

**Statement of  
Dallas Tonsager  
Under Secretary for Rural Development  
USDA**

**Testimony before the Senate Committee on Agriculture, Nutrition and Forestry**

**July 21, 2010**

Madam Chairman, Senator Chambliss, and Members of the Committee, thank you for this opportunity to discuss Titles VI and IX of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill).

I would like at the outset to acknowledge and express my appreciation for the close working relationship we have enjoyed with you over the past year and a half. I know that all of us here share a deep commitment to rural America. All of us understand the unique challenges faced by rural communities. We recognize, as I know you do as well, the remarkable new opportunities for rural America now on the horizon, and we look forward to a continued partnership with you to bring those opportunities to fruition.

Rural America is the nation's heartland. It comprises three quarters of the nation's land area and is home to more than 50 million people. Rural America is our farms and forests; our mountains, deserts, and plains; our small towns and smaller cities. Agriculture has historically been the iconic industry, but today more than 95 percent of rural income is earned off the farm, with manufacturing, mining, forestry, tourism, and services sustaining employment and driving growth in most rural counties.

USDA Rural Development is committed to the future of these rural communities. Rural America includes some of the nation's most dynamic, rapidly growing areas. But the aggregate statistics tell another story. Rural America on average is older and less educated than the nation as a whole, with an average per capital income approximately \$11,000 below the urban and suburban average. Unemployment and poverty rates are higher. Ninety percent of the nation's persistent poverty counties are rural.

Three generations after the mechanization of agriculture and the onset of mass farm consolidation, too many rural communities have yet to find the diversified economic base to replace the jobs that have been lost. As a consequence, rural communities continue to lose population due to outmigration as young people question the prospects for finding employment and raising families in rural areas. Far too many rural communities remain unable to offer economic opportunity to their young people, especially highly educated young people. Reversing that dynamic and transforming rural America for the next century is our mission.

A critical priority for the Obama Administration and USDA is renewable energy. For environmental, economic, and national security reasons alike, America needs to diversify our fuel supply, reduce our dependence on fossil fuels, reduce our carbon footprint, and develop our abundant renewable energy resources. We are committed to these objectives, and we are grateful to the Congress for its vision in the 2002 and 2008 Farm Bills, which give USDA the tools to support this vital national effort.

## **Title VI**

### **Section 6110: Broadband Loan Program**

Since enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act), RD has been focused on fully utilizing the Recovery Act funding to bring broadband service to rural America. To date, RD has awarded nearly \$1.5 billion to construct broadband projects in 37 states and one territory. The Recovery Act provided an opportunity to make significant investments to bring broadband to rural communities and has drawn new interest from across the country. We have studied the applications and awards under the Recovery Act Broadband Program in order to improve the pending new regulations for the Farm Bill program. The two programs are not directly comparable: the Farm Bill program is loan-only, while the Recovery Act provided the flexibility to provide a competitively awarded mix of loans and grants. Nonetheless, we believe that there will be valuable insights to incorporate into the final Broadband Loan Program rule, which we now anticipate publishing by the end of this calendar year.

### **Section: 6022: Rural Microentrepreneur Assistance Program (RMAP)**

The RMAP program is one of the most exciting new initiatives from the 2008 Farm Bill. It provides funding through community based intermediary institutions to make small and very small loans to microentrepreneurs. This holds great promise for targeting assistance to startup and home based ventures, which are often especially important in rural communities that may lack other employment opportunities. I would also note that there is a clear synergy between RMAP and the rural broadband program, which will give even the smallest rural entrepreneur access to regional, national, and even global markets.

The Interim Rule to implement RMAP was published in the Federal Register on May 28, 2010. A Notice of Funding Availability (NOFA) was published on June 3. A total of \$45.1 million is available in FY 2010 for loans, grants, and technical assistance. The initial application window closed July 16, and we are beginning to evaluate the responses. We anticipate announcing initial awards by late summer.

### **Section 6202: Value-Added Producer Grant Program (VAPG)**

The VAPG program is a tool for enhancing producers' incomes and encouraging wealth creation in rural America. The 2008 Farm Bill made significant changes related to minority and socially disadvantaged producers and mid-tier value chains. These issues are complex and, in response to comments from stakeholders and our own internal analysis, the initial FY 2009 NOFA implementing this program was withdrawn. A revised NOFA for Fiscal Year 2009 was published on September 1, 2009, with the application window closing on November 30. Rural Development received 550 applications in response to the FY 2009 NOFA and, on June 3, 2010, we announced approximately \$22.5 million in funding for 195 projects.

To implement new permanent regulations for the VAPG program, USDA published a proposed rule on May 28, 2010. The public comment period closed on June 28, 2010. We anticipate publication of an interim final rule in the Fall and publication of the FY 2010 NOFA shortly thereafter.

## **Section 6002: SEARCH Grants (Special Evaluation Assistance for Rural Communities and Households Program)**

The SEARCH Grant program is an important enhancement to the Rural Development Water and Wastewater Program. It will provide pre-development planning grants for feasibility studies, design assistance, and technical assistance to financially distressed rural communities of 2,500 or fewer inhabitants for water and waste disposal projects. This will remove a significant barrier to many of our neediest communities as they seek to provide essential community services to their residents. A Final Rule for the SEARCH Grant Program was published on June 24, 2010, although no funds are available in the current fiscal year. SEARCH Grants will be available in FY 2011 if Congress provides funding.

## **Title IX**

Rural Development administers five Title IX energy programs from the 2008 Farm Bill. Before turning to them in detail, however, it should be noted that Rural Development's support for renewable energy extends well beyond the "9000 series" programs. The commitment to renewable energy is agency-wide.

For example, most of Rural Development's Title VI business programs have supported renewable energy investments over the years. These include the Business and Industry Guaranteed Loan program (B&I), the Value-Added Producer Grant program (VAPG), the Rural Business Opportunity Grant program (RBOG), the Rural Business Enterprise Grant programs (RBEG), and the Rural Economic Development Loan and Grant program (REDLG). Similarly, the Rural Utilities Service has financed wind, solar and geothermal investments by rural electric cooperatives.

Four of the five Rural Development Title IX programs are currently being implemented. Rural Development is working to present a consistent source of funding to bolster lending and project confidence for these programs. In total, the Section 9003 and 9007 programs awarded funding for 1,559 projects during Fiscal Year 2009, which USDA estimates would create or save approximately 10.3 million KWH's of energy. This would equate to 1.76 million barrels of crude oil (5.8 million Btu's per barrel of oil), or enough energy to provide electricity for 250,815 homes.

**Section 9003 -- Biorefinery Assistance Program.**

The Biorefinery Assistance Program provides loan guarantees to viable commercial-scale facilities to develop new and emerging technologies for advanced biofuels. Eligible entities include Indian tribes, State or local governments, corporations, farmer co-ops, agricultural producer associations, higher education institutions, rural electric co-ops, public power entities, or consortiums of any of the above.

Two Section 9003 project investments involving different technologies have been announced to date and one project remains under consideration. The two projects which have been announced are:

- Range Fuels, Inc. received approval of an \$80 million guaranteed loan on January 16, 2009. The loan closed on February 10, 2010. This is a cellulosic ethanol project.

- Sapphire Energy received approval for a \$54.5 million guaranteed loan on December 3, 2009. The loan is expected to close September 2010.

The Fiscal Year 2010 NOFA published on May 6, 2010, provides up to \$150 million in budget authority for the Biorefinery Assistance Program to support loan guarantees. The deadline for submittal of applications for FY 2010 funding is August 4, 2010.

The Notice of Proposed Rulemaking was published April 16, 2010 and allowed 60 days for public comment. A total of 350 individual comments were submitted by 39 commentors. These are currently being reviewed by the agency.

The pace of applications for the Section 9003 program has clearly been affected by the recent recession, volatility in world oil prices, and a high level of caution by lenders in the wake of the credit crisis. The level of interest among potential applicants remains high, and we expect volume to increase in the year ahead as the economic recovery gathers strength.

#### **Section 9004 -- Repowering Assistance Payments.**

The Repowering Assistance Program provides payments to biorefineries that use fossil fuels to produce heat and power to replace the fossil fuels with renewable biomass. To be eligible, the biorefineries must have been in existence as of June 18, 2008, and applicants must demonstrate the economic, technical, and environmental feasibility of the proposed biomass system.

Five projects were selected for awards totaling \$13,269,383. Of the projects selected, one applicant has accepted the contract for \$1,955,272 and is proceeding with construction.

Congress provided mandatory budget authority of \$35 million until expended. In FY 2009, the program was allotted \$20 million; the remaining funds were to be spread out to provide support in subsequent years, and to allow the public to participate in the regulation formulation. The funding awarded but not accepted will be available under the Extension Notice of Funding Availability for Fiscal Year 2009. The extension notice was published on March 12, 2009, and the application window closed on June 15, 2010. Three additional applications were received for consideration. Another \$8 million in budget authority is made available for the Notice of Funding Availability for FY 2010.

The Notice of Proposed Rulemaking was published April 16, 2010, and allowed 60 days for public comment. Eight commentors submitted 30 individual comments, which are currently being reviewed by the Agency.

### **Section 9005 – Advanced Biofuel Producer Payments.**

The Section 9005 Advanced Biofuel Producer Payment program provides payments to producers to support and expand production of advanced biofuels refined from sources other than corn kernel starch. To be eligible, producers must enter into a contract with USDA Rural Development for advanced biofuels production and submit records to document such production.

*Determination of Payments as per the Notice of Contract Proposals:* The Section 9005 program



is designed to favor small producers. Five percent of the funds are allocated for payment to producers for production of advanced biofuel at facilities having an annual refining capacity of over 150,000,000 gallons. Ninety-five percent of the funds will be allocated for small producers (less than 150,000,000 gallons). In Fiscal Year 2009, 156 producers applied and 141 were determined eligible and awarded \$14,868,472 in December 2009.

Producer Payments to:	Number of Producers	Awarded 12/09 Amount of Payments	Percentage of Payment
BIODIESEL PRODUCERS	80	6,472,996	0.44
ANAEROBIC DIGESTERS	41	294,227	0.02
NON-CORN KERNEL STARCH ETHANOL PRODUCERS	16	7,355,681	0.50
WOODY BIOMASS	4	735,568	0.04
<b>Total</b>	<b>141</b>	<b>\$14,868,472</b>	<b>1.00</b>

Congress provided mandatory budget authority to this program as follows: \$55 million for FY 2009 and \$55 million for FY 2010. In FY 2009, the program was allotted \$30 million. Approximately \$15 million remains in allocated 2009 budget authority, and is available under the Extension Notice of Contract Proposals for FY 2009. The remaining FY 2009 funding of \$25 million, and \$15 million of funding from the FY 2010 allocation, which totals \$40 million in budget authority is available for this program in FY 2010.

The Extension Notice of Contract Proposals for FY 2009 request window closed June 1, 2010, and allowed 60 days for public comment. Approximately 1,100 public comments were received. These are currently being reviewed by the agency.

**Section 9007 – Rural Energy for America Program (REAP)**

The Rural Energy for America Program – known formerly as the Section 9006 “Renewable Energy Systems and Energy Efficiency Improvements Program” -- provides loan guarantees and grants to agricultural producers and rural small businesses to purchase and install renewable energy systems and make energy-efficiency improvements.

Renewable energy systems include those that generate energy from wind, solar, biomass, geothermal sources, or that produce hydrogen from biomass or water using renewable energy, and ocean and hydroelectric source technologies. Energy-efficiency projects typically involve installing or upgrading equipment to significantly reduce energy use. Energy audits and feasibility studies are also eligible for assistance.

Eligible applicants for energy audits include State, tribe, or local governments; land-grant colleges and universities; rural electric cooperatives; and public power entities. Eligible applicants for feasibility studies include rural small businesses and agricultural producers.

***REAP Performance for FY 2009***

# Projects	Funding Type	Grant Only	G-Loan Only	Combo Grant	Combo Loan
904	Grants Less Than \$20 Thousand	\$ 12,040,048			
199	Grants Greater than \$20,000	\$ 11,167,222			
380	Combinations			\$ 27,774,710.25	\$ 49,007,390.50
2	Guaranteed Loan Only		\$ 8,451,638		
22	EA/REDA	\$ 2,173,631.00			
50	Feasibility Study	\$ 1,244,600.00			
<b>1,557</b>	<b>TOTAL</b>	<b>\$ 26,625,501.00</b>	<b>\$ 8,451,638.00</b>	<b>\$ 27,774,710.25</b>	<b>\$ 49,007,390.50</b>

# Projects	Category	Sub-Category	Grant	G-Loan
49	BIOMASS Total		\$ 7,431,859	\$ 17,372,569
		14 ANAEROBIC DIGESTER	\$ 4,117,368	\$ 6,619,198
		7 BIODIESEL PRODUCTION	\$ 674,096	\$ 1,341,692
		5 SOLID FUEL PRODUCTION	\$ 843,936	\$754,679
		23 THERMAL CONVERSION	\$ 1,796,459	\$ 8,657,000
1,099	ENERGY EFFICIENCY		\$ 27,857,621	\$ 18,252,122
47	GEOTHERMAL		\$ 881,279	\$ 229,599
4	HYBRID		\$ 180,916	\$ 133,996
4	HYDROPOWER		\$ 464,432	\$ 600,000
166	SOLAR		\$ 5,994,685	\$ 3,399,253
116	WIND		\$ 8,171,188	\$ 17,471,490
<b>1,485</b>	<b>Subtotal</b>		<b>\$ 50,981,980</b>	<b>\$ 57,459,029</b>
22	EA/REDA		\$ 2,173,631	
50	Feasibility Study		\$ 1,244,600	
<b>1,557</b>	<b>TOTAL</b>		<b>\$ 54,400,211</b>	<b>\$ 57,459,029</b>

For FY 2010, approximately 75 percent of Rural Energy for America Program (REAP) funds are being allocated to the States. The total amount of appropriated and carry over funds for FY 2010 is \$99,371,998 (\$39.34 million in discretionary, \$60 million in mandatory, and \$31,998 carryover from FY 2009). Applications are currently under consideration and awards are being made both at the State level and for the National Reserve. The following charts identify the allocations and projected timelines for FY 2010.

***REAP Allocation FY 2010***

Energy Audit & REDA	\$2,400,000
Feasibility Study	\$9,694,000
Grants of \$20,000 or less (allocated to the States)	\$19,865,706
State Allocation	\$55,636,292
National Office REAP Reserve	\$11,776,000

<b>Total</b>	<b>\$99,371,998</b>
--------------	---------------------

***REAP Timeline FY 2010***

REAP - Type of Notice	Date of Publication in Federal Register
Notice of Funding Availability – Rural Energy for America Renewable Energy Systems and Energy Efficiency Improvements Loan Guarantee and Grants FY 2010	April 26, 2010
Notice of Funding Availability – REAP Energy Audits and Renewable Energy Development Assistance Grants	Anticipated May 27, 2010
Notice of Funding Availability – REAP Feasibility Studies Grants	Draft Pending
Notice of Proposed Rulemaking -- Rural Energy for America Renewable Energy Systems and Energy Efficiency Improvements Loan Guarantee and Grants FY 2010	Draft Pending
Notice of Proposed Rulemaking -- – REAP Energy Audits and Renewable Energy Development Assistance Grants	Draft Pending
Notice of Proposed Rulemaking – REAP Feasibility Studies Grants	Draft Pending

**Looking Ahead**

As we look ahead, we also look forward to your continued counsel as we seek to apply the lessons learned from the 2008 Farm Bill to the evolution of our program “toolkit” in the future.

We would also be eager to discuss with you options for streamlining and rationalizing program delivery. Rural Development administers over 40 programs. Many of them are small and overlapping. This is a complex issue. We understand that Members often have very targeted objectives in mind in crafting program authorities, but there may well be significant administrative efficiencies to be gained through consolidation. We would of course wish to

ensure that any reorganization preserves and enhances our outreach and service to rural communities.

Another important initiative for the Obama Administration is looking at how communities can work together on a regional basis. We are encouraged that the 2011 budget proposed to explore smart regional approaches within the current Farm Bill programs, and we look forward to continuing this discussion as we move towards the 2012 Farm Bill. Broadband, renewable energy, the smart grid, transportation, water and wastewater services, and many essential community services such as hospitals and emergency services are inherently regional in character. It is clear that a holistic multi-community and multi-county approach leverages resources and rationalizes planning, and we look forward to working with you to find ways to move rural communities in this direction.

With regard to renewable energy, it is clear that the difficult economic environment of the last two years has inhibited investment in new and emerging technologies. It is also clear that investors' calculations are affected by continuing uncertainty about the shape of national energy policy, especially with regard to greenhouse gas emissions.

Finally, I expect that the definition of rural will be as contentious in the next Farm Bill as it was in the last. We have in draft a report to the Congress on this question and will submit it to you in the coming months. It is easy to describe the difficulties with the existing definitions of rural; the challenge is to identify a different definitional scheme that does not create as many problems as it solves. This is a difficult question, as this subcommittee fully appreciates, and I know that we will have extended discussions with you as we move forward.

These are sensitive questions on which we want to work collaboratively with stakeholders and the Congress before proposing significant changes. I am glad that the Committee is beginning this discussion now, in order to provide time for thoughtful consideration. I know that you share our commitment to improving our service to rural America, and I welcome your thoughts, comments, and questions as we begin this discussion. Thank you.