

RURAL DEVELOPMENT
Statement of Dallas Tonsager, Undersecretary for Rural Development
United States Department of Agriculture
Before the Subcommittee on Agriculture, Rural Development, Food and Drug
Administration, and Related Agencies

Chairman Kingston, Ranking Member Farr, and members of the Subcommittee, it is my privilege today to present the Administration's budget priorities to win the future for the nearly 50 million people who call rural America home. Today, I am accompanied by Mr. Jonathan Adelstein, Ms. Judith Canales and Ms. Tammy Trevino, Administrators for Rural Development's Utilities, Business and Cooperatives and Housing and Community Facilities Programs. I ask that their statements be included in the record.

As the President stated, we are committed to out-educating, out-innovating, and out-building our competitors around the world and, at the same time, ensuring that rural America is a full partner in capturing the emerging opportunities of the 21st century. We recognize also that the future is made brighter by reducing the burden on future generations created by recurring budget deficits, and we must rise to that challenge as well.

Rural America is the backbone of our great Nation. It is our farms and forests; our mountains, deserts, and plains; our small towns and smaller cities. Agriculture, coupled with off-farm manufacturing, mining, forestry, tourism and services drive our rural economy.

The United States Department of Agriculture (USDA) Rural Development is committed to the future of these rural communities. We are excited that rural America includes some of the Nation's most dynamic areas and offers a number of opportunities.

Although rural America does offer many opportunities, it is faced with many challenges as we compete in the global market place. With barriers such as a lack of broadband capabilities, outward migration-especially of highly educated young people, significant needs for increased capital market investments, and chronic infrastructure issues, rural America must focus its resources on those opportunities that provide the best return for its investment. As compared to their urban counterparts, rural Americans are more likely be over the age of 65, earn lower average incomes, and are more likely to live in poverty. That is our challenge.

The President's Fiscal Year (FY) 2012 budget reflects his commitment to jobs, growth, and opportunity for rural America. With a proposed budget authority of \$2.4 billion and a proposed program level of \$36 billion, the three agencies of the Rural Development mission area are fully engaged in increasing opportunities and addressing these challenges. The budget sets clear priorities and makes tough choices reducing spending, including reductions in both staffing and administrative funds, reductions in several programs and the elimination of others. We recognize that this Subcommittee is a full partner in this effort. We share a common goal and we deeply appreciate your ongoing support.

In view of the budget realities we face, I take particular pride in noting that four of our largest programs at Rural Development operate with no appropriated budget authority. The Electric and

Telecommunications programs are two of the greatest public-private partnerships in American history. For generations, they have been extraordinary success stories in enhancing the quality of life of and bringing economic opportunity to rural communities. Through prudent management, they have long operated at a negative subsidy rate.

In the past year, the Community Facilities Direct Loan program and the Single Family Housing Loan Guarantee program have also become negative subsidy rate programs. Last summer, Congress enacted legislation putting the Single Family Housing Loan Guarantee program on a fee basis consistent with the President's 2011 budget proposal, and I thank you for that action. That initiative puts Single Family Guaranteed Loans on a path to becoming the largest program level ever proposed for home ownership through USDA, with no cost to taxpayers.

In addition, the Community Facilities Direct Loan program is proposed for FY 2012 at \$1 billion, approximately three times its historic program level. This is the result of a negative subsidy rate which reflects the current low interest rate environment as well as good performance by our community partners in an extremely challenging economic environment. This is a win both for the taxpayers and for rural residents and communities working to enhance their quality of life.

The President's budget supports the call for responsible economies by accepting difficult choices. We are realigning and retargeting our efforts, and saving money for the taxpayers, while still supporting rural residents and communities in building a better future. Single Family Housing Direct Loans and Housing Repair Grants Programs are both funded at significantly

reduced level for FY 2012, reflecting the change in direction of USDA's single family housing assistance programs: to provide single family housing assistance primarily through loan guarantees. The \$24 billion guaranteed loan level allows USDA's Rural Housing Service (RHS) to provide more assistance for single family housing in rural areas than has ever been provided with all the other RHS housing programs combined. Meanwhile, the Community Facilities Loan Guarantee Program is proposed for termination in FY 2012. While the Community Facilities Direct Loan Program will operate at a negative subsidy rate for FY 2012, the guarantee program has recently become more expensive, yet serves less needy communities. The increase in the Community Facilities Direct Loan Program will more than counter the effect of not funding the Communities Facilities Guarantee Loan Program in FY 2012.

While most of our programs do require budget authority, Rural Development continues, to be an outstanding resource for taxpayers. This reflects the leverage we generate as primarily a lending agency; while grants play an important supporting role, most of our awards are loans and loan guarantees. With a total portfolio totaling over \$148 billion, over 98 percent of our clients are not delinquent on their loans.¹ This is particularly impressive because most of our programs are targeted to very-low, low, and moderate-income families. Through our Single Family Housing (SFH) direct portfolio, we have made more than 315,000 loans with a principal balance of approximately \$15.3 billion to these families. Our banking partners, through the SFH Guaranteed Loan Programs, have made more than 4498,000 loans, with an approximate balance

¹ Ninety - eight percent of our RD borrowers are performing well, as reflected by a portfolio delinquency rate of less than 2 percent. This rate reflects those loans past due for more than one year.

of \$53 billion. Our credit standards have remained strong, our investments have been made with care, and our results are making rural America a better place to live and work.

As a lending agency, we are especially concerned with increasing the access to long term capital in rural America. We understand that wealth creation ultimately depends on long term capital financing, and that government cannot carry the entire burden. Although the Administration has invested unprecedented resources in rural America, the future drivers for debt and equity financing will require additional partnering opportunities with the private sector. Our job is to incentivize these investments, and our challenge is to find partners, including other Federal and State agencies, commercial lenders, community endowments or focused investment vehicles to leverage these assets. Last year every dollar of program budget authority in Rural Development translated into approximately \$12 of investment in rural America. We are proud of this significant leverage, and we are working hard to increase the share of equity participation advanced by private lenders and entrepreneurs.

We recognize the budget challenges the Nation faces today, and we understand that economic growth is the foundation of any realistic long-term solution. USDA Rural Development is part of that solution. Our programs are designed to foster growth, incubate and grow businesses, and add new taxpayers to the rolls. Our Utilities Programs provide the essential infrastructure that is the foundation for growth. Our Business Programs finance entrepreneurs in traditional manufacturing and services, as well as food system infrastructure related to production agriculture, from grain elevators and food processors to farmers markets and grocery stores. Our Housing and Community Facilities programs directly create jobs in new construction and

building rehabilitation while enhancing the quality of life without which rural communities cannot hope to prosper and grow.

We also help finance innovation, particularly in renewable energy, where Congress entrusted us with energy programs through the energy titles of the 2002 and 2008 Farm Bills. Working closely with our colleagues at the Department of Energy, we have invested in algae-based biorefineries even as we have continued to help first generation ethanol producers with working capital and assistance in transitioning to renewable sources for powering plant operations. We are encouraging expansion of advanced biofuels production, wind and solar deployment, and other renewable energy production. We have expanded capacity for energy audits and assisted individual producers and rural business owners with energy efficiency improvements. We recognize that renewable energy is largely derived from feedstocks found in rural areas and that it holds enormous potential for economic growth and jobs in rural America. As the Nation continues to transition to a new, greener, and domestically produced energy system, Rural Development will have a growing role to play.

Another driver of growth is broadband. Over the past two years, we have provided financing for projects that will enable approximately 7 million rural residents, 364,000 rural businesses, and 32,000 community anchor institutions to connect to state-of-the-art broadband service. These projects are in various stages of construction now. Looking forward, on March 4, 2011, we published new regulations for the Farm Bill broadband program implementing changes effected by the 2008 Farm Bill and incorporating lessons learned from past programs. These investments will pay dividends on an increasing scale in the years to come, in the form of new business

startups and expansions, improved health care, and better schools, libraries, and other community services made possible through enhanced broadband access.

Last year, USDA refocused certain programs to encourage regional strategic planning to leverage our limited resources. This approach recognizes that many of the challenges and opportunities facing rural America are regional in nature, and it encourages communities to work together to harness their unique strengths, particular mix of industry clusters, and regional economic assets into cooperative strategies for regional growth. We are encouraged by the early results, and we remain enthusiastic about the potential for highly productive synergies in this area. The FY 2012 budget requests small increases for our two planning grant programs – the Rural Community Development Initiative Grant and the Rural Business Opportunity Grant – in order to continue the progress in this area.

It is a privilege to work with this Subcommittee to help build a better future for rural America and the Nation. We are committed to the future of rural communities, and we know that you share this commitment as well. This partnership long predates any of us; it is now over 75 years old, and it has accomplished many great things. But our work is not yet done. Thank you for this opportunity to discuss the President's FY 2012 budget request for USDA Rural Development, and I will be happy to respond to your questions.