

RURAL DEVELOPMENT

**Statement of Thomas C. Dorr, Under Secretary
before the Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture**

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to appear before you to discuss the President's Fiscal Year (FY) 2008 budget request for USDA Rural Development.

USDA Rural Development is committed to the future of rural communities. We administer over 40 programs that provide infrastructure, affordable housing, essential community facilities, and business development assistance to rural communities. In Fiscal Year 2006, including significant supplemental funding in response to Hurricane Katrina, we provided over \$15 billion in grants, loans, and loan guarantees, and technical assistance. Our current loan portfolio exceeds \$94 billion.

The Federal dollars that we bring to the table, however, are just the beginning of the story. Rural America today enjoys enormous opportunities. Our mission is to empower local communities, encourage entrepreneurship, and use Federal incentives to leverage private investment and ownership. The goal is not simply economic development as measured by dollars out the door; it is sustainable development as measured by thriving businesses and communities that offer a better future to the next generation. We appreciate your generous support over the

years for rural America and we look forward to working with you in the future to expand economic opportunity and improve the quality of life in rural communities.

Beginning in 1935, our predecessors brought the countryside into the 20th century with electricity, telephone service, and modern water and wastewater systems. They made it possible for millions of rural families to purchase a home or obtain decent, safe, and affordable rental housing. They helped many thousands of rural businesses open their doors or expand, and helped provide essential community services, such as schools and hospitals, in rural communities across the country.

Much has changed in 72 years, but the commitment of our approximately 6,300 employees remains the same. Most of these people are not in Washington, D.C. They are scattered across this Nation, work out of our State and local offices, and are residents of the communities they serve. They are your neighbors, your constituents, and in at least some cases, I hope your friends. They do a remarkable job and I am proud to be a member of their team.

In today's world, change is a constant. Several of the proposals in the FY President's 2008 budget – and on a parallel front, the President's 2007 Farm Bill proposals – involve significant changes in our program delivery strategies and therefore in our business and staffing model.

Let me emphasize at the outset, however, that I envision a stronger and more dynamic and responsive USDA Rural Development in the years ahead. Rural America is growing. New opportunities are arising. Technology is expanding our options and, over time, will significantly

change how we live and work. While this necessarily affects how we will go about our mission, it is an opportunity for us to serve Rural America better.

FY 2008 Budget and the 2007 Farm Bill

This year's budget is made somewhat more complex by the pending reauthorization of the Farm Bill. The President's budget for Rural Development requests \$2.1 billion in discretionary budget authority to support a program level of \$14.9 billion. In addition to the President's budget, the President's 2007 Farm Bill proposal includes significant new Rural Development initiatives for Critical Access Hospitals, rural water and wastewater and community facilities projects, and renewable energy. The proposal includes over \$1.4 billion in mandatory budget authority, some of it to spread over 10 years. The grant/loan/loan guarantee ratios have not yet been determined, so it is not possible at this time to project the program level associated with the mandatory Farm Bill funding.

I will now focus my comments on the major programmatic changes proposed in the FY 2008 budget and the underlying reasons for change. The changes are not arbitrary. They are, in fact, driven by three primary factors: the impact of technology; increasing efficiencies of program delivery; and the continuing evolution from grants and direct loans to loan guarantees.

Impact of Technology: New Opportunities

Technology is opening exciting new opportunities for rural America. Rural America is dynamic and changing. We must be prepared to adapt accordingly:

- Broadband permits decentralization and the displacement of rigid centralized structures by distributed networks. This levels the playing field and makes rural communities increasingly competitive across a wide range of business opportunities. The deployment of affordable broadband to rural communities continues to be a high priority. We will soon be publishing draft revised regulations for comments to address some of the difficulties we have experienced since 2003 in establishing this new and technically challenging program. The 2008 budget provides funding to meet all of the anticipated broadband program demand for next year.
- Renewable energy is a national security, economic security, and environmental quality issue. It is also perhaps the greatest new opportunity for economic growth and wealth creation in rural America in our lifetimes. A wide range of renewable technologies are in play, but conventional ethanol, cellulosic ethanol, biodiesel, and wind are distinctively rural resources. We have funded renewable energy and energy efficiency projects using a wide range of business and utilities programs. From Fiscal Year 2001 through FY 2006 Rural Development invested more than \$480 million in over 1,100 renewable energy and energy efficiency projects. These range from biofuels production and wind farms to anaerobic digesters and a wide range of farm and rural business energy efficiency investments.

Streamlining and Consolidation of Program Authorities

The 2008 budget for Rural Development maintains the same funding streams and transferability as currently exists under RCAP, transferability within streams but not among them, the only difference is that the appropriation language has been simplified. Building upon

that model, the Administration's proposal for the 2007 Farm Bill provides further, more comprehensive, consolidation and funding flexibilities for common program authorities. In tandem with these legislative proposals is our effort to streamline the regulations for these programs that allows for consolidation of common program processes. USDA Rural Development administers over 40 programs with a combined loan portfolio in excess of \$94 billion. While many Rural Development programs are highly targeted in purpose, they share underlying features with other Rural Development programs. For example, the Water and Waste programs and Community Facilities programs quite often serve the same rural local governments with different aspects of their infrastructure needs. In addition -- whatever the purpose -- loans are loans, grants are grants, and loan guarantees are loan guarantees. By standardizing the common elements of the various loans, loan guarantee and grant programs within our regulations, we can simplify access for borrowers and lending institutions that will no longer have to master a new system for each program. It should be emphasized that we are not eliminating or combining the programs themselves; we are proposing funding flexibility as well as standardizing processes and forms to simplify application and administration.

We have established a Delivery Enhancement Task Force (DET) that has worked diligently on the streamlining the regulations effort. This Task Force is comprised of representatives from the National as well as our field offices. This effort will make it easier for our customers to access our programs and for us to administer them. In the end, these changes must help us get out of our own way so our field offices can encourage more effective rural development. Within the next few months, we expect to publish in the Federal Register a proposed rule for streamlining certain provisions for our regulations, so we can solicit public

comments on this proposal. We have also communicated with the appropriate committees in Congress to keep them apprised of our activities.

Finally, technology is driving organizational restructuring as well. We are bringing functions online, automating data management, and increasing transparency and responsiveness. In this regard, we are no different from any other large organization with a pre-computer, pre-Internet legacy structure. I raise this issue today, however, because we have reached a point at which new technology and new opportunities not only permit but demand adaptation. This is good policy because there are remarkable opportunities before us.

The evolution from grants and direct loans to loan guarantees

Finally, several of the most significant changes in the FY 2008 budget request reflect a longstanding trend of increased reliance on loan guarantees rather than grants and direct loans. This has allowed us to significantly increase investments in rural America at little or no added cost.

A decade ago, for example, Rural Development's FY 1997 budget authority of \$2.0 billion supported a program level of \$8.0 billion. By contrast, the FY 2008 budget request seeks a discretionary budget authority of \$2.1 billion and a program level of \$14.9 billion. Over the last decade, therefore, budget authority is virtually unchanged – it is actually lower in real terms – while our investment in rural America has increased 87 percent. Three factors underlie this trend:

- The Federal Credit Reform Act of 1990 created a significant budgetary and accounting incentive for Rural Development, as for other lending agencies throughout government,

to shift funding to guaranteed loans where possible. Guarantees generally have lower subsidy rates and lower costs to administer than direct loan programs.

- In an austere budget environment that we all face, guarantees assume added importance as a means of leveraging private resources and thus stretching scarce Federal dollars.
- Most significantly, loan guarantees are good policy. By requiring that private investors step forward, they orient our programs to market opportunities and sustainable development. Loan guarantees bring private investors to the table. They frequently are the added incentive that convinces local bankers, Farm Credit specialists, and other agribusiness lenders that non-traditional opportunities presented by rural entrepreneurs are worth supporting. Also, local lenders become more vested in their communities by providing more homeownership opportunities. At the same time, however, we recognize that there is no substitute for having Federal involvement. Our default rates bear this out. Loan guarantees are a sound risk mitigation approach. While grants and direct loans remain important parts of our portfolio, the logic of credit reform and sustainable development has been inexorable. Very simply, we have shifted our program delivery funding emphasis and, in the process, we have become significantly more cost-effective. We have dramatically increased investment in rural America at little or no incremental cost to the taxpayer.

Budget Summary

Rural Utilities Programs

The 2008 budget requests \$538 million in budget authority and \$6.6 billion in program level for Rural Utilities programs. These programs help provide electric and telecommunications infrastructure, broadband access, and modern water and wastewater systems to rural communities. The 2008 budget will deliver new or improved service in these areas to nearly 8 million rural residents.

The exceptionally strong performance of the rural utilities loan portfolio means that these high investment levels can be sustained at modest cost. The rural electric program, for example, projects \$120,000 in budget authority to support \$4.1 billion in loans. The telecommunications program projects about \$4 million in budget authority to support \$690 million in loans. The Water and Wastewater program projects \$153 million in discretionary budget authority to support \$1.1 billion in loans, plus an additional \$349 million for grants to very low income communities. These are among the most efficient loan programs to be found anywhere in the federal government.

The Administration is proposing to continue to concentrate funding on transmission, distribution and generation upgrades. Rural electric cooperatives sell 6.95 percent of the kilowatts sold in the United States, and do so across 80 percent of the Nation's land mass. The challenge of serving a dispersed population remains as serious today as it was decades ago, and we will continue to meet the challenge. We believe that rural utilities are able to finance new capacity through conventional financing. We propose to direct our lending accordingly.

The President's 2007 Farm Bill proposal also includes \$500 million in funding over ten years to reduce the backlog in a number of Rural Development applications, including rural water and wastewater projects.

Finally, the 2008 budget proposes \$300 million for the broadband program. We believe that the funds requested will be adequate to meet 100 percent of the anticipated program demand.

Housing and Community Facilities Programs

USDA Rural Development's Housing and programs, although not under this Committee's jurisdiction, are an important part of Rural Development. They assist families with moderate and low incomes achieve the dream of homeownership. They help provide decent, safe and affordable rental housing. The Community Facilities programs enhance the quality of life in rural communities by providing a wide range of essential community services. The 2008 budget provides \$6.3 billion in discretionary funding for these purposes.

The 2008 budget is committed to protecting the most vulnerable members of the community. We are requesting \$567 million for Rental Assistance within the Multi-Family Housing program. We have launched a Multi-Family Housing Revitalization Initiative to protect the lowest income tenants from undue rental increases, rehabilitate aging units, and extend the viability of the existing portfolio for decades to come.

The 2008 budget also redirects funding from the Single Family Housing direct loan program to guaranteed loans. In recent years, the Single Family Housing guaranteed loan program has provided the bulk of USDA homeownership assistance. The guaranteed program has also accounted for virtually all program growth in this area since 1995. The full transition to

a guaranteed program will allow us to serve significantly more prospective homebuyers at any given level of budget authority. We will also be proposing legislation to provide subsidized Single Family Guaranteed Loans for very low and low income families.

Finally, for the Community Facilities program – much like the Single Family Housing program – we are proposing to shift funding from grants to loans and loan guarantees. This will allow us to serve significantly more rural communities at any given level of budget authority.

In addition to the discretionary funding discussed above, the President's 2007 Farm Bill proposes \$85 million in mandatory budget authority to support \$1.6 billion in guaranteed loans and \$5 million in grants for reconstruction and rehabilitation of Rural Critical Access Hospitals within five years.

Business and Cooperative Programs

Rural Development's Business and Cooperative programs provide funding for rural business development, technical assistance, capacity building, and research on agricultural cooperatives. For Fiscal Year 2008, the President's budget provides \$1.3 billion in discretionary funding for business and cooperative program investment. Here again, as elsewhere throughout the Rural Development budget request, we propose to increase cost effectiveness through a greater utilization of guaranteed loans.

As this funding evolution suggests, the Rural Business and Cooperative program area – like the rest of USDA Rural Development – is in transition. While DET will eventually be deployed across all Rural Development program areas, the Business and Cooperative programs are leading the effort.

Finally, Rural Development's business and cooperative programs play a leading role in the rapid build out of rural renewable energy industries. Corn based ethanol, wind power, and biodiesel have grown threefold, fourfold, and over 100-fold respectively since 2000. Cellulosic ethanol is now moving from the labs into production. In view of the enormous potential of cellulosic ethanol for reducing our dependence on imported oil, supporting its rapid commercialization is a high priority.

The President's 2007 Farm Bill proposal includes \$210 million in Budget Authority to support an estimated \$2.1 billion over 10 years in Renewable Energy and Energy Efficiency guaranteed loans; \$500 million over 10 years for the Renewable Energy and Energy Efficiency grant program; and \$150 million over 10 years for Biomass Research and Development program. This is a very substantial increase in USDA Rural Development's role in enhancing America's energy security. We look forward to working with you to advance these goals, which I know we all share.

Conclusion

In closing, Mr. Chairman, I want to again emphasize that the future for rural America is bright. Enormous new opportunities are emerging. We are reorienting programs to new opportunities, adopting more cost-effective financing strategies, and modernizing our own internal operations. I know that the members of this subcommittee recognize the opportunities before us, and we look forward to working with you to bring this promise home to rural communities across the nation. This concludes my formal statement and I will be glad to answer any questions you may have.