is Innovating to Meet the Demands of Today's Market**

U.S. wood and paper product manufacturers have improved their energy efficiency, and reduced the absolute amount of energy used and their reliance on fossil fuels. Members of the American Forest & Paper Association (AF&PA), which represents a large portion of forest products manufacturers, have accomplished this through specific programs dedicated to achieving energy cost savings, through leadership in the use of combined heat and power (CHP) technology, and through making better use of the renewable biomass resource that is the source of all forest products.

- Since 1990, energy use per ton of production has been reduced by 8.2 percent.
- Since 2000, AF&PA members decreased fossil fuel use per ton of production by 18 percent.
- The forest products industry is the leader among all manufacturing sectors in the use of highly-efficient cogeneration technology. Virtually all AF&PA member facilities that generate electricity on-site do so using this technology.
- Forest products facilities account for 70 percent of the renewable biomass energy used by product manufacturers; most of that energy is a byproduct of the manufacturing process. In fact, the energy we produce from biomass exceeds the total energy produced from solar, wind, and geothermal sources combined.

- 65 percent of the energy used at AF&PA member forest product mills is generated from biomass. This is an increase of over 14 percent for member pulp and paper mills since 2000.

The paper and paper-based packaging segment of the industry is using innovation to create new products with enhanced attributes to meet the emerging needs of consumers, advertisers, and marketers. We have created lighter weight products that retain printing qualities to attract new business through the mail at a lower cost. Through innovations like incorporating Quick Response (QR) codes in printed marketing pieces, we have integrated both print and digital technologies to create a richer consumer experience for marketers. In 2010, 63.5 percent of all the paper used in the U.S. was recovered for recycling.

Paper products lead the way as one of the most sustainable options for consumers. Today's papers include post-consumer recovered fiber content, all of which are biobased and are another example of product innovations since 1972 that may be excluded from the biobased label by the arbitrary exclusion. Today, technologies exist for electronic circuits to be printed on paper substrates that replace circuit boards that were previously engineered on plastics. All of these innovations support jobs, many in rural areas, and clearly align with the intended benefits of the Voluntary Labeling program for Biobased Products.

In addition to new innovation to traditional forest products such as paper, there have also been remarkable advances in how the industry utilizes its forest resources as well, through new processing technology, log scanning, mechanical grading, optimized cutting, vacuum autoclaves, drying cycle optimization, and curve sawing to ensure that little to no harvested material goes to waste. Similarly, production of the newer engineered wood products takes advantage of advances in wood processing, energy reduction, new wood adhesives, resins, and composites, creation of innovative building systems, and innovative use of wood resources.

It is also important to note that as a construction material, most wood products and elements are manufactured specifically to become part of larger building assemblies and systems. Critical advantages from energy efficiency and even environmental footprint are provided not as individual materials, but rather by the material's performance as part of an overall system.

For example, for these systems, current industry research is looking at:

- Developing designs for new, multi-material hybrid structural systems that will significantly enhance the overall system performance of wood structures
- Increasing the building performance of wood structures during natural disasters through design improvements (durability)
- Improving performance of wood and wood-based products in wet environments
- Developing environmentally-benign, fire-retardant, and preservative systems.

Overall, today's forest products industry is employing modern technology to produce both traditional and engineered wood products. These products can be characterized by the positive benefits they provide including carbon sequestration, greenhouse gas reduction, having low embodied energy (especially when compared to competing building products), and lower impacts throughout their life-cycle than other products eligible to be called USDA biobased or claiming to meet USDA definitions of bio-preferred.

**The Voluntary Label Program Will Likely Mislead Consumers**

The USDA has chosen to narrowly construct the biobased programs in a way which is nonsensical — to approve products that have less biobased content — in some cases as little as 7% — than those made of forest-based materials. This approach ignores that consumers will misconstrue the meaning of the Voluntary Label so as to think that the labeled products are superior to other products. Contrary to the intent of the Voluntary Label program, consumers are likely to construe a biobased content certification label as an eco-label. In addition, the label makes no mention of the mature market exclusion, further misleading consumers about a key qualification required to achieve the certification.

Wood and paper are some of the most biobased materials on the market and deserve that recognition. One environmental group provided the following comments on the proposed rule for the Voluntary Labeling Program for Biobased Products: *“Why [does] the labeling program exclude mature market products while allowing biobased labeling of more recent entrants in the same market. This has the effect of favoring one biobased product over another based solely on their market maturity, rather than being based on any rational criteria related to reduced use of fossil fuels, carbon cycle benefits, or environmental sensitivity. The commenter stated that the rules should be amended to avoid punishing environmentally favorable ‘mature’ products, while encouraging environmentally less favorable ‘new’ market entrants (Federal Register/Vol. 76/pg. 3795).*

**Conclusion**

The US forest products community believes that the USDA has misconstrued the intent of Congress in developing its BioPreferred and Voluntary Label programs. We ask that USDA open its program to recognize all legitimate biobased products that not only utilize our Nation's abundant natural resources, but also provide environmental benefits and support domestic job creation. The recognition of products containing as little as 7 percent biobased content as being eligible for a government preference and endorsed label while excluding products known to contain as much as 100 percent biobased content is unsupportable and market distorting.

Failure to recognize forest products as meeting the BioPreferred and Voluntary Label program requirements will have a serious negative impact on jobs and rural communities that rely on the health of the U.S. wood and paper products manufacturing sectors, and on the health and conservation of our nation's forest resources.

1

## 2 TITLE IV—ENERGY FROM RURAL AMERICA

## 3 SEC. 4001. DEFINITIONS.

4 Section 9001 of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 8101) is  
5 amended—

6 (1) in paragraph (3)—

7 (A) in subparagraph (B)(iii), by inserting “post-recycled municipal solid waste,  
8 sewage waste,” before “and yard waste”; and

9 (B) by adding at the end the following:

10 “(C) EXCLUSION.—The term ‘advanced biofuel’ does not include any fuel for  
11 which—12 “(i) more than 4 percent of the fuel (determined by weight) is any combination  
13 of water and sediment; or14 “(ii) the ash content of the fuel is more than 1 percent (determined by  
15 weight).”;

16 (2) in paragraph (6)—

17 (A) in subparagraph (D), by striking the period at the end and inserting “; and”;

18 (B) by redesignating subparagraphs (A) through (D) as clauses (i) through (iv),  
19 respectively, and indenting appropriately;20 (C) by striking “a facility that converts” and inserting the following: “a facility  
21 that—

22 “(A) converts”; and

23 (D) by adding at the end the following:

24 “(B) in the case of a facility in existence as of the date of enactment of the Rural  
25 Economic Farm and Ranch Sustainability and Hunger Act of 2011 that uses less than  
26 90 percent biomass for conversion, agrees to increase the use by the facility of biomass  
27 for conversion purposes by a percentage increase, as determined by the Secretary but  
28 not less than a substantial increase above the 5-year baseline for the facility.”.29 (3) by redesignating paragraphs (9) through (13) and (14) as paragraphs (10) through (14)  
30 and (17), respectively;

31 (4) by inserting after paragraph (8) the following:

32 “(9) ELIGIBLE RURAL COMMUNITY.—The term ‘eligible rural community’ means a  
33 community located in a rural area.”;

34 (5) in subparagraph (B)(ii) of paragraph (13) (as redesignated by paragraph (2)) —

35 (A) in subclause (III), by striking “and” at the end;

36 (B) in subclause (IV), by striking the period at the end and inserting a semicolon;

1 and

2 (C) by adding at the end the following:

3 “(V) post-recycled municipal solid waste; and

4 “(VI) sewage.”; and

5 (6) by inserting after paragraph (14) (as so redesignated) the following:

6 “(15) RURAL AREA.—The term ‘rural area’ has the meaning given the term in section  
7 343(a)(13)(A) of the Consolidated Farm and Rural Development Act (7 U.S.C.  
8 1991(a)(13)(A)).

9 “(16) RURAL SCHOOL DISTRICT.—The term ‘rural school district’ means a school district  
10 that serves 1 or more schools located in a rural area.”.

## 11 SEC. 4002. BIOBASED MARKETS PROGRAM.

12 (a) In General.—Section 9002 of the Farm Security and Rural Investment Act of 2002 (7  
13 U.S.C. 8102) is amended—

14 (1) in subsection (a)(4)—

15 (A) in subparagraph (B)—

16 (i) in the matter preceding clause (i), by inserting “and to improve fiscal  
17 transparency in Federal procurement” after “subparagraph (A)”; and

18 (ii) in clause (i)—

19 (I) in the matter preceding subclause (I), by striking “, to the maximum  
20 extent practicable.”; and

21 (II) in subclause (V), by striking “and” at the end;

22 (iii) in clause (ii), by striking the period at the end and inserting “; and”; and

23 (iv) by adding at the end the following:

24 “(iii) information required to be submitted under clauses (i) and (ii) shall be  
25 made publicly available on a website by the Office of Federal Procurement Policy  
26 not later than 30 days after submission of the information to the Office of Federal  
27 Procurement Policy.”;

28 (2) in subsection (b)—

29 (A) in paragraph (1), by striking “, in consultation with the Administrator.”;

30 (B) in paragraph (2)—

31 (i) by striking “(2) ELIGIBILITY CRITERIA.—” and all that follows through “(B)  
32 REQUIREMENTS.—Criteria issued under subparagraph (A)” and inserting the  
33 following:

34 “(2) REQUIREMENTS.—Labels issued under paragraph (1)”;

35 (ii) by redesignating clauses (i) through (iii) as subparagraphs (A) through (C),  
36 respectively, and indenting appropriately; and



- 1 (C) in paragraph (3), by striking “criteria issued pursuant to” and inserting  
2 “requirements described in”;
- 3 (3) by striking subsection (c) and inserting the following:
- 4 “(c) Promotion.—
- 5 “(1) IN GENERAL.—The Secretary shall make competitive grants to eligible entities to  
6 provide information to organizations that have large procurement needs or vehicle fleets, or  
7 that produce products with which biobased products or biofuels can be integrated (as  
8 determined by the Secretary), about the benefits of biobased products or biofuels.
- 9 “(2) ELIGIBLE ENTITIES.—To be eligible to receive a grant under paragraph (1), an entity  
10 shall—
- 11 “(A) be a nonprofit organization or institution of higher education;
- 12 “(B) have demonstrated a knowledge of biobased product or biofuel production, use,  
13 or distribution; and
- 14 “(C) have demonstrated the ability to conduct educational and technical support  
15 programs.
- 16 “(3) LIMITATION.—Grants made under this subsection may not be used for the marketing  
17 or promotion of brand name products.”;
- 18 (4) in subsection (d), by striking “this section” and inserting “subsection (a)”;
- 19 (5) by striking subsections (e) through (g);
- 20 (6) by redesignating subsection (h) as subsection (e); and
- 21 (7) in subsection (e) (as so redesignated)—
- 22 (A) in paragraph (1), by striking “this section—” and all that follows through the  
23 end of subparagraph (B) and inserting “this section \$5,000,000 for each of fiscal years  
24 2013 through 2017, of which not more than \$2,000,000 may be used to make grants  
25 under subsection (c).”; and
- 26 (B) in paragraph (2), by striking “this section” and all that follows through “2012”  
27 and inserting “\$3,000,000 for each of fiscal years 2013 through 2017.”
- 28 (b) Conforming Amendment.—Section 944(c)(2)(A) of the Energy Policy Act of 2005 (42  
29 U.S.C. 16253(c)(2)(A)) is amended by striking “section 9002(h)(1) of the Farm Security and  
30 Rural Investment Act of 2002 (7 U.S.C. 8102(h)(1)” and inserting “section 9002(b) of the Farm  
31 Security and Rural Investment Act of 2002 (7 U.S.C. 8102(b))”.

## 32 SEC. 4003. BIOREFINERY ASSISTANCE.

33 Section 9003 of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 8103) is  
34 amended—

- 35 (1) by striking subsections (a), (d), and (g);
- 36 (2) by redesignating subsections (b), (c), (e), (f), and (h) as subsections (a) through (e),  
37 respectively;

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- 1 (3) in subsection (b) (as so redesignated), by striking “eligible entities—” and all that  
2 follows through “(2) guarantees” and inserting “eligible entities guarantees”;
- 3 (4) in subsection (c) (as so redesignated)—
- 4 (A) in paragraph (1)(C) —
- 5 (i) in the matter preceding clause (i), by striking “subsection (c)(2)” and  
6 inserting “subsection (b)”;
- 7 (ii) in clause (ix), by striking “and” at the end;
- 8 (iii) in clause (x), by striking the period at the end and inserting “; and”; and
- 9 (iv) by adding at the end the following:  
10 “(xi) whether the project can lead to reductions in production costs.”; and
- 11 (B) in paragraph (2)—
- 12 (i) by striking “subsection (c)(2)” each place it appears and inserting  
13 “subsection (b)”;
- 14 (ii) in subparagraph (C), by striking “subsection (h)” and inserting “subsection  
15 (e)”;
- 16 (5) in subsection (e) (as so redesignated)—
- 17 (A) in paragraph (1), by striking subparagraphs (A) and (B) and inserting the  
18 following:  
19 “(A) \$100,000,000 for fiscal year 2013; and  
20 “(B) \$80,000,000 for each of fiscal years 2014 and 2015.”; and  
21 (B) in paragraph (2), by striking “2012” and inserting “2017”.

## 22 SEC. 4004. RURAL ENERGY FOR AMERICA PROGRAM.

23 Section 9007 of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 8107) is  
24 amended—

- 25 (1) in subsection (b)—
- 26 (A) in paragraph (1), in the matter preceding subparagraph (A), by inserting “, rural  
27 school districts, eligible rural communities,” before “and rural small businesses”; and
- 28 (B) in paragraph (4), in the matter preceding subparagraph (A), by inserting “, rural  
29 school districts, eligible rural communities,” before “and rural small businesses”;
- 30 (2) in subsection (c)—
- 31 (A) in paragraph (1), in the matter preceding subparagraph (A), by inserting “, rural  
32 school districts, eligible rural communities,” before “and rural small businesses”;
- 33 (B) by redesignating paragraphs (2) through (4) as paragraphs (3) through (5),  
34 respectively;
- 35 (C) by inserting after paragraph (1) the following:

- 1           “(2) AWARD PRIORITIZATION.—In determining the amount of a loan guarantee or grant  
2 provided under this section, the Secretary may give priority—
- 3           “(A) to loan guarantees rather than grants or combined grant and loan guarantees, so  
4 as to maximize leverage of private financing; and
- 5           “(B) in the case of energy efficiency projects, to loans under section 9014 or similar  
6 financing mechanisms if locally available (as determined by the Secretary).”;
- 7           (D) in paragraph (3) (as redesignated by subparagraph (A))—
- 8           (i) by striking subparagraph (A) and inserting the following:
- 9           “(A) the ability of a project to demonstrate the economic viability for similar  
10 potential energy investment projects in the locality.”;
- 11           (ii) in subparagraph (F), by striking “and” at the end;
- 12           (iii) by redesignating subparagraph (G) as subparagraph (H); and
- 13           (iv) by inserting after subparagraph (F) the following:
- 14           “(G) the type of renewable energy system to be purchased; and”;
- 15           (E) in paragraph (5) (as so redesignated)—
- 16           (i) in subparagraph (A)—
- 17           (I) by striking “(A) GRANTS.—The amount” and inserting the following:
- 18           “(A) GRANTS.—
- 19           “(i) IN GENERAL.—The amount”; and
- 20           (II) by adding at the end the following:
- 21           “(ii) LIMITATION.—
- 22           “(I) IN GENERAL.—Subject to subclause (II), not more than 15 percent of  
23 the total amount of funds made available under subsection (f) that is  
24 allocated by the Secretary for grants under this subsection may be used for  
25 grants in excess of \$250,000.
- 26           “(II) LIMITATION.—No grant under this subsection may exceed  
27 \$500,000.”; and
- 28           (ii) by adding at the end the following:
- 29           “(D) MAXIMUM AMOUNT OF LOAN GUARANTEE RELATIVE TO COST OF ACTIVITY  
30 FUNDED.—The amount of a loan guaranteed under this subsection shall not exceed 90  
31 percent of the cost of the activity funded under this subsection.”;
- 32           (3) in subsection (e)—
- 33           (A) in paragraph (1), by striking “subsection (g)” and inserting “subsection (f) and  
34 allocated by the Secretary for grants”; and
- 35           (B) in paragraph (2), by striking “subsection (g)” and inserting “subsection (f)”;
- 36           (4) by striking subsection (f);

- 1 (5) by redesignating subsection (g) as subsection (f); and  
 2 (6) in subsection (f) (as so redesignated)—  
 3 (A) in paragraph (1), by striking “, to remain available until expended—” and all  
 4 that follows through the end of subparagraph (D) and inserting “\$70,000,000 for each  
 5 of fiscal years 2013 through 2017, to remain available until expended.”;  
 6 (B) by redesignating paragraph (3) as paragraph (4);  
 7 (C) by inserting after paragraph (2) the following:  
 8 “(3) LIMITATION.—Of the funds made available for a fiscal year under paragraph (1), not  
 9 more than 10 percent may be made available for grants or loan guarantees to rural school  
 10 districts or eligible rural communities.”; and  
 11 (D) in paragraph (4) (as redesignated by subparagraph (B), by striking “there is  
 12 authorized” and all that follows through the end and inserting “there is authorized to be  
 13 appropriated to carry out this section \$80,000,000 for each of fiscal years 2013 through  
 14 2017.”.

15 **SEC. 4005. REPEAL OF FEEDSTOCK FLEXIBILITY**  
 16 **PROGRAM FOR BIOENERGY PRODUCERS.**

17 Section 9010 of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 8110) is  
 18 repealed.

19 **SEC. 4006. BIOMASS CROP ASSISTANCE PROGRAM.**

20 Section 9011 of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 8111) is  
 21 amended—

- 22 (1) in subsection (a)—  
 23 (A) by redesignating paragraphs (4) through (8) as paragraphs (5) through (9),  
 24 respectively;  
 25 (B) by inserting after paragraph (3) the following:  
 26 “(4) DELIVERY.—The term ‘delivery’ means the point of delivery of an eligible material  
 27 or an eligible crop, as determined by the Secretary.”;  
 28 (C) in subparagraph (B) of paragraph (5) (as so redesignated)—  
 29 (i) in clause (i), by striking “that is eligible” and inserting “that, as of the day  
 30 before the date of enactment of the Rural Economic Farm and Ranch  
 31 Sustainability and Hunger Act of 2011, was eligible”; and  
 32 (ii) in clause (ii), by striking “or has the potential to become invasive or  
 33 noxious”;  
 34 (D) in subparagraph (B) of paragraph (6) (as so redesignated)—  
 35 (i) in clause (i), by adding “or” after the semicolon at the end;  
 36 (ii) in clause (ii), by striking the semicolon at the end and inserting a period;

- 1                   and
- 2                   (iii) by striking clauses (iii) through (v); and
- 3                   (E) in paragraph (7) (as so redesignated)—
- 4                   (i) by redesignating subparagraph (B) as subparagraph (C);
- 5                   (ii) by inserting after subparagraph (A) the following:
- 6                   “(B) ADDITIONAL REQUIREMENT FOR ELIGIBLE MATERIAL FROM NON-FEDERAL
- 7                   FOREST LAND.—In the case of non-Federal forest land and forest land belonging to an
- 8                   Indian or Indian tribe that is in trust by the United States or subject to a restriction
- 9                   against alienation imposed by the United States, the Secretary shall ensure that the
- 10                  definition of the term ‘eligible material’—
- 11                  “(i) ensures that the renewable biomass defined as ‘eligible material’—
- 12                    “(I) is not diverted from use in markets as of the date of enactment of the
- 13                    Rural Economic Farm and Ranch Sustainability and Hunger Act of 2011;
- 14                    “(II) has been determined to be otherwise uneconomically retrievable; and
- 15                    “(III) is harvested in accordance with an approved conservation, forest
- 16                    stewardship, or equivalent plan; and
- 17                    “(ii) includes a requirement that the renewable biomass is harvested directly
- 18                    from the land for delivery to a biomass conversion facility.”; and
- 19                  (iii) in subparagraph (C) (as redesignated by clause (i))—
- 20                    (I) in clause (i)—
- 21                      (aa) by striking “that is eligible” and inserting “that, as of the day
- 22                      before the date of enactment of the Rural Economic Farm and Ranch
- 23                      Sustainability and Hunger Act of 2011, was eligible”; and
- 24                      (bb) by inserting before the semicolon at the end “, except that
- 25                      residues from such crops are eligible if harvested from the land in
- 26                      accordance with an approved conservation or equivalent plan”; and
- 27                      (II) in clause (iii), by striking “and yard waste” and inserting “, yard waste,
- 28                      municipal solid waste, and sewage”;
- 29                  (2) in subsection (b)(2), by inserting “collected directly from the land” after “eligible
- 30                  material”;
- 31                  (3) in subsection (c)(5)—
- 32                    (A) in subparagraph (B)—
- 33                      (i) by redesignating clauses (i) through (iii) as items (aa) through (cc),
- 34                      respectively, and indenting appropriately;
- 35                      (ii) by striking “shall be up to 75” and inserting “shall be—
- 36                      “(i) up to 50”;
- 37                      (iii) in item (cc) (as designated by clause (i)), by striking the period at the end

- 1 and inserting “; and”; and
- 2 (iv) by adding at the end the following:
- 3 “(ii) if the Secretary determines that a greater amount of support is necessary to
- 4 demonstrate more capital intensive cropping opportunities or in the case of
- 5 socially disadvantaged farmers or ranchers (as defined in section 355(e) of the
- 6 Consolidated Farm and Rural Development Act (7 U.S.C. 2003(e))), up to 65
- 7 percent of the costs of establishing an eligible perennial crop covered by the
- 8 contract (as determined under clause (i)); and
- 9 “(iii) determined by the Secretary in a manner that seeks to minimize Federal
- 10 costs, recognizing that the Secretary is not obligated to provide maximum cost-
- 11 share allowances under this section.”;
- 12 (B) in subparagraph (C)(ii), in the clause heading, by inserting “IN ANNUAL
- 13 PAYMENTS UNDER CONTRACT” after “REDUCTION”; and
- 14 (C) by adding at the end the following:
- 15 “(D) REQUIREMENTS.—Subject to subparagraphs (B) and (C), the Secretary shall
- 16 award payments under this subsection on a competitive basis, taking into consideration
- 17 the needs—
- 18 “(i) to demonstrate the economic viability of diverse bioenergy crops; and
- 19 “(ii) to encourage cost competition in establishment of eligible crops.”;
- 20 (4) in subsection (d)—
- 21 (A) in paragraph (1), in the matter preceding subparagraph (A), by inserting
- 22 “collected directly from the land” after “eligible material”; and
- 23 (B) in paragraph (2), by striking subparagraph (B) and inserting the following:
- 24 “(B) AMOUNT.—
- 25 “(i) IN GENERAL.—The amount of a matching payment under this subsection
- 26 shall be determined by the Secretary.
- 27 “(ii) REQUIREMENTS.—Subject to subparagraph (C), the Secretary shall award
- 28 payments on a competitive basis, taking into consideration the need—
- 29 “(I) to demonstrate the economic viability of diverse eligible crops and
- 30 eligible materials that otherwise would be uneconomically retrievable for
- 31 high priority uses (such as advanced biofuels and biobased products); and
- 32 “(II) to encourage cost competition in the collection, harvest, storage, and
- 33 transportation of eligible crops to a biomass conversion facility.
- 34 “(C) MAXIMUM PAYMENT.—Subject to paragraph (3), the Secretary may provide
- 35 matching payments at a maximum rate of \$0.50 for each \$1 per dry ton provided by
- 36 the biomass conversion facility, in an amount equal to not more than \$35 per ton for a
- 37 period of 2 years.
- 38 “(D) MINIMIZATION OF COSTS.—In determining payment levels under this section,
- 39 the Secretary shall—

- 1                   “(i) seek to minimize costs; and
- 2                   “(ii) not be required to provide the maximum rate of payment allowed under
- 3                   this section.
- 4                   “(E) PROHIBITION.—Payments may not be made under this section for eligible
- 5                   materials collected or harvested that, after delivery to a biomass conversion facility, the
- 6                   campus of the facility, or affiliated facilities, as determined by the Secretary, are
- 7                   required to be separated from eligible materials used for a higher-value product in
- 8                   order to be used for heat, power, biobased products, or advanced biofuels.”; and
- 9                   (5) by striking subsections (e) and (f) and inserting the following:
- 10                  “(e) Funding.—
- 11                   “(1) MANDATORY FUNDING.—
- 12                    “(A) IN GENERAL.—Of the funds of the Commodity Credit Corporation, the
- 13                    Secretary shall use to carry out this section \$55,000,000 for each of the fiscal years
- 14                    2013 through 2017, to remain available until expended.
- 15                    “(B) BCAP PROJECT AREA.—Of the funds made available for each fiscal year under
- 16                    subparagraph (A), not less than 50 percent shall be made available to carry out
- 17                    subsection (c).
- 18                   “(2) DISCRETIONARY FUNDING.—In addition to any other funds made available to carry
- 19                    out this section, there is authorized to be appropriated to carry out this section \$150,000,000
- 20                    for each of fiscal years 2013 through 2017.
- 21                   “(3) TECHNICAL ASSISTANCE.—Notwithstanding paragraph (1)(B), the Secretary may use
- 22                    funds made available for each fiscal year under this subsection to provide technical
- 23                    assistance.”.

## 24       **SEC. 4007. RURAL ENERGY SAVINGS PROGRAM.**

25       Title IX of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 8101 et seq.) is

26       amended by adding at the end the following:

## 27       **“SEC. 9014. RURAL ENERGY SAVINGS PROGRAM.**

- 28       “(a) Definitions.—In this section:
- 29                   “(1) ELIGIBLE ENTITY.—The term ‘eligible entity’ means—
- 30                    “(A) any public power district, public utility district, or similar entity, or any electric
- 31                    cooperative described in section 501(c)(12) or 1381(a)(2) of the Internal Revenue
- 32                    Code of 1986, that borrowed and repaid, prepaid, or is paying an electric loan made or
- 33                    guaranteed by the Rural Utilities Service (or any predecessor agency);
- 34                    “(B) any entity primarily owned or controlled by 1 or more entities described in
- 35                    subparagraph (A); or
- 36                    “(C) any other entity that is an eligible borrower of the Rural Utility Service (as
- 37                    determined under section 1710.101 of title 7, Code of Federal Regulations (or a
- 38                    successor regulation)).

1           “(2) ENERGY EFFICIENCY MEASURES.—The term ‘energy efficiency measures’ means, for  
2 or at property served by an eligible entity, structural improvements and investments in cost-  
3 effective, commercial technologies to increase energy efficiency.

4           “(3) QUALIFIED CONSUMER.—The term ‘qualified consumer’ means a consumer served  
5 by an eligible entity that has the ability to repay a loan made under subsection (c), as  
6 determined by the eligible entity.

7           “(4) SECRETARY.—The term ‘Secretary’ means the Secretary of Agriculture, acting  
8 through the Administrator of the Rural Utilities Service.

9           “(b) Loans to Eligible Entities.—

10           “(1) IN GENERAL.—Subject to paragraph (2), the Secretary shall make loans to eligible  
11 entities that agree to use the loan funds to make loans to qualified consumers for the  
12 purpose of implementing energy efficiency measures.

13           “(2) REQUIREMENTS.—

14           “(A) IN GENERAL.—As a condition of receiving a loan under this subsection, an  
15 eligible entity shall—

16           “(i) establish a list of energy efficiency measures that is expected to decrease  
17 energy use or costs of qualified consumers;

18           “(ii) prepare an implementation plan for use of the loan funds, including for  
19 interest rate utilization under subsection (c)(1)(A);

20           “(iii) provide for appropriate measurement and verification to ensure—

21           “(I) the effectiveness of the energy efficiency loans made by the eligible  
22 entity; and

23           “(II) that there is no conflict of interest in carrying out this section; and

24           “(iv) demonstrate expertise in effective use of energy efficiency measures at  
25 scale.

26           “(B) REVISION OF LIST OF ENERGY EFFICIENCY MEASURES.—Subject to the approval  
27 of the Secretary, an eligible entity may update the list required under subparagraph  
28 (A)(i) to account for newly available efficiency technologies.

29           “(C) EXISTING ENERGY EFFICIENCY PROGRAMS.—An eligible entity that, at any time  
30 before the date that is 60 days after the date of enactment of this section, has  
31 established an energy efficiency program for qualified consumers may use an existing  
32 list of energy efficiency measures, implementation plan, or measurement and  
33 verification system of that program to satisfy the requirements of subparagraph (A) if  
34 the Secretary determines the list, plan, or systems are consistent with the purposes of  
35 this section.

36           “(3) NO INTEREST.—A loan under this subsection shall bear no interest.

37           “(4) REPAYMENT.—With respect to a loan under paragraph (1)—

38           “(A) the term shall not exceed 20 years from the date on which the loan is closed;  
39 and



- 1           “(B) except as provided in paragraph (6), the repayment of each advance shall be  
2           amortized for a period not to exceed 10 years.
- 3           “(5) AMOUNT OF ADVANCES.—Any advance of loan funds to an eligible entity in any  
4           single year shall not exceed 50 percent of the approved loan amount.
- 5           “(6) SPECIAL ADVANCE FOR START-UP ACTIVITIES.—
- 6           “(A) IN GENERAL.—In order to assist an eligible entity in defraying the appropriate  
7           start-up costs (as determined by the Secretary) of establishing new programs or  
8           modifying existing programs to carry out subsection (c), the Secretary shall allow an  
9           eligible entity to request a special advance.
- 10          “(B) AMOUNT.—No eligible entity may receive a special advance under this  
11          paragraph for an amount that is greater than 4 percent of the loan amount received by  
12          the eligible entity under paragraph (1).
- 13          “(C) REPAYMENT.—Repayment of the special advance—
- 14               “(i) shall be required during the 10-year period beginning on the date on which  
15               the special advance is made; and
- 16               “(ii) at the election of the eligible entity, may be deferred to the end of the 10-  
17               year period.
- 18          “(7) LIMITATION.—All special advances shall be made under a loan described in  
19          paragraph (1) during the first 10 years of the term of the loan.
- 20          “(c) Loans to Qualified Consumers.—
- 21               “(1) TERMS OF LOANS.—Loans made by an eligible entity to qualified consumers using  
22               loan funds provided by the Secretary under subsection (b)—
- 23                       “(A) may bear interest, not to exceed 3 percent, to be used for purposes that  
24                       include—
- 25                               “(i) to establish a loan loss reserve; and
- 26                               “(ii) to offset additional personnel and program costs of eligible entities to  
27                               provide the loans;
- 28                       “(B) shall finance energy efficiency measures for the purpose of decreasing energy  
29                       usage or costs of the qualified consumer by an amount that ensures, to the maximum  
30                       extent practicable, that a loan term of not more than 10 years will not pose an undue  
31                       financial burden on the qualified consumer, as determined by the eligible entity;
- 32                       “(C) shall not be used to fund purchases of, or modifications to, personal property,  
33                       unless the personal property is or becomes attached to real property (including a  
34                       manufactured home) as a fixture;
- 35                       “(D) shall be repaid through charges added to the electric bill for the property for, or  
36                       at which, energy efficiency measures are or will be implemented, on the condition that  
37                       this requirement does not prohibit—
- 38                               “(i) the voluntary prepayment of a loan by the owner of the property; or
- 39                               “(ii) the use of any additional repayment mechanisms that are—

- 1                   “(I) demonstrated to have appropriate risk mitigation features, as  
2                   determined by the eligible entity; or
- 3                   “(II) required if the qualified consumer is no longer a customer of the  
4                   eligible entity; and
- 5                   “(E) shall require an energy audit by an eligible entity to determine the impact of  
6                   proposed energy efficiency measures on the energy costs and consumption of the  
7                   qualified consumer.
- 8                   “(2) CONTRACTORS.—In addition to any other qualified general contractor, eligible  
9                   entities may serve as general contractors.
- 10                  “(d) Contract for Measurement and Verification, Training, and Technical Assistance.—
- 11                   “(1) IN GENERAL.—Not later than 90 days after the date of enactment of this section, the  
12                   Secretary—
- 13                   “(A) shall establish a plan for measurement and verification, training, and technical  
14                   assistance of the program; and
- 15                   “(B) may enter into 1 or more contracts with a qualified entity for the purposes of—
- 16                   “(i) providing measurement and verification activities; and
- 17                   “(ii) developing a program to provide technical assistance and training to the  
18                   employees of eligible entities to carry out this section.
- 19                   “(2) USE OF SUBCONTRACTORS AUTHORIZED.—A qualified entity that enters into a  
20                   contract under paragraph (1) may use subcontractors to assist the qualified entity in carrying  
21                   out the contract.
- 22                  “(e) Fast Start Demonstration Projects.—
- 23                   “(1) IN GENERAL.—The Secretary shall offer to enter into agreements with eligible  
24                   entities (or groups of eligible entities) that have energy efficiency programs described in  
25                   subsection (b)(2)(C) to establish an energy efficiency loan demonstration projects consistent  
26                   with the purposes of this section.
- 27                   “(2) EVALUATION CRITERIA.—In determining which eligible entities to award loans under  
28                   this section, the Secretary shall take into consideration eligible entities that—
- 29                   “(A) implement approaches to energy audits and investments in energy efficiency  
30                   measures that yield measurable and predictable savings;
- 31                   “(B) use measurement and verification processes to determine the effectiveness of  
32                   energy efficiency loans made by eligible entities;
- 33                   “(C) include training for employees of eligible entities, including any contractors of  
34                   such entities, to implement or oversee the activities described in subparagraphs (A) and  
35                   (B);
- 36                   “(D) provide for the participation of a majority of eligible entities in a State;
- 37                   “(E) reduce the need for generating capacity;
- 38                   “(F) provide efficiency loans to—

- 1                   “(i) in the case of a single eligible entity, not fewer than 20,000 consumers; or  
2                   “(ii) in the case of a group of eligible entities, not fewer than 80,000  
3                   consumers; and  
4                   “(G) serve areas in which, as determined by the Secretary, a large percentage of  
5                   consumers reside—  
6                   “(i) in manufactured homes; or  
7                   “(ii) in housing units that are more than 50 years old.  
8                   “(3) DEADLINE FOR IMPLEMENTATION.—To the maximum extent practicable, the  
9                   Secretary shall enter into agreements described in paragraph (1) by not later than 90 days  
10                   after the date of enactment of this section.  
11                   “(4) EFFECT ON AVAILABILITY OF LOANS NATIONALLY.—Nothing in this subsection shall  
12                   delay the availability of loans to eligible entities on a national basis beginning not later than  
13                   180 days after the date of enactment of this section.  
14                   “(5) ADDITIONAL DEMONSTRATION PROJECT AUTHORITY.—  
15                   “(A) IN GENERAL.—The Secretary may conduct demonstration projects in addition  
16                   to the project required by paragraph (1).  
17                   “(B) INAPPLICABILITY OF CERTAIN CRITERIA.—The additional demonstration projects  
18                   may be carried out without regard to subparagraphs (D), (F), or (G) of paragraph (2).  
19                   “(f) Additional Authority.—The authority provided in this section is in addition to any other  
20                   authority of the Secretary to offer loans under any other law.  
21                   “(g) Funding.—  
22                   “(1) MANDATORY FUNDING.—Of the funds of the Commodity Credit Corporation, the  
23                   Secretary shall use to carry out this section \$70,000,000 for each of fiscal years 2013  
24                   through 2017.  
25                   “(2) DISCRETIONARY FUNDING.—In addition to any other funds made available to carry  
26                   out this section, there is authorized to be appropriated to the Secretary to carry out this  
27                   section \$80,000,000 for each of fiscal years 2013 through 2017, to remain available until  
28                   expended.  
29                   “(h) Effective Period.—Subject to the availability of funds under subsection (g) and except as  
30                   otherwise provided in this section, the loans and other expenditures required to be made under  
31                   this section shall be available until expended, with the Secretary authorized to make new loans as  
32                   loans are repaid.  
33                   “(i) Regulations.—  
34                   “(1) IN GENERAL.—Except as otherwise provided in this subsection, not later than 180  
35                   days after the date of enactment of this section, the Secretary shall promulgate such  
36                   regulations as are necessary to implement this section.  
37                   “(2) PROCEDURE.—The promulgation of the regulations and administration of this section  
38                   shall be made without regard to—  
39                   “(A) the Statement of Policy of the Secretary of Agriculture effective July 24, 1971

Senate Legislative Counsel  
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1 (36 Fed. Reg. 13804), relating to notices of proposed rulemaking and public  
2 participation in rulemaking; and  
3 “(B) chapter 35 of title 44, United States Code (commonly known as the ‘Paperwork  
4 Reduction Act’).  
5 “(3) CONGRESSIONAL REVIEW OF AGENCY RULEMAKING.—In carrying out this section, the  
6 Secretary shall use the authority provided under section 808 of title 5, United States Code.  
7 “(4) INTERIM REGULATIONS.—Notwithstanding paragraphs (1) and (2), to the extent  
8 regulations are necessary to carry out any provision of this section, the Secretary shall  
9 implement such regulations through the promulgation of an interim rule.”

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**QUESTIONS AND ANSWERS**

FEBRUARY 15, 2012

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Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
Questions for the record  
2/15/2012

Chairwoman Debbie Stabenow

Questions for Secretary Tom Vilsack

1. One of the first commercial-scale digester projects in the United States was built in Fremont, Michigan. This digester will take over 100,000 tons of agricultural waste from a local food processing facility and turn it into enough power for 1,500 homes annually. This project will produce a clean, renewable energy source while adding value and jobs to the local community. This is the type of success that Farm Bill programs can promote, what policies are most effective in helping get more projects like this one off the ground?
2. During the Joint Select Committee Process last fall, the Senate Agriculture Committee worked to reduce the number of duplicative program authorizations in the Rural Development Title. As we look towards the next Farm Bill, what specific opportunities do you see for program consolidation that would not only improve administrative efficiencies at USDA but also be more user-friendly for communities and small businesses? Along these same lines, what steps can the Committee take to simplify the application processes for accessing Rural Development resources?
3. When people think about rural America, they see the traditional images of farmland and small businesses lining Main Street. But no matter how rural they are, those communities and businesses now have the opportunity to participate in a global economy. This is particularly true of the renewable energy economy. Agricultural producers have given the United States a competitive edge that has helped us become a leader in renewable energy. What policies have been the most effective in helping producers gain that edge and what changes or new policies should we consider to help them maintain it?
4. According to a recent study conducted by Iowa State, over 100,000 jobs are associated with biobased product development and production in Michigan;

biobased manufacturing is a growing industry that is creating value-added supply chains for our farmers and jobs in Rural Communities. What policies does the Committee need to consider in the Farm Bill for helping these industries mature?

5. Rural communities have historically faced challenges when it comes to accessing capital and credit that allows them to invest, grow, and create jobs. The federal government has importantly stepped in to assist rural America, through both grants and loans, to help those communities grow and create jobs. In the face of budget pressures, we are now taking a look at all federal programs and considering where we can continue to invest limited taxpayer funds. Agricultural Credit, including the Farm Credit System, commercial credit, USDA farm loan programs, and programs like Farmer Mac have successfully been able to provide funding in rural America and in many cases leverage government funds to greatly increase lending. What are the most essential or highest priority policies for helping our rural businesses maintain adequate access to capital and credit in the future, especially if government RD programs shrink? Are there ways that the Farm Credit System, USDA loan programs, commercial credit, or even secondary markets could fill any gaps?
6. The 2008 Farm Bill directed the Secretary to submit a report to the Senate's Committee on Agriculture, Nutrition, and Forestry and the House of Representatives' Committee on Agriculture on the various definitions of "rural" that are used by USDA to administer its programs and to make recommendations for better ways to target Rural Development funds. What is the status of this report and when do you anticipate that it will be submitted to the Committees?
7. In October 2011, the Federal Communications Commission (FCC) adopted changes to the rules governing the distribution of high cost support under the Universal Service Fund (USF) and the Inter-carrier Compensation (ICC) rates that carriers may charge each other to originate and terminate calls on their respective local networks. These revenue sources have traditionally been utilized by rural telecommunications providers, including USDA Rural Utilities Services borrowers, to build their networks and provide affordable service to rural customers. How will these changes impact the RUS's Telecommunications and Broadband Loan Programs?

Question for Mr. McCauley

1. Having worked within a six-county region in Michigan that is represented by more than 100 units of local government, can you describe the process of developing an economic development strategy for a region of that size? What were some of the challenges you faced? And conversely, have you identified any unexpected opportunities for economic development?

Questions for Dr. Raitano

1. In your testimony you mention the fact that it isn't always possible for rural towns in Western states to collaborate because they are separated by too many miles. How should this factor inform our efforts to develop policies that help encourage regional-based development strategies? Is it a matter of flexibility in the statutory and regulatory language that would permit towns to define their region or are there other policy solutions we should consider?

Questions for Mr. Rembert

1. You received a Rural Business Opportunity grant that will enable you to share strategies for supporting rural businesses with others in a seven-county region. Can you discuss how important these relatively small federal investments are to rural economic growth?

Questions for Mr. Fluharty

1. Focusing solely on Rural Development programs, what opportunities for program consolidation do you believe this Committee should consider as we develop a new Farm Bill?

Questions for Mr. Edwards

1. Virent has received a small amount of research and development seed money to build and advance the company and now it has corporate partners such as Coca Cola and other private companies. That seed money has helped to create over 120 jobs. What are the barriers to commercialization for companies like Virent and what modifications to current policies do you think would be most effective in helping other companies overcome those barriers?



Questions for Mr. Flick

1. Show Me Energy is a farmer-owned and operated co-op and its members are the ones growing biomass for the pellet facility. Most discussions about bioenergy tend to be focused on what is happening in laboratories or with financing facilities and unfortunately very little seems to be discussed from the point of view of farmers. Therefore, can you provide more of that perspective: what do you hear from your farmer-members about Show Me's effort and the Federal policies in general? What do we need to keep in mind as we work on these policies for the Farm Bill?

Questions for Mr. Hutchins

1. Can you explain what the jobs are that are being saved through the REAP program and where the new ones are coming from? What jobs have you seen saved or created by REAP?

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
Questions for the record  
February 15, 2012

Ranking Member Roberts

Secretary Vilsack

1. Last summer, President Obama announced the creation of the White House Rural Council chaired by you that focuses on actions to better coordinate and streamline federal program efforts in rural America. I was pleased to see such an effort to tear down the stovepipes of bureaucracy on behalf of farm country. Often times actions taken by agencies other than USDA have a tremendous impact on the development of Rural America.
  - A. The Department of Labor's proposed rule for agriculture labor for our young people is a prime example of something this Council should have discussed. Labor's proposed rule limits teenage children from working on farms or in farm related jobs and limits how organizations like FFA educate young people on production practices.

No one cares more about the safety of young people working on farms than their parents and neighbors. Yet I continue to hear from parents who are worried these proposals will prevent their children from getting the hands on education they need to continue a successful rural business. To what extent was the White House Rural Council involved in drafting this new rule?
  - B. The Federal Communications Commission recently announced an order proposing reforms to the Universal Service Fund and Intercarrier Compensation on the Rural Utilities Service telecom loan portfolio. The FCC is also considering further changes that could impact small businesses in Rural America and the customers they serve. What role has the Rural Council played in the FCC's proposed reforms? As Chair of the Rural Council, how many interagency meetings with USDA, Commerce, and FCC have occurred and to what extent have stakeholders been involved in these meetings?
2. The Rural Development Title of the 2008 Farm Bill required USDA to present this Committee with a report that assesses the various definitions of the term "rural" and "rural area" that are used to administer RD programs. Five years have passed, and we are about to write another farm bill, can you tell us what is the status of this report? When can we expect it?
3. The March 2011 GAO report titled *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue* cited concerns with

overlap and duplication across four agencies (Commerce, HUD, USDA, and SBA) in the area of economic development. Economic development programs administered efficiently and effectively can contribute to the well-being and growth of our nation's rural economy. The challenge is achieving this goal with the least cost to our tax payers.

- A. You have mentioned several things you are doing within the Department to address efficiency and improve delivery of programs, but what are you doing across agencies to address duplication of programs, particularly when it involves economic development?
  - B. The GAO report specifically cited the failure of RD to fully implement a USDA Inspector General's 2003 recommendation related to ensuring that data exist to measure the accomplishments of the Business and Industry loan program. As you know, the B & I loan program is one of RD's largest rural business programs. What steps have you taken to address this concern, and what have been the results of your actions?
4. RD's Multi-Family Housing Programs offer loans to provide affordable multi-family rental housing for low and moderate income families as well as elderly, and persons with disabilities. In the past, this has been a good resource in my home state of Kansas for a great number of folks in rural areas. Unfortunately, in recent years, we've seen a substantial number of folks default on their RD loans.

While some of this we can attribute to the current state of the economy, a significant portion of this is due to competing government programs such as those administered by the Department of Housing and Urban Development (HUD). What can be done to prevent such duplication? And how can we prevent other agencies/departments from undermining existing RD funded projects?

5. USDA is working with the Department of Defense and the Department of Energy to facilitate biofuels production. The 2008 Farm Bill provided mandatory funds for expanding biofuels production, research and development of new conversion technology and funds for construction of the facilities. How many operations (working and planned facilities) have received assistance from Farm Bill Energy Title programs? How much has their production increased to date and what is the expected capacity that will result from the USDA investment? Boiling it down, what is the capacity that the Farm Bill is responsible for creating and how far along are we today in reaching that capacity?
6. How would you rate the Department's implementation of the Biomass Crop Assistance Program (BCAP)? How much additional production was generated through the matching payments (and what is the total amount paid for matching payments)? How are you facilitating the coordination between USDA agencies, specifically with RMA regarding crop insurance products for biomass crops?
7. USDA's bio-based program has a labeling component that creates a simple label that states *USDA Certified Bio-Based Product*. As USDA currently excludes bio-based

products with “mature markets” such as forest products, won’t this mislead and cause confusion in the marketplace? Will the consumer be able to understand the differences between two products on the shelf that are both bio-based, one with a USDA endorsement and one without?

8. Last year USDA, DOE and DOD announced a planned \$510 million investment to support drop-in advanced aviation and marine biofuels with the use of \$170 million in CCC funds. What specific authority is USDA using and how will the CCC funds be used? How many times has USDA used this authority?

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
Questions for the record  
2/15/12

Senator Michael Bennet

Questions for Dr. Flo Raitano

1. At a time when the entire federal budget is under a microscope, I think all Senators here want to ensure that USDA Rural Development Programs are accessible, efficient, and serve a proper purpose.

As someone who has dedicated her career to making life and business better for rural Colorado, let me ask you this question: If you were to design a USDA Rural Development program from the ground up, what are the most important characteristics to include that would help ensure we have positive outcomes and use our limited resources wisely?

2. You mentioned in your testimony that application procedures for USDA Rural Development programs can be burdensome and discourage worthy applicants from pursuing assistance.

Could you please say a little more about the unique challenges rural Coloradans face in identifying and applying for assistance from USDA Rural Development?

3. Colorado has a strong track record of partnering with the USDA on energy efficiency and renewable energy projects, from wind, to solar, to the next generation of biofuels. The Rural Energy for America Program, or 'REAP,' has been especially popular in Colorado.

But as a provider of technical services to rural communities, what in your opinion is working well with USDA energy programs? Where should we be looking to improve these programs?

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
Questions for the record  
February 15, 2012  
Senator Boozman

Senator Boozman would like to submit the following Question for the Record to Secretary Vilsack, from the Agriculture Committee Hearing held on February 15, 2012:

SECRETARY VILSACK: The FCC recently reformed USF High Cost Fund and Intercarrier Compensation regime. While this program needed to be updated, the FCC has created a huge amount of regulatory uncertainty for companies who have been expanding broadband networks across rural America. How can USDA make sure that its rural economic development mission isn't undermined by any further changes?

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
Questions for the record  
2/15/12

Senator Saxby Chambliss

Questions for Secretary Vilsack

1. The U.S. forest products industry is seeing incredible job losses; since 2005, the industry has lost 294,000 full-time jobs and 19% of U.S. mills have closed in that same time period. The South has suffered the greatest number of full time losses, with 113,000 job losses. This has resulted in an overall annual decline of \$9 billion in full-time wages in the industry. Billions more in part-time and self-employment wages were also lost. With these job losses in mind, I'm concerned with USDA's implementation of the "Biopreferred Markets Program" and the disadvantages it creates for the forest products sector. Both the federal procurement and the voluntary labeling program under this program could help promote the use of forest products and create jobs in rural communities that have been hit hard by the downturn in the forest industry.

Why is USDA failing to recognize forest products under this program, especially when forest products are among the most "biobased" products in existence? Would you be willing to work with me to change the program to include forest products?

2. Last year, I was pleased to see your announcement, Mr. Secretary, calling for a USDA preference for wood products in your building construction and allowing the use of all credible green building rating systems. However, in the FY 2013 budget justification for the Forest Service—there is a statement that the Forest Service will continue to use only the LEED system for building construction and there's no tangible demonstration for how you are addressing your wood preference policy.

Can you explain this? How are you fulfilling the announcement and policy you committed to a year ago?

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
Questions for the record  
February 15, 2012  
Senator Gillibrand

Secretary Vilsack:

**Dairy—**

1. We must fight to keep our family dairy farms from going out of business because it saves jobs, protects rural economies, maintains our American milk production and assures a safe viable food supply in all regions of the country as a national security priority. Dairy farmers in New York State and across the country urgently need this Committee and Congress to reform dairy policy in order to better protect against price volatility. While I support swift action on tackling the dairy issue in the farm bill, the reality is that the critical MILC program will ratchet down its payment levels on September 1<sup>st</sup> of this year. If the farm bill is not reauthorized by then, what will USDA do under your leadership to protect dairy farmers from losing their much needed safety net?
2. The current Federal Milk Marketing Orders (FMMO) system is based on end-product pricing, which may be leading to the inadequate prices farmers are receiving for their milk. As I have written to you in the past, I urge you to conduct a federal hearing process where a transition to a competitive pay pricing system could be explored. I also recommend that USDA conduct a thorough analysis of the FMMO reforms proposed by the Maine Dairy Industry Advisory Council as well as Congressman Peterson's Foundations for the Future proposal. This committee needs this data to be gathered, analyzed and made available to us as we explore transitioning from a four-class to a two-class system. Are you amenable to working together on solving this critical milk pricing problem for our dairy farmers? If so, what is your timeline for action?

**Specialty Crop Insurance—**

1. I wanted to take a moment to publicly thank you for accepting my invitation to visit New York State after Hurricane Irene and the subsequent flooding which devastated so many of our farms. As you witnessed with me firsthand in September, this extreme flooding was tragic in the damage it inflicted on our farms, but it also illuminated the problem of inadequate specialty crop insurance for our producers. On many New York farms, producers grow a variety of fruits and vegetables – each of which requires its own specific crop insurance policy—and unfortunately many of these individual specialty crop insurance policies don't work for our farmers. I have heard from many New York farmers that they no longer purchase crop insurance since even in big loss years their indemnity is smaller than their premium. Will you work with me to fix this broken risk management program for specialty crop farmers in New York State and across the country?

**Disaster/Loan Forgiveness—**



1. Last year, many New York counties were devastated by the flooding caused by Hurricane Irene and Tropical Storm Lee. With the numerous pressures on farmers, including all time high feed and fuel costs, many were struggling to stay afloat before these natural disasters. Many growers lost all of their crops in their fields since the floods hit right before harvest. While we were able to get disaster aid money to these communities in the form of the Emergency Conservation Program and the Emergency Watershed Program funds, we still need to do more. For farmers who had outstanding emergency loans from USDA and were devastated by last year's natural disasters, I ask why loan forgiveness is not used as a form of disaster assistance? Additionally, would it be possible to lower the Emergency Loan borrowing rate to be equal to the operating loan rate, since farmers being hit by a disaster shouldn't also be put in a situation to where they have to pay more to receive a loan?

**SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND  
FORESTRY  
FULL COMMITTEE HEARING  
Energy and Economic Growth for Rural America**

**Wednesday, February 15, 2012 — 9:30 a.m.**

**G50 Dirksen Senate Office Building**

**QUESTIONS FROM SENATOR JOHN THUNE**

**PANEL I**

**USDA Secretary Tom Vilsack**

**Rural Development**

1. Mr. Secretary, our rural communities – especially our local businesses -- have always faced a giant hurdle in gaining access to capital and credit to invest, grow, and create jobs. We know that federally funded Rural Development programs are going to have to shrink – budget pressures demand it -- which will mean less support from Washington.

**Question:** Do you have any thoughts on how our rural businesses can maintain adequate access to capital and credit in the future as government programs shrink?

**Energy**

1. Mr. Secretary, the Biomass Crop Assistance Program (BCAP) which Senator Nelson and I included in the last Farm Bill has two components, the collection, harvest, storage and transportation (CHST) component and the project area component.

Mr. Secretary, yesterday I met with the CEO of a major enzymes research and development company, who told me that BCAP and its

CHST component is extremely important to the future of biomass harvest and delivery to energy producing facilities.

**Question:** Do you believe the collection, harvest, storage and transportation component of BCAP is an effective program that would further the development of cellulosic ethanol and other second generation biofuels?

**Question:** The intent of Congress for CHST in the last Farm Bill was that it not be limited to project areas but for crop residues and other eligible biomass for which project areas do not apply. Do you believe that eligibility for the CHST component of BCAP should not be limited to project areas?

2. Mr. Secretary, to your knowledge is there any program other than BCAP which addresses the logistical challenges of building the cellulosic biomass industry in the United States?
3. What could the economic impact be if mandatory funding was provided for BCAP through the Energy title of the next Farm Bill?
4. The United States has developed the technology for the advanced biofuels industry. Now, commercial production is starting outside the United States. I know the USDA has issued several loan guarantees to advanced biofuels projects for production in this country. Do you expect additional loan guarantees in the near future for additional facilities?
5. When do you expect these facilities to be online and producing significant volumes?
6. Your agency has just rolled out an Energy website that, among other useful tools, has an Energy Investment Map which details USDAs energy projects by state, county and congressional district. Do you have plans to add jobs data associated with those projects in the future and if so, when can that be expected?

**PANEL II**

**Questions for any Panelists:**

1. If you were to prioritize what programs in the current Rural Development Title are the critical in your area what would be the top three?
2. If you had to make a decision to eliminate any programs in the Rural Development Title, which ones would you choose?
3. What are the greatest needs in rural America? Is it affordable housing, water, waste water facilities? Other?
4. How are the current Rural Development programs administered by USDA working? Are they effective? How burdensome is the application/paperwork process?

**PANEL III**

**Steve Flick – Show Me Energy**

1. How has BCAP worked for your company?
2. What would you change about BCAP for the future to make it work better?

**Bennie Hutchins – Ag Energy Resources**

1. What would you like to see changed in the Rural Energy for America Program (REAP)?
2. Do you believe the REAP mandate of \$3 in private funds for every REAP dollar is a fair requirement?

**Bill Grieving – Grain Sorghum Producer**

1. Mr. Grieving, do you believe there is a future for grain sorghum and other types of sorghum in the bioenergy arena?
2. Although grain sorghum displays excellent hardiness in dryer areas, do you believe it has enough production potential to be considered as a consistently viable energy crop?

**Questions for any Panelists:**

1. Which of the current energy programs authorized in the 2008 Farm Bill, in your opinion are the most successful?
2. Which are the least successful?

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
February 15, 2012  
Questions for the record  
Mr. Lee Edwards, CEO, Virent

**Chairwoman Debbie Stabenow**

1. Virent has received a small amount of research and development seed money to build and advance the company and now it has corporate partners such as Coca Cola and other private companies. That seed money has helped to create over 120 jobs. What are the barriers to commercialization for companies like Virent and what modifications to current policies do you think would be most effective in helping other companies overcome those barriers?

Answer:

*The most substantial obstacle for companies like Virent in bringing innovative technologies to full-scale commercial production is the lack of access to low-cost capital. A deficiency in affordable financing alternatives has markedly slowed potential development of advanced biofuels and bioproducts in general.*

*Private investment is restrained by multiple factors. Two fundamental factors depressing the availability of low-cost capital are the result of simple market dynamics: (1) risk in the potentially high cost of feedstocks, and (2) risk that product prices charged to customers will be uncompetitive with crude oil alternatives if the price for oil drops and for agricultural feedstocks increases. Biofuels and bioproducts face fluctuating feedstock prices on the input side, and must compete with petroleum products, also with highly volatile pricing, on the output side. This results in uncertain profitability, putting investment capital at risk, even for technologies such as Virent's that are now ready for commercial deployment.*

*To the extent that either of these risks is minimized, the prospects for more consistent and appropriate returns on capital are proportionally increased, spurring private investment.*

*With that basic background, both current and potentially new programs within the Farm Bill up for reauthorization have the potential to mitigate both feedstock and product price risks that limit access to capital, thereby directly fostering more robust domestic production of advanced biofuels and bioproducts.*

*We first recommend that the Farm Bill advanced biofuel definition be broadened to allow for the use of any commercially available renewable feedstocks – including corn starch – to make drop-in hydrocarbon fuels and chemicals. Even at today's prices, corn starch remains the least expensive and most plentiful feedstock available in the United States, and there are a variety of*

*products that come from corn (such as industrial starches) that are not used for and do not impact markets for food and in fact preserve the portions of corn most preferred for feed. Feedstock cost makes up a majority of the cost of advanced biofuels and bioproducts, and to compete and succeed in the market, producers must be able to use the most cost-effective feedstocks. At the very least, conversion of corn starch into drop-in, advanced biofuels should be eligible under the Farm Bill definition as a transition to emerging cellulosic feedstocks, enabling second generation biorefineries to “prime the pump” for the successful commercialization of cellulosic and other advanced feedstocks around the country.*

*Another opportunity for change in the current Farm Bill Programs is that technologies using sugar feedstocks face a special hurdle to building facilities in the United States. The quotas and prices associated with the US Sugar Program limit access to domestically grown sugar or make its use too expensive to compete with petroleum based products. Since the program is focused on preserving prices for sugar used to sweeten food production, a market limited to sugar grown or imported to make biofuels or bioproducts should be allowed outside the sugar program.*

*For cellulosic feedstocks, the current Biomass Crop Assistance program (BCAP) is a useful tool to address price and availability. While assistance in establishing specific energy crops is helpful, meaningful investment must also be made in the collection, storage, and transportation of new and innovative energy crops. This will help speed the transition from currently commercially available feedstocks to cellulose.*

*With respect to potential new Farm Bill programs, we recommend the creation of a program that would stabilize feedstock prices within a range. A stable price range would reduce feedstock price risk and would benefit both farmers and consumers of commodities such as biorefineries or livestock producers. A farmer-owned reserve, implemented within the Commodity Credit Corporation which has as part of its mission the stabilization of farm prices, may be an appropriate way to achieve this goal.*

*Turning to current programs that address capital risk, the 9003 Biorefinery Assistance Program is a key component to help attract investment. Access to low-cost capital from this program helps attract larger private investment by sharing the financial risks. However, access to this program should be expanded, because many new technologies will prove commercial scale production using currently available feedstocks and products like chemicals are an important component of the business cases for biorefineries. To achieve these goals, revising the definition of “advanced biofuels” to be more technology and feedstock neutral would enable emerging technologies to fully leverage this Program. For example, the requirement that a biorefinery produce 51% fuels should be removed so that, like a petroleum refinery, biorefineries can produce any mix of fuels and chemicals that provides the greatest commercial return.*

*Next, while outside the Agriculture Committee’s jurisdiction, it is important to mention investment tax credits and/or accelerated depreciation provisions. These tax policies are critical, because tax benefits are highly attractive to investors. They reduce risk to capital and also*

*attract additional capital in the form of tax equity. In this economic climate, tax incentives will be one of the most important vehicles for attracting the investment that will build the advanced biorefining industry. We strongly recommend making these tax provisions available for advanced biofuels and bioproducts facilities.*

*Finally, Congress should reauthorize the Farm Bill in a timely manner with sufficient mandatory funding for these Energy Title programs to provide a level of certainty about government policies to encourage strong private investment, yielding great benefits to the public with significant multiplier effects.*

**Senator John Thune**

1. Which of the current energy programs authorized in the 2008 Farm Bill, in your opinion are the most successful?

*Answer: Virent has benefited specifically from the Biomass Research and Development Program. This has been a highly successful way to support the development and understanding of innovative new technologies at early stages. In the future, the program should increase its focus on the demonstration portion of the program's mandate. The Biorefinery Assistance Program is also critical to help commercialize these technologies once they are ready to scale. However, expanding eligibility for the Biorefinery Assistance Program to include biochemicals and a wider variety feedstocks commercially available in the US would make it even more effective. This is because innovative technologies must scale to commercial production volumes using currently available feedstocks and producing high value co-products that improve the business case for biorefineries. Finally, the aid provided by the Biomass Crop Assistance Program can play an important role in reducing risk for producers and speeding the transition to new bioenergy crops.*

2. Which are the least successful?

*Answer: To date, the Feedstock Flexibility Program for Bioenergy Producers authorized in the 2008 Farm Bill has not fulfilled its mission, but this is because it has never been implemented. This type of program has tremendous potential to encourage additional production of US sugar and help provide a market for its use in energy production. This would both create jobs and promote the biofuel industry by helping feedstock availability and price competitiveness.*



Senate Committee on Agriculture, Nutrition & Forestry

Energy and Economic Growth for Rural America

February 15, 2012

Questions for the record

Mr. Steve Flick

**Chairwoman Debbie Stabenow**

1. Show Me Energy is a farmer-owned and operated co-op and its members are the ones growing biomass for the pellet facility. Most discussions about bioenergy tend to be focused on what is happening in laboratories or with financing facilities and unfortunately very little seems to be discussed from the point of view of farmers. Therefore, can you provide more of that perspective: what do you hear from your farmer-members about Show Me's effort and the Federal policies in general? What do we need to keep in mind as we work on these policies for the Farm Bill?

Answer:

Show Me's members are very excited about the opportunity to grow dedicated energy crops. Once we received the BCAP grant, our members quickly enrolled their acres and are now looking forward to planting those acres early this year. Continued Federal support of programs such as BCAP is crucial for the success of our project. It would be a shame to see such a successful project lose Federal support.

As I mentioned in my testimony, it is important for the Committee to understand that Federal programs such as BCAP, REAP and the Biorefinery Assistance Program are leading rural America to economic prosperity and increasing energy security for the country as a whole. I am confident that once projects such as ours are given the chance, it will lead to the proliferation of advanced biorefineries and the advent of a new era in renewable energy. The benefits are real. Farmers receive a new revenue stream from the production of renewable energy on their land or from selling energy crops to an advanced biorefinery. We must make sure to continue to fund these programs.

**Senator John Thune**

1. How has BCAP worked for your company?

Answer:

BCAP has worked very well for Show Me Energy. Our cooperative started in the biomass business by building a biorefinery in 2008. In 2009, in partnership with the local electric utility, we test burned 29,000 tons of biomass pellets with coal. Applying for the BCAP grant was the natural next step in our

goal to produce advanced biofuels from dedicated energy crops. We are well on our way toward that goal with the help of BCAP. Thanks to the project funds, we signed up 26,000 acres among the members of Show Me to grow the feedstock necessary to produce biobutanol.

2. What would you change about BCAP for the future to make it work better?

Answer:

Since its initial rollout, BCAP has undergone some administrative issues. However, since BCAP's Final Rule was released in October 2010, BCAP has proved to be very successful.

Despite its success, there are ways in which BCAP can be improved. For example, USDA should partner with participants to provide oversight of projects. A committee could be established to accomplish this. Such collaboration would ensure that the project is going as planned and that there are no roadblocks to its success.

Second, there should be a requirement for farmers to bring their feedstock to biorefinery. In the program's current form, farmers can simply grow their dedicated energy crop, take their Federal payment and not transport the feedstock to the biorefinery. This tweak would ensure that program funds are being directed to its primary purpose.

Finally, there should be some crop insurance available for dedicated energy crops. Although BCAP already provides a strong incentive for farmers within the project area to grow energy crops, there is no safety net in case the crops fail.

3. Which of the current energy programs authorized in the 2008 Farm Bill, in your opinion are the most successful?

Answer:

The three most successful energy programs are REAP, BCAP and the Biorefinery Assistance Program. REAP provides grants and loan guarantees for energy efficiency and renewable energy projects, including biofuels and flex fuel pumps, anaerobic digesters and other biomass, geothermal, solar, and wind projects. An incredibly popular program, demand for REAP funding far outpaces available resources by nearly a 3 to 1 margin. To date, there have been REAP funds awarded in every state, totaling over 8,000 projects. According to USDA Rural Development, in FY 2011, REAP helped fund over 2,000 projects, provided grants and loans totaling \$17,268,083 and saved or generated over 2,000 MWh. Since 2003, REAP has saved or created approximately 21,688 jobs.

REAP has excellent job creation ability because it leverages private capital. REAP's maximum grant amount is 25 percent of the project's total capital cost. According to USDA, in 2011, REAP awarded \$57 million in grants and \$34 million in loans. This leveraged an additional \$374 million in private capital with a total of \$465 million of investments stemming from REAP, a 4 to 1 ratio of total investment per federal dollar spent. According to USDA, in FY 2009, 2010 and 2011, REAP created around 15,000 jobs.

BCAP's primary goal is to assist in commercializing cellulosic ethanol. The transition to this next generation of biofuels is critical if we are going to meet the goal of 36 billion gallons of biofuels by 2022 established in the RFS. BCAP is the only federal farm program that seeks to accomplish this transition so it is critical that robust funding be made available going forward.

BCAP helps solve the chicken and egg scenario with commercializing the next generation of biofuels. By incentivizing farmers to grow cellulosic feedstock through matching and annual payments, advanced biorefineries can be assured of a steady stream of feedstock necessary for operation. Outside investors will then feel more comfortable financing a commercial-scale plant because they know there will be feedstock supply. Likewise, farmers will grow the dedicated energy crop because there is a guaranteed market from the biorefinery.

While cellulosic ethanol is not yet available in commercial quantities, BCAP has been vital in moving towards this goal while producing benefits such as economic growth and job creation. According to USDA, in FY 2011, BCAP provided an investment of approximately \$54 million in obligations to nine project areas amongst 168 counties in 10 states. With the intent of producing advanced biofuels, fuel pellets, drop-in jet fuels and biobased products, 860 contracts were approved, supporting the production and establishment of 49,908 acres of dedicated energy crops. USDA has estimated that 700,000 new jobs can be created from continuing the BCAP program.

The Biorefinery Assistance Program provides grants and loan guarantees to help build advanced biorefineries and is critical to jumpstarting advanced biofuels production. The program is the only federal program to do this and guarantees up to 90 percent of a private loan (up to \$250 million per plant) and up to a 30 percent grant for demonstration-scale plants. Loans can be used to retrofit existing biorefineries or construct new advanced biorefineries. To date, the program has approved 8 loans totaling \$647,675,000. These projects will leverage \$1,049,200,638 in other funding outside the Biorefinery Assistance Program. These projects are projected to create 461 jobs.

#### 4. Which are the least successful?

Answer:

While Congress added a number of programs in the last Farm Bill, a number of them have no results to show because they were only authorized with discretionary funding, which has come to mean they are

essentially “dead on arrival.” We have no reason to expect a different result in the next Farm Bill for programs authorized with only discretionary funding.

Those programs include:

Section 9009: Rural Energy Self-Sufficiency Initiative: \$5 million annual funding for FY2009-2012 was authorized but no money has been appropriated

Section 9010: Feedstock Flexibility Program (FFP) for Bioenergy Producers: program is on standby status.

Section 9012: Forest Biomass for Energy

Section 9013 Community Wood Energy Program, never funded.

Renewable Fertilizer Study – A concept worthy of study in light of need to reduce use of fossil fuels.

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
February 15, 2012  
Questions for the record  
Mr. Charles Fluharty

**Chairwoman Debbie Stabenow**

1. Focusing solely on Rural Development programs, what opportunities for program consolidation do you believe this Committee should consider as we develop a new Farm Bill?

Chairwoman Stabenow, given recent and anticipated future cuts in Rural Development Budget Authority, this Committee should seek program consolidation in categorical programs which have suffered such severe reductions as to no longer serve as viable, scalable national programs, as stand-alone entities. I would suggest the Rural Business Enterprise Grants (RBEG), Rural Business Opportunity Grants (RBOG), Rural Community Development Initiative (RCDI), Intermediary Relending Program (IRP), and Rural Microentrepreneur Assistance Program (RMAP), among others, represent a set of complementary programs which could be creatively incorporated into a streamlined, flexible and integrative USDA Regional Rural Innovation suite.

This suite should be accompanied by a new technical assistance support framework within USDA, should seek to advance regional approaches, scored in such a manner as to leverage linked investments from sister federal agencies, state and local governments, and community, regional and national foundations. It is critical that innovation and entrepreneurship are the prioritized federal goals for these funds, and that no funds are invested without rigorous and comprehensive regional analysis, including plans to align and integrate investment approaches and regional governance.

Finally, a more rigorous evaluation regime should be developed, to evaluate these investments against pre-established benchmarks, during the course of program duration. This should become one of the important roles of the TA support program, mentioned above.

**Senator John Thune**

1. If you were to prioritize what programs in the current Rural Development Title are the critical in your area what would be the top three?

Senator Thune, as you well know, USDA Rural Development programs are among the most diverse, and far reaching, of any within USDA agencies. These RD programs must

address the needs of a U.S. rural population which differs greatly, across our nation's rural regions.

In some of our most challenged rural communities, housing, water and waste water, and basic infrastructure are an essential sine qua non, before these communities can even begin to consider efforts to advance economic development. In these places, the old Farmer's Home Administration programs remain the most important.

The current federal budget challenges are also an important consideration here. The FY2012 Ag Appropriations bill reduced RD Budget Authority by almost \$200 million, including \$46 million for RUS, \$134 million for Rural Housing Service, and \$18.5 million for Rural Business-Cooperative Service. In the last two years, Community Facilities grants were reduced by 44 percent, water and waste water by \$41.5 million. Microenterprise lending and TA were eliminated. These reductions will mater.

However, if the federal government is to support rural wealth creation goals, beyond this basic infrastructure, it is important that the unique roles of RD Business and Industry, Community Facilities, Electrification and Telecommunications Programs, and broader economic development programs are placed in a broader federal context. The programs I review in your following question are very important, but no longer appropriately structured, given these reductions. I would urge the suggestions for consolidation I offer be incorporated into a more streamlined, locally controlled, and flexible suite of RD investments.

Without a stronger commitment to regional rural innovation, the infrastructure investments discussed below will never fully be optimized. To move our rural regions from a federal dependence to a wealth creation framework, these RD programs should be re-thought and re-designed. If re-structured with the intention of aligning much more easily with SBA, EDA, HUD, DOL and DOT programs and loan and grant applications, this new suite would be a tremendous advantage over current program dynamics.

2. If you had to make a decision to eliminate any programs in the Rural Development Title, which ones would you choose?

Given recent and anticipated future cuts in Rural Development Budget Authority, this Committee should seek program consolidation in categorical programs which have suffered such severe reductions as to no longer serve as viable, scalable national programs, as stand-alone entities. I would suggest the Rural Business Enterprise Grants

(RBEG), Rural Business Opportunity Grants (RBOG), Rural Community Development Initiative (RCDI), Intermediary Relending Program (IRP), and Rural Microentrepreneur Assistance Program (RMAP), among others, represent a set of complementary programs which could be creatively incorporated into a streamlined, flexible and integrative USDA Regional Rural Innovation suite.

This suite should be accompanied by a new technical assistance support framework within USDA, should seek to advance regional approaches, scored in such a manner as to leverage linked investments from sister federal agencies, state and local governments, and community, regional and national foundations. It is critical that innovation and entrepreneurship are the prioritized federal goals for these funds, and that no funds are invested without rigorous and comprehensive regional analysis, including plans to align and integrate investment approaches and regional governance.

3. What are the greatest needs in rural America? Is it affordable housing, water, waste water facilities? Other?

As I mention above, rural America's needs vary greatly, across geography, socio-economic circumstances, place, context and culture. However, unless rural communities embrace regional approaches to asset-based development, value chain innovations and entrepreneurship, and public/private/philanthropic partnerships to leverage and scale complementary investments in regional futures, no amount of federal support will ultimately matter.

4. How are the current Rural Development programs administered by USDA working? Are they effective? How burdensome is the application/paperwork process?

Current USDA RD programs matter a great deal to rural America. These programs address very real needs, and achieve public sector goals. But with such a diverse portfolio, some programs result in greater impact than others, and offer a better federal return on investment. These vary widely. Also, current program participation, across states and regions, also varies tremendously.

They also could be made much more effective. This Committee should consider, above all else, efforts to streamline, consolidate and create greater local flexibility, across this portfolio. In this regard, RD programs should be re-calibrated to align in a much more complementary manner with sister federal agencies, who in many cases have far greater budget authority, and can be partners in advancing the potential impact of USDA RD investments.

Finally, nearly every practitioner will testify to the fact that USDA RD applications and response times are the most burdensome in the federal family. Surely, if nothing else, there is great merit in this Committee creating statutory authority for USDA to fully cooperate in efforts to create more integrative application processes across federal agencies, so that under-resourced local governments, organizations and businesses, all with far fewer human resources for this purpose than urban counterparts, do not need to apply numerous times for similar resources, across agencies. Finally, all these application processes should be further streamlined, whenever possible.



Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
February 15, 2012  
Questions for the record  
Mr. William Greiving

**Senator John Thune**

1. Mr. Greiving, do you believe there is a future for grain sorghum and other types of sorghum in the bioenergy arena?

Yes, sweet sorghum has demonstrated its ability to produce several hundred gallons of ethanol per acre from the sugars within the plant. Grain sorghum because of its drought and heat tolerance can compete with corn in the yield arena if managed properly. It works on our farm. Forage sorghum can compete if the enzymes are developed and the logistics of transporting large quantities of bulk material are worked out.

2. Although grain sorghum displays excellent hardiness in dryer areas, do you believe it has enough production potential to be considered as a consistently viable energy crop?

It will compete on dry land acres in the western regions of the high plains. It will not compete at this time on high yield environment acres. Research is being done to narrow this gap.

3. Which of the current energy programs authorized in the 2008 Farm Bill, in your opinion are the most successful?

The 9005 program has worked well for sorghum. Also 9011, 9007, and 9003 have been utilized by the sorghum industry.

4. Which are the least successful?

The above mentioned programs are the only ones which benefit sorghum.

Thank you.

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
February 15, 2012  
Questions for the record  
Mr. Bennie Hutchins

**Chairwoman Debbie Stabenow**

1. Can you explain what the jobs are that are being saved through the REAP program and where the new ones are coming from? What jobs have you seen saved or created by REAP?

In helping to make agricultural producers and rural small businesses more financially secure, REAP save thousands of jobs across the nation. Most of the hundreds of ag producers that I have worked with are small, family-owned farms with a couple of family members as full-time employees, with more part-time jobs added seasonally as needed.

Then additional jobs are saved or created within the businesses that produce the energy efficiency and renewable energy technology and hardware. Then it all has to be transported to the farm, where additional workers install it. This is the domino effect of a small 25% financial incentive provided by REAP being just enough to encourage ag producers and small businesses to install new technology.

A recent study that I referenced in my written statement indicates that 18 jobs are created or saved by each \$1 million in REAP grant funds expended to help grantees install energy efficiency and renewable energy technology. Combine that with the \$3 million in private funds required to earn every \$1 million in REAP grant funds and the result is 72 jobs for each \$1 million in REAP appropriations. That's \$14,000 per job created or saved. Compare that to other federal job-creation programs!

**Senator John Thune**

1. What would you like to see changed in the Rural Energy for America Program (REAP)?

The changes made in REAP rules in 2011 were most discouraging as they strongly favor Renewable Energy projects and Blender Pump installation. The changes by their nature also acknowledge the superior effectiveness of Energy Efficiency projects, since EE projects have to meet a 4-year payback period to earn the full 15 points, while RE and blender projects only have to meet a 10-year payback period to earn the same 15 points. Blender pumps do not fit the program goals of REAP and should have never been allowed into the program, much less given preferential treatment over the highly successful and popular Energy Efficiency projects.

The scoring criteria for REAP needs a major overhaul to make the program more efficient. REAP's intent is to favor smaller projects, but some very good projects with great payback periods but that achieve less than 35% energy savings go unfunded due to the criteria on Percent Energy Conservation, where 35% or more is required for maximum points. ROI should be the only technical criteria for the most effective and efficient use of REAP funds.

And there are some things that should not be changed. For example, there has been some discussion of moving REAP (funding and authority) to NRCS's EQIP program. This would be a huge mistake; take this from a former NRCS employee of 35 years. NRCS has been trying to incorporate a couple of farm energy practices into their EQIP program for 3 years now, but with very little success, interest, or participation in most states. None of my several clients in multiple states have received any benefits through EQIP. Very few ag producers have shown an interest in EQIP's 2 practices (122 for Ag Energy Management Plans and 374 for Implementation of Recommended Retrofits). The NRCS system is very producer unfriendly (slow process; cannot do AgEMP and install recommended retrofits in same program year; cost-share rates, limits, eligible items vary for state to state, etc.). Additionally, the NRCS field office staff do not understand energy applications, as they typically deal with plants, animals, soil, water and air issues. Additionally, putting this energy program under NRCS/EQIP limits benefits to only EQIP-eligible participants, thus eliminating benefits to rural small businesses. If anything, the EQIP funds that NRCS has been targeting to energy projects should go to REAP. NRCS is already spread too thin. NRCS's taking on an energy program was not a positive move for ag producers, and certainly not for rural small businesses.

2. Do you believe the REAP mandate of \$3 in private funds for every REAP dollar is a fair requirement?

Yes, REAP's 25% incentive is just enough to encourage farmers and rural small businesses to install the newest cutting-edge technology and establish real-world examples for others to observe and follow the examples.

3. Which of the current energy programs authorized in the 2008 Farm Bill, in your opinion are the most successful?

REAP is by far the most successful because it has application to every agricultural production sector in every state across the country. The same applies to rural small businesses, the majority of which have never heard of REAP. The potential impact to small business is huge and yet untapped.

REAP is also successful because of what it is able to achieve with only a 25% incentive, making the most effective and efficient use of federal funds.

REAP is also more popular and therefore successful because of the numbers of participants it impacts across the country. Most grants are small (<\$25,000) and recipients are primarily small family farms and family-owned and operated rural businesses.

Additionally, the Energy Efficiency component of REAP is the most efficient and effective. It is much more effective for a business or farm to look at energy conservation first, then renewable energy second.

4. Which are the least successful?

Since I have worked only with REAP my evaluation of other Energy Title Programs is limited. It appears to me that all the other non-REAP programs are less successful because they impact a much small number of producers in more limited areas across the country. For example, there has been no BCAP Project Area funded in the Southeast US.

Senate Committee on Agriculture, Nutrition & Forestry  
 Energy and Economic Growth for Rural America  
 February 15, 2012  
 Questions for the record  
 Mr. Mathias J. McCauley

**Chairwoman Debbie Stabenow**

1. Having worked within a six-county region in Michigan that is represented by more than 100 units of local government, can you describe the process of developing an economic development strategy for a region of that size? What were some of the challenges you faced? And conversely, have you identified any unexpected opportunities for economic development?

Senator Stabenow, the Northwest Michigan Council of Governments (NWMCOG) is proud to serve the Antrim, Benzie, Charlevoix, Emmet, Grand Traverse, Kalkaska, Leelanau, Manistee, Missaukee, and Wexford Counties. One of the big challenges of serving such a large region is providing for the recognition and support for our sub-regions of economic development- including the Grand Vision service area. While there are many commonalities between all communities in northwest lower Michigan, there also exist some differences. Our process of developing a regional economic development strategy begins with identifying what goals and strategies for achievement are universal from community to community. The outreach includes key stakeholders that create our unique public-private partnership. We know there is a growing necessity for increased collaboration between partners (and sometimes competitors) and, thus, greater value is being placed on the creative power and contributions of smaller organizations and individuals, and the importance of tailoring solutions to meet local needs. So, we start with the "universal goals" of the region (manifested in our regional strategy) and then work with the local communities to identify and implement a more customized approach- usually by integrating economic development into the local unit's of government master plan.

One of the many specific ways the NWMCOG supports regional development is through our long partnership with the U.S. Economic Development Administration (EDA). The EDA, through its national network of 380 economic development districts, provides vital seed capital and matching funds for local communities to craft and implement regional economic development strategies. As such, the vast majority of rural America is supported by a Comprehensive Economic Development Strategy (CEDS). The CEDS is an invaluable framework for identifying the economic conditions, shared development goals, and the regionally impactful investments that will enhance the competitiveness of rural America. Because they are regionally based, locally owned strategies, the CEDS would provide USDA with an established system to help make more strategic investments.

However, a significant and persistent challenge in any regional economic development exercise is effectively working with the many local units of government. The process for engaging citizenry, businesses, schools, and alike has the ability to be far less structured than communication with government. It is not an impossible task, but one that requires significant human resources for the outreach required for effective local government inclusivity in any regional initiative.

We continue to see significant opportunity in that governmental bodies are indeed collaborating, business leaders are endorsing a focused vision for the future, community members are engaged, and projects are being conceptualized and implemented within regional networks that include groups within *Food & Farming, Energy, Growth & Investment, Affordable Housing, Natural Resources* and

*Transportation.* The biggest unexpected opportunity for our region is a realization that true regional economic development must demonstrate the linkages and economic opportunities from a variety of issue areas and not concentrate on a singular industry or infrastructure piece. The opportunities moving forward are centered around having an established process for identifying and vetting asset-based strategies for the region and integrating a holistic view into their implementation.

**Senator John Thune**

1. If you were to prioritize what programs in the current Rural Development Title are the critical in your area what would be the top three?

Senator Thune, USDA Rural Development is an essential partner and funding source for rural people and places. It is also a vital tool for regional development organizations, such as the NWMCOG, and our local government and community partners as we strive to position our communities for the future. It is my opinion that in northwest lower Michigan, Rural Development can be most effective in assisting with: 1) community infrastructure improvements (however a greater mix of grant vs. loan would be preferable), 2) housing needs of a community (with recognition that a greater mix of housing types are needed), 3) a robust broadband network (that assumes a tiered approach- concentrating high-bandwidth in existing infrastructure areas).

2. If you had to make a decision to eliminate any programs in the Rural Development Title, which ones would you choose?

With USDA's assistance over the decades, rural communities across the nation are now in a better position to pursue regional asset-based and innovation-focused development strategies that are resulting in new job and local wealth retention opportunities. That said, there is certainly room for improvement in focus and efficiency.

In today's era of intense budget pressures and growing local needs, we should be focusing on making more strategic investments, especially investments that strengthen regional and local competitive advantages and coordinate our public sector resources. In doing so, Rural Development will have a clearer, more efficient path to supporting rural competitiveness.

Before program cuts are pursued, it is my opinion that Congress should first explore the consolidation of existing programs and make them far more flexible. The possibility of having just three programs (focused on Community, Housing, and Business) and high level of accountable flexibility within might provide for greater access, use, and efficiency of the resources currently provided to Rural Development.

3. What are the greatest needs in rural America? Is it affordable housing, water, waste water facilities? Other?

In my opinion, the greatest need for rural America is the ability to be competitive in the 21<sup>st</sup> century. Rural America wants their competitiveness to be defined by the resources of infrastructure, energy, capital, talent, housing, and business development where they can be economic drivers for the nation. However, the vastness of geography, culture, and needs of rural America suggests that there is not one common denominator of need in order to be competitive. My suggestion would be to provide for a process that every community in rural America objectively identifies their individual needs through an

asset-based economic development strategy that also links to regional, state, and national strategies. It will also mean improving federal interagency collaboration, fostering stronger public-private-nonprofit partnerships, and leveraging existing strategy processes, such as the U.S. Economic Development Administration's Comprehensive Economic Development Strategy (CEDS) framework. In doing so, rural America will become more economically competitive and rural programming will be able to make less costly, more strategic investments.

4. How are the current Rural Development programs administered by USDA working? Are they effective? How burdensome is the application/paperwork process?

Rural Development is intended to be a resource for rural America- and, without question, it is. However, as with a litany of other federal programs, it is often perceived (and rightfully so) as burdensome and out of reach by rural communities that may not have the staff capacity to effectively work within the USDA programming. The programs are well-intended and can provide positive outcomes, but if the application/paperwork process blocks greater use of the resources, it really negates the effectiveness of the program itself.

My suggestion would be, while retaining necessary financial and performance accountability standards, Congress should ensure USDA Rural Development has a modern set of policies, programs, and incentives to help all rural communities pursue community and economic development growth. This should entail assisting rural communities with the fundamental building blocks of quality communities, in addition to more advanced regional innovation and globally competitive development strategies. USDA Rural Development applications, policies, and reporting requirements should be streamlined and broadened to reflect the scale of rural investments, emerging needs and opportunities of rural regions, and capacity of local organizations.

Rural Development should also strongly consider a process to identify the current concerns felt by their customers and enter into a program of continuous evaluation and improvement for the purposes of maximizing program impact. Finally, Rural Development should strongly consider providing a linkage and support to localized entities, such as regional development organizations, to provide technical assistance to rural communities and small businesses needing the necessary technical assistance to achieve their goals.

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
February 15, 2012  
Questions for the record  
Dr. Florine P. Raitano

**Chairwoman Debbie Stabenow**

1. In your testimony you mention the fact that it isn't always possible for rural towns in Western states to collaborate because they are separated by too many miles. How should this factor inform our efforts to develop policies that help encourage regional-based development strategies? Is it a matter of flexibility in the statutory and regulatory language that would permit towns to define their region or are there other policy solutions we should consider?

Chairwoman Stabenow, thank you for those clarifying questions. Regionally-based initiatives can be wonderfully effective and fiscally efficient. But our experience in rural Colorado would inform the discussion that such regions need to be self-identifying, highly fluid and certainly not a one-time option and rigid in boundaries. Allow me to elaborate further – Pine beetle infestation is a problem not just in the Colorado high country, but across the Rocky Mountains and certainly in the Black Hills as well. This challenge for our mountain communities and landscape is daunting, but in this case, we would all be far better served if the solutions are generated from a broader geographic region and allowed to be implemented with more locally nuanced applications as opposed to having smaller coalitions fight for meager funding and have to identify creative solutions when a community or county or region in Utah may already have discovered some best practices because that area is three or four years ahead in the beetle infestation. We should be smart enough to design a program that is flexible, responsive and maximally efficient without becoming hidebound, proscriptive and rigid.

But when it comes to water, waste water and other community programs, regionalization can work in some places but not everywhere. In Summit County, Colorado, where Dillon is located, the Towns of Dillon and Silverthorne, along with a residential development in unincorporated Summit County (called Dillon Valley) formed a Joint Sewer Authority years ago. We did that because none of us could afford a tertiary treatment plant with just our own population base to fund it, but with all three population centers, it became economically feasible. It has operated successfully and without any public dissatisfaction for more than three decades. But the Town of Silver Plume, which I referenced in my written testimony, is only two miles away from the Town of Georgetown, but it might as well be 20 miles away – access is through a geologically constrained canyon in a part of the Rockies that is granite and which does not facilitate easy



extension of water and/or sewer pipes. We should be very thoughtful about designing any program which would give the Dillon-Silverthorne Joint Sewer Authority preference over the Town of Silver Plume because one is regionally based and the other one isn't. I don't think that would serve the best long term interests of rural America.

One of the real values of the RCAP partners, certainly the case for RCAC, is that we have staff in rural areas, that know the lay of the land and what is feasible in terms of regional initiatives and what isn't. That's why RCAC worked so hard with the five colonias in New Mexico to make it possible for them to form a joint water authority – it took an act of the New Mexico legislature to allow it, but for those five communities, it made all the difference.

What I want to emphasize is the fact that rural communities are all different, we face different challenges and have different opportunities. What we need is a framework that facilitates and allows our rural communities to take advantage of our uniqueness while still trying honestly to capture opportunities to partner and participate in larger, regional initiatives that are based on common understandings, common goals, shared opportunities and shared values. Those are not things that can be mandated at the federal level, but they can be facilitated through the support of technical assistance providers, like RCAC and the other RCAPs, and even with the state rural development councils, which have largely been ignored by USDA and other federal agencies.

Policies can be drafted to incorporate flexibility; the challenge begins with statutory limitations and regulatory frameworks, which by their very nature are anything but flexible. Regions of common interest tend to be self-identifying and based on very specific issues and challenges. I think we should encourage regionalization, and recognize that it takes many forms. Regional in the West may be different than regional in the East, especially when regional in the West may be a single county, which could be a geographic area bigger than some eastern states.

Thank you for this opportunity to respond to your questions.

**Senator Michael Bennet**

1. At a time when the entire federal budget is under a microscope, I think all Senators here want to ensure that USDA Rural Development Programs are accessible, efficient, and serve a proper purpose.

As someone who has dedicated her career to making life and business better for rural Colorado, let me ask you this question: If you were to design a USDA Rural Development program from the ground up, what are the most important characteristics to include

that would help ensure we have positive outcomes and use our limited resources wisely?

Senator Bennet, thank you so much first and foremost for your service in the US Senate on behalf of all Colorado citizens, but especially your commitment to and passion for rural Colorado, and thank you for your thoughtful follow up questions. With respect to the idea of designing USDA Rural Development programs from the bottom up, I sat at the Senate Agriculture Committee hearing writing down a list of attributes that I would want any federal program to have, but especially programs intended to serve rural America, the rural West and rural Colorado. That list included:

Flexible; Decentralized; Responsive; Integrated; Outcome-based; Efficient; Effective; Partner friendly; Understandable; Streamlined; Accessible; Collaborative; Adaptable; Local and the list continues.

But as important as it is to think about all the attributes, perhaps more important is the process one would employ to design Rural Development program. Rural America has a very large number of very intelligent, thoughtful, articulate and dedicated advocates, supporters, service providers and rapporteurs with decades of experience working with and in rural communities. Those are the experts whose wise counsel I would seek to help design, evaluate, benchmark and assess any Rural Development program. And perhaps we don't really need to think in terms of starting over. Perhaps we should consider performing a similar evaluation of current programs – not with the thought of eliminating unnecessary programs, because there is value to some rural community somewhere from every one of those 40 existing Rural Development programs. But with the intention of learning from technical assistance providers such as RCAC and the RCAP agencies, the affordable housing technical assistance providers, regional entities like RC&Ds, regional Councils of Government and Economic Development Districts and especially the few remaining and largely ignored State Rural Development Councils. These are the partners to USDA Rural Development that understand how to improve what currently exists, how programs can be streamlined, how delivery can be facilitated and made more efficient and sustainable.

I want to underscore, however, that if USDA embarks upon that journey, it better be prepared to embrace, adopt and implement the recommendations that such thoughtful and dedicated reviewers and commentators would offer. I learned as a small town Mayor, that you don't make partners and citizens jump through hoops only to have their input and counsel ignored. I also learned, and I admit I was very surprised by it, that the advice, observations and suggestions that are made are valuable, based in the spirit of making something better and overwhelmingly wise beyond all expectations. Formal "hearings" convened in two or three or four locations with carefully orchestrated panels of experts is NOT what I am suggesting either. These would be working task forces, meeting at multiple locations across the country, targeting specific issues and programs, culminating in final reports to USDA and to this Senate Committee if you like, on the ways to improve what we have, combine and streamline what we need to and to make a sustainable blueprint for rural America.

2. You mentioned in your testimony that application procedures for USDA Rural Development programs can be burdensome and discourage worthy applicants from pursuing assistance.

Could you please say a little more about the unique challenges rural Coloradans face in identifying and applying for assistance from USDA Rural Development?

With the continued decrease in USDA Rural Development funding for employee travel, a state like Colorado, which has a lot of dirt between light bulbs, access to personnel and the technical assistance they can offer is definitely being negatively impacted. While the State of Colorado made a valiant effort with the Multi-use Network (MNT) project to connect every nook and cranny of rural Colorado, we didn't quite reach our objective, and there are still places in rural Colorado that do not have access to affordable, reliable high speed broadband. We can't rely on webinars and slick new technology to replace the old high touch, high travel model of service delivery in rural Colorado. Over the past 12 years, we have seen USDA state Rural Development offices in rural locations close, employees retire and not be replaced, staff in the Denver office have to manage more and more programs with fewer dollars and support personnel. Compounding all this are limitations on the use of USDA Rural Development program funding as well as a lack of funding for things like technical assistance and marketing which doesn't allow for potential partners to assume some of those functions, even when those potential partners do have staff out in rural communities.

And then there is the fiscal reality in Colorado that many small rural communities just don't have the staff and the capacity to deal with the paperwork and compliance issues that accompany USDA funding. I might be a tad bit biased, but I think rural Coloradans are some of the smartest, most innovative folks I know. For a long time they have had to figure out how to work around, over, under or through problems and challenges that would make a lot of sophisticated urban dwellers toss in the towel. But that means that staff already has a lot on their plates, and tossing a couple of 14 page applications which require a file box of supplemental documentation onto that plate means it just isn't going to happen. We need to augment the yeoman's work that USDA staff and those small town staff and volunteers are doing with the experience and knowledge base that technical assistance providers like RCAC and the RCAP agencies and other regional entities can provide and we need to pay those technical assistance providers to do it.

3. Colorado has a strong track record of partnering with the USDA on energy efficiency and renewable energy projects, from wind, to solar, to the next generation of biofuels. The Rural Energy for America Program, or 'REAP,' has been especially popular in Colorado.

But as a provider of technical services to rural communities, what in your opinion is working well with USDA energy programs? Where should we be looking to improve these programs?

The REAP program is actually four different programs rolled up into the umbrella program. There is a program for Energy Efficiency, one for Renewable Energy, a third one for Energy Audits and the fourth one for funding up to 25% of a Feasibility Study (which is required for any EE or RE project over \$200,000). Complicating it even more is the fact that two of the programs (Energy Efficiency and Renewable Energy) have a separate grant process and a separate loan process and the application is further divided by size of the applicant's request (less than \$20,000 or more than \$20,000). Colorado has seen good benefit from REAP, especially with respect to the grant program. The loan program has been less well received and probably could benefit from some modifications in approach. The energy audit portion of REAP shows promise, but is limited in applicability in what institutions can provide the service. The feasibility study grants are limited to 25% of the cost of the grant and prohibit leveraging state, local or philanthropic dollars from matching the federal funds, which is limited to 25% of the cost of the audit. With all three programs, rural communities cannot access the benefits because the grants and loan programs are restricted to agricultural producers and rural small businesses. Small, rural municipalities and county governments are not considered eligible applicants, even for the Energy Audit portion.

In Colorado, the REAP program has provided grants for projects on the Eastern Plains as well as on the Western Slope, but with a decimated travel budget and limited ability to provide in person support and technical assistance, Colorado USDA RD personnel are challenged to find ways to market the program and work with potential applicants on the nuances of applying for the program. Still, given all these challenges, in the previous two years of the REAP program, the Colorado state RD office was able to expend its entire allocation in the grant program to fund 15 to 20 projects each of those years. Those numbers represent an 80% fund rate for applications. The current funding for the REAP program has been significantly reduced, especially with respect to the grant program (which only funds 25% of the project) to try to push more interest in the loan program (which can fund up to 75% of the project). This reduction in funding comes at a time when interest in the REAP programs is finally starting to pick up, but that also means that far fewer projects will get funded and this year perhaps only 5-10% of applications will be funded, by either the grant or loan programs.

REAP has been a good program for rural Colorado, overall, but there are some ways to make it better. The first and most obvious would be to restore the mandatory funding levels under Section 9007 of the '08 Farm Bill for the REAP program going forward and also to provide mandatory funding for Section 9009 of the '08 Farm Bill which did provide for grants for the purpose of enabling eligible rural communities to substantially increase energy self-sufficiency. This Section was given \$5M per year in discretionary funding, but no mandatory funding was ever provided with the end result that the program itself never got implemented. The program would also benefit if USDA RD funds in the Feasibility Study grant program were allowed to be used as match with other non-federal funds such as state funds (Colorado has some great programs in the Governor's Energy Office), local funds or even philanthropic funds and in-kind. Right now that is prohibited. Providing a portion of the funding for use to provide technical assistance through external partners like RCAC and the other RCAPs, as well as other TA providers in the states could really facilitate access to this program in terms of providing grant

writing assistance, pre-qualification, pre-screening of potential applicants and even energy audits would help with the process.

In summary, REAP has provided value to rural Colorado and with some minor modifications, should continue to provide a strategic opportunity for our Ag producers and rural small businesses and rural communities. Thank you Senator Bennet, for your questions and for your service to Colorado residents.

**Senator John Thune**

1. If you were to prioritize what programs in the current Rural Development Title are the critical in your area what would be the top three?

Senator Thune, thank you for your question. Given my response to Chairwoman Stabenow about the highly varied nature and needs of the rural West, I don't believe it is possible to pick the top three, or even the top five or ten Rural Development programs. I understand the Secretary has a challenge in making sense of managing more than 40 different Rural Development programs, but perhaps that those 40 programs exist at all is testament to the extremely diverse nature of rural America. Every time a critical mass of need was reached, a new program was developed and promptly institutionalized instead of looking to integrate it into existing programs or making existing programs more flexible and responsive. Instead of looking to eliminate specific programs, we should instead be exploring ways of integrating those programs to provide a more seamless, some may say "holistic", approach to rural development in general to meet those diverse needs. There have been past attempts at streamlining applications – in the 1990's the Kansas Rural Development Council led the way with working with HUD, EPA, USDA and several state agencies to develop and use a single application form for communities needing to work with those agencies. It was successful for a period of time, and really helped coordinate service delivery to those communities.

As technical assistance providers, RCAC, its sister RCAP agencies, and the agencies which serve rural housing interests, we recognize the value-added opportunity to actually increase the efficiency and effectiveness of USDA Rural Development programs, but can only accomplish that if USDA RD is given more ability to target funds at technical assistance, especially in the community facilities programs. As the numbers of USDA RD staff continue to diminish, it will be more challenging than ever to serve rural interests unless technical assistance providers are empowered and enabled to step in and deliver those services. We have staff out in the field, in rural communities, not sequestered in metropolitan enclaves, so our staff understand what rural communities are all about and how best to help them achieve their locally determined goals and objectives.

2. If you had to make a decision to eliminate any programs in the Rural Development Title, which ones would you choose?

Again, Senator Thune, I want to underscore that the needs in rural America are so varied and so significant, that I would not be contemplating eliminating any specific program at this point, especially as rural communities are still trying to climb their way back from a significant economic downturn. What does make sense is looking for economies of scale, for ways to partner strategically with those also working to serve the smallest of the small and least able to compete for meager and highly competitive funds. In our experience, when USDA participates in a coordinated funding process in the states, everybody's funds are used more effectively. The USDA RD programs that RCAC and the RCAPs are most often involved with are loan programs, which mean that the investment ultimately returns to the budget. Given RUS' success rate with water and waste water facilities loans – with a national default rate of less than 0.18%, I would think it would be viewed as a wise investment of public funds.

3. What are the greatest needs in rural America? Is it affordable housing, water, waste water facilities? Other?

I need to once again refer to my good friend, colleague and mentor, Dr. Chuck Fluharty who is so fond of pointing out “When you’ve seen one rural community.....you’ve seen ONE rural community.” Perhaps it is too easy to fall into the trap of looking at the level of funding for some of these Rural Development programs and wonder how they can possibly be effective when they amount to what would be considered a rounding error in the DOD budget. But we should not be misled that small numbers mean a small return on investment. RCAC and the RCAP programs, and the rural housing programs, are able to leverage those investments into significant levels by pursuing additional outside investments. But we can leverage those investments only because of the USDA Rural Development funds. Without those, we would not be able to attract the external funds from private sector and philanthropic entities.

We need to understand that all the various Rural Development programs housed in USDA have the very basic function of serving rural economic and community development. Without adequate and clean drinking water, without sanitary waste facilities, without essential community facilities (e.g. police and fire stations, hospitals, and courthouses), without decent, affordable housing, rural businesses will not function. Without those rural businesses, there is no economic or community development possible. We should be looking at ways of reinvigorating rural businesses, and the Business and Industry programs, the Rural Energy for America Program, the Rural Business Opportunity Grants and Rural Business Enterprise Grants have all helped to serve as a lifeline to rural economic development. We should be exploring ways to make them more relevant, more flexible, more available and more widely marketed.

4. How are the current Rural Development programs administered by USDA working? Are they effective? How burdensome is the application/paperwork process?

From the perspective of the communities that RCAC and the RCAP agencies work with, I would say that the programs ARE effective. It is not that the applications are burdensome, but satisfying the letter of conditions often is, and it is expensive, but all of the conditions are relevant questions that need to be answered before funding can be committed. We need to do a better job making the programs work as intended, keeping them streamlined while still ensuring that public funds are used in the most cost effective and efficient manner possible. That may mean setting aside funds for technical assistance providers who are experienced working with those rural communities and know how to translate the programs from paper to on the ground success stories for our rural communities. Thank you again for the opportunity to answer your questions.

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
February 15, 2012  
Questions for the record  
Mr. Mark Rembert

**Chairwoman Debbie Stabenow**

1. You received a Rural Business Opportunity grant that will enable you to share strategies for supporting rural businesses with others in a seven-county region. Can you discuss how important these relatively small federal investments are to rural economic growth?

The Rural Business Opportunity Grant played a critical role in our ability to transfer proven strategies for mobilizing the resources of the community to support small businesses. We have used it as a spring board for scaling a process of innovation that began in our community, the impact of which is now being multiplied across our region.

For three years, ECC worked through an iterative process in close collaboration with local businesses and consumers to develop our buy local. Over time the most successful strategies that had the greatest impact emerged and were solidified and refined. With an established program in place, we began exploring opportunities to share our proven strategies with our neighbors in the region. The RBOG program provided the resources we needed to allocate a full-time staff member to engage and recruit local businesses leaders in our target area, and to provide the one-on-one training required so that our partners can sustainably adopt and implement our program. Without the RBOG support, we would not have had the capacity to effectively work with communities beyond our own.

One consistent message we've heard from our regional partners is that they lack the resources and capacity to develop innovative programs on their own, although they are excited and committed to adopting strategies that have proven success in other communities in the region. To that extent, the RBOG grant has helped us meet an important need in our region.

This insight has helped us see that smaller grant programs like RBOG can have a huge impact in rural communities, but they must be matched with strategies and programs that are relevant to the regional context, are framed within the needs and opportunities of the communities they are targeting. To ensure that effective programs are in place that can be scaled by a program like RBOG, regions need innovation engines that are going through the process of researching and developing high impact programs and strategies that can be effectively transferred to a broad range of communities.



**Senator John Thune**

1. If you were to prioritize what programs in the current Rural Development Title are the critical in your area what would be the top three?

As a recipient of a Rural Business Opportunity Grant (RBOG), I must first vouch for this program and suggest that it be preserved and funded. The flexibility of this program is its greatest strength as it provides much needed support innovation and long term planning in rural communities. Similarly, we have been pleased to see the Rural Business Enterprise Grant (RBEG) utilized by one of our neighbors to develop a very successful entrepreneur development program. While less flexible than the RBOG program, the RBEG grants provide much needed financial assistance to communities for developing programs and infrastructure for supporting the growth of entrepreneurs and small businesses in rural communities. As we work on attracting new businesses to our area, we have found the Business & Innovation Guaranteed Loan program to be import tool for attracting and leveraging investment.

2. If you had to make a decision to eliminate any programs in the Rural Development Title, which ones would you choose?

I would recommend that Congress think not about cutting USDA Rural Development programs, but instead focus on merging similar programs and increasing their flexibility to make them easier to access and utilize. As I've already mentioned, programs like the Rural Business Opportunity Grant (RBOG) and Rural Business Enterprise Grant (RBEG) program are similar enough that a combined rural small business development grant program might be more effective. Similarly, USDA loan programs with overlapping goals could be combined into a single, streamlined program.

I would also recommend re-focusing programs on economic development. For example, the Community Facilities Loan and Grant program is one the most useful and user-friendly Rural Development programs. Yet, it is often used to purchase fire trucks or emergency equipment. While these purchases can have an indirect impact on economic development, the program could have a much greater impact if given the flexibility to assist communities in making strategic investments in development projects that open the door to business growth.

Finally, I ask that when Congress considers Rural Development programs there is a focus on balancing grant and loan programs. While loan programs present an attractive strategy for cutting back federal expenditures, they can only be effectively used if the

human capacity of the communities to develop projects and the financial capital required to finance them are in place. From a capacity building standpoint, we have found that grants are necessary for providing the support and incentive for communities to build the capacity required for developing new projects, and can provide the needed groundwork for subsequently utilizing loan programs.

3. What are the greatest needs in rural America? Is it affordable housing, water, waste water facilities? Other?

As I emphasized in my testimony, community and regional planning is a critical need in rural America. For much of the last forty years, rural communities have relied on a strategy of attracting manufacturers with the low land costs, central location, a hard working workforce, and by offering infrastructure improvements and tax incentives. Yet, globalization has made it more difficult for rural communities to compete on the price of doing business, and as a result many rural communities have experienced economic crisis as the manufacturing sector has declined.

For rural communities to find success, they must move beyond the twentieth century playbook of focusing solely on infrastructure development and industrial recruitment. Any many cases, old strategies that provide incentives to continue developing new infrastructure are exasperating problems in rural areas as communities with stagnant or declining populations and tax bases find it harder to maintain new infrastructure.

To help rural communities complete in a globalized economy, Rural Development programs should support three core strategies:

- (1) Promote regional collaboration and economic development planning that cultivates synergies between assets and resources in multi-county areas. These efforts should assist a region of counties in developing an understanding of a shared economic future, and promote an environment in which counties end the practice of "poaching" jobs at their neighbors' expense.
- (2) Link Rural Development infrastructure programs to planning programs to ensure that investment in public goods is undertaken strategically with the goal of unleashing the economic potential of a region.
- (3) Promote local and regional capacity to support entrepreneurship and innovation so that rural communities can more effectively generate wealth from local assets while becoming more resilient and adaptable to a changing economic landscape

4. How are the current Rural Development programs administered by USDA working? Are they effective? How burdensome is the application/paperwork process?

One of the easiest ways to make Rural Development programs less burdensome is to improve the accessibility of the grant notices and guidelines. The traditional Notice of Funding Availability (NOFA) format can make grants notices seem daunting to newcomers, and can make it challenging to understand what projects are appropriate for funding and what is required in the application itself. In rural communities with small grant staffs, unpacking the NOFA itself can be a challenge.

This issue is highlighted the diversity of approaches adopted by various USDA state office web sites. Given the fact that each state has their own Rural Development site, each takes a different approach to articulating grant opportunities.

Some states merely list the grant with a one or two sentence summary, and provide a link to the downloadable NOFA. This approach makes applying for USDA grants very challenging for those entering the process for the first time.

Other states use the Rural Development website as a tool for assisting applicants. Aside from the official NOFA, these sites provides a complete grant summary, a grant worksheet to walk the applicant through all of required paperwork and reports, and a scoring sheet to help the applicant clearly assess the appropriateness of their project, and improve chances of obtaining the maximum points.

While these differences may sound trivial, any efforts taken to streamline the process can be of great assistance when a small staff in a rural community considers applying for a grant. I would recommend that USDA identify the sites that have adopted the most effective strategies for streamlining the application process, and standardize these strategies across the country.

Senate Committee on Agriculture, Nutrition & Forestry  
Energy and Economic Growth for Rural America  
February 15, 2012  
Questions for the Record  
Secretary Tom Vilsack

Chairwoman Debbie Stabenow

1. One of the first commercial-scale digester projects in the United States was built in Fremont, Michigan. This digester will take over 100,000 tons of agricultural waste from a local food processing facility and turn it into enough power for 1,500 homes annually. This project will produce a clean, renewable energy source while adding value and jobs to the local community. This is the type of success that Farm Bill programs can promote, what policies are most effective in helping get more projects like this one off the ground?

**Response:** Policies that can help move renewable energy projects like these forward include:

- Maintaining access to capital through guaranteed loans.
- Utility policies for interconnection assurances.
- Feasibility studies that help identify collection methods, capital costs, technical assistance, etc.
- Education and outreach to agricultural communities.

USDA's Rural Business Cooperative Services' (RBS) four energy programs (Rural Energy for America Program (REAP), Biorefinery Assistance, Repowering Assistance, and Advanced Biofuel Payment Program) provide assistance, such as loan guarantees, to promote success in these types of projects.

For digester projects in particular, there are several factors to consider when implementing these policies:

- Education of the agricultural community. For example, some farmers may not understand the potential benefits of an anaerobic digester. To help educate the agricultural community, USDA and the Innovation Center for U.S. Dairy signed a Memorandum of Understanding to accelerate and streamline the process for adopting anaerobic digesters by the United States dairy farm operators through various USDA programs. This Memorandum has been instrumental in educating the dairy farmers about the benefits of anaerobic digesters and the programs available to assist with the installation and construction.
- Technical feasibility. Digester systems are technically feasible only on certain farms. The number of animals and the type of manure management system

play a big role in determining technical feasibility. Anaerobic digesters are most adaptable to farms that collect large amounts of manure as a liquid or slurry on a daily basis. The systems can be used on other operations, but may require major changes to current waste management processes.

- Financial and economic feasibility. Technically feasible projects for a farm may not be financially feasible. Capital costs can be quite high, and the return on investment depends on the local cost of electricity, the price the local utility will pay, as well as other charges that may be incurred, such as a “standby charge”. Other factors that affect the financial and economic feasibility of these projects include:
    - Interconnection policies and net-metering options, which can vary by state;
    - Access to pipelines;
    - Environmental policies and practices;
    - Availability of funding; and
    - Whether a state has a renewable portfolio standard.
2. During the Joint Select Committee Process last fall, the Senate Agriculture Committee worked to reduce the number of duplicative program authorizations in the Rural Development Title. As we look towards the next Farm Bill, what specific opportunities do you see for program consolidation that would not only improve administrative efficiencies at USDA but also be more user-friendly for communities and small businesses? Along these same lines, what steps can the Committee take to simplify the application processes for accessing Rural Development resources?

**Response:** One of USDA’s major focuses through Rural Development (RD) is to minimize burdens on individuals, businesses, and communities attempting to access programs that promote economic growth, create jobs, and protect the health and safety of the American people. To help achieve these goals, we are interested in more flexible authorities that would provide us with the ability to serve rural communities with the same types of assistance, but with much fewer than the forty programs we now have.

USDA is developing creative ways to conduct business and make changes in structure, program delivery, staffing, or responsibilities to improve our efficiency or quality of service. We continually look for opportunities to leverage our programs to improve administrative efficiencies and reduce the burden to our applicants and borrowers which also improves administrative efficiency and reduces applicant and borrower burden.

3. When people think about rural America, they see the traditional images of farmland and small businesses lining Main Street. But no matter how rural they are, those communities and businesses now have the opportunity to participate in a global economy. This is particularly true of the renewable energy economy. Agricultural

producers have given the United States a competitive edge that has helped us become a leader in renewable energy. What policies have been the most effective in helping producers gain that edge and what changes or new policies should we consider to help them maintain it?

**Response:** Our nation and other countries will be relying on rural areas for food, fiber, and energy. Investing in better productivity has always produced more, increased economic activity, and created jobs. The policies that have been most effective in helping producers gain this edge have been those that have:

- Provided access to capital. This includes providing all types of financial assistance – grants, loan guarantees, and payments.
- Helped improve rural business' cash flow, whether by installing energy efficiency improvements, which directly reduce costs, or by installing energy generation systems, which help offset the purchase of electricity. The Rural Energy for America Program (REAP), for example, has historically seen about two thirds of its successful applicants pursue energy efficiency projects. REAP has supported, along with other USDA programs, the production of ethanol, biodiesel, biogas, and advanced biofuels such as cellulosic ethanol and renewable diesel.
- Provided information on the technologies available to rural America. For example, the energy audits provided under REAP helps agricultural producers and rural small businesses determine whether the increased energy efficiency of a project is worth the investment.
- Provided technical assistance to help communities and businesses understand the technology, economic benefits, and the development of the production and distribution of developing various types of energy (i.e. wood, wind, anaerobic digesters).

REAP has been a part of implementing each of these policies. For example, REAP supports a wide range of energy efficiency projects, including those for poultry production, installing efficient fans, lighting, and heating, as well as energy efficient small groceries in rural communities. REAP has helped bring energy efficient technology to maple syrup harvesters and processors who are using reverse osmosis to remove water instead of wood and oil. REAP has supported rural America with wind turbines, geothermal systems, anaerobic digesters, solar projects, biomass projects that use wood to replace oil and projects that produce wood pellets.

We should also keep in mind the importance of USDA's basic research and development work surrounding productivity in producing food and fiber and understanding and managing bio-systems. Our programs and research help to protect the resource base on which our farmers, ranchers and foresters, as stewards of the land, depend. U.S. agriculture is able to compete in the global market because we are competitive. USDA helps provides a strong foundation for production, efficiency and resource management

and is able to disseminate that information to producers and rural businesses through our network of outreach, extension, and education services across the country.

The Biomass Research and Development Initiative solicits projects that include direct involvement with the producer of the feedstock that will be converted to fuels, power, or products. Rural development is one of four criteria that proposals must address in the context of the technology being proposed.

We should also support those who work with biomass materials from National Forest System lands by supporting programs that contain inclusive definitions of biomass, such as the definition of "renewable biomass" in Title IX of the 2008 Farm Bill, which includes biomass removed from National Forest System lands. By including biomass removed to maintain and restore National Forest System lands, these programs would provide for greater utilization of material and would provide additional resources to private landowners, resulting in renewable energy sources and reducing our dependence on imported energy.

Three Undersecretary's Offices at USDA - Rural Development; Research, Education and Economics; and Natural Resources and Environment - are working together on a Wood-to-Energy (W2E) initiative. The W2E initiative involves 12 Action Items, including feedstock supply; internal and external training on agency programs, financial and technical assistance; technical checklists; and life cycle inventory and life cycle analysis. Secretary Vilsack also recently released his proposal for [Increasing the Pace of Restoration and Job Creation on Our National Forests](#), which includes the utilization of woody biomass for renewable energy purposes.

The Forest Service can also help facilitate development of hydropower expediting the processing and filing of Federal Power Act 4(e) conditions if conditions on the ground warrant.

4. According to a recent study conducted by Iowa State, over 100,000 jobs are associated with biobased product development and production in Michigan; biobased manufacturing is a growing industry that is creating value-added supply chains for our farmers and jobs in Rural Communities. What policies does the Committee need to consider in the Farm Bill for helping these industries mature?

**Response:** Government policy requiring Federal Agencies to buy and use biobased products establishes a strong market pull and signifies to private companies making biobased products that there is Federal support for growing the biobased products market. Currently, more than 8900 products in 64 categories are qualified for Federal procurement and we are working on increasing the number of qualified categories. On April 4<sup>th</sup>, 2012, 13 additional categories were approved as eligible for Federal procurement preference.

Moreover, USDA's "Certified Biobased Product" labeling program is an important part of helping this industry grow in the commercial and retail sectors. In the year since USDA launched the labeling program, we have received over 1,000 applications for label certification and have certified over 500 biobased products to the use the label. Over 400 applications are still being evaluated.

In addition, the R&D pipeline, from basic research to demonstrations, must be kept full to meet the expanding demand for high quality biobased products. The Biomass Research and Development Initiative supports R&D and demonstrations for biobased products, chemicals and chemical intermediates. The Critical Agricultural Materials Program supports developmental research and demonstrations for biobased paints, coatings and adhesives. Both programs can result in products that are eligible for the Biopreferred program.

The Presidential Memorandum on Biobased and Sustainable Procurement, issued on February 21, 2012, should give new emphasis to this mandatory procurement program and enable private companies to expand Federal sales.

While demand pull is one side of the market equation to consider, the United States needs to add productive capacity for biobased chemicals and bioproducts as well.

5. Rural communities have historically faced challenges when it comes to accessing capital and credit that allows them to invest, grow, and create jobs. The federal government has importantly stepped in to assist rural America, through both grants and loans, to help those communities grow and create jobs. In the face of budget pressures, we are now taking a look at all federal programs and considering where we can continue to invest limited taxpayer funds. Agricultural Credit, including the Farm Credit System, commercial credit, USDA farm loan programs, and programs like Farmer Mac have successfully been able to provide funding in rural America and in many cases leverage government funds to greatly increase lending. What are the most essential or highest priority policies for helping our rural businesses maintain adequate access to capital and credit in the future, especially if government RD programs shrink? Are there ways that the Farm Credit System, USDA loan programs, commercial credit, or even secondary markets could fill any gaps?

**Response:** Maintaining access to capital in rural America is a top priority of USDA. As financial assistance shrinks, key policy priorities with regard to access to capital include:

- Making investment in rural America more attractive to private equity firms. For example, USDA's Rural Business and Cooperative Service (RBS) further increased access to capital when it amended the Rural Business Investment Program (RBIP) regulation, 7 CFR 4290, to facilitate the licensing of non-leveraged Rural Business Investment Company's (RBICs) because program funding for leveraged RBICs has not



been available since FY 2006. USDA believes the RBIP is a valuable program that will facilitate investment in rural areas even without federal financial assistance.

Further, USDA and the Small Business Administration (SBA) are working together to bring private equity and venture capital investors together with start-up rural businesses, especially at the state and local level where they frequently collaborate to conduct outreach and training events. USDA and SBA meet regularly to discuss new partnership opportunities, including joint lending for projects. Each agency's unique lending parameters create leveraging opportunities and the impact of this leveraging increases access to capital for rural businesses.

For example, through the White House Rural Council, SBA and RBS partnered to host a series of six roundtable discussions on increasing private investment capital for rural small businesses in 2011 – 2012. This effort includes partners from the financial industry, Farm Credit, and state agencies. The two agencies also established a working group to create a consistent and streamlined application processes.

In April of 2011, RBS developed and administered a survey to assess the level of collaboration between RBS and SBA. The survey has been conducted twice in order to monitor the agency's progress towards implementing the MOU between SBA and USDA.

- Assuming part of the investment risk through guaranteed loan program. Programs such as the Rural Energy For America Program (REAP), the Biorefinery Assistance Program, and the Business and Industry (B&I) Guaranteed Loan program provide critical access to capital by assuming risk with the lending community. From FY 2009 through FY 2011, RBS obligated over \$6.95 billion that assisted more than 50,000 businesses. The vast majority of this funding was provided through guaranteed loans, which leverage funding provided by the commercial lending community along with other private sector funding.
- Leveraging/partnering with other sources of capital (e.g., commercial lending community, other federal agencies and state funds). As identified above, the vast majority of RBS' funding is provided through loan guarantees, which leverage funds provided by the commercial lending community.

USDA has entered into a Memorandum of Understanding with Farmer Mac, for the purpose of leveraging their respective resources and authorities to provide small businesses and the lenders that serve them in rural areas with financing guarantees, grants, loans and technical assistance in an effort to help build diverse and sustainable economies, reverse population decline, create and sustain jobs, improve quality of life, improve the environment; and to make clean, sustainable and affordable energy alternatives available to businesses and agricultural producers. As you know, Farmer Mac is a privately owned, government chartered institution

owned by their stockholders and regulated for safety and soundness by the Farm Credit Administration (FCA), a federal financial regulatory agency. When possible, the USDA and Farmer Mac will coordinate efforts with State, county, and local agencies; private organizations; financial institutions; industry associations and local organizations, such as Chambers of Commerce and community development organizations.

USDA also works with the SBA to create leveraging opportunities. A rural business can use a B&I loan guarantee for the purchase of real estate and use a SBA guarantee for working capital or equipment. The impact of this leveraging for rural businesses is increased access to capital.

USDA will continue our leadership role for the economic development of our Nation's rural communities as well as the development of renewable sources of energy. Continued utilization and leveraging of our existing business and energy programs are among our top priorities. USDA helps promote a dynamic business environment in rural communities by working in partnership with the private sector, public bodies, and community-based organizations to improve the economic conditions in rural communities by providing direct and guaranteed loans and grants for projects that help create and save jobs and promote clean rural environments.

There are ways that the Farm Credit System, USDA loan programs, commercial credit, and secondary markets can help fill gaps. For example, our RBS programs are currently helping to fill gaps in rural access to capital. RBS loan guarantee programs (B&I, REAP, Biorefinery Assistance) currently work with commercial lending institutions, including Farm Credit System (FCS) member institutions. Since FY2009, the B&I program has made 2,230 loans totaling almost \$6.1 billion.

The FCS is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers. For FY2010, the gross loan volume for FCS was approximately \$175.4 billion, of which approximately 45% was for long-term real estate mortgage loans in production agriculture. From FY2006, the gross loan volume for FCS loans has grown approximately 42 percent.

Helping to protect the safety and soundness of the FCS, the Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks by maintaining the Farm Credit Insurance Fund, a reserve that represents the equity of FCSIC. The assets in the Insurance Fund totaled \$3.4 billion as of September 30, 2011.

The Intermediary Relending Program and the Rural Microentrepreneur Assistance Program are also providing critical assistance to rural America by providing funds to revolving loan funds that in turn make small/micro loans.

Lastly, all of our guaranteed loan programs currently have provisions that allow for the sale of loans on the secondary market, which helps bring funds back into the community.

6. The 2008 Farm Bill directed the Secretary to submit a report to the Senate's Committee on Agriculture, Nutrition, and Forestry and the House of Representatives' Committee on Agriculture on the various definitions of "rural" that are used by USDA to administer its programs and to make recommendations for better ways to target Rural Development funds. What is the status of this report and when do you anticipate that it will be submitted to the Committees?

**Response:** The report is currently in clearance. We recognize that our programs assist millions of Americans, so our Agency is working to ensure that the rural area determination is accurate. For example, the 2008 Farm Bill contained two provisions for making exceptions to the rural area definition. One is an exclusionary paragraph that became effective with enactment of the 2008 Farm Bill, and the other is a discretionary paragraph the Agency implemented.

The exclusionary paragraph applies to areas that are currently considered non-rural because they are attached to the urbanized area of a city or town of greater than 50,000 inhabitants by a "string" area that is 2 census blocks wide or less.

The discretionary portion of the 2008 Farm Bill is known as the "rural in character" provision. The determinations under this provision will be to areas that are determined to be "rural in character" and are within: (1) an urbanized area that has two points on its boundary that are at least 40 miles apart, which is not contiguous or adjacent to a city or town that has a population of greater than 150,000 inhabitants or the urbanized area of such a city town; or (2) an area within an urbanized area contiguous and adjacent to a city or town of greater than 50,000 population that is within ¼ mile of a rural area.

We will continue to judiciously work through the review process to provide a final report to Congress as quickly as possible.

7. In October 2011, the Federal Communications Commission (FCC) adopted changes to the rules governing the distribution of high cost support under the Universal Service Fund (USF) and the Inter-carrier Compensation (ICC) rates that carriers may charge each other to originate and terminate calls on their respective local networks. These revenue sources have traditionally been utilized by rural telecommunications providers, including USDA Rural Utilities Services borrowers, to build their networks and provide

affordable service to rural customers. How will these changes impact the RUS's Telecommunications and Broadband Loan Programs?

**Response:** The RUS is examining the specific provisions in the Federal Communication Commission's Universal Service Fund (USF) order and determining how reductions in USF support and in intercarrier compensation (ICC) rates will affect our current borrowers and our future lending decisions. The FCC also required an increase in basic local rates for rural carriers serving rural consumers. Some of the changes proposed by the FCC in its November Order would reduce the level of cost recovery for investments that were made in the past. Other changes will take effect as soon as this summer and some are subject to further rulemaking by the FCC.

With many key decisions pending in the Further Notice of Proposed Rulemaking, there is a period of "uncertainty" that could impact investment decisions across the rural telecommunications sector. We believe this has impacted the pace of draws for both traditional Infrastructure and Recovery Act projects. The RUS is skilled at managing risk and will make loans based on the best information available. However, RUS can only make loans where revenues support repayment.

From our initial analysis, particularly if key elements of the further rulemaking are implemented in a certain manner, the order could impact on the revenues that many RUS borrowers rely upon to build and maintain broadband-capable telecommunications systems. These changes will affect some borrowers serving rural and remote communities more than others. However, the FCC plans to implement the USF and ICC reforms over several years to allow the industry to adequately prepare. The RUS has requested that all current loan applicants re-estimate their revenues in light of the FCC's rulemaking and provide additional data to the RUS on how they will incorporate the changes in revenues into their business models.

The USDA fully supports the Administration's goal of expanding broadband deployment and adoption throughout America. Broadband is a pillar of rural economic development that cuts across all of USDA's initiatives focused on providing a solid foundation for business creation and job growth in remote communities. The USDA is mindful that USF reform efforts should preserve and build upon the success of the RUS loan programs.

The USDA continues to offer its expertise through the RUS and the ERS to provide data to the FCC to inform its decision making process.

Ranking Member Roberts

1. Last summer, President Obama announced the creation of the White House Rural Council chaired by you that focuses on actions to better coordinate and streamline federal program efforts in rural America. I was pleased to see such an effort to tear

down the stovepipes of bureaucracy on behalf of farm country. Often times actions taken by agencies other than USDA have a tremendous impact on the development of Rural America.

- A. The Department of Labor's proposed rule for agriculture labor for our young people is a prime example of something this Council should have discussed. Labor's proposed rule limits teenage children from working on farms or in farm related jobs and limits how organizations like FFA educate young people on production practices.

No one cares more about the safety of young people working on farms than their parents and neighbors. Yet I continue to hear from parents who are worried these proposals will prevent their children from getting the hands on education they need to continue a successful rural business. To what extent was the White House Rural Council involved in drafting this new rule?

**Response:** The White House Rural Council, and USDA, have been working closely with DOL to ensure kids across the nation have the opportunity to learn the value and reward of farm work, while still providing protection to children from the most dangerous aspects of farming. Secretary Vilsack applauds Secretary Solis and the Department of Labor for their decision to repropose the section of the rule related to the parental exemption. The Labor Department listened to farmers and ranchers across the country. This announcement and the additional opportunity for comment represent a common-sense approach to strengthen our agricultural economy while keeping farm kids safe. It reflects the Obama administration's commitment to the American values that will keep our rural and agricultural economies growing, and keep rural communities and families prosperous.

- B. The Federal Communications Commission recently announced an order proposing reforms to the Universal Service Fund and Intercarrier Compensation on the Rural Utilities Service telecom loan portfolio. The FCC is also considering further changes that could impact small businesses in Rural America and the customers they serve. What role has the Rural Council played in the FCC's proposed reforms? As Chair of the Rural Council, how many interagency meetings with USDA, Commerce, and FCC have occurred and to what extent have stakeholders been involved in these meetings?

**Response:** USDA has offered, provided and disclosed, consistent with FCC ex parte rules, a number of filings that explain how the RUS loan programs work, the actual cost of rural service, the effect revenue reductions have on loan security and future loan making, information on Recovery Act awards and wireless data. Specifically, the RUS filed an extensive presentation in the FCC's USF docket last summer. The presentation demonstrates the impact of specific

reductions in Federal USF on the RUS portfolio and the level of risk to borrowers with outstanding principal balances.

The RUS submitted another filing in the USF proceeding urging the FCC to establish a "safety net" or waiver process which would prevent USF rule changes from forcing a well-run service providers from defaulting on a government obligation. That filing was coordinated with the Department of Commerce.

USDA has also been active in interagency policy development related to broadband deployment, public safety communications and critical infrastructure. These meetings are regular and on-going. USDA is also in regular contact with borrowers, their organizations, tribes and other rural stakeholders on a host of telecommunications policies.

While the Chairman of the FCC serves on the Rural Council, the FCC as an independent regulatory agency generally does not participate in Executive Branch policy development related to open FCC dockets and the Rural Council itself did not make any filings in the USF docket.

Since the order was released, the Rural Council has heard from numerous rural service providers who are RUS borrowers, consumer advocates and other rural stakeholders who have expressed their views about the provisions of the Order. As a result, the Rural Council is taking a serious look at all of the issues involved.

2. The Rural Development Title of the 2008 Farm Bill required USDA to present this Committee with a report that assesses the various definitions of the term "rural" and "rural area" that are used to administer RD programs. Five years have passed, and we are about to write another farm bill, can you tell us what is the status of this report? When can we expect it?

**Response:** We apologize for the delay in the providing the report to Congress. The report is currently in clearance. We recognize that our programs assist millions of Americans, so our Agency is working to ensure that the rural area determination is accurate. For example, the 2008 Farm Bill contained two provisions for making exceptions to the rural area definition. One is an exclusionary paragraph that became effective with publication of the 2008 Farm Bill, and the other is a discretionary paragraph the Agency implemented.

The exclusionary paragraph applies to areas that are currently considered non-rural because they are attached to the urbanized area of a city or town of greater than 50,000 inhabitants by a "string" area that is 2 census blocks wide or less. The discretionary portion of the 2008 Farm Bill is known as the "rural in character" provision. The determinations under this provision will be to areas that are determined to be "rural in character" and are within: (1) an urbanized area that has two points on its boundary

that are at least 40 miles apart, which is not contiguous or adjacent to a city or town that has a population of greater than 150,000 inhabitants or the urbanized area of such a city town; or (2) an area within an urbanized area contiguous and adjacent to a city or town of greater than 50,000 population that is within ¼ mile of a rural area. Although we cannot provide a definite date of delivery, we promise to continue to work through the review process expeditiously to provide a final report to Congress as quickly as possible.

3. The March 2011 GAO report titled *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue* cited concerns with overlap and duplication across four agencies (Commerce, HUD, USDA, and SBA) in the area of economic development. Economic development programs administered efficiently and effectively can contribute to the well-being and growth of our nation's rural economy. The challenge is achieving this goal with the least cost to our tax payers.
  - A. You have mentioned several things you are doing within the Department to address efficiency and improve delivery of programs, but what are you doing across agencies to address duplication of programs, particularly when it involves economic development?

**Response:** USDA works closely with other agencies to better coordinate overall policy and leveraging opportunities for our customers. In fact, the White House Rural Council was designed to do just that. The fundamental difference of USDA Rural Development programs is our unique field office structure, which allows us to maintain a local presence in the rural communities we serve. Other Federal partners do not have a local presence in these communities that can assist in the development and growth of the community, and thus USDA can facilitate those agencies' ability to reach local communities directly.

For the three agencies covered in the aforementioned GAO report, USDA collaborates and leverages with those agencies to improve efficiencies and to ensure that rural communities are economically thriving. For example HUD, USDA, and Treasury are working together to align rental housing policies in 9 different areas of housing regulation. The agencies have formed subgroups for each of the subject areas, and have been working to develop Memoranda of Understanding between HUD, USDA's RD, and state housing agencies on pilot programs within each subject area.

USDA often works with the SBA, especially at the state and local level where they frequently collaborate to conduct outreach and training events. They meet regularly to discuss new partnership opportunities, including joint lending for projects. Each agency's unique lending parameters create leveraging opportunities and the impact of this leveraging increases access to capital for rural businesses.

For example, through the White House Rural Council, SBA and USDA partnered to host a series of six roundtable discussions on increasing private investment capital for rural small businesses in 2011 – 2012. This effort includes partners from the financial industry, Farm Credit Administration, and state agencies. The two agencies also established a working group to create consistent and streamlined application processes.

In April of 2011, RBS developed and administered a survey to assess the level of collaboration between RBS and SBA. The survey has been conducted twice in order to monitor the agency's progress towards implementing the MOU between SBA and USDA.

While USDA works with SBA in a number of ways, our RBS programs provide several specialized characteristics:

- RBS has the expertise and experience with the particular economic, social, and geographic characteristics of rural communities.
- RBS implements its programs working in close partnership with small rural lenders. This partnership provides access to our financial and technical expertise that allows small rural lenders to originate large commercial loans.
- RBS offers a holistic portfolio of grant and loan programs to assist rural entrepreneurs at all levels from start up to commercialization.
- Because distance alone can hinder service delivery in rural areas, RBS' extensive field structure places the delivery of RBS programs in the very rural communities that we are mandated to serve.
- RBS' field structure also encourages success and reduces defaults because RBS staff are easily accessible to applicants and provide guidance and servicing that assists businesses achieve their goals, repay their loans, and create jobs in rural America.

- B. The GAO report specifically cited the failure of RD to fully implement a USDA Inspector General's 2003 recommendation related to ensuring that data exist to measure the accomplishments of the Business and Industry loan program. As you know, the B & I loan program is one of RD's largest rural business programs. What steps have you taken to address this concern, and what have been the results of your actions?

**Response:** The Guaranteed Loan System (GLS) was developed as a tool to track information and process applications for USDA Rural Business-Cooperative Service's loan and grant programs. The system aids the Agency in processing applications, scheduling and performing servicing, monitoring and oversight activities of loans and grants, managing loan and grant programs and program portfolios.



The Agency has commenced a four-part approach of training to improve the integrity of data in the GLS system. One part is to provide the staffs at our 47 Rural Development State Offices and National Office training on "immediate issues," focusing on collecting, inputting, and maintaining data related to program performance measures, strategic goals, and initiatives. A second part will center on building a support infrastructure for field offices by identifying field office GLS Points of Contact (POC) and provide them expertise training in GLS and the tools and resources to provide on-going training and technical assistance to field office staff. The third part is to provide training to the Rural Development State Office Rural Business Program Directors on the use and management of GLS for program management. The fourth part is to provide training to the RBS National Office staff on GLS and the use of GLS data reports for program management. Improvements resulting from these training activities include: improvement in data collected and used for program performance measures, such as the number of jobs created and saved, and number of businesses and small businesses assisted.

4. RD's Multi-Family Housing Programs offer loans to provide affordable multi-family rental housing for low and moderate income families as well as elderly, and persons with disabilities. In the past, this has been a good resource in my home state of Kansas for a great number of folks in rural areas. Unfortunately, in recent years, we've seen a substantial number of folks default on their RD loans.

While some of this we can attribute to the current state of the economy, a significant portion of this is due to competing government programs such as those administered by the Department of Housing and Urban Development (HUD). What can be done to prevent such duplication? And how can we prevent other agencies/departments from undermining existing RD funded projects?

**Response:** We are pleased to report that the delinquency rate of our Multi-Family Housing loans has declined from the levels experienced during the credit crisis. In Kansas, the number of delinquent Section 515 direct loans has declined from 30 loans in September 2009 or 8.4% to 23 loans or 6.9% in January 2012. Our field office continues to work with those borrowers to resolve those defaults and bring the loans current.

USDA believes that its multi-family housing programs serve rural Americans better than other federal agencies. Since Rural Development projects are located in areas with lower population densities, those projects are usually much smaller than HUD projects, which are generally located in higher density areas. In addition, the policies and procedures in place, such as requiring market studies before a new property is funded, should prevent against default due to over supply. Rural Development's rental housing programs provide critically needed housing for those considered very low income; the average income of tenants in Section 515 apartments is less than \$11,500, and our Rental

Assistance program provides the assistance those very low income tenants need to be able to afford decent rental housing.

To address where there are similarities, USDA Rural Development has been working with other federal components on efforts to streamline rental housing policies in areas that can improve programmatic efficiency and reduce the burden on the private sector and state and local governments.

5. USDA is working with the Department of Defense and the Department of Energy to facilitate biofuels production. The 2008 Farm Bill provided mandatory funds for expanding biofuels production, research and development of new conversion technology and funds for construction of the facilities. How many operations (working and planned facilities) have received assistance from Farm Bill Energy Title programs? How much has their production increased to date and what is the expected capacity that will result from the USDA investment? Boiling it down, what is the capacity that the Farm Bill is responsible for creating and how far along are we today in reaching that capacity?

**Response:** Number of awards for FY2009 through FY2011

Section	YEAR				Total
	2009	2010	2011	2012	
9003	1	1	4	2	8
9004	0	1	0	--	1
9005	154	163	156	--	473
9007	7	6	76	--	89

NOTE: For Section 9005, the number represents the number of producers who received a payment. For Section 9007, FY 2011 awards include 66 flexible fuel pump projects.

**Section 9003** - The purpose of this program is to assist in the development of new and emerging technologies for the development of advanced biofuels, so as to increase the energy independence of the United States. Currently, there is no production that can be reported. At the end of February 2012, seven active 9003 projects have a projected capacity of 62 million gallons, with two of these projects having a projected power generation capacity totaling over 24 megawatts. Three projects are currently under construction and are expected to start producing advanced biofuel in the fourth quarter of FY 2012. Four remaining projects are working to meet the Conditional Commitment and the loans have not closed to date. One project failed to achieve production due to technical difficulties.

**Section 9004** - Capacity is not increased in the Repowering Assistance Program; its goal is to replace fossil fuel with renewable biomass to power a biorefinery. Lincolnway Energy, LLC, is the sole recipient of a Section 9004 award to date, and 50 percent of its

fossil fuel use is anticipated to be replaced, equivalent to 288,286,604 kilowatt hours of energy a year. To date, the project has not started construction.

Section 9005 - The Bioenergy Program for Advanced Biofuels (Advanced Biofuel Payment Program) is to support and ensure an expanding production of advanced biofuels. It does not assist with creating new capacity, but funds increasing production within a plant's existing capacity. From Fiscal Year 2009 to Fiscal Year 2011, producers enrolled in the program increased their production of advanced biofuel by almost 90 million gallons, and increased electricity production from advanced biofuel by 8.5 million kilowatts hours.

Section 9006 - The Biodiesel Education Program develops and distributes educational materials that support advances in biodiesel infrastructure, technology transfer, fuel quality, fuel safety, and diversifying feedstock production. Through USDA's Biodiesel Education Program, the National Biodiesel Board and the University of Idaho have been successful at increasing availability, ensuring fuel quality, growing original equipment manufacturer (OEM) support, broadening public awareness, and expanding into new markets, e.g. bioheat in the northeastern U.S. The program conducts workshops on biodiesel conversion, marketing, technology advancements, and developing sustainable production systems. In FY12 the program received \$1 million.

Section 9007 - Over the past three years, in total, REAP has supported 23 biorefinery projects (biodiesel and biofuels from waste products), amounting to \$3.2 million in grants and \$4.8 million in guaranteed loans. In 2011, REAP awarded \$4.3 million in grants to 66 flexible fuel (fuel ethanol infrastructure projects).

Section 9008 - NIFA is preparing a status report on the Biomass Research and Development Initiative that will be included in the legislatively required annual report to Congress. A preliminary copy has been previously provided to the Senate Ag Committee and includes outputs such as jobs created, work force trained, students educated, patents, leveraged funding, products developed.

Section 9009 - The Rural Energy Self-Sufficiency Initiative did not receive appropriations and so there are no developments to report.

Section 9010 - The Feedstock Flexibility Program authorizes USDA to purchase surplus sugar for resale to bioenergy producers if falling prices threaten forfeitures of sugar loan collateral to the Commodity Credit Corporation. The program is on standby until such time as the CCC acquires an inventory of sugar, which currently does not exist.

Section 9011 - The Biomass Crop Insurance Program (BCAP) contains two components: 1) establishment and annual payments for producing biomass in approved project areas; and 2) matching payments for the collection, harvest, storage, and transportation (CHST) of biomass to qualifying biomass conversion facilities. The first project area

proposals were accepted in FY 2011 and the interest was significantly stronger than anticipated. In 2011, FSA received over 40 project area proposals and accepted nine. The nine project areas encompass 168 counties in 10 States with an enrollment of nearly 50,000 acres. A total of \$54 million was allocated to the 9 project areas in FY 2011. FSA expects this spring to issue a new request for project area proposals for FY 2012. In FY 2011, FSA approved three applications for facilities seeking to qualify for participation in the matching CHST payment portion of the program. Approximately \$1.69 million in CHST matching payments were made to 85 producers for the delivery of 45,000 dry tons of corn stover. The FY 2012 appropriations act limits BCAP to \$17 million, so there will likely be few dedicated energy crops established next year. A solicitation for new project areas was announced on March 22, 2012.

Section 9012 – Under the Forest Biomass for Energy Research and Development Grants Program, the Forest Service was directed to carry out a competitive research and development program to encourage use of forest biomass for energy. To date, because funds have not been appropriated for this competitive grants program, it has not been implemented.

Section 9013 – Under the Community Wood Energy Program, the Forest Service was directed to provide grants to state and local governments to develop community wood energy plans, and to acquire or upgrade community wood energy systems. To date, funds have not been appropriated for the program. However, some aspects of the program were implemented using ARRA funds in FY 2009, resulting in more than 30 projects being implemented in schools and other public facilities, offsetting the use of fuel oil and propane in rural communities.

6. How would you rate the Department's implementation of the Biomass Crop Assistance Program (BCAP)? How much additional production was generated through the matching payments (and what is the total amount paid for matching payments)? How are you facilitating the coordination between USDA agencies, specifically with RMA regarding crop insurance products for biomass crops?

**Response:** BCAP was created in the 2008 Farm Bill to jump-start the cultivation of energy crops at commercial scale, a federal effort never before attempted. In a number of instances when the statute fell short or failed to adequately anticipate outcomes or expenditures, USDA identified those shortcomings quickly and implemented successful improvements using the final regulation, ensuring that important energy crop data would be available in time to inform the development of the next Farm Bill.

Total matching payments resulting from statutory authority during FY 2009-FY 2010 amounted to approximately \$243 million for the delivery of roughly 6 million dry tons of biomass used for energy.

Regarding crop insurance for biomass crops, the 2008 Farm Bill directed RMA to enter into one or more contracts with qualified entities to carry out research and development regarding a policy to insure dedicated energy crops. The Feasibility Study for Insuring Dedicated Energy Crops was completed and posted on the RMA website in May 2011. The study indicated that camelina was the only commercially-grown dedicated energy crop that was currently feasible.

During the time RMA was reviewing the Feasibility Study for Insuring Dedicated Energy Crops, a privately submitted proposal for camelina insurance was submitted to the FCIC Board of Directors. Out of that proposal, a new Federal crop insurance program for camelina was approved by the FCIC Board of Directors in September, 2011. Beginning with the 2012 crop year, insurance coverage will be available to camelina growers in 41 counties in Montana and 11 counties in North Dakota.

In addition to the specific requirements to pursue studies for dedicated energy crops and camelina, RMA entered into contracts to study other biofuel crops. RMA has accepted the Final Data Collection Report for Woody Biomass and has recently received and is currently reviewing the Final Feasibility Research Report for Insuring Corn Stover, Straw and Other Crop Residues. As soon as RMA accepts the Final Feasibility Research Report for Insuring Corn Stover, Straw and Other Crop Residues, that report along with the Data Collection Report for Woody Biomass will be posted on the RMA website.

7. USDA's bio-based program has a labeling component that creates a simple label that states *USDA Certified Bio-Based Product*. As USDA currently excludes bio-based products with "mature markets" such as forest products, won't this mislead and cause confusion in the marketplace? Will the consumer be able to understand the differences between two products on the shelf that are both bio-based, one with a USDA endorsement and one without?

**Response:** The BioPreferred program does not exclude forestry-based biobased products. Only biobased products that had a significant market share prior to 1972 are excluded from participation. In this regard the BioPreferred program works closely with USDA's Forest Products Research Lab in Madison, WI to make sure those forest-based products applying to participate in the BioPreferred program did not have a significant market share prior to 1972. Part of the lab's mission is to help come up with innovative ways to use our forests to make new consumer products.

USDA's rationale for excluding mature market products from the biobased markets program is contained in Guidelines for Designating Biobased Products for Federal Procurement: "The intent of section 9002, as described in the conference report accompanying FSRIA, 'is to stimulate the production of new biobased products and to energize emerging markets for those products.'"

8. Last year USDA, DOE and DOD announced a planned \$510 million investment to support drop-in advanced aviation and marine biofuels with the use of \$170 million in CCC funds. What specific authority is USDA using and how will the CCC funds be used? How many times has USDA used this authority?

**Response:** Section 5(e) of the CCC Charter Act, authorizes CCC to take action to increase the consumption of agricultural commodities by "... aiding in the development of new and additional markets, marketing facilities, and uses for such commodities." Under this authority, CCC will make available up to \$171 million to subsidize the production of bio-based jet fuel. Because there is no existing viable commercial source for the large-scale production of such fuel, CCC has entered into an agreement with the Department of Energy and the Navy to assist in the development of this product. In the last ten years the Section 5(e) authority has been used twice, for this program and for the 2002 Farm Bill Bioenergy Program.

**Senator Kirsten Gillibrand**

**Dairy**

1. We must fight to keep our family dairy farms from going out of business because it saves jobs, protects rural economies, maintains our American milk production and assures a safe viable food supply in all regions of the country as a national security priority. Dairy farmers in New York State and across the country urgently need this Committee and Congress to reform dairy policy in order to better protect against price volatility. While I support swift action on tackling the dairy issue in the farm bill, the reality is that the critical MILC program will ratchet down its payment levels on September 1<sup>st</sup> of this year. If the farm bill is not reauthorized by then, what will USDA do under your leadership to protect dairy farmers from losing their much needed safety net?

**Response:** Current projections show milk prices improving through the summer and fall and feed prices decreasing with the beginning of the new harvest, which should bring MILC payments to an end before the September 1 program adjustments. If the economic situation is worse than expected, the Dairy Product Price Support Program will still be in place through December 31, 2012.

2. The current Federal Milk Marketing Orders (FMMO) system is based on end-product pricing, which may be leading to the inadequate prices farmers are receiving for their milk. As I have written to you in the past, I urge you to conduct a federal hearing process where a transition to a competitive pay pricing system could be explored. I also recommend that USDA conduct a thorough analysis of the FMMO reforms proposed by the Maine Dairy Industry Advisory Council as well as Congressman Peterson's Foundations for the Future proposal. This committee needs this data to be gathered,

analyzed and made available to us as we explore transitioning from a four-class to a two-class system. Are you amenable to working together on solving this critical milk pricing problem for our dairy farmers? If so, what is your timeline for action?

**Response:** The Department is always agreeable to working with interested parties to address issues in the Federal milk marketing order program. USDA is engaged with the Maine Dairy Industry Association (MDIA) and also is working with the Greater Northeast Milk Marketing Agency (GNEMMA) that includes representatives from dairy cooperatives operating in New York State to develop alternatives to the current product price formulas used to establish minimum prices in the Federal milk marketing order program.

The MDIA concept is one alternative for moving from our current end-product formula pricing structure to a competitive pay pricing system. USDA has provided MDIA with several data series. This data can be found at <http://www.ams.usda.gov/AMSv1.0/industryinformationrequests>. The GNEMMA group is exploring other options.

The Federal milk market order hearing process is now operated under specific timeframes as a result of changes made by the 2008 Farm Bill. Through successful experiences with hearings operated under the new rules, the time spent dialoging with interested parties prior to submission of a formal hearing request is beneficial. These conversations allow parties to fully explore details of how ideas can be made to work operationally in the context of market structures. We will continue to work with industry stakeholders as requested to assist in developing proposal submissions.

#### **Specialty Crop Insurance**

1. I wanted to take a moment to publicly thank you for accepting my invitation to visit New York State after Hurricane Irene and the subsequent flooding which devastated so many of our farms. As you witnessed with me firsthand in September, this extreme flooding was tragic in the damage it inflicted on our farms, but it also illuminated the problem of inadequate specialty crop insurance for our producers. On many New York farms, producers grow a variety of fruits and vegetables – each of which requires its own specific crop insurance policy—and unfortunately many of these individual specialty crop insurance policies don't work for our farmers. I have heard from many New York farmers that they no longer purchase crop insurance since even in big loss years their indemnity is smaller than their premium. Will you work with me to fix this broken risk management program for specialty crop farmers in New York State and across the country?

**Response:** The Risk Management Agency (RMA) has made a concerted effort to work with private entities under authority provided under section 508(h) of the Federal Crop Insurance Act to expand the availability of crop insurance coverage. In addition,

participation in crop insurance by specialty crop producers is increasing. We estimate about 47 percent of vegetable crop acreage and 78 percent of fruit crop acreage is covered by the program. However, we recognize there is an opportunity to provide better, more effective insurance products to specialty crop producers. As discussions on the next Farm Bill move forward, I commit to working with you to ensure our crop insurance program continues to evolve to meet the diverse needs of today's agricultural producers.

#### **Disaster/Loan Forgiveness**

1. Last year, many New York counties were devastated by the flooding caused by Hurricane Irene and Tropical Storm Lee. With the numerous pressures on farmers, including all time high feed and fuel costs, many were struggling to stay afloat before these natural disasters. Many growers lost all of their crops in their fields since the floods hit right before harvest. While we were able to get disaster aid money to these communities in the form of the Emergency Conservation Program and the Emergency Watershed Program funds, we still need to do more. For farmers who had outstanding emergency loans from USDA and were devastated by last year's natural disasters, I ask why loan forgiveness is not used as a form of disaster assistance? Additionally, would it be possible to lower the Emergency Loan borrowing rate to be equal to the operating loan rate, since farmers being hit by a disaster shouldn't also be put in a situation to where they have to pay more to receive a loan?

**Response:** Under current statutes, when a Farm Service Agency (FSA) borrower receives debt forgiveness, their eligibility for future loans becomes limited to annual production loans only. Additionally, the statute imposes a limit of one instance of debt forgiveness for a borrower, ever. These limitations make it extremely difficult for a borrower to have FSA loans forgiven and continue farming. There are cases where FSA does include loan forgiveness as a part of a complete loan restructuring, but that is a very last resort due to the severe limitations it imposes on the borrower.

USDA is evaluating reducing the Emergency Loan rate. It is important to note that the current FSA disaster loan rate is still lower than commercial lenders' interest rates. In addition, a reduction in the loan rate will increase the cost associated with the obligation of an emergency loan. This will reduce the amount of available loan funds and the number of producers able to receive a FSA emergency loan. FSA has made 152 emergency loans totaling \$14 million dollars during FY 2012. This program is still a strong alternative for producers when disaster strikes.

#### **Senator Saxby Chambliss**

1. The U.S. forest products industry is seeing incredible job losses; since 2005, the industry has lost 294,000 full-time jobs and 19% of U.S. mills have closed in that same time period. The South has suffered the greatest number of full time losses, with 113,000 job



losses. This has resulted in an overall annual decline of \$9 billion in full-time wages in the industry. Billions more in part-time and self-employment wages were also lost. With these job losses in mind, I'm concerned with USDA's implementation of the "Biopreferred Markets Program" and the disadvantages it creates for the forest products sector. Both the federal procurement and the voluntary labeling program under this program could help promote the use of forest products and create jobs in rural communities that have been hit hard by the downturn in the forest industry.

Why is USDA failing to recognize forest products under this program, especially when forest products are among the most "biobased" products in existence? Would you be willing to work with me to change the program to include forest products?

**Response:** The USDA Biobased Markets Program is known as the "USDA BioPreferred Program." The BioPreferred program was established in Title IX of the Farm Security and Rural Investment Act of 2002. Congressional intent for the program, as described in the conference report accompanying FSRIA, "is to stimulate the production of new biobased products and to energize emerging markets for those products." Therefore, USDA's program has focused on new and emerging products and markets. For purposes of program implementation, the program is aimed primarily at increasing the use of new agricultural-based products that have entered the marketplace post-1972. By law, forest products are a specified part of the BioPreferred program and are included in the list of products included for Federal procurement preference and for carrying the new USDA Certified Biobased Product label. The legislative record indicates that Congress wanted the BioPreferred program to support the development of new products and new markets, and not to use limited Federal resources to provide continued support for already significant existing markets. There are a number of other existing programs at USDA that already support the continued use of U.S. forest products to support the forestry industry.

2. Last year, I was pleased to see your announcement, Mr. Secretary, calling for a USDA preference for wood products in your building construction and allowing the use of all credible green building rating systems. However, in the FY 2013 budget justification for the Forest Service—there is a statement that the Forest Service will continue to use only the LEED system for building construction and there's no tangible demonstration for how you are addressing your wood preference policy.

Can you explain this? How are you fulfilling the announcement and policy you committed to a year ago?

**Response:** The referenced language in the FY 2013 Budget Justification has been revised, through our errata process, to reflect our current policy and commitment to allow the use all credible third party Green Building Certification Systems. The following revised language will be included in our errata to the FY 2013 Budget Justification.

“Improve Facilities: The FY 2013 President’s Budget funds the improvement of facilities. Agency priorities include replacing or renovating obsolete facilities and recreation sites that are critical to the agency mission, receive the highest use by the public and agency personnel, and are in the worst physical condition. New building construction projects for regional offices, supervisor’s offices, district offices, visitor centers, and research offices or laboratories where the building is 10,000 gross square feet (GSF) or greater in size must be registered and certified using either the U.S. Green Building Council’s Leadership in Energy and Environmental Design (LEED) rating system (minimum Silver certification), Green Globes (minimum Two Green Globes certification) or other third-party certification system. All other buildings, whether new or major renovations, must be designed to incorporate sustainable principles into the systems and components appropriate to the building type and project scope. This requirement applies to buildings on an individual basis, and the most recently issued version of the third-party certification system must be used. We encourage construction projects to be designed and constructed with domestically harvested wood products ideally locally sourced and from National Forest System lands, wherever practicable and feasible.”

**Senator John Thune**

**Rural Development**

1. Mr. Secretary, our rural communities – especially our local businesses -- have always faced a giant hurdle in gaining access to capital and credit to invest, grow, and create jobs. We know that federally funded Rural Development programs are going to have to shrink – budget pressures demand it -- which will mean less support from Washington.

**Question:** Do you have any thoughts on how our rural businesses can maintain adequate access to capital and credit in the future as government programs shrink?

**Response:** Increasing the access to capital in rural America is one of USDA’s top priorities; affordable, available, and reliable capital is the lifeblood of economic development throughout the country. Capital is needed to spur business expansion, promote new businesses, create and retain jobs, and increase economic prosperity in rural communities. For rural Americans to thrive economically, they must have improved access to financing – particularly long-term equity and venture capital. USDA will continue to pursue aggressively our relationships with our public and private partners to leverage existing programs and increase access to capital in rural America.

USDA’s Rural Business and Cooperative Service further increased access to capital when it amended the Rural Business Investment Program (RBIP) regulation, 7 CFR 4290, to facilitate the licensing of non-leveraged Rural Business Investment Company’s (RBICs) because program funding for leveraged RBICs has not been available since FY 2006.

USDA believes the RBIP is a valuable program that will facilitate investment in rural areas even without federal financial assistance.

USDA and the Small Business Administration (SBA) are working together to bring private equity and venture capital investors together with start-up rural businesses. Over the past year, the two agencies have hosted several Rural Private Equity and Venture Capital conferences throughout the country. These conferences provide a platform where private equity and venture capital investors can network with rural start-up businesses. The USDA, SBA, Department of the Treasury, Department of the Interior, and other relevant agencies have rural capital marketing teams that inform private investors about federal funding opportunities. These marketing teams will leverage existing personnel with expertise about rural funding sources across all federal departments and agencies.

The USDA and SBA are holding Rural Business Summits roundtables across the country to encourage Impact Fund and SBIC investment into rural America. So far, we have held roundtables meetings in Raleigh, North Carolina and Saint Paul, Minnesota, Syracuse, New York. Upcoming roundtables will be held in Tulare, California, Denver, Colorado, and Ohio.

#### Energy

1. Mr. Secretary, the Biomass Crop Assistance Program (BCAP) which Senator Nelson and I included in the last Farm Bill has two components, the collection, harvest, storage and transportation (CHST) component and the project area component.

Mr. Secretary, yesterday I met with the CEO of a major enzymes research and development company, who told me that BCAP and its CHST component is extremely important to the future of biomass harvest and delivery to energy producing facilities.

**Question:** Do you believe the collection, harvest, storage and transportation component of BCAP is an effective program that would further the development of cellulosic ethanol and other second generation biofuels?

**Response:** The collection, harvest, storage and transportation (CHST) component of BCAP can be a helpful tool to incentivize the collection of existing biomass for energy purposes that otherwise would be uneconomical to retrieve. At the same time, we have to diversify away from corn starch-based ethanol, so we have also focused on the second part of BCAP, the establishment and annual payment, where demand has been very high. For example, in FY 2011, FSA received more than 41 applications to become BCAP Project Areas, seeking more than \$1 billion to grow energy crops on more than 1.5 million acres. Of these applications, FSA was able to award \$54 million to 9 project areas, totally nearly 50,000 acres.

**Question:** The intent of Congress for CHST in the last Farm Bill was that it not be limited to project areas but for crop residues and other eligible biomass for which project areas

do not apply. Do you believe that eligibility for the CHST component of BCAP should not be limited to project areas?

**Response:** Eligibility for the CHST component of BCAP is not limited to project areas. BCAP allows matching payments for biomass outside of project areas as long as that biomass would not otherwise be delivered absent the incentive, or would not otherwise be used for existing markets.

2. Mr. Secretary, to your knowledge is there any program other than BCAP which addresses the logistical challenges of building the cellulosic biomass industry in the United States?

**Response:** In terms of developing dedicated energy feedstocks, BCAP is the only program that provides assistance for the cultivation and collection of dedicated energy feedstocks at the national level. However, there are other programs both within USDA and across the federal government that address other components of the cellulosic biomass industry supply chain. For example, the Biorefinery Assistance Program, administered by USDA's Rural Development, provides loan guarantees to assist with building cellulosic biorefineries.

3. What could the economic impact be if mandatory funding was provided for BCAP through the Energy title of the next Farm Bill?

**Response:** The exact economic impact depends on the level of mandatory funding for the program. However, the economic impact analysis published as part of the BCAP Programmatic Environmental Impact Statement estimates that at full funding, the total net economic impact of BCAP by the year 2023 would be \$88.5 billion, including direct, indirect, and induced impacts and the creation of nearly 700,000 direct and indirect jobs. The induced economic impacts occur primarily from employment compensation and the consumption functions that reflect consumer purchases plus profit and the proprietors' consumption function.

4. The United States has developed the technology for the advanced biofuels industry. Now, commercial production is starting outside the United States. I know the USDA has issued several loan guarantees to advanced biofuels projects for production in this country. Do you expect additional loan guarantees in the near future for additional facilities?

**Response:** USDA continues to review applications for Section 9003, the Biorefinery Assistance Program received in FY 2011. We anticipate more project announcements for applications currently under review later this year. The Agency will not be accepting applications in FY 2012 because no funds were appropriated.

5. When do you expect these facilities to be online and producing significant volumes?

**Response:** Section 9003 - We anticipate that at least two of these facilities will be producing significant quantities in 2013, and one additional facility in 2014. For the remaining projects, the loans have not closed. Therefore, we cannot anticipate when these other projects will begin producing significant volumes. Biorefinery projects involve complex construction and typically take a minimum of two years to construct and start producing significant quantities of advanced biofuel. Some projects may take up to four years to start producing significant quantities of advanced biofuel.

Section 9007 - Energy efficiency projects normally take between six months to a year to be operational, and replace, generate, or save energy as outlined in the application. Renewable energy projects take longer to construct and typically take one to two years before significant energy is being replaced or generated.

6. Your agency has just rolled out an Energy website that, among other useful tools, has an Energy Investment Map which details USDAs energy projects by state, county and congressional district. Do you have plans to add jobs data associated with those projects in the future and if so, when can that be expected?

**Response:** The job data associated with the projects listed on the website was discussed last year and is under consideration for next the phase of the website. We are currently trying to standardize data collection among the agencies to make future additions to the website easier.

**Senator John Boozman**

1. The FCC recently reformed USF High Cost Fund and Intercarrier Compensation regime. While this program needed to be updated, the FCC has created a huge amount of regulatory uncertainty for companies who have been expanding broadband networks across rural America. How can USDA make sure that its rural economic development mission isn't undermined by any further changes?

**Response:** Broadband availability and use are absolutely essential to rural economic development. I have described it as one of the pillars of USDA's broader job creation and economic prosperity efforts. The President has also spoken frequently about the importance of expanding our nation's commitment to rural infrastructure investment as a key to our economic recovery. The USDA and RUS have filed numerous presentations and data submissions in the FCC's USF docket that illustrate the impact of reducing universal service support on rural carrier revenues and sustainability as small businesses. However, the FCC plans to implement the USF and ICC reforms over several years to allow the industry to adequately prepare. The RUS also filed comments proposing a comprehensive "safety net" or "waiver" process to prevent defaults on commitments made to government.

Historically, RUS lending and USF support have worked well together to give thousands of rural Americans broadband services and rates which are comparable to what is offered in urban areas.

The USDA continues to offer its expertise through the RUS and the ERS to provide data to the FCC to inform its decision-making process.

Large parts of the reform efforts are subject to further rule making. With many key decisions pending in the Further Notice of Proposed Rulemaking, there is a period of "uncertainty" that has slowed investment decisions across the rural telecommunications sector, impacting the pace for both traditional Infrastructure and Recovery Act projects. The RUS is skilled at managing risk and will make loans based on the best information available. However, RUS can only make loans where revenues support repayment.

