

**RURAL BUSINESS-COOPERATIVE SERVICE**

**Statement of Lillian Salerno, Acting Administrator  
Before the Subcommittee on Agriculture, Rural Development,  
Food and Drug Administration, and Related Agencies**

Chairman Aderholt, Ranking Member Farr, and Members of the Subcommittee, thank you for the opportunity to discuss the Administration's Fiscal Year (FY) 2014 Budget for the U.S. Department of Agriculture's (USDA) Rural Business-Cooperative Service (RBS).

As our Nation continues to face challenging economic times, RBS programs and services, in partnership with other public and private sector funding, is at the forefront of improving the lives of rural America. Our programs not only promote rural business employment opportunities, they close the opportunity gaps between rural and urban areas. In fiscal year (FY) 2012, RBS successfully delivered approximately \$1.74 billion in funding to rural America that helped 13,000 businesses create or save about 53,000 jobs; \$1.053 billion in loan guarantees through our Business and Industry Guaranteed Loan Program, \$95.7 million in Specialty Programs Division loans and grants, \$537.6 million in Energy Division loans, grants, and direct payments, and \$51.5 million in Cooperative Program grants. Our path forward is to focus on our ability to efficiently and responsibly provide government services that meet the needs of our constituents.

The Administration's FY 2014 budget request builds on our previous successes. The \$880 million in program level to support direct and guaranteed loans and grants will assist thousands of businesses and create or save over 48,000 jobs. At the same time that we seek opportunities to target and leverage resources for the greatest impact, RBS is continually examining our operations and looking for opportunities to create efficiencies, which are described later in this testimony.

## **Administration Priorities**

As outlined in Secretary Vilsack's testimony on April 16<sup>th</sup>, USDA will continue our leadership role for the economic development of our Nation's rural communities as well as creating new market opportunities for biofuels and clean energy and developing local and regional food systems. In support of the Administration's priorities, RBS remains committed to revitalizing rural communities by expanding economic opportunities, creating jobs, expanding markets for existing rural businesses, and helping develop the next generation of farmers and ranchers.

## **Capital Markets**

Affordable, available, and reliable capital is the lifeblood of economic development, and rural Americans must have improved access to financing – particularly long-term equity and venture capital – in order to thrive economically. RBS administers several loan, guaranteed loan, and grant programs that attract investment capital, such as the Business and Industry (B&I) Guarantee Loan program. In FY 2013, RBS began an initiative to aggressively pursue increasing access to capital in rural America through a “multi-pronged” approach. For example, RBS is engaging its intermediary partners in a series of meetings in each State looking for opportunities to improve the rate at which funds in revolving loan funds established under the Intermediary Relending Program can be reloaned.

In addition, we will be working with other Federal agencies to leverage our resources, including the establishment of project finance teams to identify larger scale projects (i.e., those of \$50 million or more) where RBS program funds alone may be insufficient for such projects to succeed. RBS efforts to increase rural access to capital will build on our current partnerships with other Federal agencies and offices, including the Department of Energy (DOE) and the Small Business Administration (SBA). For example, we are partnering with DOE on several advanced biorefinery guaranteed loans and are working actively with SBA to bring private equity and venture capital investors together with start-up rural businesses through various stakeholder outreach and training events at the state and local level.

## **Local Foods**

Consumer demand for local and regional food is one of the strongest food trends in decades. USDA and RBS are working to build on this trend. We want to facilitate consumer interest in reconnecting with American agriculture and bridging the rural-urban divide. RBS has sought to identify projects that, while located in rural areas, can still be used to support needs in urban and suburban areas. For example, we can help link a rural produce marketing cooperative with an urban food retailer or market where there is a lack of affordable fresh produce.

In FY 2012, RBS obligated approximately \$36.9 million to projects that support local and regional food systems. Through programs, such as the Value Added Producer Grant (VAPG) and the B&I Guaranteed Loan, RBS has been able to assist rural communities and entrepreneurs improve their economies through developing and marketing of value added products, establishing farmers markets and food hubs, assisting in the development of a food co-op, and providing training and technical assistance on an array of problems and opportunities relating to the production, marketing and distribution of local and regionally produced products.

## **Bioeconomy**

Secretary Vilsack is committed to unleashing the full potential of the biobased economy, which will bring jobs to and improve the economy of rural America. RBS is equally committed to growing the bioeconomy in rural areas, supporting both larger scale projects, such as a facility in Louisiana producing a biochemical from renewable biomass, and smaller scale projects, such as a feasibility study for producing biogas electric generation from hybrid forage sorghum. Between FY 2009 and FY 2012, our Rural Energy for America Program (REAP) funded 179 biomass projects, totaling over \$95 million in grants and loan guarantees and our Biorefinery Assistance Program currently has 9 conditional commitments totaling over \$700 million.

## **Rural Business Programs**

In the face of significant challenges, RBS continues to make progress to help rural communities prosper by providing vital funding for loans and grants in rural America that would otherwise not be available. We maintain our vigilance in providing the best service to rural communities.

### **Guaranteed Business and Industry Loans (B&I)**

Businesses in rural communities must have capital in order to create and maintain jobs. The Administration's budget requests \$52 million in budget authority to support \$740.7 million in loan guarantees for our B&I guaranteed loan program. We estimate that the proposed level of funding will assist 403 businesses in creating or saving over 15,000 jobs in FY 2014. In FY 2012, we obligated 401 loans totaling over \$1 billion, resulting in creating or saving an estimated 21,750 jobs.

As an example, Skana Aluminum Company planned to purchase and reopen an aluminum cookware manufacturing facility. The facility, located in Manitowoc, Wisconsin, had closed several times since 2002. The company received a B&I guarantee on a \$10 million loan from Community Bank & Trust of Sheboygan, Wisconsin, to purchase the plant and buy equipment. Skana Aluminum Company now employs 106 full-time workers, casts over 18 million pounds of aluminum, and ships products to more than 40 customers.

As another example, demand for petroleum and natural gas make wood pellets the fuel of choice in most European countries. However, Europe cannot produce enough wood pellets to meet its energy needs. The owners of SEGA Biofuels, a wood pellet manufacturer located in Nahutta, Georgia, used this opportunity to convert a manufacturing facility to one that could produce wood pellets for export to the European Union. USDA Rural Development provided SEGA Biofuels with an \$8.37 million B&I guaranteed loan and a \$1.3 million Rural Energy for America Program guaranteed loan, which allowed the company to purchase land, building, equipment, and provide working capital. SEGA secured a contract to supply wood pellets to

Europe. The company will retain the existing plant management team and most of the production staff, which will create 35 jobs in the biofuels industry.

### **Intermediary Relending Program (IRP)**

The Administration's budget requests approximately \$4.1 million in budget authority to support \$18.9 million in loans to intermediaries. We estimate that the proposed level of funding will assist 642 businesses in creating or saving over 14,000 jobs over the life of these revolving funds. In FY 2012, IRP made 61 loans, totaling over \$17 million. Two recent examples are: (1) a \$158,000 IRP loan to Minority Economic Development Initiative of Western Kentucky, Inc., located in Hopkinsville, Kentucky, to establish a revolving loan fund to assist in financing startup and existing businesses in and around Christian County, a persistent poverty high unemployment area.; and (2) a \$400,000 IRP loan to Community Resource Group, Fayetteville, AR, which will in turn loan these funds and \$100,000 matching funds to provide low-interest loans to rural water and wastewater facilities, small businesses, and other community projects for small capital improvements and energy efficiency improvements.

### **Rural Economic Development Loan and Grant Program (REDL/G)**

The Administration's budget requests approximately \$33 million in loan program level and \$10 million in grants. The REDLG program provides funding to rural projects through local utility organizations. The loan portion of REDLG provides zero interest loans to local utilities, which they, in turn, pass through to local businesses (ultimate recipients) for projects that will create and retain employment in rural areas. The ultimate recipients repay the lending utility directly, who in turn repays the Agency. The grant portion of REDLG provides grants to local utility organizations to establish revolving loan programs. Loans are then made from the revolving loan fund to projects that will create or retain rural jobs. In FY 2012, REDLG made 65 loans, totaling approximately \$41 million, and 36 grants, totaling over \$9 million.

One example is a \$300,000 grant Clarke Washington EMC, Jackson, Alabama. Clarke Washington EMC used the grant funds along with their contribution of \$133,564 to capitalize a

revolving loan fund. The initial use of the revolving loan fund was a loan in the amount of \$433,564 to Washington County Hospital Association, Inc. for renovating an operating room and purchasing a CR scanner. The project created 8 jobs at the hospital.

### **Rural Microentrepreneur Assistance Program (RMAP)**

The Administration's budget requests \$1.4 million in budget authority to support \$22.4 million in loans for this program. RBS estimates that the proposed level of funding will create or save over 1,000 jobs. RMAP, which was authorized in the 2008 Farm Bill, provides capital access, business- based training, and technical assistance to the smallest of small businesses -- businesses of less than 10 people. Even as a relatively new program, RMAP is already showing results. Since 2010, 75 Microdevelopment Organizations have closed 640 microloans totaling \$17.2 million assisting microenterprises create or save over 2,300 jobs. For instance, in 2011, California FarmLink received a \$500,000 RMAP loan to capitalize a Rural Microloan Revolving Fund and \$105,000 technical assistance grant to provide technical assistance and training to rural microentrepreneurs and microenterprises. California FarmLink has made 26 microloans to 9 businesses and microenterprises totaling \$331,000, assisting in creating or saving over 90 jobs. One example of their microloan recipients is a \$10,000 operating loan to a floral business owner to help her with a floral business. In 2012, she generated approximately \$48,000 in sales and fully repaid the loan on time.

### **Energy Programs**

As the President stated in his State of the Union address this year, "After years of talking about it, we are finally poised to control our own energy future. We have doubled the distance our cars will go on a gallon of gas, and the amount of renewable energy we generate from sources like wind and solar – with tens of thousands of good, American jobs to show for it." The President continues to encourage an "all of the above" strategy that taps into all types of energy resources. RBS continues to be a leader in promoting the creation and expansion of renewable energy projects and jobs in rural areas.

RBS currently administers programs specific to energy that promote a cleaner and more sustainable energy future through investments in advanced biofuels, renewable energy, and energy efficiency. Since 2009, these programs have invested over \$1 billion in biorefineries, renewable energy, and energy efficiency systems through grants, loan guarantees, and assistance payments. The budget will support renewable energy systems and energy efficiency improvement projects funded through the Rural Energy for America Program. Renewable energy projects are also eligible for funding through our B&I Guaranteed Loan, Value-Added Producer Grant, and Rural Economic Development Loan and Grant programs.

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

The Rural Energy for America Program is the agency's most successful and competitive renewable energy program. The budget requests \$19.7 million to support a program level of \$52.4 million for this program, which will generate/save 2,234 million kilowatt hours of renewable energy. In FY 2012, REAP awarded over \$21 million in grants and over \$14 million in loan guarantees to fund 872 projects in all 50 States and most territories for renewable energy systems, energy efficiency improvements, feasibility studies, energy audits, and renewable energy development assistance. Two recent example projects are: (1) a \$20,000 REAP grant to Whitaker's Food Stores, a family-owned business located in Mayking, Kentucky, for the replacement of the store's outdated lighting system and inefficient refrigeration and freezer equipment with energy-efficient systems that helps the company reduce energy consumption by 564,671 kWh each year, which amounts to a 63-percent energy savings; and (2) a \$410,000 REAP loan guarantee and a \$203,000 REAP grant to Lyall Enterprises, Inc., of Pauma Valley, California, for the purchase and installation of a 106.8 KW-AC solar energy system, which produces approximately 220,000 kWh, sufficient to provide the annual electricity needs of the ranch's 9 irrigation pumps.

Earlier this month, RBS published a proposed rule for REAP that will, among other changes, simplify the application process, especially for those applicants with projects whose total project costs are \$80,000 or less. For example, when compared to the current rule, the application burden for a project whose total project costs is \$80,000 or less under the proposed rule is

estimated to be reduced by approximately 50 percent. Under the proposed rule, the RBS estimates that the amount of resources to process and administer all REAP applications and awards compared to the current rule will be significantly reduced. The new application process and the other changes being proposed illustrate our commitment to improving the efficiency of our programs and reducing burden to both the public and the government.

### **Rural Cooperative Programs**

An important business model and the cornerstone for business development in some rural communities, cooperatives provide rural residents with job opportunities, enhanced educational and healthcare services, and products that enable them to compete with their urban and suburban counterparts. Opportunities are created locally and revenues are maintained and re-circulated locally.

### **Value-Added Producer Grant Program (VAPG)**

The Administration's budget requests \$15 million in funding for this program assisting 116 businesses. This level of funding allows RBS to maintain this important program, which encourages producers to refine or enhance their products, increasing their value and their returns to producers. In FY 2012, VAPG made 309 awards for approximately \$40.4 million in 44 States and Puerto Rico. Since FY 2009, RBS has made 495 awards for over \$60 million to support value added businesses across the country. The successes of VAPG are seen throughout the United States. For example, Cumberland Farmer's Market in Sewanee, Tennessee, received a \$43,276 VAPG in 2012 for expanding their existing operation of aggregation and distribution of local food for retail sales into the wholesale market by developing a regional food hub. The food hub provides small and medium sized family farms with the aggregation and distribution services necessary to sell local agricultural products to area businesses and institutions. Some of the funds have been used to develop their website as well as create a logo, which can be seen in the attached photo painted on the side of one of their trucks. Farmers are able to market their goods to local businesses, such as Julia's Fine Foods and Mooney's Market Emporium, as well as to local universities, such as Sewanee, the University of the South.



## **Creating Efficiencies by Streamlining Programs and Operations**

In May of last year, the President issued a memo to agencies through the Office of Management and Budget calling for increased use of evidence and evaluation in the 2014 budget. Since that time, USDA has worked to identify key areas where a stronger emphasis on evidence and evaluation would improve their effectiveness. Where evidence is strong about what works or doesn't work, we've applied it to our budget decisions. For example, the budget includes \$55 million for a new evidenced based business grant program that will replace seven existing programs and allow RBS to target funding on what works best to create jobs and foster growth. One of the challenges we face in rural America is assessing economic impact because the communities and the grant dollars are small. The goal here is to move the dial in a measurable way. That's why the budget increases funding by 22 percent over the pre-sequester funding level for 2013 and awards funding to grantees that meet or exceed minimum performance targets, and that agree to be tracked against those performance targets. The proposed \$55 million is anticipated to assist in creating/saving 13,903 jobs.

This new grant program consolidates several existing Rural Development grant programs including: the Rural Business Enterprise Grant, Rural Business Opportunity Grant, Rural Cooperative Development Grant, Small and Socially Disadvantaged Producer Grant programs, RMAP grants, and Rural Community Development Initiative grants. In creating this new grant program, RBS will streamline existing grant processes and programs, which will improve both efficiency and effectiveness, to better serve the agency's mission to ensure that rural communities are self-sustaining, repopulating, and thriving economically. In addition, this program will use an evidence based model in awarding funding where grantees must meet minimum performance targets that encourage private sector growth. Once in place, the new grant program will assist a wide range of recipients, including economic development organizations, business and community intermediaries, cooperatives, associations of cooperatives, universities, and tribes.

Over the last few years, the national office implemented an administrative structure that enhances the national office's ability to provide direction and oversight to our State offices. The

new structure consists of ten regions, two regional coordinators, and ten RBS team leaders who provide guidance to the State RBS program directors in their regions. This structure enables RBS to save on travel and training expenses while ensuring consistent communication and learning. For example, national office staff work with the regional coordinators to train team leaders who then provide guidance and direction to the program directors in their region. This approach improves communication across the agency, resulting in greater consistency in program delivery by providing a network for sharing institutional knowledge, best practices, and solutions to common challenges. Ultimately, this structure has enabled the national office to more effectively administer RBS programs, while adjusting to new human capital realities as more senior staff leave and we prepare our next leaders.

### **Conclusion**

Thank you for your time, Mr. Chairman and members of the Subcommittee. The Rural Business-Cooperative Service is committed to promoting economic prosperity in rural communities through improved access to capital and economic development on a regional scale. RBS will continue to achieve this important mission while implementing operational efficiencies that result in successful outcomes for our programs and the people we serve. With your help, we will continue working to bridge the opportunity gap between rural and urban areas. I am available to provide any additional information as requested.