HEARING TO REVIEW U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT PROGRAMS AND THE AGENCY'S RURAL DEVELOPMENT PROPOSAL FOR THE 2007 FARM BILL

HEARING

BEFORE THE

SUBCOMMITTEE ON SPECIALTY CROPS, RURAL DEVELOPMENT AND FOREIGN AGRICULTURE

OF THE

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HOUSE OF REPRESENTATIVES

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HEARING TO REVIEW U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT PROGRAMS AND THE AGENCY'S RURAL DEVELOPMENT PROPOSAL FOR THE 2007 FARM BILL

WEDNESDAY, MARCH 21, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SPECIALTY CROPS, RURAL DEVELOPMENT AND FOREIGN AGRICULTURE,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10 a.m., in Room 1302 of the Longworth House Office Building, Hon. Mike McIntyre [Chairman of the Subcommittee] presiding.

Members present: Representatives McIntyre, Cuellar, Salazar, Pomeroy, Peterson (*ex officio*), Musgrave, Fortenberry, and Goodlatte (*ex officio*).

Staff present: Aleta Botts, Scott Kuschmider, Rob Larew, John Riley, Sharon Rusnak, Debbie Smith, Kristin Sosanie, Brian Knipling, Matt Schertz, and Jamie Weyer.

OPENING STATEMENT OF HON. MIKE McINTYRE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

The CHAIRMAN. The Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture to review the U.S. Department of Agriculture Rural Development programs and the agency's rural development proposal for the 2007 Farm Bill will now come to order.

Good morning and welcome to this Subcommittee's first hearing of the 110th Congress. This is a Subcommittee with new jurisdiction and I am excited not only to have our traditional areas of specialty crops, including tobacco and peanuts and sugar, but also excited to expand our jurisdiction to include rural economic development, which has never before been under this Subcommittee's jurisdiction. I especially appreciate Chairman Collin Peterson's willingness to allow us to have this jurisdiction in the purview of the important area of rural development. We of course also have biotechnology, family farms, family security and foreign agricultural programs. We also will be having hearings and discussions about those items in the weeks and months to come. I want to especially thank my staff for their support and all the work that they have done, not only in preparation for today, but the work we have done over the years together, and I look forward to working together on the work of this Subcommittee and working with the Agricultural Subcommittee staff and the full Agriculture staff as well. So thanks to all of you all for your commitment to me and commitment to the work of this Subcommittee and we greatly appreciate the work that our staff does.

Rural America is changing and as I drive across my home state of rural North Carolina, we notice changes every time that we go by rural communities and notice the changes occurring on the farms as well. Federal funds are being leveraged into private dollars. Critical infrastructure is being repaired and replaced. Businesses large and small are being started by innovative entrepreneurs. Rural communities are becoming more aware of their unique attributes and more understanding of the high quality of life they offer to their residents, a quality of life that our country is now returning to, the values we hear discussed so much today in all the political debates and TV discussions, but the values we know have always existed in the heartland of America and in the rural communities. America is returning to its roots and I think that makes the job of this Subcommittee even more exciting. The savviest of these communities will then take that understanding of those values and turn them into proposals to attract new businesses and investment as they look at opportunities to improve their quality of life as well.

We also know that there is a great need for Federal programs to continue to help rural development in what is going on in rural America and support rural economic development and respond to it in ways that make sense. I hope the witnesses today will share this with the Subcommittee; their thoughts and ideas on how the changes that are occurring in rural America can be made in such a way that Federal programs can continue to make a positive impact for the future of rural America. There are over 88 Federal rural development programs that exist across 16 different Federal agencies. However, the U.S. Department of Agriculture is the lead agency for Federal rural development policy, and the farm bill is one of the key statutory tools that we have for reauthorizing many of these programs and making changes. These programs make a huge difference in the lives of our rural constituents and it is critically important to ensure that these citizens are well served. USDA Rural Development funds help provide core services and facilities for our rural communities. However, the program operates differently than many Federal programs by recognizing that rural areas are different in their demographics, their needs and their assets.

One of the advantages of our Federal rural development policy is the great flexibility that it offers to our diverse rural areas. From emergency services to community centers to water and sewer lines, Rural Development programs meet a wide array of needs in rural areas. And the District that I have the opportunity and privilege to serve in southeastern North Carolina, community facility loans are responsible for EMS units, fire stations, library and courthouse renovations, and town halls. Water and waste disposal money is helping two communities in our area with significant water infrastructure needs. Housing funds are going to two separate community development corporations. All told, in just this year, Federal rural development programs will mean over $5 million to projects in my District and $288 million over the last 5 years to the 7th District of North Carolina that I represent. So I know the great work and good work continually that Rural Development has done and continues to do and that our great State Director, John Cooper, has done.

As we evaluate these programs today, we should consider how best to define "rural," and I encourage all of our Subcommittee Members to join us in this discussion. I know I have mentioned this to the Under Secretary, who will be introduced in just a moment. As Members of this Subcommittee and the witnesses know, this isn't an easy question. The 2002 Farm Bill established different definitions of rural, depending on the program. As a default, a population of 50,000 or less for any city or town is considered rural. However, for water and waste water disposal programs, only a population of 10,000 or less is eligible. To be eligible for rural housing in community facility programs, the limit is 20,000. What is considered rural today would've been considered in some ways urban or metropolitan, perhaps, 75 years ago. Counties that are decidedly rural in nature and character hold county seats that are growing in population and acquiring just enough size to make them ineligible for certain programs. I hope the witnesses and our Under Secretary will help us shed some light on this issue and how Congress might address it.

My hometown of Lumberton, North Carolina is a prime example of how this is happening. It had a population of under 20,000 until the 2000 Census, and then jumped to 23,000, even though Robinson County is clearly rural and one of the most rural in all of North Carolina. Yet we know that in the county seat, many of the rural programs are run out of a town of over 20,000. We had to deal with issues such as grandfathering and what to do about finishing the job with the public county library and with the county courthouse, even they are now in a town that exceeds the technical population definition. So this is an issue that has been near and dear to me personally and I know to many of our Subcommittee Members as they struggle with this in their respective areas.

This year we will reauthorize Rural Development programs as part of the farm bill reauthorization. Complicating that task will be what has happened with regard to funding for Rural Development programs that were authorized in the last farm bill. Funding for mandatory Rural Development programs established in the last farm bill has been largely blocked by appropriators. Instead discretionary programs continue to play a dominant role in Federal rural economic development policy, and with the current tight budget situation, the Subcommittee will need to evaluate whether mandatory or discretionary funding is the proper mechanism for these programs.

Additionally, we face some serious budget constraints in the current fiscal year as well. I know in North Carolina we have the authority to make $12 million in community facility loans this fiscal year. However, over the last several years, North Carolina has made no less than $38 million in loans each year from the program. Obviously the needs outweigh the resource.

I know that one of my favorite verses from the Book of Proverbs is, "Where there is no vision, the people perish." In rural America, too often we have overlooked and ignored the needs historically as a Congress and I want us to change that in this Subcommittee. I want to make sure we do give vision for people in rural areas, those values I mentioned earlier, the great commitment that folks who live in rural communities have to this great country, as we see in our Armed Services; as we see in the great ideas that come forth from rural America; as we see in so many different ways that rural American offers to the fabric of our society and who we are as America and as Americans. I hope that we will look forward to positively shaping that vision to make a real difference in the lives of families in all areas of our country, to the work we do on this Subcommittee, and my prayer is that God will bless our efforts. We may have a vision to show we do care and that rural America will have a strong voice and that thorough work we will be successful in this.

Thank you again for joining us for this Subcommittee hearing today. I encourage the witnesses to use the 5 minutes that will be provided for their statements to highlight the most important points of their testimony. Your complete written testimony will be submitted in its entirety in the record. This Subcommittee will follow the 5 minute rule, allowing 5 minutes total for both questions from Members and responses from the witnesses. Therefore I will request that Members be concise in their questions so that the witness can answer within the 5 minute block of time. If further time is needed, I invite Members to submit questions for the record and allow the witnesses to respond in writing. The Subcommittee will also take seriously these questions submitted for the record and we will expect the witnesses to answer these questions, to inform the Members by answering them in a timely manner, preferably within 10 days but no later than 2 weeks.

I am excited about the work of this Committee. I am excited about the Members on this Subcommittee. We have a great panel of folks. I know that folks from both sides of the aisle want to work together to make sure that we are about the success of what we can do for rural America.

[The prepared statement of Mr. McIntyre follows:]

PREPARED STATEMENT OF HON. MIKE MCINTYRE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Good morning, and welcome to the Subcommittee's first hearing of the 110th Congress. I am pleased to welcome Mr. Dorr, the USDA Under Secretary for Rural Development, and our other esteemed witnesses for this inaugural hearing on a topic that is near and dear to the interests of every Member of this Subcommittee.

Rural America is changing. As I drive across rural North Carolina, I notice changes every time I pass through a rural community:

1. Federal funds are being leveraged into private dollars;

2. Critical infrastructure is being repaired and replaced;

3. Businesses large and small are being created by innovative entrepreneurs; and

4. Rural communities are becoming more aware of their unique attributes and more understanding of just what a high quality-of-life they offer to their residents. The savviest of these communities then take that understanding and turn it into proposals to attract new businesses and investment.

Importance of Rural Economic Development

What has not changed, however, is the need for Federal programs that recognize the importance of what is going on in rural America, that support rural economic development and then respond in ways that make sense. I hope the witnesses today will share with this Subcommittee their thoughts on the changes in rural areas and how Federal programs are making an impact.

Over 88 Federal rural development programs exist across 16 different Federal agencies. However, the U.S. Department of Agriculture is the lead agency for Federal rural development policy, and the farm bill is one of the key statutory tools for reauthorizing many of these programs and making changes. These programs make a huge difference in the lives of our rural constituents, and it is critically important to ensure these citizens are well-served.

Categories of Rural Development

USDA Rural Development funds help provide core services and facilities for our rural communities. However, the program operates differently than many Federal programs by recognizing that rural areas differ in their demographics, their needs, and their assets. One of the advantages of our Federal rural development policy is the great flexibility it offers our diverse rural areas.

From emergency services to community centers to water lines, rural development programs meet a wide array of needs in rural areas. In my District of southeastern North Carolina, community facility loans are responsible for EMS units, fire trucks, library and courthouse renovations, and town halls. Water and waste disposal money is helping two communities with significant water infrastructure needs. Housing funds are going to two separate community development corporations. All told, in just this year, Federal rural development programs will mean over $5 million in projects to my District.

Definition of Rural

As we evaluate these programs, we should consider how best to define "rural". As the Members of this Subcommittee and the witnesses know, this is not an easy question. The 2002 Farm Bill established different definitions for "rural" depending on the program. As a default, a population of 50,000 or less for a city or town is considered rural. However, for water and wastewater disposal programs, only a population of 10,000 or less is eligible. To be eligible for rural housing and community facilities programs, the limit is 20,000.

What is considered rural today would have been considered metropolitan 75 years ago. Counties that are decidedly rural in nature and character hold county seats that are growing in population and acquiring just enough size to make them ineligible for certain programs. I hope the witnesses will be able to shed some light on this issue and how Congress might address it.

Funding Issues

This year, this Subcommittee will reauthorize rural development programs as part of a farm bill reauthorization. Complicating that task will be what has happened with regard to funding for rural development programs that were authorized in the last farm bill.

Funding for mandatory rural development programs established in the last farm bill has largely been blocked by appropriators. Instead, discretionary programs continue to play a dominant role in Federal rural economic development policy. With the current tight budget situation, the Subcommittee will need to evaluate whether mandatory or discretionary funding is the proper mechanism for these programs.

Additionally, we face some serious budget constraints in the current fiscal year as well. For example, North Carolina has the authority to make $12 million in community facility loans this fiscal year. However, over the last 5 years, North Carolina has made no less than $38 million in loans each year of this program. Obviously, the need far outweighs the resource.

Conclusion

Thank you again for joining the Subcommittee at this important hearing. I would encourage witnesses to use the 5 minutes provided for their statements to highlight the most important points in their testimony. Your complete written testimony will be submitted in its entirety in the record.

This Subcommittee will follow the 5 minute rule, allowing 5 minutes total for *both* the questions from Members and the responses from witnesses. As a result, I would request that Members be concise in their questioning of witnesses, so that witnesses can answer within the 5 minute block of time.

If further time is needed, I invite Members to submit questions for the record and allow the witnesses to respond in writing. The Subcommittee will take very seriously these questions submitted for the record and expect the witnesses to do their part to inform the Members of the Subcommittee by answering these questions in a timely manner, preferably within ten days.

The CHAIRMAN. And with that, I would like now to recognize my good friend with whom I am honored to serve, the Ranking Member from Colorado, Ms. Musgrave, for any opening remarks that she would like to have.

OPENING STATEMENT OF HON. MARILYN N. MUSGRAVE, A REPRESENTATIVE IN CONGRESS FROM COLORADO

Mrs. MUSGRAVE. Thank you, Mr. Chairman, and I look forward to working with you. I admire you a great deal and welcome this opportunity. I would like to thank our distinguished guests for being with us today and taking the time to be here and offer us the information that they have.

As we look forward to developing a new farm bill in the coming months, it is important for all of us to begin our deliberations by identifying the Rural Development programs that have worked well that were in the 2002 Farm Bill, and by recognizing areas where improvement is still needed. This year I hope we can improve the programs so that rural America can make progress and prosper. I have a great deal of interest in how this nation's rural development policies are working and I am excited about the opportunity to perfect these programs as this Committee works on the new farm bill.

The Agriculture Committee provided over $1 billion in the last farm bill for programs such as Rural Telecommunications and Broadband Services, Rural Strategic Investment and Rural Business Investment, as well as the value-added market development grants and drinking water assistance grants. Clearly, many rural development success stories have resulted. Over the past 5 years, 10,000 grants and loans have been issued to rural communities across the country, providing nearly 4.3 million rural residents with new or improved water and waste disposal services. The Rural Community Advancement Program has assisted over 45,000 small businesses and has created or saved 320,000 U.S. jobs. The Rural Telecommunications Program in the 2002 Farm Bill has provided roughly 1.6 million rural customers with new or improved telecommunication services, including high-speed broadband. Yet it is impossible to recognize these successes without also recognizing that rural America, and the programs designed to serve it, continue to face many challenges.

Perhaps one of the most obvious challenges for us as policymakers is to identify and define the rural development constituency, because it tends to be even broader than the audience for farm and conservation programs. There are additional needs and roles to fill beyond production agriculture. Maintaining the population base, improving off-farm job opportunities and providing public services continue to be the long-term challenges for many traditionally farming areas in eastern Colorado and around the country. As we move forward with farm bill reauthorization, I think it is important that we consider three policy questions.

While new programs may be desirable to meet currently unfilled needs, should new programs be created, given the challenges we face in maintaining a consistent funding level for the existing programs? Are there ways to streamline programs to reduce complexity, while expanding their scope to service a broader constituency and ultimately realize the greatest benefit per program dollar? Do existing programs fulfill the Rural Development mission to target those communities with the greatest financial and infrastructure needs? These are among the issues that will be under consideration, which I believe that rural practitioners, such as those in front of us, can help us to answer.

I look forward with great interest to the testimony that we will hear today. And Mr. Chairman, I thank you again for your leadership on these issues.

The CHAIRMAN. Thank you so much, Mrs. Musgrave. The chair would request that other Members submit their opening statements for the record if you would like, so that the witnesses may now begin their testimony and make sure there is ample time for questions.

[The prepared statements of Messers. Peterson, Goodlatte, and Salazar follow:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Thank you, Chairman McIntyre and Ranking Member Musgrave for holding this hearing today on rural development and the 2007 Farm Bill. I welcome Under Secretary Dorr back to our Committee this morning as well as all of today's witnesses.

I would especially like to welcome back Colleen Landkamer to our Committee today. In addition to serving as Commissioner of Blue Earth County, in Mankato, Minnesota, in my District, Ms. Landkamer was recently elected President of the National Association of Counties. She has served as a county commissioner from Blue Earth County since 1988, she has served on NACo's Board of Directors since 1996, and she has been a key figure in the formation and expansion of that organization's Rural Action Caucus, a group of more than 100 county officials that speaks on rural issues before Members of Congress and the Administration.

I look forward to hearing from the Under Secretary today about the USDA's Rural Development proposals. I know your agency worked hard in submitting your farm bill proposals earlier this year and while I certainly do not agree with every idea in there, I do think we can agree that the farm bill that this Congress will write is the most important piece of rural development legislation that we will consider.

The programs we reauthorize in the farm bill will demonstrate our level of commitment to rural America. This means maintaining drinking water and waste water systems, developing value-added rural businesses to help producers capture a greater share of the food dollar, and providing reliable high-speed Internet access to hold on to the businesses and industries, farm-related or otherwise, that are supporting rural America financially. The Ag Innovation Center in my state, for example, receives funding through the Value-Added Producer Grant Program. This program helps local agricultural producers expand their customer base. Programs like these keep rural America competitive and productive.

We are also approaching a new era in farm country as our rural communities are leading the way in reducing our dependence on foreign oil and fossil fuels with home grown renewable energy. This is the most exciting thing I have seen in my lifetime in agriculture. The rural development provisions we consider this year can play a key role in helping keep the future of farm-based renewable energy locally-owned and part of the fabric of rural America.

Given these challenges, I would like to hear more about USDA's intention to have state rural development offices submit new business plans for their operations. I am aware of USDA's proposals to consolidate some offices and move from a three-tiered system of state, regional, and county offices to a two-tiered system of state and regional offices only. As I have previously made known to USDA, my chief concern is whether the same high level of service can be provided with this increased workload. I am even more concerned that this major reorganization is taking place the same year Congress prepares to write the farm bill, especially as we begin to move to the next phase of rural-based renewable energy.

Once again, I welcome the witnesses and I look forward to their testimony today. Thank you, and I yield back my time.

PREPARED STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM VIRGINIA

Thank you, Mr. Chairman. I appreciate your holding this hearing, and Secretary Dorr, welcome. We are delighted to have you with us.

Secretary Dorr, I appreciate all of the work you've done on behalf of rural America, especially the work that is done by rural development in the Commonwealth of Virginia. You work very well with our state and local governments on a wide array of economic development initiatives that have helped a number of rural communities in my Congressional District and elsewhere in the Commonwealth, and we very much appreciate that.

There are tremendous opportunities in rural America but also tremendous challenges. Rural America has been attracting more attention as a potential source for renewable energy resources. Rural development programs, such as the rural broadband initiative, create greater access to more information for more Americans. Now those living in Rockbridge County or Shenandoah County, Virginia can access the same high speed Internet that you could previously only get if you lived near a large metropolitan area.

Access to this technology allows children to learn, businesses to grow and local economies to flourish with the creation of jobs and businesses in rural communities.

PREPARED STATEMENT OF HON. JOHN T. SALAZAR, A REPRESENTATIVE IN CONGRESS FROM COLORADO

Good morning, I first want to thank Chairman McIntyre and Ranking Member Musgrave for holding this important hearing.

I also want to thank both panels for coming to testify today.

I think it is vitally important that as we write this 2007 Farm Bill, we work in a bipartisan manner to streamline and increase funding for programs that enhance rural health care, Critical Access Hospitals, and rural water infrastructure.

The 3rd Congressional District of Colorado is home to nine Critical Access Hospitals, and that is why I feel that it is extremely important to secure funding for the reconstruction and rehabilitation of these hospitals.

Rural water quality and waste water disposal is also an important issues to my constituents in Colorado.

I support funding to reduce the backlog of the grants, loans, and other programs that will benefit rural communities by ensuring good safe drinking water.

I think it is extremely important that everyone realize the significant issue water quality plays in rural areas in Colorado and other western states.

Thank you again, Mr. Chairman and Ranking Member, and I look forward to hearing from the panelists.

The CHAIRMAN. However, before I introduce our first witness, Mr. Pomeroy, I want to call on him to briefly make some introductions of our Committee staff.

OPENING STATEMENT OF HON. EARL POMEROY, A REPRESENTATIVE IN CONGRESS FROM NORTH DAKOTA

Mr. POMEROY. Thank you, Mr. Chairman. I will be brief. And as you undertake the work of this Committee and your first meeting as Chairman, it is also the first meeting of the Staff Director of the Subcommittee, Aleta Botts, and I want to introduce her to the Committee Members and to the general audience. She has worked as my Legislative Director for the last several years and before that the Agriculture Legislative Assistant. She has a graduate degree in ag economics from the University of Kentucky, but I urge you not to hold that against her. She is an extraordinary resource to this Committee and while our office has felt her departure, I feel that it is our contribution to the greater good. So Aleta Botts will serve us well as we deal with the weighty matters the two of you have outlined in the Congress ahead. Thank you. Oh, by the way, there is another markup I am in the middle of, so I will be kind of in and out and I apologize for that.

The CHAIRMAN. Thank you. Thank you, Congressman Pomeroy, and thank you for letting Aleta come and join us. And Aleta, thank you for your work and especially helping to bring us to this moment today.

We would like to welcome the first panel to the table today, the Honorable Thomas Dorr, Under Secretary for Rural Development for the United States Department of Agriculture here in Washington. Under Secretary Dorr has quite a distinguished record of service to our country and under different Administrations and times in different positions he has held. I encourage you to look at his biography. But to maximize your time, Under Secretary, please begin as you are ready for testimony.

STATEMENT OF HON. THOMAS C. DORR, UNDER SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. DORR. Thank you, Mr. Chairman and Ranking Member Musgrave. It is my honor to be here today. I do appreciate the opportunity to appear before you to discuss USDA Rural Development's programs and budgets, and I particularly must add that I look forward to working with this Subcommittee in this new format. I would like to take just a moment at the beginning, however, to pay tribute to the approximate 6,300 men and women who collectively comprise USDA Rural Development. We are, as you know, probably one of the most decentralized agencies in government. Most of our employees are in the field and they do a great job.

The distinctive characteristic of our agency is, if you will, customer service. That begins with a delivery system that is unmatched by any other community or economic development organization today. It is boots on the ground, the ability to provide education, training and technical support, and the ability to reach out to the smallest communities, the ones that don't have economic development specialists and grant writers on their payrolls. This business model makes us both unique and a good fit for rural communities. It is a core asset that we intend to nurture and build in the years ahead. The world is not static. We continue to modernize our administrative systems and shift to more efficient financing models. We must reorient and retrain our staff to meet new opportunities. There will be changes and we are committed to turning these changes into opportunities for personal and professional growth for every one of our associates. The future is bright. And so as we make these changes, we will and we do intend to keep you apprised.

The President's farm bill proposals clearly envision a greater role for Rural Development going forward. For Fiscal Year 2008, the President's budget proposes $2.1 billion in discretionary budget authority to support a program level of $14.9 billion. But this year, I would submit, the budget is really only half the story. In addition to the 2008 budget, the President's 2007 Farm Bill proposal includes significant new initiatives for Critical Access Hospitals, rural water and waste water community facilities projects, and renewable energy. The farm bill proposal includes over $1.4 billion in mandatory budget authority over 10 years to support these initiatives; in fact, we have a full plate. We administer over 40 programs that provide infrastructure, affordable housing, essential community facilities and business development assistance. The time does not permit to discuss them all, but I would like to touch briefly on three highlights.

The first is healthcare: The President's farm bill proposal calls for $85 million in budget authority to support $1.6 billion in loan guarantees, as well as $5 million in grants, to complete the rehabilitation of all 1,283 Critical Access Hospitals within the next 5 years. I am sure I don't need to dwell at length on the importance of this, but quality rural healthcare is a true triple play. Obviously, it directly enhances personal safety and the quality of life. But in addition, hospitals themselves are major economic engines. And finally, from a strategic standpoint, quality healthcare is a key attractor for young families, entrepreneurs and new businesses.

Second, the President's farm bill proposal provides an additional $500 million to reduce the backlog in funding applications for water and waste water, distance learning and telemedicine, first responders and broadband access programs. Like the Critical Access Hospitals, these directly enhance both the quality of life for current residents, as well as the attractiveness of a community for prospective newcomers. As this Subcommittee knows, Rural Development's community facilities programs are oversubscribed. This is not a new issue. In the last farm bill, Congress provided an additional one-time $360 million to address the backlog that existed at that time. The 2002 Farm Bill was signed in May. Because of our field staff, we were in fact able to announce that project awards the following August, and we can and we will get this money out the door quickly to meet critical community facility needs.

Finally, renewable energy has emerged as one of the most attractive success stories of this decade. We have overtaken Brazil to lead the world in ethanol, and cellulosic ethanol is now moving from the labs into the fields. Installed wind capacity in the United States has quadrupled since 2000, and we led the world in new capacity in 2005 and 2006. In case you did not see it this morning in today's *Washington Post*, Page 3 of the A Section, there is a terrific story about the combination of wind and hydro in the Northwest. Biodiesel production is up from two million gallons in 2000, to 245 million gallons last year, with approximately 50 percent growth anticipated for 2007. And last but not least, research has been accelerated across the spectrum of both conventional and alternative energy sources. This is extraordinary progress in a very short period of time and we are committed to continuing that progress.

The President's farm bill proposal contains and additional $1.6 billion across USDA for energy-related projects. Key initiatives for rural development include $210 million in budget authority that will 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 Programs, and $150 million over 10 years for the Biomass Research and Development Program.

Mr. Chairman, this concludes my prepared remarks this morning. I am appreciative of this generous support of the Subcommittee for rural America and we look forward to working with you in the future to increase economic opportunity and improve the quality of life in all rural communities. Thank you.

[The prepared statement of Mr. Dorr follows:]

PREPARED STATEMENT OF HON. THOMAS C. DORR, UNDER SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

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. program 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 the $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 flexibility 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 home ownership 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 eight 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 home ownership. 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 home ownership 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 home buyers 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 5 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 three-fold, four-fold, 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.

The CHAIRMAN. Thank you so much, Under Secretary Dorr, for your excellent job in your presentation. I wanted to ask you two or three questions to get us started. One of the most significant proposals you mentioned in your testimony is the shift from grants to loans to loan guarantees and how this shift allows the Department to increase investments in rural areas, as you state, "at little or no added cost." However, you were referencing the cost to the Department. What studies are being conducted to determine how this shift would affect the communities that receive these Rural Development dollars? For instance, my concern is—wouldn't lower-income communities be at a disadvantage, given that they may have less local capital to leverage in the pursuit of a loan or a loan guarantee? And I know that is the first question I always get back home, is, well, is this a loan or a grant? Everybody would like to have a grant, we understand that, but this concern we have, though, about the disadvantage of less local capital to leverage. Can you tell us what studies have been conducted or the effect this will have on the lower-income communities?

Mr. DORR. Well, this is a regular question and I understand the sensitivity to it. What we do know from our experience is that in a general sense, when everyone is involved in the project, when there is a combination of communities, investors, local lenders, as well as government authorities that may be impacted by these various projects, there is a tendency for the projects to be much more successful. I will give you one very short fact, although this does not comport with the water and environmental programs, which I think you are probably alluding to. But in our B&I programs, in 2001, most of our B&I loan programs were handled as direct loans. We had a very substantive default rate. It was a very high default rate. We have largely transitioned that into accommodating the loan guarantee aspects that the statute allows, and our loan default rates have dropped dramatically. Now, I realize that some of those loans are fairly new, but what we have experienced is that when everyone has, so to speak, some skin in the game, there is a tendency for these programs to work must more effectively.

On the water and environmental programs, that loan and grant program has always been one that has been oversubscribed. There is a tendency to always be short of resources and yet, one of the things that we proposed last year was not accommodated and we are going to submit it again this year, is to change our poverty rate loan structure so that we can structure our poverty rate at 80 percent of the going rate. Excuse me, 60 percent of the going rate and have an intermediate rate at 80 percent. And what we have done internally in analysis is, using those new numbers we determined that with a loan and grant combination, using that formula, we are actually able to lower the debt service and the cost per constituent in many cases in that program. So we think there is some indication that it works very well that way.

The CHAIRMAN. Thank you. I don't have any follow-up on that and I appreciate your explanation. One of the questions I had asked Secretary Johanns when he testified before this Committee was how the $500 million, the USDA proposal to reduce the Rural Development backlog, would operate. Now I guess if you could clarify this, that includes only backlog funding and not funding for any new project requests. I wanted to know if that is correct. And also, how much would that decrease the backlog in different programs? For example, do we go from a 3 year backlog to a 1 year backlog in a particular program, or does this rectify the entire situation?

Mr. DORR. In the water and environmental programs where we received the additional budget authority of 2002, I believe it was in the neighborhood of $320 million or $330 million. That was leveraged into, I believe, and I would have to verify this, but as I recollect, about $760 million of overall program funding with the combination loan and grant program. That lowered our backlog at the time from about $2.5 billion to $2.6 billion down to around $1.7 billion or $1.8 billion. History, at least in terms of what I have been able to ascertain, suggests that you can lower the backlog to: $1½ billion, $1.6 billion, and over a period of time it might reach back up $2½ billion to $3 billion. I believe right now at the end of this year, our backlog would approximate at $2.2 billion. So this would, I suspect, lower our backlog back into that $1.5 billion to $1.7 billion area in the water and environmental programs. We are proposing to use some of this in broadband and some of these other areas as well, if there is in fact a need at the time. So that is a moving target and I think that we will address a substantial portion of this, but clearly, it won't clear it all up.

The CHAIRMAN. All right. And one other question that I wanted to ask you about that I alluded to in my opening remarks, and I specifically mentioned my hometown and county as an example. The county seat of Lumberton possesses a population of just over 20,000, which I know now makes it ineligible for certain Rural Development programs. It has qualified for some rural housing programs in the past by being grandfathered into eligibility, based on prior Census data. And then, as I mentioned specifically in my remarks, for instance, our county public library and our county courthouse, which by definition have the word county in their title and serve a countywide area, but now are in a city that is over 20,000. We had to go back to get special permission from Rural Development to finish what had already been started on both of those projects. I wanted to know if this is going to be a continuing problem, if there is an effort to reexamine the word "rural," and what you will be operating under in the meantime, so that communities like Lumberton, who may technically have exceeded a population data, can still service the predominantly rural surrounding area?

Mr. DORR. Well, first let me state that a member of your next panel, Dr. Fluharty, is going to have some interesting observations on the definition of "rural," at least he has every time I have heard him, and he does a very good job of it. This is almost a "Solomonesque" sort of task and I don't mean to be flippant about it. As you enunciated in your opening statement, we have different population levels that have been ascribed to the various programs. B&I is 50,000, CF is 20,000, and they vary across the board by program. Then, frequently we end up with situations like you just described in Lumberton. Then we have to go in and make some additional accommodations.

In 2003, I put together a task force that, quite frankly, when I left office as the Under Secretary in 2003, it didn't get completed, I don't believe, but we are working on it again, to take a look at what it is we can and should and perhaps can do relative to working with all the resources available to address some of these rural population areas. But as you note and I am sure perceive, as well as other Members of the Committee, there is a transition taking place relative to urbanization in rural areas. One of the things that I think is particularly intriguing is what Secretary Johanns has done in the farm bill proposal that he and the President have laid out relative to 1031 exchanges. That is just a manifestation of this kind of ongoing changing demographic pattern relative to rural areas. Another reason I am bringing this up is because I think we are all sensitive to it. I don't think we have any good, clear, and hard answers. I will assure you that we are going to continue to work on it and we will take any insight and any suggestions that you may have to offer as well.

The CHAIRMAN. Thank you. We will take you up on that and I encourage our Subcommittee Members, and the staff of those Members who may not be here, to accept that invitation with regard to the definition of "rural." And I would ask, Under Secretary, would you be willing to either reinvigorate that task force that was in order at 2003, or create your own, so that this can be aggressively addressed? Would you be willing to do that?

Mr. DORR. No, we actually have a group that is now working on this issue, again, at my request. And the reason I don't have anymore hard information is because it is just a very difficult task, but we are working on it. And as soon as we pull some things together, we will be delighted to share them with the Committee.

The CHAIRMAN. Thank you. We will look forward to that. Mrs. Musgrave.

Mrs. MUSGRAVE. Thank you, Mr. Chairman. Secretary Dorr, you talked about the importance of hospitals in these rural communities. It has been my experience that very often the school district is the larger employer and then the hospital is right after them. And of course the quality of healthcare in rural America and the access of healthcare is of major concern to folks that live out in rural areas. Could you elaborate a little bit? I believe you said 1,283 rural hospitals. What is going to happen with these rural hospitals? And then that leads me into telemedicine and distance learning. And after you talk about hospitals, I would like you to comment on criticism, really, that has come towards the Broadband Program and some folks are not really happy with the way this process has been handled. Of course there is a great deal of competition when communities are desperate for the ability to use telemedicine and distance learning for their education.

Mr. DORR. Well, certainly these are—I mean, you are hitting on the complexity of the issues. But I would hasten at first to point out that I think this plethora of issues that you described also clearly indicate opportunity. It is occurring at a time in, which in the long run, is very opportunistic for rural. I actually reflect back to what I say in 1990 was kind of the maturation of broadband technology, but we all began to recognize after that, that the ability to have access to a broadband pipe essentially allowed you to compete in global markets, to live wherever you wish, or to live locally and compete globally. But that also amplified the circumstances when certain communities and certain people did not have access to the same sized pipe that other people in urban areas had. But also, with access to that pipe, it also made it possible to enhance the quality of healthcare in rural areas, because now you could access the kind of expertise that may not have enough of a market to reside in those rural areas. They would provide services if they could have the diagnostic and the information exchange tools that are made possible only by broadband.

So the long answer is: I think it has enhanced rural America's opportunities a great deal. I think the ability to modernize and rehab critical access care hospitals, which by the definition means that they are a 25 bed facility with certain structural constraints that enable them to qualify for Medicare reimbursement, that enables them the mechanism to service these debts, and our critical access care proposal to provide financing actually allows their local lenders—their local community banks—to have a way to lay off that risk once they originate that loan; particularly if it exceeds their capital structure, and I think that is the benefit of this particular program.

Back to the broadband side of it, however, I will tell you that it was rolled out in a pilot project and then later made part of the farm bill in 2002. It has been more complicated to deploy a technology in a competitive environment that was destined to be, or statutorily required to be, technology neutral. We have made some mistakes in doing it. We are in the process of having rewritten the regulation. It is presently at OMB. It will shortly be, I hope and I think, very soon be made available for public comment. At that period of time, you will have an opportunity to comment. As soon as that is exposed, I will be delighted to come up or have any of our staff come up and work with you individually or the Committee as a whole to make sure that you feel that we are on the right path with what we have got. I think it is the key to unlocking rural America.

Mrs. MUSGRAVE. Thank you. You are probably very well aware of the fact that we have difficulty in attracting doctors and nurses and other healthcare providers, so that is a huge issue too. And as we think about rural America, one of the most poignant things to me is to see the declining population and thinking about what the future is for rural America, how our young people that want to stay in rural America can't. And I wonder what Rural Development programs do you see that have worked to really slow this population loss?

Mr. DORR. Well, I think there are fundamentally two programs that are very key to this. Number one is our Broadband Program. Even though we have had difficulty with it since 2002, we have actually made a billion dollars, in excess of a billion dollars of broadband loans. I think it is also important to point out that, since 1995 or 1996, all of our telecom program applicants have been required, as they build out and receive loan funds from us, they have been required to enhance their broadband capability when they build out these new capacities. So I think broadband and the access to information, knowledge, global markets, has been a significant opportunity to retain young people in rural America.

And the second, quite honestly, is one that we are just uncovering and I know that all of you are very familiar with it. We talk about it all the time, it is renewable energy and renewable energy; carbohydrates; and other renewables. This involves building a brand new industry, a brand new infrastructure, a brand new regulatory regiment, a brand new tax structure, a brand new everything. And these, as we build these out, will create high-quality, very sophisticated jobs that will make it possible to attract young people to live in these rural areas. For the most part, these new renewable energy opportunities are rural in nature. They are going to be situated in rural areas. They are distributed and they are possible only because you have distributed competing. So those two things I think are very significant draws for young people in rural America.

Mrs. MUSGRAVE. Thank you. And thank you, Mr. Chairman.

The CHAIRMAN. Thank you so much, Mrs. Musgrave. With the Subcommittee's indulgence, we have an opportunity to recognize my friend, the Ranking Member and former Chairman of the full Agriculture Committee who has joined us, Bob Goodlatte. And Mr. Goodlatte, if you have any questions that you would like to ask, we would be glad to honor your presence now.

Mr. GOODLATTE. Mr. Chairman, thank you very much and I am very pleased to join you and Mrs. Musgrave and the other Members of this Subcommittee, and I appreciate your holding this hearing on this very important subject. I do have an opening statement that I will just submit for the record.

The CHAIRMAN. Yes, sir, gladly.

Mr. GOODLATTE. And I would like to follow up on the line of questioning that you suggested in your opening statement and before I do that, welcome, Secretary Dorr. We appreciate the opportunity to work with you and a lot great folks in Rural Development who work in Virginia and have done some great things in the communities for my constituents. So I thank you for your service to our country and welcome you here today.

Mr. DORR. Thank you.

Mr. GOODLATTE. The 2002 Farm Bill provided a definition of "rural" and "rural area" for purposes of loan and grant eligibility. Many other rural loan and grant programs place other population thresholds on eligibility. Are the current definitions of "rural" and "rural area" effective in targeting those areas most in need of assistance?

Mr. DORR. I don't know that I have a good answer for that, quite honestly. Our programs, I guess I would have to say that on the surface, the obvious answer would be that probably they do, because we are in most cases oversubscribed in our programs. So obviously, to expand the definition would just permit more applicants. So at the same time, we are fully cognizant that there are circumstances, particularly when you get into rural communities that are in technically-designated urbanized areas that are then, as a result of some definitional issues, unable to access programs and it complicates matters. As I said at the outset, in my earlier comments, this is an issue that we are studying. We are, I guess, at the behest of repeating myself, it is a "Solomonesque" sort of a challenge to try to get the right definition for "rural," and we are going to work on it, we are going to continue to work on it. I am not certain that we have got the right definitions.

Mr. GOODLATTE. Well, do you believe the definition of rural should be different for different programs, or should it be more consistent across the programs? And I understand that, with fiscal constraints, and hopefully we will find ways to add more money here, but if we can't, are we better off having these disparities that exist or should we scale back some and increase some and have a more consistent definition?

Mr. DORR. I wish there was an easy answer and I am not trying to dodge it. But for example, when you look at the broadband programs, that is a real difficult situation because, frequently, you can have an urbanized area and literally get right outside of it, 5 miles, and because there are rural constituents, they just simply don't have access to broadband, because there is not a provider who will lay 5 miles of wire, or put up a wireless tower to accommodate that customer. So that becomes the real complexity of trying to define it. I mean, I think we all believe that those folks ought to, within reason, have access to the same services that their urban counterparts do. And so that is why I am kind of stumbling on this, because it is not an easy thing to deal with. We are trying to address it and we have developed some insightful approaches in our proposed rule, but at this point, I am really not at liberty to go into at this juncture.

Mr. GOODLATTE. Let me play off of your answer to that last question regarding broadband service. The commercial providers of satellite broadband service claim they can provide service to almost every corner of the United States. Do you think this could change the nature of our U.S. Broadband Program in terms of how we define unserved or under-served areas?

Mr. DORR. I don't think there is any question that it has implications on it and I quite honestly am not trying to dodge this, but I think it would probably be more effective to have Jacki Ponti, who administers that program, spend some time going into it with you. We have dealt with those issues and there are a number of—I guess perhaps the best word is "nuances" to those sorts of applications relative to the regulatory regime that is in place, who owns the spectrum and how that plays out. So it sometimes becomes more complicated than just trying to define a rural area when you make a loan in one of these particular situations.

Mr. GOODLATTE. Thank you. With the Chairman's indulgence, let me get one more question. It is my understanding that USDA Rural Development is in the process of considering possible changes in the organization of your state and local offices. I wonder if you would comment on those proposed changes and how they will impact your ability to administer the existing programs.

Mr. DORR. Certainly. I would be delighted to. This is actually something that has been ongoing since I have been involved as the Under Secretary of Rural Development. Early on, our programs were much more focused toward certain areas such as single-family housing. Most people are not aware, but the numbers right now in terms of percentage of home ownership in rural America is approximately 75 to 76 percent. I mean, it is very, very strong number relative to single-family housing. What has happened in the meantime is a result of economic changes, cultural changes and statutory changes. Our programs have been shifting to more emphasis on renewable energy and on business and industry loan programs, and more effort on facilitating the deployment of the right kind of infrastructure for regional and local communities. And so what we have had to do is use a combination of technology and continually reevaluate our marketing model to make sure that we were providing the right quality and the right level of services, and at the same time, doing it within a constrictive number of resources.

And so in fact, what we are actually doing is going to our states and saying, "Tell us what would most effectively enhance your ability to provide your services in your states," and they have come back to us with some proposals. To a large extent they could be described as migrating from more of a three-tier structure to a two-tier structure, which means state, regional and local offices. And what they are finding is that with technology and with cross-training and a number of things, they are actually much more able to provide the quality and level of service out of regional offices. In the cases where we actually have 10 states that are already at that level, and have been there for several years, and as they are deciding that this is the way they want to go, we are encouraging them to do so. But this is going to occur in a manner that we will not be changing our staff structure at all to any great extent.

Mr. GOODLATTE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you so much, Mr. Goodlatte, and thank you for joining us. And now we have just been joined by the Chairman of the full Committee, Mr. Collin Peterson, and Chairman Peterson, we welcome you to the first hearing by this Subcommittee and would welcome any comments or questions you may have.

Mr. PETERSON. Well, thank you, Mr. Chairman, and thank you for your leadership, and Ranking Member. We look forward to some good work out of this Subcommittee.

The CHAIRMAN. Thank you.

Mr. PETERSON. Mr. Dorr, Under Secretary.

Mr. DORR. Mr. Chairman.

Mr. PETERSON. Can you give me a status report of where we are within the Administration on the loan guarantee situation for cellulosic ethanol plants that—some of it is in DOE and I don't know what they are doing over there exactly. And I think the Secretary, in the farm bill proposal that he put forward, had some provisions in there to have some kind of loan guarantee authority. So could you tell us kind of where that is at within the Administration or what is going on there?

Mr. DORR. Well, I will do the best I can. At the risk of being redundant and as I believe I have stated at different times in the past, when the 2002 Farm Bill was passed with the energy title and Rural Development was assigned to implement 9006, the Renewable Energy and Energy Efficiency Act, it became very apparent to me that, yes, we in fact had the ability to originate the loans and provide the back office support, analyze the credit risks relative to loan guarantees. We did not have a lot of the technical expertise that may be involved in analyzing these applicants relative to new renewable energy technologies. So what I did immediately was engage; because of my prior relationship with a number of folks at DOE, and working together on the Biomass Research and Development Act, I engaged the folks at EERE over at DOE and we subsequently wrote a contract with those folks to actually provide us assistance in analyzing the technical aspects of these loans. As a result, we have had that relationship since implementing the 2002 program.

After the Energy Policy Act of 2005 was passed, we have been in contact with them. They know that we are more than willing to do whatever we can to assist them in their program. Obviously, there are a number of issues that have been involved in that, that they know far better than I do. And yet, by the same token, in the farm bill proposal the President, the Secretary, obviously it has passed muster with OMB and others, have made a request to insert a request for $210 billion budget authority to facilitate our ability at USDA to do upwards of—in excess of $2 billion of cellulosic loan guarantees. We are in the process right now of making sure that we know what we have to do to get in line—to get ourselves in order to make this happen as quickly as possible. In fact, this law has passed and the funds are appropriated. So that is where we are at, at this point, relative to where DOE is at.

Mr. PETERSON. Do you have any understanding of why there was $7 million put in the continuing resolution to apparently have them start up a loan guarantee program, which apparently they have never done before? Do you have any idea of what is going on there; aren't we duplicating? That is kind of what I was mystified about.

Mr. DORR. Well, I know that when the Energy Policy Act was passed, as a result of that, there were no funds appropriated to do much of anything. Since then, I know that there have been a number of discussions on this. I am not privy to what it is exactly that they are doing or why they are doing it. I do know that we have had ongoing conversations, and we have shared information with them on loan guarantee programs. Certainly we are more than willing to work with them.

Mr. PETERSON. Well, it seems like what is going on that we are going to set up a process over there to make loan guarantees, and we gave them money to do that. I understand that we don't have the money in either place, but I don't know how we get this sorted out. So if somebody from the Administration can tell us how we can sort this out, and how we can get everybody moving in the same direction. I don't really care who does it, as long as it gets done. The other question I have, Mr. Chairman, if there is time, is now you have limits on how much and how big a loan you can make and so forth. I would assume that in order for you to, if you are the ones that are going to end up doing this, you are going to need some changes in those limits as it relates to these plants.

Mr. DORR. That is correct and we have indicated in that farm bill proposal that we would like to see the limits on our cellulosic loan guarantees run to $100 million and 100 percent loan guarantee.

Mr. PETERSON. Do you think that is going be enough?

Mr. DORR. No, I don't.

Mr. PETERSON. When I heard what these plants are going to cost, it may need to be higher than that.

Mr. DORR. It may be. I don't know. I think that it is clearly a good crack; $100 million is clearly a lot of money. I think it is a good crack and a start. Once we get into it if we find out that it is not enough, I am sure and confident that we will closely counsel with you and let you know.

Mr. PETERSON. Is the $100 million limit in the farm bill proposal?

Mr. DORR. Yes.

Mr. PETERSON. Is it any other place? Is it in any legislative language anyplace, coming out of the Administration?

Mr. DORR. I believe that we have some draft documentation on that, but I will have to check.

Mr. PETERSON. But nobody has introduced anything?

Mr. DORR. I don't know.

Mr. PETERSON. Well, if you could check on that.

Mr. DORR. Sure.

Mr. PETERSON. Well, thank you, Mr. Chairman.

The CHAIRMAN. Thank you so much, Mr. Chairman, for being with us. Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Chairman. I appreciate the opportunity to be with you in this hearing and appreciate the opportunity to be on this Subcommittee. I am very grateful for your opening statement, particularly one sentence, "America is returning to its roots." And to the degree that we are empowered to help overcome the barriers for people who wish to integrate into rural life through rural entrepreneurial opportunities, I think we have a tremendous chance here to help that and the benefits from this way of life are extraordinary. The values that we hold dear in our country, of hard work and personal responsibility and family life and neighbor helping neighbor, all flows so beautifully from our rural communities, particular farm families, and I just really appreciate you capturing the essence of that by saying America is returning to its roots.

Mr. Secretary, thank you for appearing again here. I am going to make a number of comments, some of them are specific questions and some of them are a little broad. The first is I appreciate your comment that the decentralized nature of USDA Rural Development has allowed you the flexibility to meet the mandates of Congress and to be very effective at it. I agree with that. We have an excellent director and a number of excellent ongoing programmatic elements in Nebraska that have done just that. So I appreciate that comment and affirm what you said.

Second, as you appeared before the other Subcommittee of Agriculture that I am on, last week I believe it was, we mentioned that, my colleague, Mr. Costa from California, and I were interested in a letter, writing a letter to you, in which we would ask for your coordination with the Department of Energy to basically unpack the myriad of renewable energy programs that are out there, either grants, specific programs, university initiatives, so that we can have a better understanding of how to integrate the two Departments' initiatives, so that we are ensuring our taxpayer monies are being used most efficiently and to avoid redundancy. I was a little surprised by your comment. I appreciate it. This is not meant to be pejorative, but you said this is going to take some time. What that indicates is there is a very complicated maze of renewable energy and alternative energy programs, projects, initiatives, out there. But I think, as quickly as we can get that, it will be helpful and that letter will be forthcoming from us to you this week.

The third point is I think you have heard a number of comments about rural broadband and I appreciate you ranking that as one of your priorities in terms of ensuring renewed vitalization in rural America. There is some complications here and some of the earlier questions alluded to that and I think your suggestion is very good, that perhaps the Administrator of that program should come back here. I assume this is the appropriate Committee that she would testify before, because, again, the complexities of new technologies, the complexities of what is urban and what was is rural, the complexities of who gets loan guarantees and who doesn't, are very real and I think we need to unpack that. And it is my understanding that the rural telecommunications and broadband services director, directors, and I assume that they are in all states, is not under the auspices of USDA Rural Development and I would like to understand that better, as to why that is not true, unless I am mistaken.

The final question is you have recommended some solutions to, again, getting a better handle on the myriad of programming elements that are under the auspices of USDA Rural Development and you have created a four part platform, if you will. Would you unpack that? Again, the emphasis is on renewable energy and I think that is important. The emphasis is on business loans and business grants and then other community development programs. Talk to the reasoning that you have for that platform. On the surface, it appears to me to be reasonable and a way to help people understand, again, the opportunities that are out there to interface with you. I should stop there, since I think my question is using up my time. All right, Mr. Secretary.

Mr. DORR. I hope the answer doesn't use up too much of other people's time, and I apologize. First of all, very quickly, I do believe that DOE does have a very concise matrix of their research programs. The Energy Council that was put in place by Secretary Johanns, and I am the Chairman of, in December of 2005, has embarked on, for the last several months, literally doing an assessment and analysis of all the research and commercial development programs at USDA and is ultimately putting those into a matrix. I believe the Secretary has announced that today as well. That is not yet on line, but it should be shortly and that is designed to enable people to literally go in and point and click and find out what the programs are that they are interested in. This is the first step in doing a much larger and bigger matrix, if you may, to pull as many of these things together as we can.

The issue of why there is not a broadband state director or under the auspices of a state director in each state, that was initially set up because of the complexity of the technology. What Administrator Andrew is doing, and I am doing, very well is attempting to begin to disperse the knowledge necessary to deliver these programs across the board in the states. The problem with that program is that you have a myriad of technologies, you have an environment in which you can make loans to competitors, which is unlike anything we have ever done before. We had a rural water system or a rural electric administration or rural electric co-op. These were monopolies, essentially. They were monopolies into a given market, with certain restrictions on contracts, and the ability to build out broadband in this manner is something. Because of the change in technology, the dramatic change in technology, it was just impossible to staff up at the state level. So we had people qualified to even understand the technology and the proposals that were sent to them. So that is why we have retained a lot of that decision making at the national office.

Mr. FORTENBERRY. And you accept that as a reasonable structure ongoing?

Mr. DORR. I think it is a reasonable structure if we get a better handle on how exactly we are going to deliver the program, and that is not to submit that we are not delivering it. I mean, as I said earlier, we have a billion dollars that we have placed through that program. We have about $360 million in applications in the queue right now. We have had over $2 billion in applications that we have sent back because they didn't comport with our existing regs, and that may be one of the problems. But——

The CHAIRMAN. We will let you continue that answer and if you will please submit that full answer, that would be great.

Mr. DORR. Sure.

The CHAIRMAN. On to our Committee Members' time. Mr. Pomeroy, you are next.

Mr. POMEROY. Thank you, Mr. Fortenberry. Thank you, Mr. Chairman. Mr. Secretary, it is good to see you again. The last time you were before the Agriculture Committee, I guess it was, we talked about how we might maximize the farmers' opportunities to participate in the investment opportunities of these ethanol plants. And while in the early going, when ethanol had yet to really establish itself on the landscape as an almost can't miss investment, farmer co-ops were funding these things. Yet, would it have caught fire? Now the money is readily available out of Wall Street and less farmer participation, diminishing our prospects of trying to help farmers achieve some kind of diversity relative to their income dreams and the opportunities.

I had thought, after our visit, that we would see something very interesting out of your shop on ways farmers might invest. I was thinking, based on what I understood you to say that day, that maybe pools, capital pools that might be used almost like a real estate investment trust, funding participation in a number of plants all over the place. The farmers' stake has not been buying a piece of a particular plant, but they would be participating in this pool, much like an investor, again, in a REIT. What are you thinking today about trying to maximize farmers' opportunities to have an ownership piece in this emerging ethanol industry, and what can we see out of your shop in that regard? Is there something more we can do in the Committee to help you?

Mr. DORR. Well, you and I have had this brief discussion on this and you are spot. One of the concerns that we have is whether or not rural America is going to be able to capture a large portion of this wealth that is being created. What we have done and we have not released them, we are getting very close to getting them prepared so that there is some sense to them, but we have embarked on, actually over a period of 2 years, but more specifically the last 6 months, four cooperative research contracts to look at investment issues, business model issues, red tape and regulatory issues, and more specifically, how to go about integrating distributed electricity production into legacy systems. We think we are getting close to having a cogent summary on this. I think, when it is all done, what this will do is point out a number of issues regarding how securities laws and other things, which are clearly out of my jurisdiction, may or may not impact the ability to aggregate small investor capital in these rural areas.

It is pretty clear to me that, as you pointed out, it is easy now, on these business models that work, to go out and get the capital very quickly, not just in Wall Street: you can pick it up in Fargo before they can get it in Minot; or you can pick it up in Sioux Falls before you can get it in Brookings. The simple fact of the matter is that we have to figure out ways that enable the local investors, the bankers, the butchers, the barbers, the school bus drivers and everyone who wants to be put $5,000 or $10,000 or $15,000 into one of these investment pools, or whatever the mechanism may be, so that they can participate. I don't think that is an irresponsible suggestion. I think it is an issue that traditional security and regulatory laws are meant to deal with issues that are much different than they are now with distributed computing and our ability to do things much quicker and maintain a high level of governance, a high level of transparency relative to management fees and risk and that sort of thing. I think we need to embark on it. I don't think that we at Rural Development are going to be able to. What I am hoping that we do is eliminate the questions that we are encountering as we go about facilitating the build out of this industry, so that you and others may sit down and take a look at this and we will be delighted to work any way we can to work through it.

Mr. POMEROY. I appreciate that and I appreciate and respect you for your grasp of this and how you have articulated it. I am disappointed in the timeline. You know, the corn production in North Dakota is fairly well committed now and the plants are already under construction. It has been a critical period of time, of development for our industry. The farm bill is upon this Committee and if we are to do something creative, we need to do it now. And so studying and contemplating and researching and publishing, it is all going to press us past, I am afraid, the critical time-frames where this matters.

A final point I would note. I have frustration with the Rural Utilities Service. We gave them some money to build out broadband and looking at how they have allocated the money in North Dakota, anyway, it looks to me that they have built over it and not build out. And it was never my intention to commit low-interest Federal dollars so that they could put in even a co-op owner and general very co-op friendly guy, but co-op owned facilities are in direct competition with the private sector plant that was already there. That to me seems unfair and not the optimal use of these resources that we hoped to push this out into the areas that didn't have service. Do you have a response? I see I am out of time and I yield.

The CHAIRMAN. Okay. Thank you, Mr. Pomeroy, and we would ask the Under Secretary to please respond to that in writing, given our time constraints. We are joined by the gentleman from Minnesota, Mr. Walz, and the gentleman from Kansas, Mr. Moran. And with Mr. Cuellar's permission, in light of the earlier round, Mr. Moran, we will call upon you if you have a question, sir.

Mr. MORAN. Mr. Chairman, I would ask unanimous consent, I am not a Member of this Subcommittee, to sit at the dais and ask a question.

The CHAIRMAN. We will allow you to proceed.

Mr. MORAN. And I appreciate Mr. Cuellar's kindness. Thank you very much for allowing me to join you, Mr. Chairman and Ranking Member. I would follow up on Mr. Pomeroy's comments. That was one of the comments I wanted to make. We have experienced the same thing in Kansas, in which we are actually doubling the building capacity as compared to necessarily serving areas that have no broadband service. But before I get to that point, I wanted to thank Secretary Dorr for his commitment to the issues on which he speaks. I am a fan of Secretary Dorr and I appreciate what he is doing at Rural Development. I would compliment the Administration in a couple of their farm bill proposals. On the renewable energy side, my only complaint is that we ought to be doing more and we ought to be doing it quicker and this ought to be a Manhattan Project for the immediacy of this. I think the benefits that come to rural America are just tremendous. But I am pleased with the direction the Administration is going and let us just keep going in that direction as quickly as possible.

And on the Critical Access Hospitals, there is perhaps no more important a challenge that rural America faces than access to healthcare, and Critical Access Hospitals are presumably reimbursed at 100 percent, 101 percent, actually, of their costs, but it doesn't take into account any depreciation. And their ability to replace structures, to replace equipment is so limited and your proposal is one that is very worthy. So my compliments.

A couple of comments or questions. Municipalities, I am told, are not eligible for loans or grants for the development of wind energy. And in Kansas, we have a community college that is interested in developing the technical expertise to create a program in which they train technicians to work on wind energy projects, and the campus itself is interested in becoming reliant upon wind energy, but is ineligible for a loan or a grant from USDA. And I would ask the opportunity to work with you to see if there is something that USDA can do to solve that problem—it may take legislative changes. I would ask you to work with me to see that we accomplish that. I think that is what I would like to see the next phase of wind energy, as beyond the large wind farms, but the opportunity for businesses, campuses, communities, to access that form of energy.

And then I also would note that FTEs are in short supply at Rural Development and we have now passed the continued resolution and I am interested in knowing, Mr. Secretary, your ability to continue to fund Rural Development programs in Kansas and other states using the personnel that we currently have in place. Do you see significant changes? And in that regard, I also just want to point out that Kansas, like some 20 other states, are going through a process of closing FSA offices and I know that you are going to be very reluctant to participate in a dialogue with me about this conversation. But I hope that you would take back to USDA the importance of a small number of jobs in small communities. And one of the things we see, even in our state, in which we are closing

FSA offices in our smallest communities and placing those offices, and the positions that go with them, in the larger more regional communities. And of all departments in the U.S. Government, in Washington, D.C., the one department that I would expect to understand the importance of three or four jobs in a community of several hundred people would be USDA. And if you can help deliver messages, in fact, there is a great irony that we will see Rural Development make a loan or a grant to a business in a community to help preserve the café or keep the grocery store ongoing, to help the local hospital, and at the same time FSA is considering closing the office that employs a half a dozen people. What one hand is providing, the other hand is taking away and I hope that without forcing you to, unless you disagree with me, then I don't want you to say anything, but if you agree with me, I hope that you will take a message back to another side of USDA about the importance of those positions. Thank you.

Mr. DORR. Let me make one comment on that last component. I am very empathetic to what you are saying, on the one hand. On the other hand, where we have, in our case, local offices that frequently have only two or three people in them, it makes it very difficult, and particular in an isolated area, it makes it very difficult to have them trained up and capable of delivering all of the programs, when they have tended to specialize in areas. What we are finding is that our productivity and our ability to enhance economic growth and development, not just in the regional centers, but throughout many of these areas, is considerably enhanced when they use a combination of technology, cross-training and collaboration amongst our staff to deliver programs in a highly effective manner. So I understand the significance of all the jobs that you can possibly get in the individual rural communities. On the other hand, I have looked at some of our numbers where our cost per loan originated sometimes are really way, way too high to even justify what we are doing. So we have to look at how we can do it in a better, more effective way and yet still obtain the requirements that you expect, as laid out in the statute, and I think we are doing a pretty good job of it.

Mr. MORAN. Mr. Chairman, thank you for allowing me to join you. I only would point out that one USDA official told me that what we ought to do is just look to see where Wal-Mart is and put our offices there, because they have already done the study, and that kind of attitude is very troublesome to me; and it was no one at Rural Development.

Mr. DORR. I understand. I don't have the Wal-Mart syndrome yet.

The CHAIRMAN. All right, thank you. Thank you, gentlemen. Thank you, Mr. Moran and Mr. Under Secretary. Mr. Cuellar.

Mr. CUELLAR. Thank you very much, Mr. Chairman, and thank you, Mr. Secretary, for being here with us. But I want to follow up with what Congressman Moran also talked about. What the factors, and I know the general factors of cost-effectiveness, but what are the factors that you all look at for closing a small office? And keep in mind that there are ways—you have done budgets and I have done budgets—but what are the factors that you all take into consideration? Because I am in the same line as Mr. Moran and a couple of other folks, that by closing those offices in the small rural areas, I mean, the Agriculture Department is the one that's supposed to be helping the small rural areas. If you are talking about delivering services, I am sure there are other ways and there are other alternatives we can look at besides closing those offices. There are counties in my District that have said, "We will provide the offices for free. We will provide the office. All they have to do is bring the person, the salary, but we will provide the spaces." So if you have willing partners that are willing to provide that, I mean, that is already some savings to you all.

Mr. DORR. Well, before we get too deeply imbedded in this discussion, let me hasten to point out that the national office at USDA Rural Development has not made a dictate that we are closing X number of offices. What we have had to deal with is the change in our program scope, the transition from more, for example, direct single-family housing loans to guaranteed housing loans. For example, when I first started out, we were making about $3 billion worth of single-family housing loans in rural America. In our 2008 budget, that will jump to nearly $5 billion, $4.7 or $4.8, but they are largely guaranteed. They are guaranteed loans originated by your local bankers and others who run businesses in the community. These programs are very effective at getting people who need housing, particularly in the less than 100 percent median income area, into housing. We can better use our resources to make sure that we provide more housing than we can to keep people involved necessarily making single-family housing loans, when in fact what we really need to do is to retrain them so that they understand how to more effectively coordinate water and waste environments, or the Critical Access Hospitals, with B&I loan and something of that nature that ultimately results in the creation of several jobs. The upshot is that almost without question, every one of our states are actually redesigning themselves in a way that allows them to deliver their programs most effectively. So this is not a Washington dictate. I made it very clear, when I started out at Rural Development, that our state directors, who are all political appointees, are essentially the equivalent of CEOs of their state and they and their staffs work, live, eat, go to church, play, recreate with the bankers, the developers, the local leaders, the local political leaders in their states, and to a large extent, in almost every situation, they are actually responding to the local demand and the local need. So this is not a dictate from us telling them what they ought to do because we have defined it.

Mr. CUELLAR. Well, with all due respect, I don't know what local input they are getting from my District to close an office in Starr County or what they are getting from Mr. Moran or the other Members. I mean, did they get input from our community to go ahead and close that office? Is that what you are saying?

Mr. DORR. No, I think what they are doing as CEOs of the Rural Development programs, looking at where the demands are for their programs, looking at where they need to have their people positioned most effectively. For example, we have certain states that have a large number of offices that have ended up around large urban areas, because they were at one point rural. Okay. We don't need them there now and our people understood that and redeploying them in areas that are more appropriate to delivering Rural Development programs.

Mr. CUELLAR. I mean, I don't want to go into too much detail here, but could you have your state person sit down and I am sure that Mr. Moran would like to sit down and go over the rationale because, with all due respect, I just cannot see that they are getting input from our local community to close offices, because they will—I mean, I can't see somebody in Starr County say, "Close this office and move it down to McClelland or Edinburg, wherever they are talking about, and because they will provide better service for us here, so move this office out of here." I mean, with all due respect, I don't think that is correct. I really don't think that is correct. I just would like to engage in some sort of a dialogue with your person to see how they are making this decision and I am sure the Members would like to do this also, because there is more than one Member that has a concern about these offices closing. But anyway, Mr. Chairman, I thank you very much.

The CHAIRMAN. Sure.

Mr. CUELLAR. One last thing, if I could just ask you. On the delivery enhancement task force, I want to give you a compliment about that, because I really feel that that is the right direction to streamline some of the regulations. You know, how do we provide the enhancement or how do we provide the service, because this is very important to us here. So could you have your state person sit down with me, set up an appointment and I would be happy to meet him in Starr County, which is the office that they want to close, so he can point out the people that are saying to close the office in Starr County.

Mr. DORR. Certainly. The delivery enhancement task force issue is one that we right now are in the process of going through the regulation at OMB, so we are not going to be able to get into a lot of detail on that at this point, but I will certainly have Mr. Daniels sit down and visit with your people, relative to the process that he has gone through relative to his organizational restructuring.

Mr. CUELLAR. Right. Thank you. Thank you, Mr. Secretary.

The CHAIRMAN. Thank you, Mr. Cuellar. Thank you, Mr. Under Secretary. We appreciate your testimony today and we look forward to your response in writing within 10 days, under the Subcommittee rules, to any of the questions that were not able to be fully answered during this time allotted this morning. Thank you for the excellent work you do and for your commitment to serving our country. May God bless you and your staff in that continued commitment and we look forward to working with you. With that, we will adjourn this panel and call the next panel to please immediately come forward and take your seats so we may continue the hearing promptly.

All right, we are going to begin our second panel now so that we can honor the commitment of our panel's time as well as the Members' time. I would like to call on a special guest to the Subcommittee today, our fellow colleague, Mr. Walz, to introduce our first panelist. Mr. Walz.

Mr. WALZ. Thank you, Mr. Chairman, and thank you, Ranking Member Musgrave and the rest of the Subcommittee, this very important Subcommittee, for allowing me the real honor of introducing one our next witnesses on the next panel, County Commission Colleen Landkamer. She is from my hometown of Makato, Minnesota and from Blue Earth County. Colleen is one of those people that understands the policies that are made here in Washington, the impact they make on real people. And Colleen's vast practical knowledge in rural development has made southern Minnesota what it is today, one of the most livable parts of this country, and to her I say thank you. She is visionary, she is a coalition builder, and she has done something that sometimes doesn't happen in leadership, unfortunately. She has achieved results. She is involved in so many things and I know her well, but I had to make a list of these things. She serves on the Rural Policy Center Board of Directors in Minnesota, the Minnesota Rural Partners Board, State Community Health Advisory Committee. She served on the Board of Directors of the National Association of Counties for the last 12 years. She helped form the Rural Action Caucus. Colleen is one of those people involved in so many things, I am surprised the State of Minnesota is still functioning today with you being here, but I thank you so much for that. She is here today to testify in a very important capacity and one that I think is going to be a voice of vision for us on this Subcommittee and that is as the President of the National Association of Counties. So Commissioner Landkamer, thank you so much for coming and thank you for what you are doing.

The CHAIRMAN. Thank you, Mr. Walz. And with that, Ms. Landkamer, we will let you proceed with your testimony. We remind all witnesses on this panel, as you may have heard if you were present for the last, we have 5 minutes. If you would highlight and summarize your testimony, your full written testimony will be part of the record. And responding today, we have a 5 minute block of time for both the Members' questions and answers. Thank you, ma'am. You may proceed.

STATEMENT OF HON. COLLEEN LANDKAMER, COMMISSIONER, BLUE EARTH COUNTY, MN; PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, MANKATO, MN; ON BEHALF OF NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Ms. LANDKAMER. Thank you, Chairman McIntyre, Ranking Member Musgrave and Members of the Subcommittee, for the opportunity to testify today on the community and economic development challenges and potential facing rural America. And I also want to thank my Congressman, Congressman Walz. He does such a great job for us and we are so proud to have him here.

My name is Colleen Landkamer. I am a County Commissioner from Blue Earth County, Minnesota, and I currently serve as the President of the National Association of Counties. Today I also have the privilege of representing NADO, the National Association of Development Organizations. NADO is the only national organization representing county governments in Washington, D.C. NADO is the national voice for local government-based regional development organizations. NADO's farm bill objectives seek to expand the use renewable energy, find new ways to retain and attract young people in production agriculture, and support the enactment of an expanded rural development initiative that recognizes the local role in assisting our counties. We seek to further develop rural infrastructure, promote economic development, and expand employment opportunities in rural America. Efforts in crafting a farm bill should recognize the Federal-local government role and our shared responsibilities. We wish to work with the Committee in not only providing the local-required resources, but also maintaining our local authority in setting priorities that are consistent with sound public policy and driven by our constituents' needs.

Mr. Chairman, I want to express our overwhelming support for an enhanced rural development title as part of the 2007 Farm Bill, including increased grant resources for rural infrastructure improvements, renewable and alternative energy development, business development, broadband deployment and community facility enhancements. This morning I would like to make three key points on the current status of Federal Rural Development policies and programs that should be addressed in the reauthorization of the Farm Security and Rural Investment Act of 2002.

First, Mr. Chairman, USDA Rural Development programs need to be updated and fully funded. Unfortunately, Federal programs often place rural communities at a significant disadvantage. An example is the recent trend of shifting USDA Rural Development assistance from grants to direct loans and loan guarantees. And Mr. Fluharty has a bunch of numbers that will explain this in greater detail.

Second, infrastructure development remains one of the most significant roadblocks to economic development and competitiveness in rural America. Business leaders in private sector industries expect and demand that public entities provide basic public infrastructure, especially costly water and sewer systems that are essential building blocks for economic and community development. Infrastructure should not be considered a luxury for rural areas, but instead as a basic necessity for economic competitiveness and improved quality of life. The move toward more direct loans and loan guarantees is putting many USDA programs out of the reach of the most distressed and under-served rural communities.

Third, Federal Rural Development programs must be reshaped to promote and reward regional approaches and local cooperation. This reflects the reality of today's marketplace, for rural communities are not only competing statewide and nationally, but also internationally. The Rural Strategic Investment Program would provide much needed incentives and resources for the development of rural development strategies on a regional and local basis. We are pleased that Senate Agriculture Nutrition, and Forestry Committee Chairman Tom Harkin announced plans to modify RSIP as part of a renamed plan, the Rural Collaborative Investment Program. We strongly support Chairman Harkin's goals to move rural development beyond just categorical programs to a stronger commitment to regional rural development strategies and programs designed by local leaders.

In conclusion, I would like to reiterate that NACo and NADO feel that USDA Rural Development programs should support the basic needs of local communities. We support the existing portfolio of

USDA Rural Development programs, as well as the full implementation and funding of the Rural Strategic Investment Program. Thank you again, Chairman McIntyre, Ranking Member Musgrave and Members of the Committee, for the opportunity to testify with you today. Thank you.

[The prepared statement of Ms. Landkamer follows:]

PREPARED STATEMENT OF HON. COLLEEN LANDKAMER, COMMISSIONER, BLUE EARTH COUNTY, MN; PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, MANKATO, MN; ON BEHALF OF NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Thank you, Chairman McIntyre, Ranking Member Musgrave and Members of the Subcommittee for the opportunity to testify today on the community and economic development challenges and potential of small town and rural America. As this Committee debates and moves forward on the rewrite of the Farm Security and Rural Investment Act of 2002, I strongly encourage you to make rural development a central theme of the proposal.

My name is Colleen Landkamer. I am a County Commissioner from Blue Earth County, Minnesota and I currently serve as President of the National Association of Counties (NACo). I have served as a County Commissioner in Blue Earth County since 1988. Today, I have the privilege of representing NACo, as well as the National Association of Development Organizations (NADO).

About the National Association of Counties

Established in 1935, the National Association of Counties (NACo) is the only national organization representing county governments in Washington, D.C. Over 2,000 of the 3,066 counties in the United States are Members of NACo, representing over 85 percent of the population. NACo provides an extensive line of services including legislative, research, technical and public affairs assistance, as well as enterprise services to its members.

NACo's membership drives the policymaking process in the association through 11 policy steering committees that focus on a variety of issues including agriculture and rural affairs, human services, health, justice and public safety and transportation. Complementing these committees are two bipartisan caucuses—the Large Urban County Caucus and the Rural Action Caucus—to articulate the positions of the association. NACo's Rural Action Caucus (RAC) represents rural county elected officials from any of the 2,187 non-metropolitan or rural counties. Since its inception in 1997, RAC has grown substantially and now includes approximately 1,000 rural county officials.

About the National Association of Development Organizations

The National Association of Development Organizations (NADO) provides advocacy, education, research and training for the nation's regional development organizations. Building on 4 decades of experience, the national network of 542 regional development organizations serves as a key catalyst for regional strategic planning, partnerships and initiatives that are designed to meet locally-identified needs and conditions. The core philosophy of regional development organizations is to help local government officials and communities pool their limited resources to achieve economies of scale, build organizational skills and professional expertise, and foster regional cooperation and collaborations.

NADO's members are often known locally as: councils of government, area development districts, economic development districts, local development districts, planning and development commissions, regional development commissions and regional councils of government. Each organization is typically governed by a policy board of local government officials, with additional representation of business, education and community leaders. Depending on local priorities, regional development organizations administer and manage a broad range of Federal and state programs, including: aging, business development finance, community and economic development, emergency preparedness, housing, GIS services, rural development, transportation planning and workforce development.

Federal-County Partnership

NACo is also interested in reestablishing the government partnership we feel has been lost between the Federal, Executive and Legislative branches and county governments. We represent the elected county officials in each of the Congressional Districts who in turn are elected by our joint constituents. Contrary to other interest groups we are not a special interest but rather a government partner in addressing our shared constituent's needs and concerns. Congress, over the last ten years has forgotten our partnership and enacted pieces of legislation that has created unnecessary burdens on local governments.

We feel the new leadership should look at how proposed legislation preempts local authority and creates unfunded mandates as a process of enactment and rejects those efforts. Efforts in crafting a farm bill should recognize the Federal/Local Government role in our shared responsibilities in representing the constituents who elected us. County governments have a huge stake in the creation of a rural development section that supports the county role. We wish to work with the Committee in not only providing required local resources, but maintaining our local authority in setting priorities that are consistent with sound public policy and driven by our constituents' needs.

In my testimony, Mr. Chairman, I want to express our overwhelming support for an enhanced rural development title as part of the 2007 Farm Bill, including increased grant resources for rural infrastructure improvements, renewable and alternative energy development, business and entrepreneurial development, broadband deployment and community facility enhancements. In addition, our associations strongly support the goals and concept of the Rural Strategic Investment Program (RSIP), an innovative and forward-thinking rural development program created and funded in the 2002 Farm Bill but never implemented.

This morning, I would like to make three key points on the current status of Federal rural development policies and programs that should be addressed in the reauthorization of the Farm Security and Rural Investment Act of 2002:

- **Federal policies and programs, including USDA Rural Development programs authorized in the 2002 Farm Bill, need to be updated and fully funded to ensure our nation's rural regions, counties and communities have the resources, program tools and local flexibility to compete in today's global marketplace.** As home to nearly ⅓ of the nation's population, small town and rural America is diverse, complex and constantly evolving. Unfortunately, Federal policies and programs often place rural counties and communities at a significant disadvantage. An example is the recent trend of shifting USDA Rural Development assistance programs from grants to direct loans and loan guarantees.
- **Infrastructure development remains one of the most significant roadblocks to economic development and competitiveness in small town and rural America.** Entrepreneurs, small business leaders and private sector industries drive our nation's innovation, competitiveness and job growth. These individuals and entities also rely, expect and demand that public entities such as county governments provide and maintain basic public infrastructure services, especially costly water and sewer systems, that are essential building blocks for economic and community development. Unfortunately, the current portfolio of USDA Rural Development grant programs for infrastructure, renewable energy, broadband and community facility projects are being replaced with additional program authority for direct loan and loan guarantee programs. This puts many USDA programs out of the reach of the most distressed and underserved rural counties and communities.
- **Federal rural development policies and programs must be reshaped to promote and reward regional approaches and local cooperation** among governmental entities at all levels, nonprofits, economic development organizations, educational institutions and other key community leaders. This reflects the reality of today's marketplace where rural counties and communities are not only competing statewide and nationally, but more likely, internationally. The Rural Strategic Investment Program (RSIP) is an innovative program that would provide much needed incentives and resources for the development of rural development strategies on a regional and local basis, as well as flexible program dollars to implement regional and local projects and priority initiatives.

First, Mr. Chairman, Federal policies and programs, including USDA Rural Development programs authorized in the 2002 Farm Bill, need to be updated and fully funded to ensure our nation's rural regions, counties and communities have the resources, program tools and local flexibility to compete in today's global marketplace. We appreciate and recognize the leadership and hard work of this Committee in securing a record $1 billion in mandatory funds for the rural development title of the Farm Security and Rural Investment Act of 2002. However, more than half of these new program resources never materialized or were blocked through subsequent legislative and administrative actions, resulting in lost opportunities for our nation's rural counties and communities.

As the home to nearly ⅓ of the nation's population, small town and rural America is a diverse, complex and constantly evolving place. Rural America comprises 2,187 of the nation's 3,066 counties (counties with 50,000 and below population), 75 percent of all local governments and 83 percent of the nation's land. Unfortunately, current Federal policies and programs often treat rural counties and communities differently than their urban counterparts, resulting in a significant policy bias and disadvantage for rural regions and counties.

When examining the FY 2003 Consolidated Federal Funds data, according to the Southern Rural Development Initiative, non-metropolitan areas received $548 less per capita than metropolitan areas ($7,242 *versus* $6,694). Furthermore, per capita funding for community resources represented 14.5 percent of funds to metropolitan areas, but only 8.9 percent of funds to non-metropolitan areas.

The FY 2003 findings are consistent with independent studies by the W.K. Kellogg Foundation, Rural Policy Research Institute (RUPRI) and others that show metropolitan areas received two to five times more, per capita, in Federal community development resources than their rural counterparts during each year from FY 1994–2001. In addition, a disproportionate share of Federal assistance to rural areas comes in the form of transfer payments, such as Medicare, Medicaid, Social Security and commodity payments. In FY 2003, 68 percent of Federal assistance to rural areas represented transfer payments compared to 53 percent for metro areas.

While these direct payments are essential for millions of rural Americans, it means that current Federal policies are working to simply sustain rural America rather than help rural regions and counties pursue new economic and community growth opportunities. Meanwhile, urban areas often have direct control and access to Federal resources for community, human and physical infrastructure improvements that are essential building blocks for local development and job growth. Our organizations are strong advocates for Federal community and economic development support for our urban counties and regions, yet we also firmly believe that rural counties and communities should have more robust Federal support for their rural development needs. Without an even greater commitment by this Committee and Congress to a stronger USDA Rural Development grant program, we fear rural regions, counties and communities will continue to be at a marked disadvantage in trying to build and sustain viable local economies.

Second, Mr. Chairman, infrastructure development (including advanced technology deployment and applications) remains one of the most significant roadblocks to economic development in small town and rural America. Entrepreneurs, small business leaders and private sector industries drive our nation's innovation, competitiveness and job growth. These individuals and entities also rely, expect and demand that public entities such as county governments provide and maintain basic public infrastructure services, especially costly water and sewer systems, that are essential building blocks for economic and community development. Infrastructure must not be considered a luxury for rural areas, but instead a basic necessity for economic competitiveness and improved quality of life.

While USDA Rural Development is an essential partner for our rural counties and communities, we are alarmed that its infrastructure, housing, broadband and community facilities portfolio are becoming increasingly focused on direct loan and loan guarantee programs. In fact, the Administration's fiscal 2008 budget proposal recommends deep cuts in grants for community facilities, water and waste water, broadband and business development programs. There remains an intense need for Federal grants to help with seed capital and gap financing for our local projects, especially considering the rapidly escalating costs for labor, materials and supplies.

This applies to rural counties and communities struggling to establish new water, sewer, broadband and community services, as well as countless counties and communities faced with the daunting task of replacing infrastructure that is often approaching 50 to 100 years old. For distressed and under-served rural counties and communities, especially the smaller and more rural areas, the trend of increased reliance on Federal direct loan and loan guarantee programs puts costly infrastructure improvement projects out of reach. As a result, a good portion of our nation's rural counties and communities will continue to mark time in the land of lost opportunity.

According to a 2005 report by the American Society of Civil Engineers, the nation's infrastructure remains in serious need of improvements and increased Federal investment. The conditions of the country's roads, drinking water systems, public transit, wastewater disposal, hazardous waste disposal, navigable waterways and energy system have worsened since the society's first report card in 2001. The improvement costs alone are now calculated at $1.6 trillion over the next 5 years. While state and local governments, industry and nonprofit organizations are making major contributions to our public infrastructure enhancement efforts, this immense job will never be completed without the aggressive leadership, participation and resources of the Federal Government.

In addition to the health and social benefits of this long-term and on-going process, infrastructure development is vital to the nation's ability to maintain and sustain a world-class economy. This will be particularly critical as the nation works to expand the renewable fuels industry. The transport of raw and finished products, for example, is already placing new and growing demands on our infrastructure and transportation systems. As proven by USDA Rural Development investments over the years, the role of basic public infrastructure and facilities are at the core of both sustaining existing businesses, nurturing new companies and improving the quality of life in rural counties and communities. That is why USDA Rural Development is so significant to local efforts to develop water and sewer facilities, technology-related infrastructure, broadband services, housing and other essential community projects. These are all fundamental for commerce and improving the quality of life in our communities. As stated earlier, the private sector relies, expects and demands that counties and local communities provide and maintain these services and infrastructure.

In August 2004, I was pleased to participate in an eForum, "The Pulse of Small Town and Rural America," that was conducted by the NADO Research Foundation with assistance from the W.K. Kellogg Foundation. More than 200 regional development professionals, county leaders and municipal government officials from across the nation, equipped with electronic keypads for instantaneous feedback, were led through a series of national and rural policy questions.

Most notably, participants identified inadequate public infrastructure as the leading roadblock to economic development in their rural regions. Another highly rated response was limited access to venture capital. When asked to identify the second most common roadblock to rural economic development, an even greater number answered inadequate public infrastructure. Again, this reflects the fact that private sector investors and businesses expect and demand that local governments and communities have the public infrastructure in place before they will locate and remain at a business site or within a community.

NADO members were also asked to identify the USDA Rural Development programs they use most frequently to assist their rural communities. The top three programs were: water and wastewater programs, Rural Business Enterprise Grants (RBEG) and the Intermediary Relending Program (IRP). Other key programs included: community facilities, Rural Business Opportunity Grants (RBOG), solid waste management and rural housing programs. The NADO Research Foundation eForum results were consistent with a 2001 survey conducted by NACo, in which water and wastewater grants were the overwhelming top issue identified by county elected officials from the 20 state sample.

As the Committee works to reauthorize the existing portfolio of USDA Rural Development programs, we also encourage you to help make the application process for new and existing programs more user-friendly and streamlined. While regional development organizations and other technical assistance providers have developed the experience and expertise required to navigate the extensive USDA program portfolio and application process, it can still be a very burdensome and time consuming endeavor. This is especially important considering that over 33,000 of the nation's 39,000 units of local government have populations below 3,000 and 11,500 employ no full-time professional employees, according to U.S. Census Bureau data. At the same time, we are urging the Committee to make sure that local governments and public entities such as regional development organizations are eligible for the full slate of USDA Rural Development programs. In recent years, new programs or guidelines have been put in place that restricts our access to programs for technical assistance and capacity building.

Third, Mr. Chairman, Federal rural development policies and programs must be reshaped to promote and reward regional approaches and local cooperation among governmental entities at all levels, nonprofits, economic development organizations, educational institutions and other key community leaders. This reflects the reality of today's marketplace where rural counties and communities are not only competing statewide and nationally, but more likely, internationally. In addition, new program tools are needed that are more flexible and broad to meet the individual and specific needs of our rural regions and counties, rather than forcing our rural leaders to fit and refigure their projects into the existing set of categorical programs.

The Rural Strategic Investment Program (RSIP) is an innovative program that would provide much needed incentives and resources for the development of rural development strategies on a regional and local basis, as well as flexible program dollars to implement regional and local projects and priority initiatives. We greatly appreciate this Committee's support in 2002 to create RSIP and to award $100 million in mandatory funding to launch this landmark program. Unfortunately, this much needed program was blocked in subsequent legislative and administrative actions, resulting in lost opportunities and delays in implementing important rural development initiatives across the nation.

We are pleased that Chairman Tom Harkin of the Senate Agriculture, Nutrition and Forestry Committee announced on March 13 that he plans to support "a bold new approach to rural competitiveness in the 2007 Farm Bill." Chairman Harkin is proposing to modify and improve the RSIP program as part of a renamed program, the Rural Collaborative Investment Program. We strongly support the goals of Chairman Harkin's initiative to move rural development beyond just categorical programs to a stronger commitment to regional rural development strategies and programs designed by local leaders. It is extremely important to ensure that under the principles of our Federal/Local partnership embodied in America's Federalism model, that a program such as RCIP be administered by local and regional officials that represent the needs of our rural constituents in a collaborative process with local stakeholders. As stated earlier, we must develop and fund new USDA Rural Development programs that give rural county and community leaders that same flexibility, resources and incentives as currently enjoyed by their urban counterparts.

RSIP would first help address one of the most important but underfunded parts of rural community and economic development—rural development strategies and institutional capacity to implement priorities. Study after study by Federal agencies and universities have concluded that additional funding for strategic planning, capacity building and technical assistance programs is one of the most pressing needs facing rural governments and communities. This stems from the fact that most rural local governments simply do not have the financial resources to hire professional economic development practitioners. And, presently there are few Federal programs designed specifically for their needs—unlike urban areas that receive millions of dollars in direct funding from HUD and Department of Transportation.

One of the few technical assistance programs specifically targeted at small metropolitan and rural regions is EDA's planning program. While this small matching grant program has proven invaluable to our local communities and regional development organizations, its true purchasing power has been eroded over time. The average EDA planning grant of $54,000 for a multi-county region has not changed since the early 1970s. The true purchasing power is only $10,718 in 1970 dollars. If that same $54,000 had been adjusted upward for inflation, it would equal $272,047 in 2005 dollars.

Despite the declining nature of the Federal matching funds, the national network of EDA-funded regional development organizations has still made a tremendous impact. According to a thorough program evaluation by the Center for Urban Studies at Wayne State University in 2001, EDA's national network is very effective at developing and coordinating local plans, implementing specific projects and initiatives, and providing professional expertise and capacity to distressed and under-served communities. Yet, to remain competitive on a global scale, our rural regions and counties need additional resources.

Programs such as RSIP offer a great opportunity to build upon the existing regional and local institutions throughout rural America, while also fostering new approaches to developing comprehensive regional strategies, new multi-sector partnerships and new program flexibility to address the unique needs and potential of each region.

RSIP would place communities in a better position to address local issues on a regional basis, whether it relates to water treatment facilities, technology upgrades, closing of a major plant or cleanup after a natural disaster. Rural communities would also be more capable of taking a proactive approach to innovation, entrepreneurship and competitiveness, instead of the traditional reactionary model of rural development. Whether it is renewable and alternative energy, youth development, value-added agriculture or entrepreneurship, rural America has remarkable assets that can be better utilized.

All of the nation's rural regions, counties and local communities must engage in an on-going and dynamic strategic planning process, otherwise they will fall prey to complacency and world progress. Even local economies that are excelling today are subject to sudden or subtle changes in international, national and local markets. Loss of local control with the emergence of global companies, consolidation of banks and other industries that were once locally owned and controlled and other factors will continue to make the task of regional and rural development more challenging.

Even more importantly, RSIP would offer fully flexible implementation grants for regional and local projects that are identified and prioritized in a region's comprehensive rural development strategy. On a national competitive basis, counties, nonprofit organizations, educational institutions and other eligible organizations would be eligible to apply for project implementation resources that address a broad range of community and economic development needs, including renewable energy, broadband deployment, value-added agricultural development, infrastructure improvements, entrepreneurship, business development finance and community facility improvements. RSIP investments would not replace the existing USDA Rural Development portfolio, but instead would complement and leverage existing public, private and philanthropic resources.

Without a greater commitment to a stronger USDA rural development grant portfolio, rural communities will continue to be at a marked disadvantage in trying to build and sustain viable local economies. As the Committee works on the Rural Development title of the 2007 Farm Bill, I encourage you to modify, fully fund and implement the Rural Strategic Investment Program (RSIP), address the backlog of pending Rural Development applications and enhance grant resources for infrastructure, community facilities and business development programs.

In conclusion, I would like to reiterate the three key points that NACo and NADO feel are critical to future rural development programs. First, rural communities need Federal development assistance programs and policies that allow them to identify, address and meet local needs. Second, Federal rural development grant programs need to be fully funded, increasingly flexible and locally driven. Third, USDA Rural Development programs should support the basic needs of local communities, such as water and wastewater systems, telecommunications and housing, while also tapping into the rural competitive advantage for innovation, entrepreneurship and alternative solutions such as renewable energy. We support the existing portfolio of USDA Rural Development programs, as well as the full implementation and funding of the innovative and forward-thinking Rural Strategic Investment Program.

Thank you again, Chairman McIntyre, Ranking Member Musgrave and Members of the Subcommittee for the opportunity to testify this morning on behalf of the National Association of Counties and National Association of Development Organizations on these critical rural development issues. I appreciate your time and interest. I look forward to answering any questions.

The CHAIRMAN. Thank you. Thank you for your concise summary and congratulations on your election as President of the National Association of Counties. Mr. Charles Fluharty is the President of the Rural Policy Research Institute out of Columbia, Missouri, and is well known to many areas of rural activity policy, research and work and we welcome you and look forward to your testimony.

STATEMENT OF CHARLES W. FLUHARTY, PRESIDENT, RURAL POLICY RESEARCH INSTITUTE; DIRECTOR AND RESEARCH PROFESSOR, HARRY S TRUMAN SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF MISSOURI-COLUMBIA, COLUMBIA, MO

Mr. FLUHARTY. Thank you, Mr. Chairman. I would like to thank you and the Ranking Member for your continued commitment to rural America, and congratulate you on your new role. I would also like to extend appreciation and congratulations on the new staffing design. We look forward to working with a highly competent staff on this Subcommittee and look forward to working with you as we move forward. I want to apologize for the length of my written testimony. I think some of the staff probably had to spend more time than they might have liked on that, but I do hope it was helpful. There was a reason for that and the reason is that there is a relevant analysis and really detailed policy thinking which should drive your decisions on this Committee. And I was very pleased with the early questions.

What happens when we don't have the same analyses in the rural development component of the farm bill that we have in the commodity programs is that you tend to have advocates for very specialized categorical programs, making a rightful, strong case for those programs. That is important and it is understandable, but it is unfortunate that we don't get a more detailed assessment. Because what occurs is you don't get the opportunity to look at new and complex policy design that updates incentive programs that were built in the 1950s, 1960s, 1970s and 1980s. I was honored, Mr. Chairman, to be at NADO when you received their national award; very well deserved. And I will enter your comments once more and that is, without a vision, the people will perish. That is equally true for this Committee and for Rural Development. And I would just like to speak for a moment for that vision, because I would offer a cautionary observation, that we are not doing as well as other developed nations with which our rural entrepreneurs compete. And this Committee has a wonderful opportunity in this new design to truly step up and create a bold and new innovative approach. I would just like to offer two or three observations regarding that.

We really do need a new framework. What worked in the 1960s, 1970s and 1980s is not sufficient today and the challenge is, our competitors around the world are doing a much better job than we are. That is no one's fault. The Under Secretary said we have a "Solomonesque" challenge. I believe the Ranking Member and you are fully up to that challenge. I believe if we don't do this, frankly, we are to some extent obviating a wonderful new opportunity, given the renewables' potential in our nation. I would just make four points.

This year the Federal Government will return $550 less per capita to rural regions *vis-á-vis* urban. That is a significant Federal flows disadvantage. Second, we do an awful lot of work in OECD nations and the challenge is—just let us look at the EU for a moment. We just talked about our broadband potential. This year the EU will spend $1.6 billion in rural broadband in Europe. This past year the EU has committed to a multi-billion dollar program for regional rural innovation and they have linked that into a very, very significant way to the leader program, which is a billion dollars a year to build regional entrepreneurship systems that link to collaborative investment streams.

This Committee did the most innovative policy design, I would argue, in the last 20 years, in the last bill, with RSIP, which Colleen mentioned. That was very, very innovative, but unfortunately it has not been funded, but it had very broad support. It was the basis for Chairman Harkin's move to at least look at something like that on the Senate side. I would truly urge you to take that up. I am not saying that is the right bill, but I am saying categorical grants, in and of themselves, are not sufficient in today's world. I would argue that there are five things you should think about: broadband, in a very, very significant way; entrepreneurship and innovation around renewables. If we are not building entrepreneurship systems, starting in our schools, we are continuing the dependence on Federal largesse rather than lifting up rural entrepreneurship.

Third, the regional collaboration that Colleen mentioned. We have wonderful panelists here who are doing very innovative things at the state level and regional collaboration. Key to that is new intermediaries. Community colleges are huge in that regard. I commend USDA for the rural health commitment to Critical Access Hospitals. I would argue that rural health is one of our great examples of collaboration. But if we were to take a small amount of that, commit it to rural community colleges to build sustaining allied rural health workforce, which is one of our most critical issues, we could certainly move forward.

And finally, aligning investments streams. The public and private investments of multiple committees should be linked with the philanthropic commitments that are beginning to come. We currently have no vehicle in Federal law to do that. I would argue that this Committee can implement those investment stream linkages and I think the testimony of my other partners here will indicate that it is truly going on, if you look at what Billy Ray is doing at the Rural Center. This is not pie in the sky. It can be done. There are wonderful labs in the states. And I just thank you for your leadership and look forward to working with you and your staff. Hopefully we can build this bold, innovative, new approach.

[The prepared statement of Mr. Fluharty follows:]

PREPARED STATEMENT OF CHARLES W. FLUHARTY, PRESIDENT, RURAL POLICY RESEARCH INSTITUTE; DIRECTOR AND RESEARCH PROFESSOR, HARRY S TRUMAN SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF MISSOURI-COLUMBIA, COLUMBIA, MO

Chairman McIntyre, Ranking Member Musgrave, and Members of the Subcommittee, it is an honor to appear before you again, as we begin a new farm bill debate. I applaud your leadership in assuring that rural development concerns receive greater attention in this farm bill, and I encourage you to craft a bold and innovative rural development title.

I am Charles W. Fluharty, President of the Rural Policy Research Institute, and Associate Director and Research Professor in the Harry S Truman School of Public Affairs at the University of Missouri-Columbia. RUPRI is a multi-state, interdisciplinary policy research consortium jointly sponsored by Iowa State University, the University of Missouri, and the University of Nebraska.

RUPRI conducts research and facilitates dialogue designed to assist policy makers in understanding the rural impacts of public policies. Continual service is currently provided to Congressional Members and staff, Executive Branch agencies, state legislators 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 scientists worldwide. To date, over 250 scholars representing 16 different disciplines in 100 universities, all U.S. states and 25 other nations have participated in RUPRI projects.

Mr. Chairman, 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:

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, I'm pleased that real progress is being made on several of these issues. However, much remains undone, and I continue to support these suggestions. Nonetheless, contexts and circumstances have altered, as with all things. So this morning I would like to share several important new developments which should inform your decision making regarding the rural development framework for this new farm bill.

But first, it is important to prioritize the most critical components which should drive this Committee's approach in crafting a 21st century U.S. rural policy framework:

Guiding 21st Century Rural Policy Principles

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.

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.

The Context for Rural Policy Change

Policies and budgets are ultimately about visions and values. While much of what follows is not new, this critical context should frame this Subcommittee's understanding of the important developments outlined below, all of which should inform this Subcommittee's legislative intent.

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 counties most dependent on commodity payments have consistently posted weaker growth than the rest of rural America.
- Approximately 160 counties are the most dependent on farm commodity payments, having collected $141 billion in farm payments over the past quarter-century—more than half of all Federal payments within that period. During those 25 years, jobs grew in those counties at a ½ percent per year (.05%) rate. Throughout the rest of U.S. rural counties, jobs grew at a rate 2½ times that (1.3% a year). This comparison begs the question regarding whether there are better ways to boost rural economic growth.
- Half of all non-metro counties lost population from 2000 to 2005, but 73 percent of farming dependent and 59 percent of mining dependent counties lost population.[1]
- Farming accounts for only 1.7% of total employment, and 6.2% of non-metro employment in the U.S.
- Nearly 90% of total farm household income now comes from off-farm sources.

[1] RUPRI Analysis of Data from the U.S. Census Bureau: Census 2000 and Census Population Estimates.

- The manufacturing, local government, retail trade, health care, and accommodations and food services sectors all contribute more to the rural economy than agriculture.

There is no one rural America. It is a diverse, dynamic and ever-changing landscape, and public policy must address these new realities.

- 51% of all rural residents (30 million Americans) live in the open areas of metropolitan counties.
- Another 10 million fccitizens live in small cities and towns in metropolitan counties.
- Hispanics accounted for over 25 percent of non-metro population growth during the 1990s.[2]
- By 2000 half of all non-metro Hispanics lived outside the Southwest, increasingly in areas of the Midwest and Southeast.[3]
- Nearly ⅔ of the non-metro population now live in counties adjacent to metro areas. For several decades, these counties have consistently shown a higher rate of population growth than those that are not metro adjacent.[4]
- Between 2000 and 2005 metropolitan counties grew by 6%, micropolitan counties by 2.9% and non-core counties by 1.2%. However, in the same period, 16.6% of metropolitan counties lost population, 37.5% of micropolitan counties lost population, and 56.1% of non-core counties lost population.[5]

Rural poverty remains a searing and silent national tragedy.

- The non-metro poverty rate is nearly 2½ points higher than the metropolitan rate.
- Poverty rates are highest in our nation's most remote rural areas, and high poverty and persistent poverty are disproportionately rural. 340 of our nation's 386 persistent poverty counties are in rural America.
- High and persistent poverty counties are geographically concentrated, and reflect historic race, gender and cultural disadvantage.

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.

- Unfortunately, we trail most developed nations in creating this framework. In fact, in 2006 the European Union budget for promoting adaptation and development of rural areas and for their LEADER+ program is over €1.1 billion, with an additional €2.2 billion committed to programs in the agri-environment area.
- Likewise, the EU has recently announced multi-billion Euro commitments to both universal rural broadband deployment, and regional innovation programs, which link research universities to regional rural strategies.

New governance models must be lifted up, and successful new public and social entrepreneurship efforts replicated. While many emerging successes are worthy of consideration, the Indiana story is particularly promising, and the North Carolina Rural Center, represented today before this Subcommittee by President Billy Ray Hall, is an established national exemplar for state-based innovation.

- Please see accompanying written testimony from Indiana Lieutenant Governor Becky Skillman, presented to the Senate Committee on Agriculture, Nutrition and Forestry, February 13, 2007, and Rural Center President Hall's testimony.

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.

- ½ of all jobs created in the U.S. are in firms less than 5 years old.
- Over the past 10 years, every month nearly three people in a thousand create their own job—(in 2005 this represented 464,000 people per month −0.29 per-

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[2] Kandel, William and John Cromartie. 2004. *New Patterns of Hispanic Settlement in Rural America.* Rural Development Research Report No. 49. Economic Research Service, USDA.
[3] *Ibid.*
[4] From ERS Briefing Room: Rural Population and Migration: *http://www.ers.usda.gov/Briefing/Population/Amenities.htm.*
[5] RUPRI Analysis of Data from the U.S. Census Bureau: Census 2000 and Census Population Estimates.

cent).[6] The highest activity is in the Mountain states and Mid-South, lowest in the Heartland, Appalachian, and Mid-Atlantic states.

- In the 1980s and 1990s the number of net jobs created by businesses less than 5 year olds grew at more than 20 percent per year (equating to millions of jobs), while jobs created by more mature businesses remained essentially flat.[7]
- In any 3 year period, five percent of non-employer businesses become employer businesses, equating to 750,000 firms, and the fastest growing in the economy.[8]
- Recent SBA research found that net growth in small firm establishment has a large positive impact on gross state product, state personal income, and total state employment. It concluded that state efforts to promote small business formation will be more fruitful in terms of generating economic growth that virtually any other policy option.[9]

New Developments Which Should Inform Congressional Decision Making Regarding the Rural Development Title

As we begin discussion of the Federal Government's framework for commitments to rural people and places through the new farm bill, several important developments should be taken into account. These are detailed below.

- **A new rural development perspective within the United States Department of Agriculture/Rural Development, and its impact upon this farm bill process.**
- **Economic, demographic and institutional changes shaping new perspectives about, and practices within, our nation's rural regions.**
- **The growing consensus around a new rural vision: Regional Rural Innovation, Collaboration and Strategic Investment.**

A new rural development perspective within the United States Department of Agriculture/Rural Development, and its impact upon this farm bill process.

On February 16–17, 2006, the United States Department of Agriculture held its annual Agricultural Outlook Forum. This annual event has a distinguished, storied history. Since 1923 the Outlook Forum has brought together our nation's most eminent leaders in agriculture, a tradition which remains strongly in force today. The 2006 event, however, was a watershed moment in USDA history, and a landmark event for U.S. rural policy. The Forum title, "Prospering in Rural America," created a thematic backdrop for the gathering's central framework—ensuring the future prosperity of all of rural America, through and beyond agriculture.

This became evident to the over 1,700 participants shortly into the keynote address by Secretary of Agriculture Mike Johanns. The full import of this moment was fully grasped as he reached the midpoint of his address, which contained one of his central points:

> "This forum is an opportunity to learn and to gauge the changes in agriculture and to get our bearings if you will, not only for the next year but for our future. I found the same to be true over the past months as we traveled across this great country doing our farm bill Forums . . . .
>
> But we heard ideas and concerns that differ from one crop to the next, and as you might expect, from one region of the country to the next. But interestingly enough—and I started talking about this about halfway through the forums because I found it so interesting—interestingly enough we heard unanimous support for our Rural Development efforts . . .
>
> After hearing such compelling stories about the importance of Rural Development, I came back to Washington eager to examine the state of our rural economy . . . Reality is that 92 percent of producers, those who manage about ⅔ of ag land, rely heavily on off-farm income. They choose to carry on the great tradition of American agriculture, but they do not depend on it as their sole source of income or in many cases even as their primary source as income . . .

[6] Kauffman Index of Entrepreneurial Activity.

[7] Research from the University of Maryland and Census Bureau quoted by Carl J. Schramm in article in *USA Today*, June 27, 2006.

[8] Steven J. Davis, John Haltiwanger, and Ron S. Jarmin, "Understanding U.S. Business Dynamics: What Can Young, Small Firms Add?" In Understanding Entrepreneurship, Kauffman Foundation.

[9] Donald Bruce, John A. Deskins, Brian C. Hill, and Jonathan C. Rork, Small Business and State growth: An Econometric Investigation. Small Business Administration, Office of Advocacy, February 2007.

I believe future policy must acknowledge what I have just laid out in terms of the changing face of our rural economy . . . If most agricultural producers are dependent on off-farm income, then we must pay special attention to our support of rural economies and beyond agriculture. To quote from a report recently released by the American Farm Bureau Federation: 'Farmers are more dependent on rural communities than rural communities are dependent on farmers.' . . .

We have an opportunity to develop farm policy that recognizes that this farm economy has changed. With fewer producers overall and the majority of farm production accounted for by a small percentage of producers, we must thoughtfully consider how we deliver support to rural America . . ."

Secretary Johann's framework was echoed and enhanced by USDA Under Secretary for Rural Development Thomas C. Dorr. In his comments, Under Secretary Dorr reinforced this emergent emphasis upon broader rural economic dynamics:

"Keeping family farms in business thus means that farmers need good jobs in town every bit as much as good farm policy out of Washington, D.C. In that respect, they're no different from their neighbors.

We are by statutory authority the leading advocate for rural America. Our mission is to increase economic opportunity and improve the quality of life in rural communities. And we recognize that the future of rural America depends on entrepreneurship and technology. . . . The issue is simple to state, but much more difficult to address:

Given the challenges of an intensely competitive, highly networked global economy, what can we do to create sustainable opportunities for growth in rural America?"

These comments by the Secretary and Under Secretary set the tone for one of the most energizing rural policy moments in USDA's recent history. As the ensuing Forum sessions unfolded, it became clear that a new departmental perspective and commitment was finally taking hold and being incorporated within the growing consensus across other Federal departments and agencies—namely, that a new rural policy framework must become a more central component of the public policy dynamic of our nation.

Over the past year, a tremendous ground swell has been building within rural development constituencies, based upon this new USDA awareness, as well as a growing sense that other advocacy communities with an interest in this legislation also realize that an enlightened rural development policy will advantage their interests. With the recent release of the Administration's farm bill proposal, as well as other legislative proposals currently being introduced, the possibility of a landscape-changing farm bill becomes more real.

Today, under your the leadership, Mr. Chairman, this Subcommittee begins the process of engaging USDA in a common commitment to this new vision, and the rural people and places of our nation look forward to this heightened attention and policy consideration.

New economic, demographic and institutional changes are shaping new perspectives about, and practices within, our nation's rural regions.

Rural policy considerations have remained a "back-water" concern for U.S. public policy over the last 4 decades, usually rising only with a new farm bill tide, and then receding, after sufficient lip-service, with only minimal impact. However, over the past decade a number of developments are driving significant new attention to these opportunities and challenges. These key drivers are outlined below:

A growing understanding of the true nature of the rural economy, and of rural poverty, offers the potential for renewed policy attention and innovation.

As the rural economy in the U.S. continues to consolidate, and as commodity producers, whether in agriculture or manufacturing, are forced to respond to the dynamics of globalization, it is becoming increasingly clear that innovation and technology must drive new rural economic engines, and that this is not only possible, but a necessity. This has helped to support a new commitment to building regional competitiveness strategies that seek to identify and exploit a region's unique assets, and build integrative approaches to optimize this potential. Furthermore, understanding of the limited value of reliance on business attraction strategies and the importance of greater support for asset-based innovation and entrepreneurial approaches are now widespread.

There is also no question now that rural is not synonymous with agriculture, and that rural economies must become more diverse, as rural incomes continue to lag urban, with the greatest lags most often occurring in commodity-dependent counties.

A shift to rural policy focused on regional innovation is well under way in many other countries around the globe. While many developed countries continue to spend freely on farm subsidies, there is an encouraging shift to place-based investments in new rural economic engines. This shift is based on a broadly based recognition that farm subsidies do not create competitive rural economies. A recent OECD publication puts it this way: "financial redistribution and agriculture-based policies are not able to harness the potential of new rural economic engines." Recognizing this policy dilemma, many countries are now implementing new rural policies that emphasize place, innovation, and entrepreneurship. (The same OECD report identifies innovative rural policies in six different countries, along with the EU's LEADER initiative.)[10]

Similarly, attention to rural poverty has increased over the last decade. While many organizations, institutions and individuals deserve credit for increasing awareness of these concerns, much of this enhanced attention is a direct result of an ongoing effort within U.S. philanthropy. Recently, the tragedy wrought by Federal and state inability to more effectively address the plight of the poor during Hurricane Katrina has highlighted this awareness. However, in our nation today, persistent poverty remains a rural challenge, with 340 of our nation's 386 persistently poor counties being rural. Rural median family income is 25% lower, and rural poverty rates 28% higher than metro.[11] And this differential disadvantage is increasingly being viewed by decision-makers as a lag on broader regional economies.

These U.S. rural development challenges are heightened by a significant structural disadvantage in Federal funding, and uneven, episodic and unscaled philanthropic commitments to rural people and places.

Because the Federal Government will continue to devolve roles and responsibilities down to states and localities, often in block granting structures, the capacity of rural jurisdictions to compete for these funds is increasingly important. However, compared to their colleagues in urban and suburban governments, rural public decision makers are significantly disadvantaged. Most rural jurisdictions have relatively few or no research staff, grant-writers, technical assistance funding bases, or economic analysts. Many are led by part-time public servants, with few or no paid staff at all. On this uneven playing field, urban and suburban counterparts will almost always be victorious in competing with rural jurisdictions for scarce, competitively awarded state block grant funds.

One of the largest challenges for rural development in the U.S. remains the inherent structural disadvantage which rural areas face in Federal funding commitments. Current Federal funding policy inadvertently, but significantly, disadvantages rural areas. The Consolidated Federal Funds Report for 2001 (the most recent reported data) shows that the Federal Government returned $6,131 on a per capita basis to urban areas, while returning only $6,020 to rural areas.[12] This amounts to a nearly $6 billion annual Federal disadvantage to rural areas. However, an equally challenging issue is the difference in the nature of these Federal funds.

While currently available Federal data is somewhat dated, in Fiscal Year 2001, direct payments as a percent of all Federal funds per capita were 50.5% in metropolitan areas and 63.9% in non-metropolitan America.[13] This 13% differential funding builds much of the community capacity and infrastructure of urban and suburban America. Therefore, with each passing year, these dynamics further disadvantage rural jurisdictions and organizations, who are forced to compete with their metropolitan counterparts on an increasingly uneven playing field, without benefit of the professional staff, technical assistance and planning resources which this funding secures.

While not an official Federal data release, the Southern Rural Development Initiative has analyzed the FY 2003 Consolidated Federal Funds data, and found even greater non-metropolitan disadvantage. Non-metropolitan areas receive $548 less per capita than metropolitan areas ($7,242 *versus* $6,694). Further examination of the functional funding categories within the SRDI analysis substantiates the continuing community resource disadvantage for non-metropolitan areas. In metro areas, 14.5 percent of funds are allocated to community resources, in non-metropolitan it is 8.9 percent, a 5.6 percent difference. Conversely, non-metropolitan areas

[10] *The New Rural Paradigm: Policies and Governance,* Organisation for Economic Co-operation and Development. Paris: 2006.

[11] W.K. Kellogg Foundation. 2004. *Federal Investment in Rural America Falls Behind.* Battle Creek, MI.

[12] Analysis of Consolidated Federal Funds data by the Economic Research Service, USDA.

[13] *Ibid.*

have 67% of total funding as income security compared to 52.9 percent for metro areas.

These stark community capacity disadvantages are additive. Each year from 1994–2001, the Federal Government spent two to five times more, per capita, on urban than rural community development, and ⅓ as much on community resources in rural areas.[14] Per capita spending on community resources in 2001 was $286 per person less in non-metro areas than in urban America, a $14.1 billion dollar rural community capacity disadvantage (based on 2003 metropolitan classifications of Census 2000 population).[15]

These rural implications are exacerbated by an ongoing Federal "push down" of funding and statutory responsibility to states and localities, which further challenges rural resources and community capacity. Federal block granting has become a more common framework for these shifts, with increasing use of loan and loan guarantees, and fewer direct granting possibilities, which is forcing new interjurisdictional cooperation—a good thing, with reduced Federal commitments—a huge challenge. However, while the U.S. has a somewhat incomplete and incremental regional development framework, these challenges have increased interest in new collaboration, and have renewed interest in new regional approaches.

These rural community capacity challenges in Federal funding are exacerbated by an equally uneven commitment to rural community and economic development by our nation's foundations and corporate grant-makers. In a May 2004 report, the National Committee for Responsive Philanthropy[16] noted that of the $30 billion distributed annually in by our nation's foundations, only $100.5 million was committed to rural development. Of 65,000 or so active grant-making foundations in the United States, only 184 engaged in rural development grant-making. About 20 foundations engaged in rural development grant-making accounted for 80% of this total, and two foundations, the W.K. Kellogg Foundation and the Ford Foundation, constituted 42%. While the significant rural community and economic development commitment of these two foundations is commendable, these numbers indicate that the majority of grant-making foundations in the U.S. have not seriously addressed the developmental needs of rural populations.

Sadly, the same rural differential disadvantage also applies to corporate philanthropy. While total corporate grant-making in the U.S. amounts to $12 billion annually, a 2000 study of the 124 Fortune 500 corporations found that corporate grant-making for rural, racial/ethnic organizations amounted to 1% of their total racial/ethnic grant-making. In total, corporate grant-making for rural groups constituted 7⁄10 of one percent (.7%) of the grant dollars awarded by the 124 surveyed corporations for racial/ethnic giving. Rural organizations received only 153 of the 10,905 grants made, approximately 1.4% of all grants.

New rural governance and investment models emerging across rural America are creating an entirely new rural policy framework.

Despite, or perhaps as a result of these economic challenges, a new "Rural Governance" is expressing itself across the U.S. rural landscape. Changes are underway in the processes by which decisions are made regarding the distribution of public and private resources and responsibilities across multiple stakeholders, including the public, private and non-governmental sectors. The dynamics in U.S. federalism outlined above are forcing ever greater interdependence of rural governmental and nongovernmental organizations, as the central government's role continues to reduce over time and circumstance. This requires greater coordination, facilitation and negotiation, through multiple policy networks which are often diverse and overlapping. While this offers a possible new set of strategies to confront the community capacity challenge outlined above, it also creates the necessity for new intermediaries to be formed and functioning.

These intermediaries provide the "glue" that enables new rural governance to express itself, and these new actors are now playing critical roles across multiple institutional settings. As an example, over 20 states now have a rural policy center, either located in the office of the governor, within state government, serving the state legislative process, or operating through the private efforts of universities or non-governmental organizations. Intermediaries such as these are becoming much more relevant to state and local governmental decision making, and will play a more important role in the future of rural policy, as these processes evolve.

[14] W.K. Kellogg Foundation (2004) "Federal Investment in Rural America Falls Behind."

[15] Economic Research Service/USDA, U.S. Census Bureau.

[16] National Committee for Responsive Philanthropy (2004) "Beyond City Limits: The Philanthropic Needs of Rural America."

Some of the most promising new rural intermediary institutions assuming increased community and economic development significance in the U.S. are our nation's rural community colleges. These institutions, often the key human and social capital aggregators in our most isolated rural landscapes, have long fulfilled multiple, unfunded roles in building regional collaboration. With major changes in our nation's workforce investment policy and program design, these rural institutions have taken on added responsibilities and significance. It could indeed be said that these institutions are building the "Extension Service of the Next Century," grounded in place, working from an asset-based value set, sensitive to local culture and heritage, and focused upon building the human capital of some of our nation's most disadvantaged rural citizens.

These new rural intermediaries are as diverse as rural America itself, yet community foundations are playing a very significant role in many of these dynamics. As but one example, RUPRI is honored to be collaborating with the Nebraska Community Foundation, the Heartland Center for Leadership Development and the Center for Rural Affairs in a promising new initiative, Hometown Competitiveness.[17] Yet these new intermediaries exist in all sectors, governments and NGO organizations, and are changing the face of policy decision-making across the rural landscape.

Despite this potential, three critical questions will determine whether these forces are passing fads or sustainable platforms for new policy innovation:

- Will public sector champion(s) step up, take on the New Governance mantle, and support public and private entrepreneurship?
- Will institutional innovator(s) accept the challenge of building these new intermediary structures, and the burdens of institutional innovation?
- Where are the constituencies to support these innovative leaders and institutions?

These are not moot questions, and the rural development title offers a wonderful opportunity to create innovative support mechanisms for rural leadership in these dynamics.

A new rural entrepreneurial culture and climate has emerged, but must be nurtured and scaled.

Rural economic development must overcome a number of obvious challenges. Low population size and density, and limited local demand make it difficult to achieve economies of scale. Efforts to achieve efficiencies drive consolidation, from school systems to financial institutions, often with unintended but very deleterious consequences. Remoteness from global markets and poor infrastructure limits rural economic opportunities, and core connections to regional and global markets exacerbate these challenges. More poorly educated, lower skilled workers and the challenges of building rural entrepreneurial cultures have limited rural participation in the new global economy. However, across the nation today, a new rural entrepreneurial culture and climate is flourishing.

Philanthropy is playing a significant role in these developments, but more must be done, and systemic change will only be achieved if integrative, long-term investments and programs can be coordinated and sustained. Four principles should drive these efforts:

- **Focus on the entrepreneur.** Systems thinking is required to properly organize and align the training, technical assistance, and financing programs that are available for small businesses and entrepreneurs. Focusing on the entrepreneurs and their needs ensures that all these programs are aligned in a coherent system, that allows entrepreneurs to obtain the support they need without being passed from door to door or given inappropriate advice.
- **Focus on the region.** Only through regional cooperation across jurisdictions and through regionally-aware institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role as supporters of an entrepreneurial climate. It is rare for an individual county to be able to act effectively on its own in economic development, workforce development, transportation or any other complex public service activity. Economic regions invariably cross county and often state boundaries, and these boundaries are irrelevant for the markets entrepreneurs have to be able to serve.
- **Focus on the community.** Local communities need the tools and resources to identify and build upon their competitive assets, and to make appropriate

[17] For information on HTC, see the RUPRI Center for Rural Entrepreneurship at *www.ruraleship.org.*

choices among economic, social, and environmental imperatives. Communities can achieve much if they are open to experimentation and innovation, but they will go nowhere if they continue to do what they have been doing for decades, in spite of the changes that are going on around them.

- **Focus on continuous learning.** Entrepreneurs, policymakers, community leaders, and service providers all benefit from networks of peer support and learning. Entrepreneurs in particular rely on networks to share ideas, conduct business together, and link to markets, capital, employees, partners, and services. Taking this one step further, entrepreneurship should without a doubt be an integral part of the school curriculum.

If we are to achieve this, three steps are essential. Anchor institutions with the capacity to articulate a vision, advocate for change, build partnerships and attract and mobilize resources must be built. Second, supportive public policies which ensure adequate resources, send positive messages, and build programs with the capacity and flexibility to meet the needs of diverse rural regions must be crafted. Finally, these approaches must provide support and encouragement to both "opportunity" and "necessity" entrepreneurs, and avoid "picking winners." We must also acknowledge that failures will occur.

In summary, a systems approach must have three critical dimensions to be totally efficacious:

- **Regional framings**—embracing both urban and rural, tailored to economic, geographic, cultural and demographic diversity.
- **Integrative dynamics**—cross-sectoral (entrepreneurship opportunities in agriculture, energy, amenities, education, health etc.), cross-jurisdictional (collaboration across public-private-nonprofit organizations and all levels of government) and cross-functional (entrepreneurship education, training & technical assistance, access to debt and equity capital, networking, infrastructure).
- **Cultural contexts**—building capacity and support for private and public entrepreneurship, focus on entrepreneurs as converters of rural assets into rural competitiveness.[18–21]

All this hinges upon the emergence and support of a strong cadre of rural public entrepreneurs. This reality is clearly recognized, and leadership support for this dynamic is being supported in multiple settings across the rural U.S., by major foundations such as the W.K. Kellogg Foundation, regional and community foundations, and corporate grant-makers.

Finally, one huge challenge before us remains the development of rigorous, quantitative evaluative tools to assess the return on investment for public sector commitments to these systems. Absent such, we will still have too few risk management tools for public entrepreneurs willing to risk such commitments. However, serious attention is currently being paid to this deficiency, and many in the field are discussing approaches to address this challenge.

Several final observations should be made regarding regional approaches, new governance, and entrepreneurship:

1. This new framework should be designed to enable an integration of rural initiatives with farm programs, to advantage rural producers, their rural communities and regions, and their children's opportunities to thrive in their rural community in the 21st Century.

2. The sector considerations which have historically been titles in the farm bill, i.e., energy, conservation, rural development, etc., should become key components in an integrative new rural vision, and should be considered more holistically in future discussions of this farm bill.

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[18] Articulation of scope and potential for entrepreneurship in a rural context—Dabson, Brian, Jennifer Malkin et al. (2003) Mapping Rural Entrepreneurship. W.K. Kellogg Foundation and CFED.

[19] *Entrepreneurship in specific contexts*—Malkin, Jennifer with Brian Dabson et al. (2004) Native Entrepreneurship: Challenges and Opportunities for Rural Communities. Northwest Area Foundation and CFED.

[20] Entrepreneurship as a core economic development strategy—Brian Dabson (2005) Presentation to the Secretarial Advisory Committee, Strengthening America's Communities, Clearwater, Florida, June 2, 2005.

[21] Comprehensive guidance for rural communities interested in pursuing entrepreneurship—Markley, Deborah, Don Macke & Vicki B. Luther (2005) Energizing Entrepreneurs: *Charting a Course for Rural Communities.* RUPRI Center for Rural Entrepreneurship and Heartland Center for Leadership Development.

3. Finally, we must better link the research title of this Bill, which frames priorities for our Land Grant University research community, with the new rural vision we seek to support through the Rural Development Title. The unparalleled potential which resides in our Land Grant University research community must be mobilized to enhance the decision support infrastructure for wiser public policy choice in rural America.

New rural policy and program targeting must be designed, to take advantage of these developments and address the emerging interdependence of rural and urban people and places, and to build new alliances across these constituencies.

County level designations of metropolitan, micropolitan and non-core areas, collectively referred to as core based statistical areas, are often used in Federal program targeting. Metropolitan areas are defined by the presence of a principal city of at least 50,000 population, plus surrounding counties that are linked to it through commuting ties. Micropolitan areas contain a principal city of 10,000 to 49,999 plus surrounding counties that are linked to it through commuting ties. All other counties not included in metropolitan or micropolitan areas are defined as non-core counties. The most recent listing of Core Based Statistical Areas for the United States and Puerto Rico (December 2005) by the Office of Management and Budget includes 369 Metropolitan Statistical Areas (361 in the U.S. and eight in Puerto Rico), and 582 Micropolitan Statistical Areas (577 in the U.S. and five in Puerto Rico). Metropolitan and micropolitan areas may contain one or many counties, and many cross state lines.

Nonmetropolitan counties, which include both micropolitan and non-core counties, are often equated with rural. However, official definitions of rural and urban involve sub-county geography. Urban areas are defined by the U.S. Census Bureau as "core census block groups or blocks that have a population density of at least 1,000 people per square mile and surrounding census blocks that have an overall density of at least 500 people per square mile." All territory not defined as urban is considered rural. Urban areas are divided into two categories: urbanized areas have populations of 50,000 or more, and urban clusters have populations from 2,500 to 49,999.

Both metropolitan and non-metropolitan counties contain both urban and rural territory. The following table shows population by both county designation and urban and rural geography, and illustrates that county level geography does not accurately reflect urban and rural population distributions. *Over half of all rural people actually reside in metropolitan counties. And, over 40 million metropolitan residents reside outside of large urbanized areas.* It is important, then, to look beyond county level designations when targeting rural populations in public policy and program design.

Distribution of Population				
	Urbanized Areas	Small Cities and Towns	Rural	Total
Metropolitan	192,064,228	10,338,988	30,176,724	232,579,940
Micropolitan	255,305	14,976,437	14,299,972	29,531,714
Noncore	18,588	4,704,763	14,586,901	19,310,252
Total	192,338,121	30,020,188	59,063,597	281,421,906
48.8 million people live in nonmetropolitan counties				
40.5 million people live outside urbanized areas in metropolitan counties				
Urban and rural population figures from Census 2000; CBSA status from the December 2005 classifications				

Clearly, non-metropolitan residents should be included when targeting rural populations. While non-metropolitan counties do include some urban residents, with few exceptions non-metropolitan urban residents live in small cities and towns, which are not targeted in urban programs. Though unintentional, urban targeting tends to usually advantage larger urbanized areas, while many smaller cities and towns, as well as rural populations within metropolitan counties, often fail to receive significant advantage from urban programs; and likewise are excluded from rural programs which target only non-metropolitan residents. Given these dynamics, and the level of rural population in metropolitan areas, policymakers should consider new alternatives for precise rural targeting.

Targeting Regions for Rural Innovation Strategies

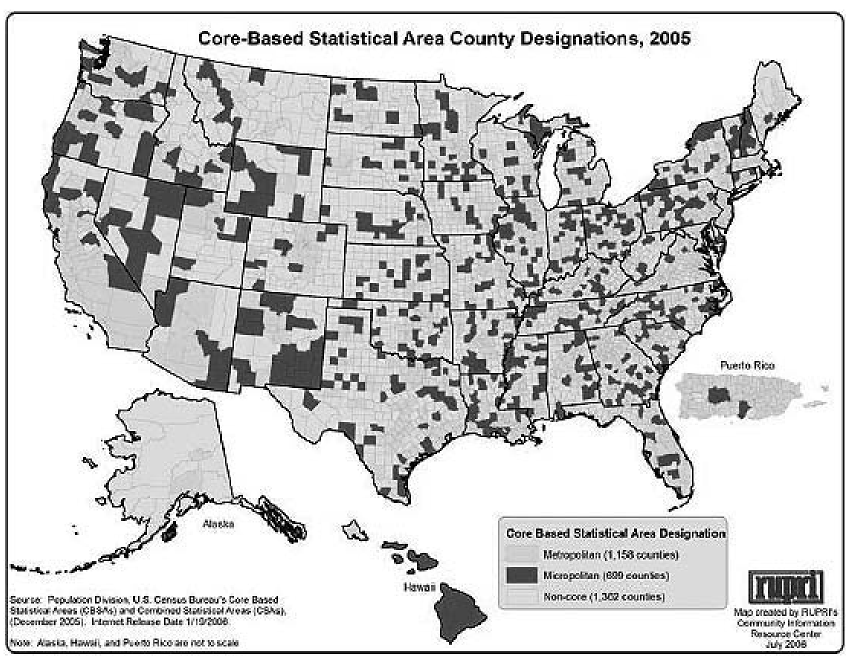
Map 1 shows the core based statistical areas in the United States and Puerto Rico. Micropolitan areas are ideal geographies for rural regional innovation strategies, as in most cases the principal city in the micropolitan area provides the central locale for regional economic activity and service delivery.

Map 2 illustrates the U.S. urbanized and small town geography. The green areas represent urbanized areas—cities with populations of 50,000 or more, which form the principal cities of metropolitan areas. In a few cases, boundaries of urbanized areas fall into non-metropolitan counties, but usually don't account for a significant portion of total population. The dark brown areas represent smaller cities and towns, urban clusters with populations from 2,500 to 49,999 in metropolitan counties. The dark orange areas illustrate rural territory in metropolitan counties. Over half of all rural residents in the United States reside in these areas. Finally, the light orange areas represent non-metropolitan counties. The urban clusters of 2,500 to 49,999 population size exist in non-metropolitan counties, but are not shown on this map.

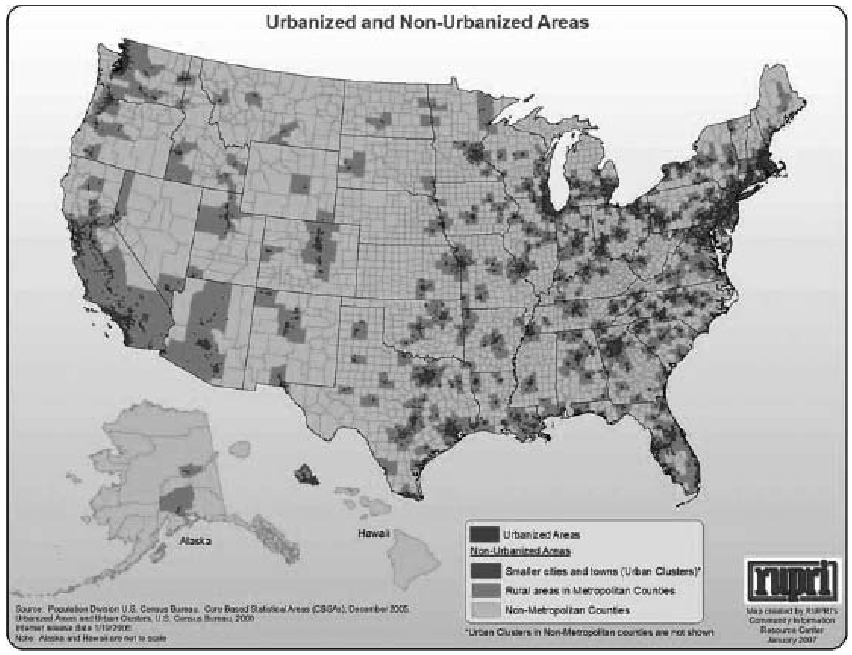
Maps 3 through 6 illustrate the urbanized and non-urbanized area geographies in four states: North Carolina, Georgia, Colorado, and Alabama. The maps also include Congressional District boundaries for the 110th Congress. Each map is accompanied by a table describing the population distribution in each Congressional District in urbanized areas (green areas on the map), smaller cities and towns (brown areas), and rural areas (dark and light orange areas). As above, the darker orange counties are metropolitan counties.

Finally, Map 7 illustrates this framework in the Des Moines, Iowa metropolitan area, showing but one example of the continuum of very urban to very rural places that exists within metropolitan areas. In fact, Guthrie County is 100 percent rural, even though it is part of the metropolitan area.

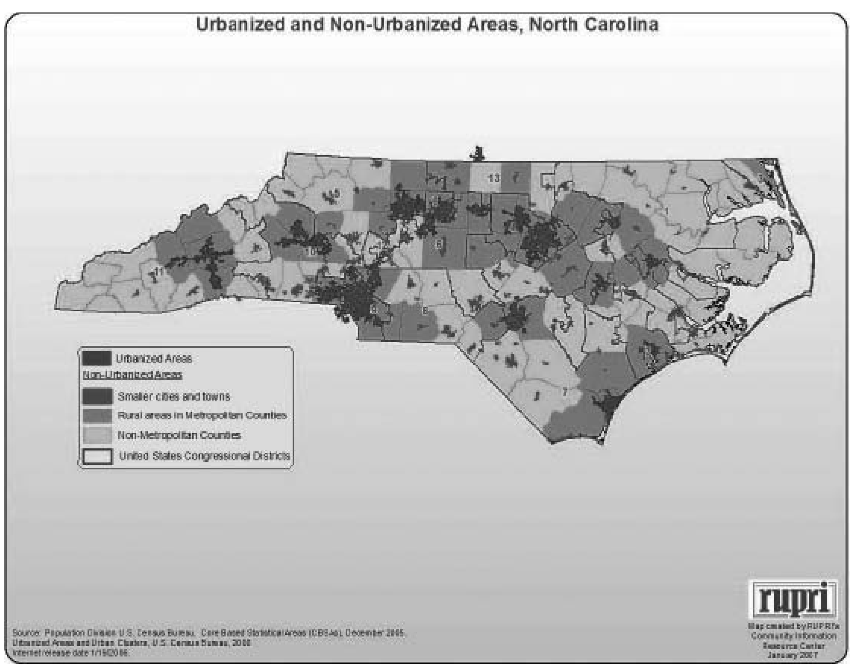
Map 1.



Map 2.


Urbanized and Non-Urbanized Areas
Alaska
Hawaii
Urbanized Areas
Non-Urbanized Areas
Smaller cities and towns (Urban Clusters)*
Rural areas in Metropolitan Counties
Non-Metropolitan Counties
*Urban Clusters in Non-Metropolitan counties are not shown
Source: Population Division U.S. Census Bureau. Core Based Statistical Areas (CBSAs); December 2005.
Urbanized Areas and Urban Clusters, U.S. Census Bureau, 2000
Note: Alaska and Hawaii are not to scale
rupri
Map created by RUPRI's Community Information Resource Center January 2007

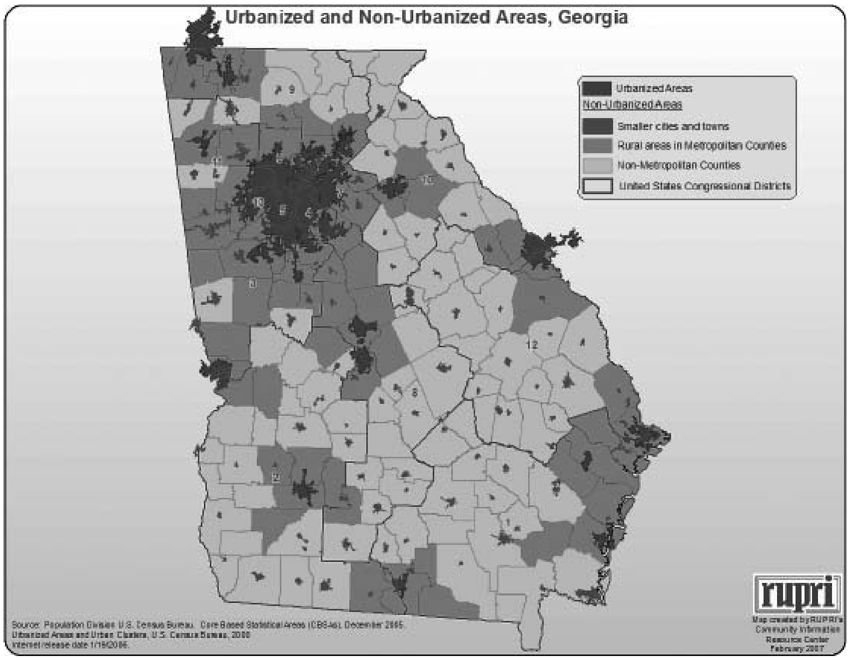
Map 3.


Urbanized and Non-Urbanized Areas, North Carolina
13
Urbanized Areas
Non-Urbanized Areas
Smaller cities and towns
Rural areas in Metropolitan Counties
Non-Metropolitan Counties
United States Congressional Districts
Source: Population Division U.S. Census Bureau. Core Based Statistical Areas (CBSAs), December 2005.
Urbanized Areas and Urban Clusters, U.S. Census Bureau, 2000
Internet release date 1/16/2006.
rupri
Map created by RUPRI's Community Information Resource Center January 2007

Distribution of Population in Congressional Districts, 110th Congress, North Carolina				
District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	619,178	16.9%	30.9%	52.2%
2	619,178	31.7%	17.7%	50.6%
3	619,178	29.0%	24.2%	46.9%
4	619,178	82.7%	0.6%	16.7%
5	619,178	26.7%	16.2%	57.1%
6	619,178	38.9%	12.8%	48.3%
7	619,178	31.7%	13.5%	54.8%
8	619,178	56.1%	13.3%	30.6%
9	619,178	83.9%	0.2%	15.8%
10	619,178	31.6%	18.5%	49.9%
11	619,177	35.8%	8.1%	56.1%
12	619,178	79.2%	9.3%	11.6%
13	619,178	63.3%	10.5%	26.2%
State Total	**8,049,313**	**46.7%**	**13.5%**	**39.8%**

Source: U.S. Census Bureau, Census 2000

Map 4.

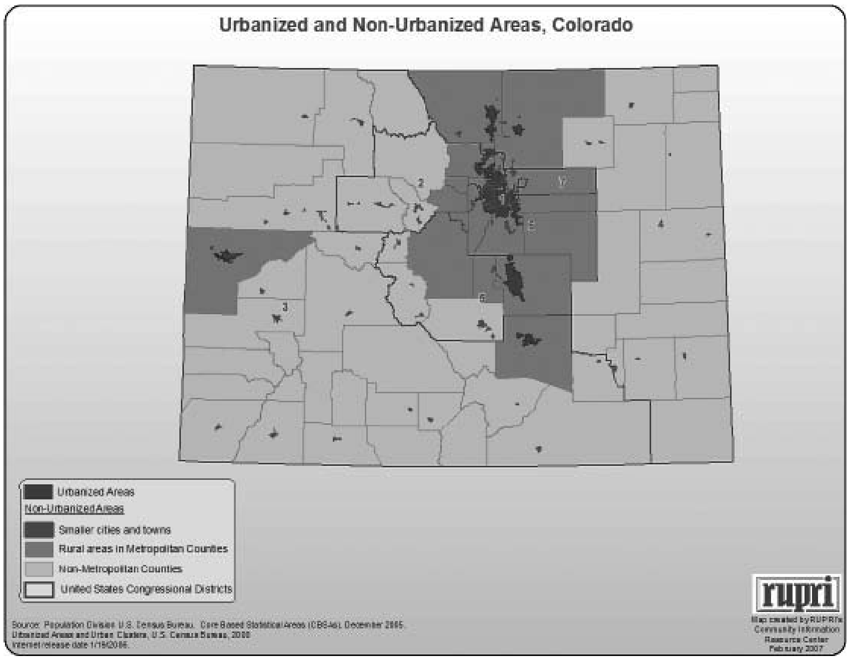


Distribution of Population in Congressional Districts, 110th Congress, Georgia

District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	629,727	35.5%	22.0%	42.5%
2	629,727	37.0%	21.0%	42.0%
3	629,727	39.3%	17.1%	43.6%
4	629,726	98.5%	0.0%	1.5%
5	629,728	99.7%	0.0%	0.3%
6	629,726	93.4%	0.0%	6.6%
7	629,727	81.9%	4.8%	13.3%
8	629,728	39.1%	17.7%	43.3%
9	629,728	42.5%	4.9%	52.7%
10	629,728	40.0%	10.3%	49.7%
11	629,727	53.5%	16.8%	29.7%
12	629,727	39.4%	20.6%	40.1%
13	629,727	96.0%	0.5%	3.5%
State Total	**8,186,453**	**61.3%**	**10.4%**	**28.3%**

Source: U.S. Census Bureau, Census 2000

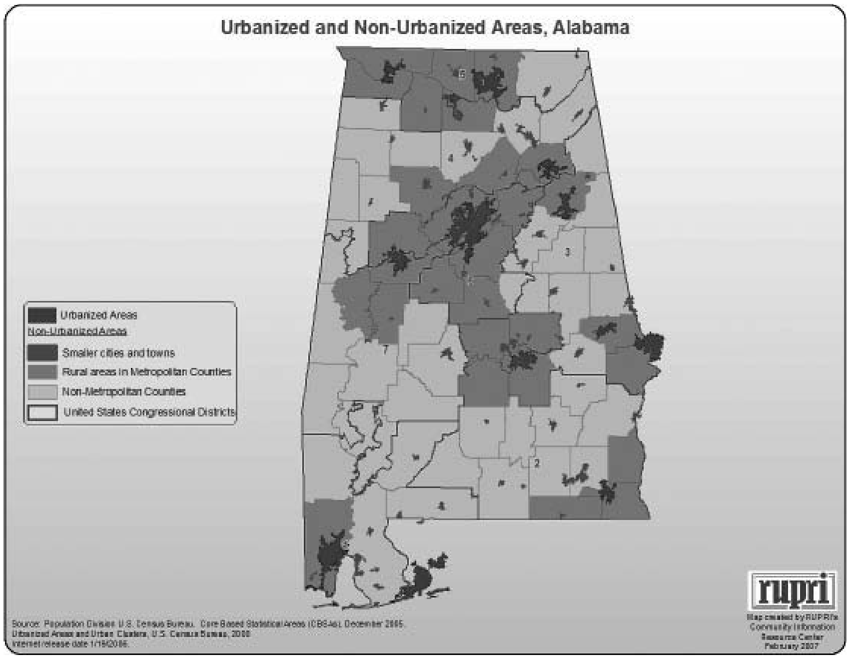
Map 5.



Distribution of Population in Congressional Districts, 110th Congress, Colorado				
District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	614,465	100.0%	0.0%	0.0%
2	614,465	78.7%	8.6%	12.8%
3	614,467	35.1%	25.9%	39.0%
4	614,466	60.8%	14.2%	25.0%
5	614,467	75.9%	9.8%	14.3%
6	614,466	78.2%	6.5%	15.4%
7	614,465	94.3%	3.5%	2.2%
State Total	**4,301,261**	**74.7%**	**9.8%**	**15.5%**

Source: U.S. Census Bureau, Census 2000

Map 6.

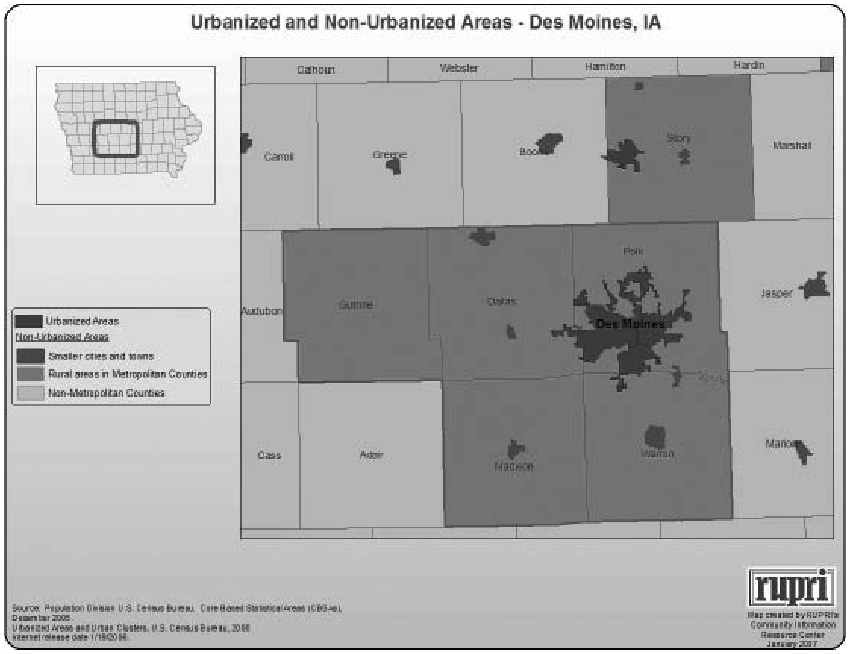


Distribution of Population in Congressional Districts, 110th Congress, Alabama

District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	635,300	50.3%	14.1%	35.6%
2	635,300	29.4%	20.6%	50.0%
3	635,300	40.2%	13.1%	46.7%
4	635,300	10.8%	15.7%	73.4%
5	635,300	51.9%	7.6%	40.6%
6	635,300	56.4%	5.6%	38.0%
7	635,300	66.4%	5.8%	27.7%
State Total	**4,447,100**	**43.7%**	**11.8%**	**44.6%**

Source: U.S. Census Bureau, Census 2000

Map 7.



Counties in the Des Moines - West Des Moines IA Metropolitan Area: Distribution of Land Area and Population					
	Dallas	Guthrie	Madison	Polk	Warren
Total Land Area (Square Miles)	**591.7**	**593.1**	**562.3**	**591.9**	**573.2**
Percent Inside Urbanized Areas	1.0%	0.0%	0.0%	22.3%	0.5%
Percent Outside of Urbanized Areas					
Small City/Town (urban clusters)	1.3%	0.0%	0.6%	0.0%	1.8%
Rural Areas	97.7%	100.0%	99.4%	77.7%	97.7%
Total Population	**40,750**	**11,353**	**14,019**	**374,601**	**40,671**
Percent Inside Urbanized Areas	26.4%	0.0%	0.0%	94.1%	18.3%
Percent Outside of Urbanized Areas					
Small City/Town (urban clusters)	26.3%	0.0%	34.7%	0.1%	40.2%
Rural Areas	47.3%	100.0%	65.3%	5.8%	41.5%
Source: U.S. Census Bureau, Census 2000					

Creating 21st Century USDA/RD Programs Which Support These New Realities

If one is to alter Federal rural development policy to advantage new regional framings, serious attention must be given to new Federal incentives which promote regional cooperation among local communities, governments, and institutions. Currently, no serious systemic RD incentives for such approaches exist.

A common trait in most successful urban renewal and development is a true partnership between the public, private and philanthropic sectors. Since rural areas typically lack this same level of private sector development, and suffer from an overall lack of critical mass, forging partnerships among these key actors and potential investors will demand new Federal commitments. Building upon an RSIP-type model, these Federal incentives and core funding vehicles should support new partnership models, with equal ownership and control across local officials, private sector leaders (including health care, agriculture, utilities, emerging industries, etc.), universities, community colleges and the nonprofit sectors, among others. A key sine qua non will be the provision of Federal seed capital to support both the regional organization and strategic planning as well as the implementation of these regional visions.

If USDA Rural Development is to implement such an approach, four challenges must be met:

1. A Congressional mandate must be designed, which rewards RD for reconfiguring programs toward a regional approach, and a new mission area.

2. Incentives must be developed to assure these regional approaches drive program performance assessments.

3. An organizational capacity which can support regional innovation and deliver these new programs must be built, within a framework which engages appropriate institutional partners.

4. Sufficient funding must be committed, to build regional scale and presence.

For example, small city CDBG programs have no hard and fast priorities or guidelines. By contrast, current USDA investments are largely very specific program or project grants or loans, with very detailed criteria and delivery dynamics. Addressing this challenge, and creating the framework for all that follows could be one of the most significant innovations in U.S. rural policy over the last 50 years.

In this regard, it is important to note that USDA Rural Development investments are not driven by any regional investment plan. While state R.D. Directors must have a state R.D. plan, their investments in local communities and regions are not determined by any regional process or assessed against any regional strategy. In contrast, all Economic Development Districts that receive EDA funding from Commerce must have a Comprehensive Economic Development Strategy (CEDS). Additionally, new EDA guidelines demand that all Economic Development District Boards are made up of 50%+ local government, 30%+ other sector entities including nonprofits, chambers of commerce, higher education, etc. Additionally, a CEDS committee must be established by the EDD Board, with a majority private sector representation, which must include workforce, chambers of commerce, higher education, labor, minority, local government, and nonprofit representation. The new EDA guidelines demand that each District must also catalog (1) current investments in the region, (2) current funding sources, and (3) a catalog of all prior investments. As is evident, an opportunity exists to recommend that USDA investments be framed within such a regional strategic plan, and interface more closely with existing comprehensive economic development strategies for regions, such as the EDA CEDS process.

Given these comments, here are a number of specific ideas for new Federal incentives to promote regional cooperation:

1. In the past, EDA has had a 10% Federal bonus for local communities that participate in an Economic Development District. For example, if you were awarded a $1 million public works grant, the Federal share in the project was increased 10%, if you were working in an EDD framework.

Such a Federal bonus could become part of all loan and grant programs currently operated through USDA/RD, as well as other programs within USDA. While the bonus level and/or local match would be two key variables, the policy principle would be to encourage regional cooperation through this incentive, while not precluding alternative grant proposals from securing Federal support.

2. A variant of this approach would advantage R.D. proposals for grant and/or loan funding to the extent they were submitted with the support of, and coordination through, other programs which are working in a regional framework within the proposal area. These could include:

- Commerce—Existing regional economic development plans, through Planning and Development Districts, or Councils of Government.
- Labor—Participation in one of the Federal WIRED grants; linkages to the Regional Workforce Investment Boards, etc.

- Health—The programs operated through the Federal Office of Rural Health Policy, including Network and Flex grants, regional plans developed by State Offices of Rural Health, etc.
- USDA—In addition to the incenting vehicle mentioned above, all USDA grant and loan programs could be advantaged if legislative language either provided incentives or requirements for the State Rural Development Director to work with other Federal and/or state level agencies in a regional framework. A number of states are developing such an approach, and specific language could be developed to incent additional R.D. Directors to take such an approach.

3. Creation of a state block grant and/or regional block grant to promote regional innovation around a hub Micropolitan Statistical Area, through a USDA "CDBG" type program. Any number of approaches could be developed to take advantage of the Federal "micropolitan" designation. For example, one could create a program called RMAP—Regional Micropolitan Advancement Program. This could be a flexible strategic investment program, along an RSIP model, which would be run through the USDA State R.D. Director's office, to advantage regional partnerships.

The state director could make funding decisions based on recommendations from Regional Strategic Councils, comprised of representation from state and local foundations, workforce investment boards, community colleges and regional universities, chambers of commerce, local and regional governments, agricultural groups, regional councils and nonprofit representatives. The program focus would need to be diverse enough to cover the diverse asset-based development needs of unique regions, including youth development/retention, entrepreneurship, export assistance for small businesses, infrastructure development and business development, as well as attention to heritage and the arts, and other uniquely designed, asset-based development programs.

The Federal match rate could be on a sliding scale, based upon the amount of non-Federal investment pooled or leveraged within the region, with a special carve-out for regions which are specifically disadvantaged by lack of internal capacity.

4. A grant approach which leverages existing state "small city" CDBG funds that are grouped to create regional approaches. A number of states are currently creating vehicles which leverage small city CDBG dollars to support regional frameworks. There are any number of ways in which Federal programs could advantage grant or loan applications which are thus matched, or which leverage such state approaches. This could be administered through the state R.D. office, working with the governors, who control the CDBG formulae/program allocations.

5. If the micropolitan regional approach is unworkable, an alternative would be the creation and promotion of a concept such as a Regional Economic Workshed, similar to the watershed models currently being utilized in USDA to address environmental and natural resource concerns. This approach would use the same type of framework, but addresses the reality that the current rural workforce dynamics cross jurisdictional boundaries, as many rural people often commute 30 to 50 miles to work.

6. One final program idea, while structurally difficult, would truly be unique, and could be very innovative. It would create a vehicle to enable rural areas working in a regional framework to reinvest the wealth and/or financial returns earned in the region through USDA investments. With this type of revolving loan program, one could enable investments which have been repaid to be revolved into these innovation regions, rather than returned to the Federal treasury, as is currently the practice. Clearly, criteria and accountability around this would be challenging, but such an approach would reward those regions that are working diligently to leverage their innovation opportunities, while reducing further Federal funding demands.

A New Rural Vision for the Rural Development Title: Regional Rural Innovation, Collaboration and Strategic Investment.

With this Committee's leadership in advocating for enhanced rural development emphasis in the Farm Security and Rural Investment Act of 2002, major new program attention and mandatory funding for rural development was obtained. While rural advocates were most appreciative, much of this funding never materialized, and many of the new programs were not implemented or suffered drastically curtailed funding.

One of the most innovative approaches within the title was the Rural Strategic Investment Program, launched with a modest $100 million mandatory funding commitment. We commend this Committee's visionary leadership in this effort. Sadly, this program was blocked in ensuing legislative and administrative actions, and never implemented.

Senate Agriculture, Nutrition and Forestry Committee Chairman Tom Harkin has recently announced plans to support a "bold new approach to rural competitiveness in the 2007 Farm Bill," modifying the RSIP approach and enhancing the funding commitment to this initiative: the Rural Collaborative Investment Program.

We anticipate this proposal will reflect much of what is outlined below, and I urge this Subcommittee to consider the merits of a similar bold initiative in your deliberations.

A Regional Rural Innovation, Collaboration and Strategic Investment System.

Obviously, until the structural resource disadvantages outlined above are addressed, rural America must look internally to better its community and economic development opportunities. Rural regions must craft a common vision; pool very limited resources, talents, and capacities from all sectors; and develop an asset-based approach in which new institutional partnerships between the private, NGO and philanthropic sectors link with under-resourced rural governments. Though challenged by the lack of technical assistance funding available for such efforts and the relative lack of philanthropic capacity and grant making in rural regions, rural communities have begun this effort. However, absent attention to these huge resource disadvantages, building the new regional collaboration and investment system outlined below will remain a significant challenge. Nevertheless, such developments are absolutely essential, if rural regions are to optimize their relative competitive advantage.

Given these challenges, where should policy makers turn in building wiser public sector investments in rural community and economic development? First, we must acknowledge that what has worked in the past will no longer suffice. Once that is evident, regional collaboration and investment systems can be considered. When this happens, we will move from attraction strategies to entrepreneurship; identify and encourage "functional economic regions" to build on existing assets, broadly defined; and move from sector to place-based approaches. This regional framework will be appropriately configured, and will engage our institutions of higher education in a new regional compact, where public and private entrepreneurship will be central, a new rural governance between the public, private and philanthropic sectors will be evident, and new regional leadership, through innovative institutional renaissance, will be expressed.

While this may seem a bridge too far, it is already emerging all across rural America. Purdue University has designed and developed a new Discovery Park, Research Park, and the Center for Regional Development, outstanding new intermediaries, creating traction and scale for new regional collaboration and investment systems. Dr. Sam Cordes, Director of the Center, has worked with the Administration of Indiana Governor Mitch Daniels and Lieutenant Governor Becky Skillman over the past year to create the Rural Indiana Strategy for Excellence 2020 (RISE 2020).[22] This effort has engaged over 150 Indiana organizations and institutions, and has become a national model for new rural governance and regional innovation. This process resulted in a foundation framework and seven pillars for collective work and voice by those who care about rural Indiana. Each of these elements is critical in the framework. They include civic leadership and engagement; asset-based community development; regional frameworks; rural innovation; diversity access and inclusiveness; youth engagement; and wealth creation and retention. A new state agency, the Office of Rural and Community Affairs, was created to provide greater rural focus within Indiana's executive branch. The seven pillars developed in the RISE 2020 process were used to target the state's "Small Cities" CDBG funding investments, along with additional general revenue funds committed to this effort, to achieve these outcomes. The first round of grants have now been made, and the philanthropic communities of Indiana have matched these public investments nearly one to one.

Northeastern Ohio institutions created an exciting new regional competitiveness strategy, linking higher education, the private sector and governments across the region and generating significant innovation and collaboration success. Multiple counties across the United States are beginning to forge collaborative "functional"

[22] The Indiana Rural Strategy (2006) *http://www.purdue.edu/pcrd/Indiana%20rural%20strategy.htm* and "Breaking the Boundaries" Indiana Office of Community and Rural Affairs Strategic Plan for Rural Indiana. *www.ocra.IN.gov.*

compacts, and across the rural landscape Federal, state, regional and local agencies and governments are rethinking and defining their appropriate roles and responsibilities.

The growing number of these innovations should result in the Federal Government creating incentives for regional partnering, expanding investments in basic research and regional community and leadership capacity, and funding the development of new public goods for regional decision making, all key elements in a national rural entrepreneurship framework. Should this occur, the Federal Government will become an enabler rather than a driver of such dynamics, as regional, state and local actors work together to build effective new frameworks for regional governance, public and private collaboration, and identification of unique regional assets. Then, a true rural entrepreneurial development system can emerge, to enable innovation to leverage these assets, across space.

Globalization has had profound and lasting effects. It also has created two unmistakable rural challenges: uneven growth across space, and new drivers of sustainable growth, primarily innovation and entrepreneurship. Building a Regional Rural Innovation, Collaboration and Strategic Investment System, which acknowledges these necessities and seeks to address them, has the potential to emerge within the new farm bill debate as the organizing framework for the rural development title.

The promise of such a Regional Rural Innovation Policy is premised upon the following realities:

1. National competitiveness is increasingly determined by the summative impact of diverse regional actions, capturing asset-based competitive advantage.

2. Support for such an approach will require a substantive rethinking of core missions across Federal departments, state agencies, and regional and local governments, and a commitment to leadership renaissance within these institutions and organizations.

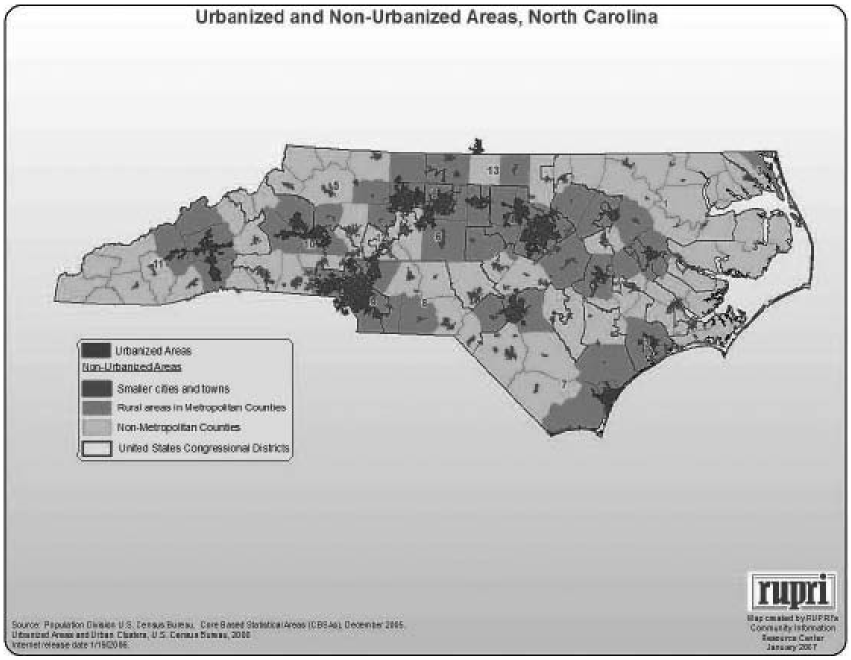
3. Funding support for these place-based policies are WTO green-box compliant, non-trade distorting funding opportunities for the Federal Government.

4. Finally, such a commitment improves the potential for Congressional Agriculture Committees to retain existing funding baselines, and for these Committees to retain statutory responsibility for rural development policy.

Thank you, again, Mr. Chairman and Members of the Subcommittee, for the opportunity to testify before you today. Your continuing leadership in crafting a 21st Century rural policy is critical, and I look forward to working with you over the course of these farm bill discussions. I'll be pleased to answer any questions you have.

MAPS AND TABULAR INFORMATION, VARIOUS STATES REPRESENTED ON THE SUBCOMMITTEE ON SPECIALTY CROPS, RURAL DEVELOPMENT AND FOREIGN AGRICULTURE OF THE COMMITTEE ON AGRICULTURE OF THE U.S. HOUSE OF RESENTATIVES

North Carolina



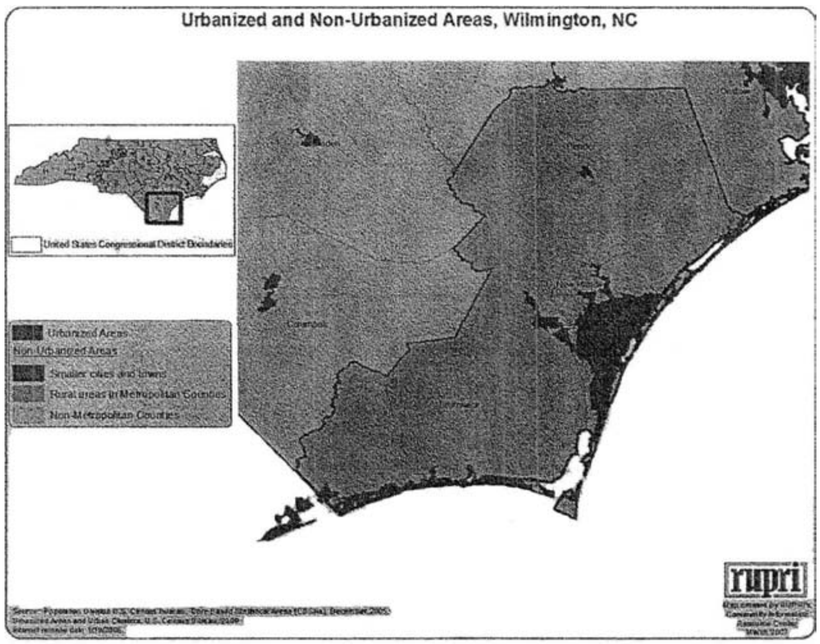
Distribution of Population in North Carolina

	Urbanized Area	Small Urban	Rural	Total
Metropolitan	3,688,475	235,426	1,561,523	5,485,424
Micropolitan	70,982	758,762	1,039,264	1,869,008
Noncore	-	93,430	601,451	694,881
Total	3,759,457	1,087,618	3,202,238	8,049,313

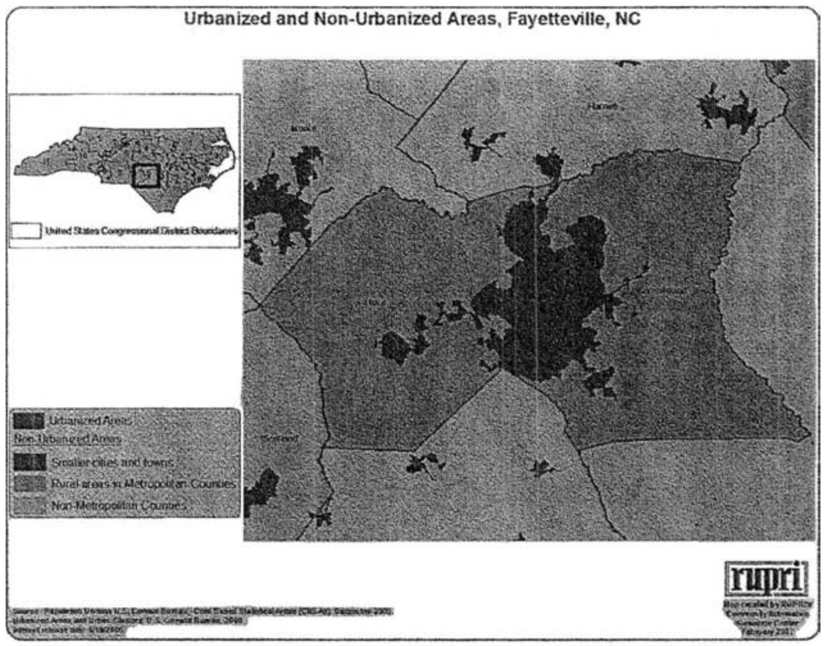
Percent of Population that is:	
Rural	39.8%
Nonmetro	31.9%
Non Urbanized	53.3%
Percent of the rural population residing in metropolitan counties	48.8%

Distribution of Population in Congressional Districts, 110th Congress, North Carolina				
District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	619,178	16.9%	30.9%	52.2%
2	619,178	31.7%	17.7%	50.6%
3	619,178	29.0%	24.2%	46.9%
4	619,178	82.7%	0.6%	16.7%
5	619,178	26.7%	16.2%	57.1%
6	619,178	38.9%	12.8%	48.3%
7	619,178	31.7%	13.5%	54.8%
8	619,178	56.1%	13.3%	30.6%
9	619,178	83.9%	0.2%	15.8%
10	619,178	31.6%	18.5%	49.9%
11	619,177	35.8%	8.1%	56.1%
12	619,178	79.2%	9.3%	11.6%
13	619,178	63.3%	10.5%	26.2%
State Total	**8,049,313**	**46.7%**	**13.5%**	**39.8%**

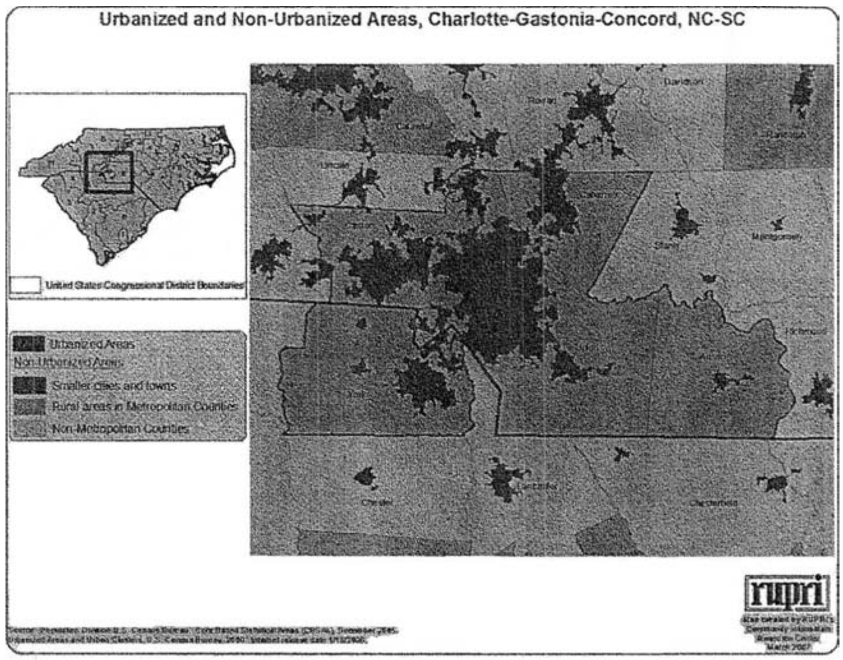
Source: U.S. Census Bureau, Census 2000



Counties in the Wilmington NC Metropolitan Area: Distribution of Land Area and Population			
	Brunswick	New Hanover	Pender
Total Land Area (Square Miles)	**864.2**	**206.6**	**870.5**
Percent Inside Urbanized Areas	1.5%	51.1%	0.0%
Percent Outside of Urbanized Areas			
Smaller Cities and Towns	2.3%	0.0%	0.2%
Rural Areas	96.2%	48.9%	99.8%
Total Population	**73,143**	**160,307**	**41,082**
Percent Inside Urbanized Areas	11.1%	95.4%	0.0%
Percent Outside of Urbanized Areas			
Smaller Cities and Towns	22.7%	0.0%	7.9%
Rural Areas	66.2%	4.6%	92.1%
Source: U.S. Census Bureau, Census 2000			



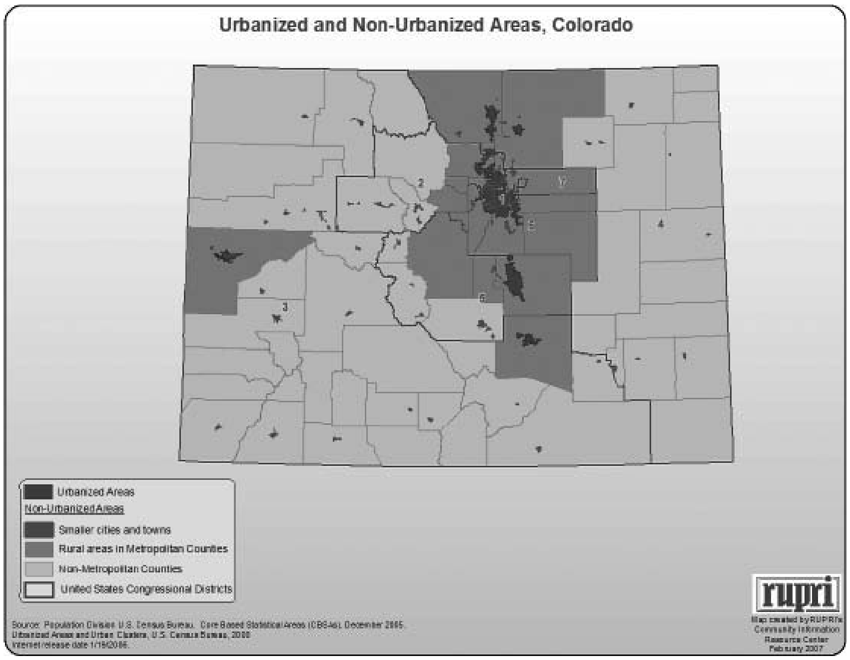
Counties in the Fayetteville NC Metropolitan Area: Distribution of Land Area and Population		
	Cumberland	Hoke
Total Land Area (Square Miles)	**658.8**	**392.3**
Percent Inside Urbanized Areas	24.0%	1.6%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	0.0%	2.6%
Rural Areas	76.0%	95.9%
Total Population	**302,963**	**33,646**
Percent Inside Urbanized Areas	87.3%	19.7%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	0.0%	23.8%
Rural Areas	12.7%	56.5%
Source: U.S. Census Bureau, Census 2000		



North Carolina Counties in the Charlotte-Gastonia-Concord NC-SC Metropolitan Area: Distribution of Land Area and Population	Anson	Cabarrus	Gaston	Macklenburg	Union
Total Land Area (Square Miles)	**537.4**	**364.2**	**363.9**	**546.2**	**639.4**
Percent Inside Urbanized Areas	0.0%	19.0%	30.8%	64.4%	9.0%
Percent Outside of Urbanized Areas					
Small City/Town (urban clusters)	1.6%	0.0%	1.4%	0.0%	0.5%
Rural Areas	98.4%	81.0%	67.8%	35.6%	90.6%
Total Population	**25,275**	**131,063**	**190,365**	**695,454**	**123,677**
Percent Inside Urbanized Areas	0.0%	72.4%	74.0%	96.2%	47.2%
Percent Outside of Urbanized Areas					
Small City/Town (urban clusters)	26.4%	0.0%	3.5%	0.0%	3.0%
Rural Areas	73.6%	27.6%	22.5%	3.8%	49.8%

Source: U.S. Census Bureau, Census 2000

Colorado



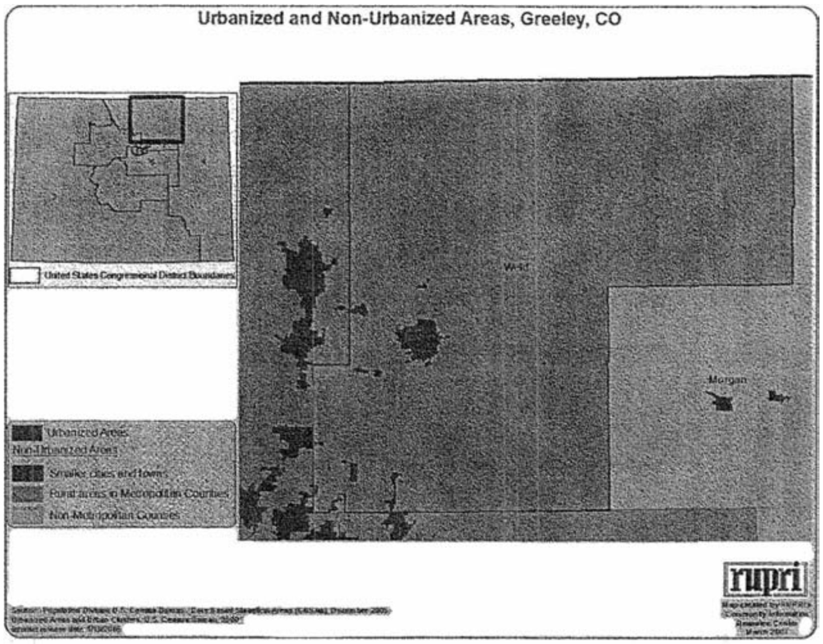
Distribution of Population in Colorado				
	Urbanized Area	Small Urban	Rural	Total
Metropolitan	3,213,253	121,958	341,474	3,676,685
Micropolitan	-	147,806	96,406	244,212
Noncore	-	151,729	228,635	380,364
Total	3,213,253	421,493	666,515	4,301,261

Percent of Population that is:	
Rural	15.5%
Nonmetro	14.5%
Non Urbanized	25.3%
Percent of the rural population residing in metropolitan counties	51.2%

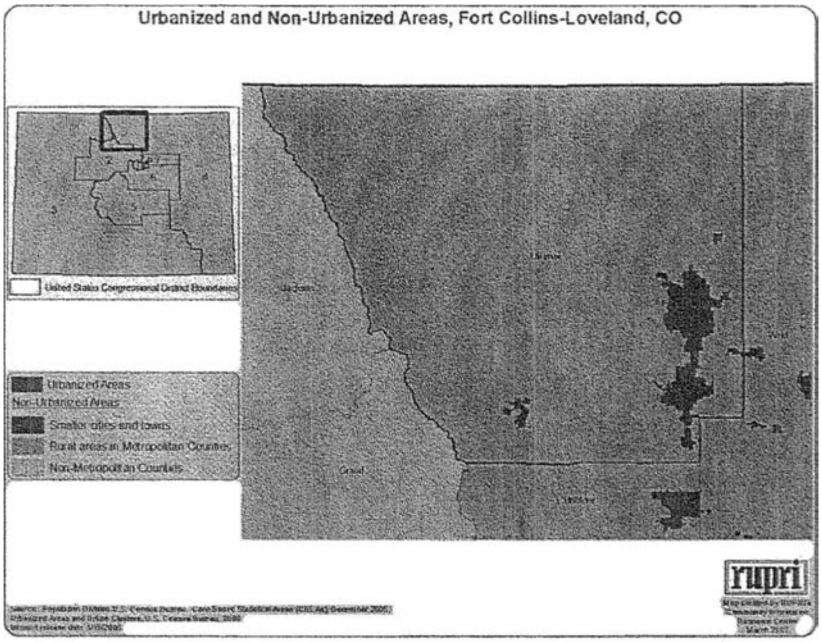
Distribution of Population in Congressional Districts, 110th Congress, Colorado

District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	614,465	100.0%	0.0%	0.0%
2	614,465	78.7%	8.6%	12.8%
3	614,467	35.1%	25.9%	39.0%
4	614,466	60.8%	14.2%	25.0%
5	614,467	75.9%	9.8%	14.3%
6	614,466	78.2%	6.5%	15.4%
7	614,465	94.3%	3.5%	2.2%
State Total	**4,301,261**	**74.7%**	**9.8%**	**15.5%**

Source: U.S. Census Bureau, Census 2000

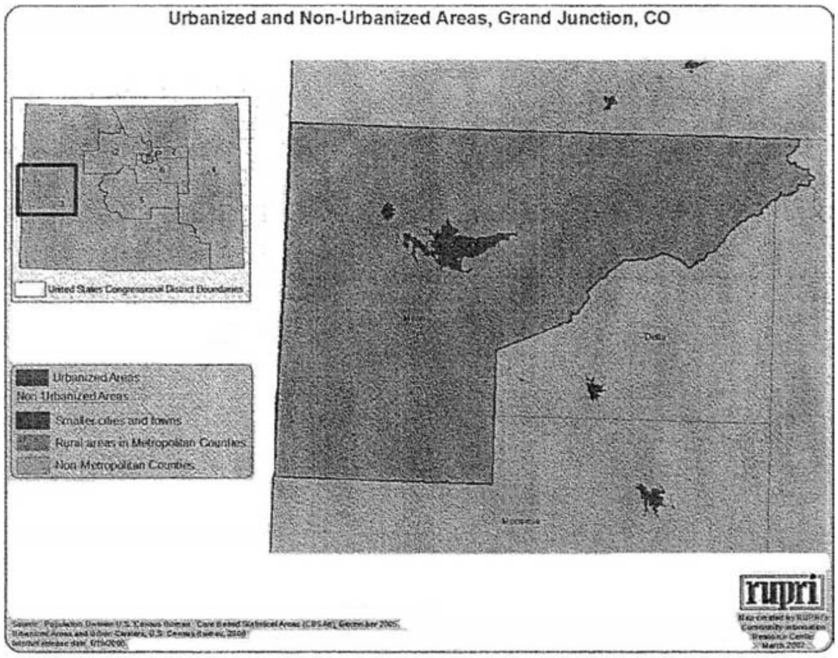


Greeley CO Metropolitan Area: Distribution of Land Area and Population		
Weld County	**Land Area (Square Miles)**	**Population**
Total	**4,016.9**	**180,936**
Percent Inside Urbanized Areas	0.9%	53.3%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	0.3%	18.6%
Rural Areas	98.8%	28.1%
Source: U.S. Census Bureau, Census 2000		



Fort Collins-Loveland CO Metropolitan Area: Distribution of Land Area and Population		
Larimer County	**Land Area (Square Miles)**	**Population**
Total	**2,634.1**	**251,494**
Percent Inside Urbanized Areas	3.3%	82.3%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	0.3%	4.2%
Rural Areas	96.4%	13.5%

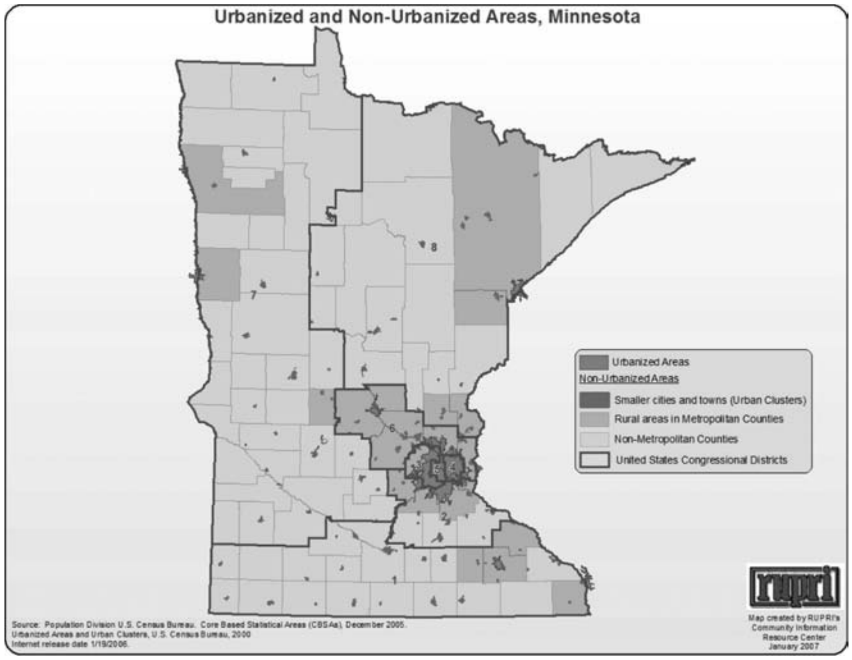
Source: U.S. Census Bureau, Census 2000



Grand Junction CO Metropolitan Area: Distribution of Land Area and Population		
Mesa County	**Land Area (Square Miles)**	**Population**
Total	**3,340.9**	**116,255**
Percent Inside Urbanized Areas	1.7%	79.5%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	0.1%	5.3%
Rural Areas	98.2%	15.2%

Source: U.S. Census Bureau, Census 2000

Minnesota



Distribution of Population in Minnesota

	Urbanized Area	Small Urban	Rural	Total
Metropolitan	2,711,592	263,111	559,669	3,534,372
Micropolitan	-	369,112	362,332	731,444
Noncore	-	145,504	508,159	653,663
Total	2,711,592	777,727	1,430,160	4,919,479

Percent of Population that is:	
Rural	29.1%
Nonmetro	28.2%
Non Urbanized	44.9%
Percent of the rural population residing in metropolitan counties	39.1%

Distribution of Population in Congressional Districts, 110th Congress, Minnesota				
District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	614,935	15.8%	40.7%	43.6%
2	614,934	61.9%	18.1%	20.0%
3	614,935	95.2%	0.6%	4.2%
4	614,935	99.9%	0.0%	0.1%
5	614,935	100.0%	0.0%	0.0%
6	614,935	46.2%	17.7%	36.1%
7	614,935	7.0%	27.0%	66.0%
8	614,935	14.9%	22.5%	62.6%
State Total	**4,919,479**	**55.1%**	**15.8%**	**29.1%**

Source: U.S. Census Bureau, Census 2000

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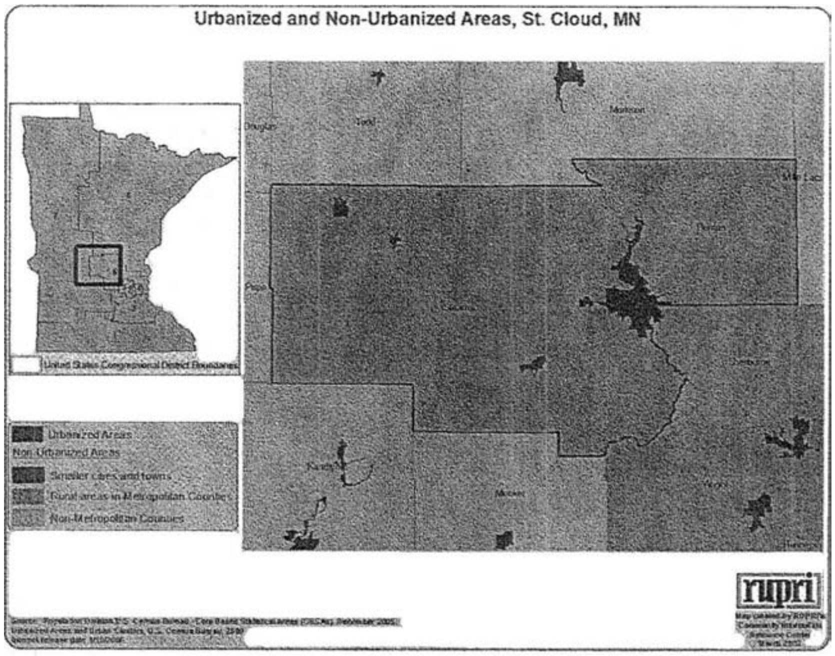
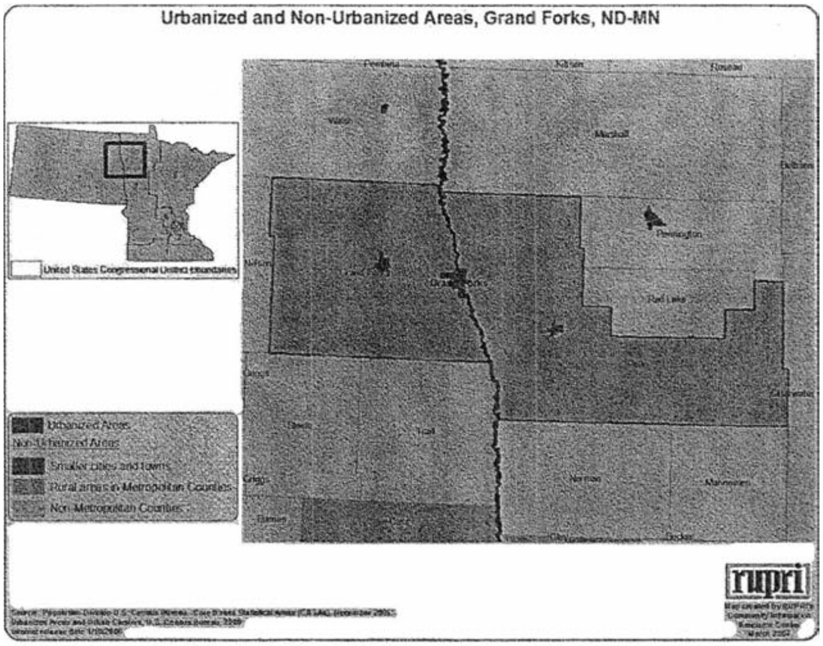
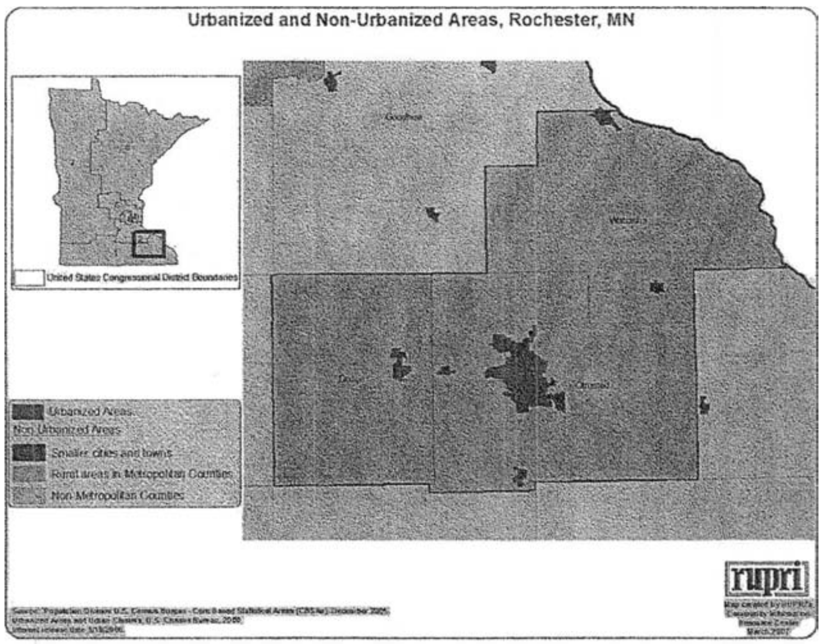


Counties in the St. Cloud MN Metropolitan Area: Distribution of Land Area and Population		
	Benton	Stearns
Total Land Area (Square Miles)	**413.1**	**1,390.0**
Percent Inside Urbanized Areas	2.2%	2.0%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	0.0%	0.5%
Rural Areas	97.8%	97.5%
Total Population	**34,226**	**133,166**
Percent Inside Urbanized Areas	59.1%	48.7%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	0.0%	7.7%
Rural Areas	40.9%	43.6%
Source: U.S. Census Bureau, Census 2000		

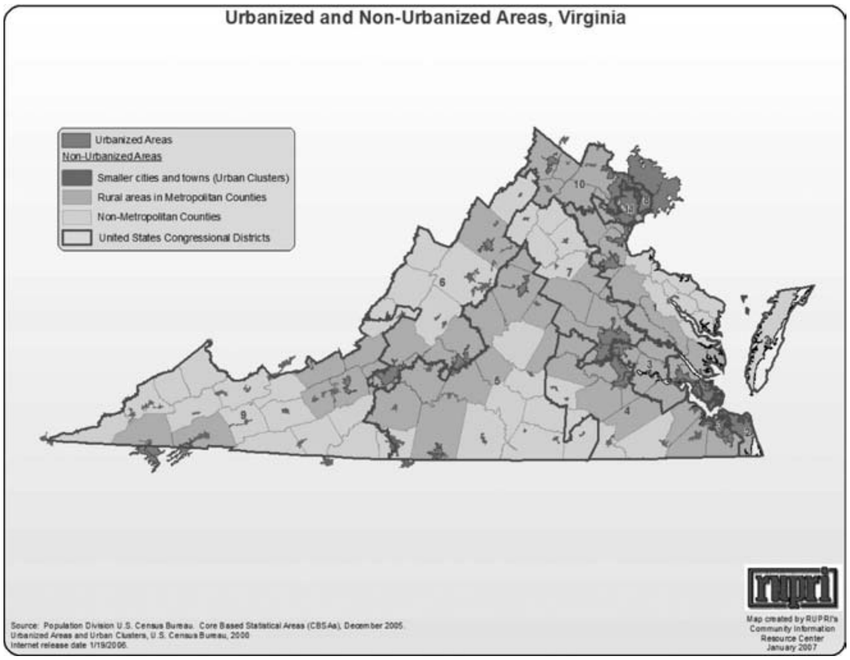


Counties in the Grand Forks ND-MN Metropolitan Area: Distribution of Land Area and Population		
	Polk County, MN	Grand Forks ND
Total Land Area (Square Miles)	**1,997.6**	**1,439.8**
Percent Inside Urbanized Areas	0.1%	1.0%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	0.3%	0.5%
Rural Areas	99.6%	98.5%
Total Population	**31,369**	**66,109**
Percent Inside Urbanized Areas	23.4%	74.4%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	25.6%	8.1%
Rural Areas	51.0%	17.5%
Source: U.S. Census Bureau, Census 2000		



Counties in the Rochester MN Metropolitan Area: Distribution of Land Area and Population			
	Dodge	Olmsted	Wabasha
Total Land Area (Square Miles)	**439.6**	**654.4**	**549.9**
Percent Inside Urbanized Areas	0.0%	6.2%	0.0%
Percent Outside of Urbanized Areas			
Smaller Cities and Towns	1.0%	0.5%	0.9%
Rural Areas	99.0%	93.4%	99.1%
Total Population	**17,731**	**124,277**	**21,610**
Percent Inside Urbanized Areas	0.0%	73.5%	0.0%
Percent Outside of Urbanized Areas			
Smaller Cities and Towns	31.1%	7.1%	34.6%
Rural Areas	68.9%	19.4%	65.4%
Source: U.S. Census Bureau, Census 2000			

Virginia



Distribution of Population in Virginia

	Urbanized Area	Small Urban	Rural	Total
Metropolitan	4,713,195	174,515	1,119,353	6,007,063
Micropolitan	-	121,452	139,742	261,194
Noncore	-	157,265	652,993	810,258
Total	4,713,195	453,232	1,912,088	7,078,515

Percent of Population that is:	
Rural	27.0%
Nonmetro	15.1%
Non Urbanized	33.4%
Percent of the rural population residing in metropolitan counties	58.5%

Distribution of Population in Congressional Districts, 110th Congress, Virginia

District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	643,514	62.3%	1.9%	35.8%
2	643,510	91.0%	1.1%	7.8%
3	643,476	92.2%	0.0%	7.8%
4	643,477	60.4%	10.3%	29.3%
5	643,497	23.2%	13.0%	63.9%
6	643,504	50.3%	14.4%	35.3%
7	643,499	66.2%	3.9%	29.9%
8	643,503	100.0%	0.0%	0.0%
9	643,514	13.5%	20.6%	65.9%
10	643,512	77.3%	5.9%	16.8%
11	643,509	96.0%	0.0%	4.0%
State Total	**7,078,515**	**66.6%**	**6.4%**	**27.0%**

Source: U.S. Census Bureau, Census 2000

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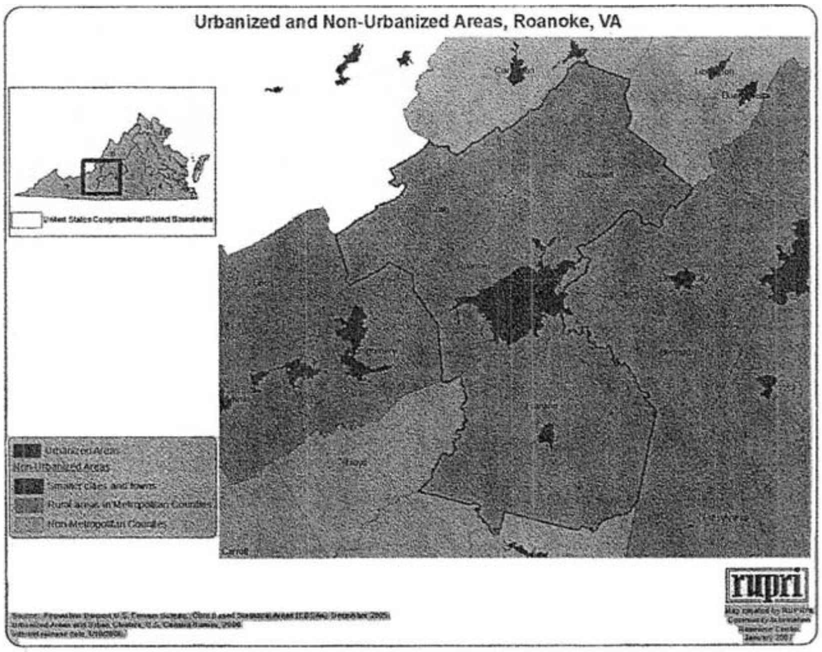
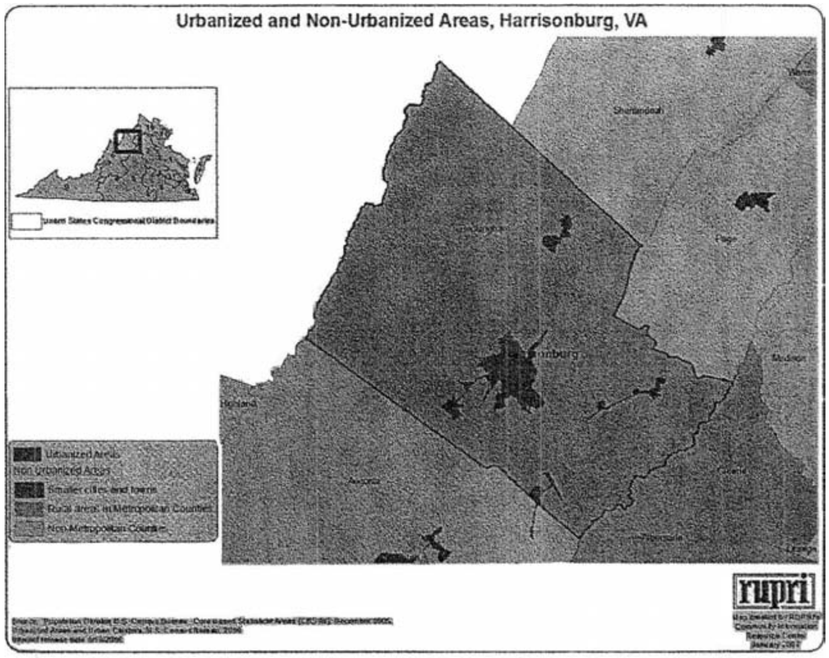


Counties in the Roanoke VA Metropolitan Area: Distribution of Land Area and Population

	Botetourt Co.	Craig Co.	Franklin Co.	Roanoke Co.	Roanoke City	Salem City
Total Land Area (Square Miles)	**545.9**	**330.7**	**711.5**	**251.2**	**42.9**	**14.5**
Percent Inside Urbanized Areas	2.2%	0.0%	0.0%	16.5%	100.0%	100.0%
Percent Outside of Urbanized Areas						
Smaller Cities and Towns	0.0%	0.0%	0.7%	0.0%	0.0%	0.0%
Rural Areas	97.8%	100.0%	99.3%	83.5%	0.0%	0.0%
Total Population	**30,496**	**5,091**	**47,286**	**85,778**	**94,911**	**24,747**
Percent Inside Urbanized Areas	32.8%	0.0%	0.0%	78.0%	100.0%	100.0%
Percent Outside of Urbanized Areas						
Smaller Cities and Towns	0.1%	0.0%	9.0%	0.0%	0.0%	0.0%
Rural Areas	67.1%	100.0%	91.0%	22.0%	0.0%	0.0%

Source: U.S. Census Bureau, Census 2000

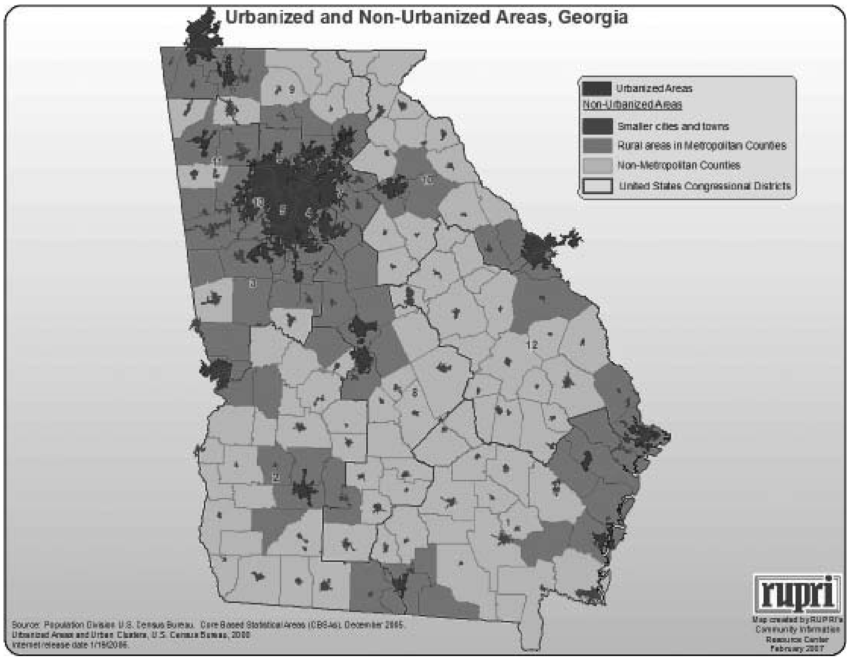


Counties in the Harrisonburg VA Metropolitan Area: Distribution of Land Area and Population

	Rockingham Co.	Harrisonburg City
Total Land Area (Square Miles)	**853.3**	**17.6**
Percent Inside Urbanized Areas	1.3%	88.6%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	1.0%	0.0%
Rural Areas	97.7%	11.4%
Total Population	**67,725**	**40,468**
Percent Inside Urbanized Areas	18.0%	99.8%
Percent Outside of Urbanized Areas		
Smaller Cities and Towns	14.8%	0.0%
Rural Areas	67.2%	0.2%

Source: U.S. Census Bureau, Census 2000

Georgia



Distribution of Population in Georgia

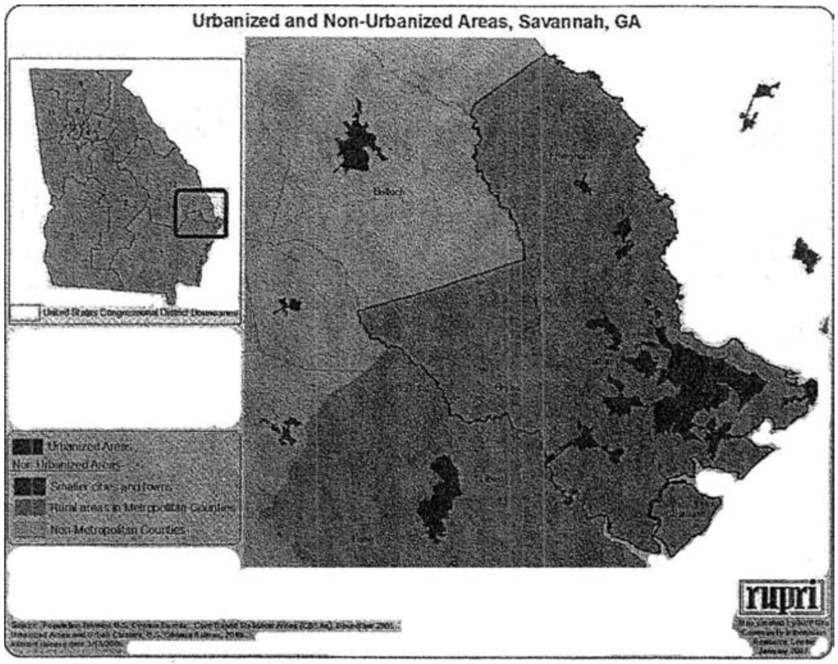
	Urbanized Area	Small Urban	Rural	Total
Metropolitan	5,008,811	262,728	1,254,916	6,526,455
Micropolitan	4,886	418,066	461,442	884,394
Noncore	153	171,923	603,528	775,604
Total	5,013,850	852,717	2,319,886	8,186,453

Percent of Population that is:	
Rural	28.3%
Nonmetro	20.3%
Non Urbanized	38.8%
Percent of the rural population residing in metropolitan counties	54.1%

Distribution of Population in Congressional Districts, 110th Congress, Georgia

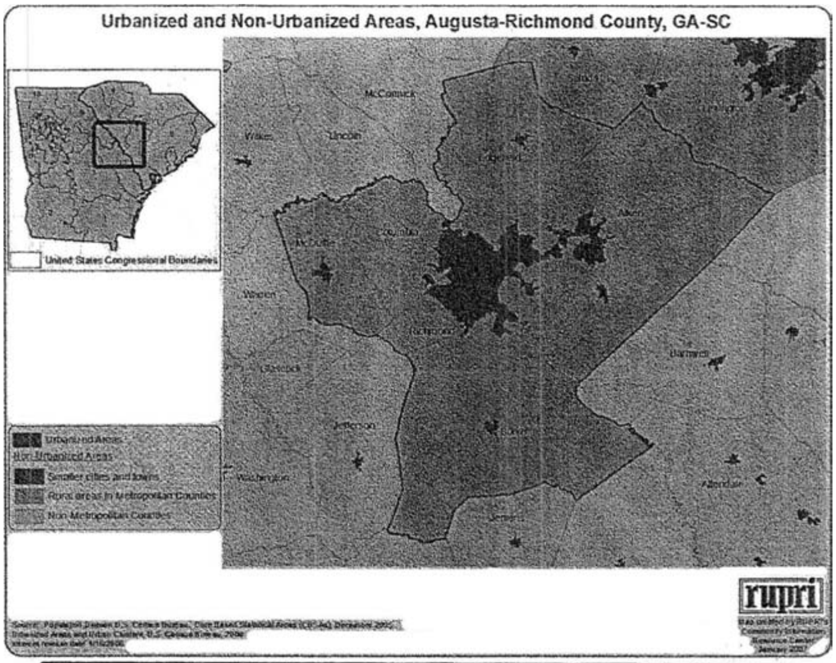
District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	629,727	35.5%	22.0%	42.5%
2	629,727	37.0%	21.0%	42.0%
3	629,727	39.3%	17.1%	43.6%
4	629,726	98.5%	0.0%	1.5%
5	629,728	99.7%	0.0%	0.3%
6	629,726	93.4%	0.0%	6.6%
7	629,727	81.9%	4.8%	13.3%
8	629,728	39.1%	17.7%	43.3%
9	629,728	42.5%	4.9%	52.7%
10	629,728	40.0%	10.3%	49.7%
11	629,727	53.5%	16.8%	29.7%
12	629,727	39.4%	20.6%	40.1%
13	629,727	96.0%	0.5%	3.5%
State Total	**8,186,453**	**61.3%**	**10.4%**	**28.3%**

Source: U.S. Census Bureau, Census 2000



Counties in the Savannah GA Metropolitan Area: Distribution of Land Area and Population			
	Bryan	Chatham	Effingham
Total Land Area (Square Miles)	**448.2**	**482.2**	**482.8**
Percent Inside Urbanized Areas	0.0%	21.3%	0.0%
Percent Outside of Urbanized Areas			
Small City/Town (urban clusters)	2.1%	1.8%	1.5%
Rural Areas	97.9%	76.9%	98.5%
Total Population	**23,417**	**232,048**	**37,355**
Percent Inside Urbanized Areas	0.0%	90.0%	0.0%
Percent Outside of Urbanized Areas			
Small City/Town (urban clusters)	39.5%	4.5%	22.8%
Rural Areas	60.5%	5.5%	77.2%

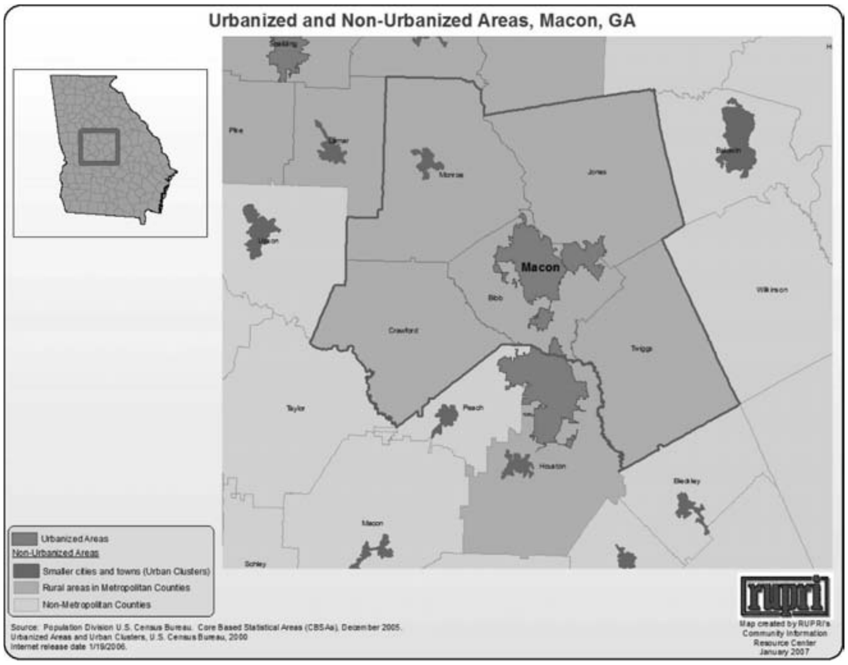
Source: U.S. Census Bureau, Census 2000



Georgia Counties in the Augusta-Richmond County GA-SC Metropolitan Area: Distribution of Land Area and Population

	Burke	Columbia	McDuffie	Richmond
Total Land Area (Square Miles)	**835.3**	**307.8**	**266.3**	**328.5**
Percent Inside Urbanized Areas	0.0%	12.7%	0.0%	35.9%
Percent Outside of Urbanized Areas				
Small City/Town (urban clusters)	0.5%	0.0%	2.2%	0.0%
Rural Areas	99.5%	87.3%	97.8%	64.1%
Total Population	**22,243**	**89,288**	**21,231**	**199,775**
Percent Inside Urbanized Areas	0.0%	73.8%	0.0%	92.2%
Percent Outside of Urbanized Areas				
Small City/Town (urban clusters)	24.7%	0.0%	37.9%	0.0%
Rural Areas	75.3%	26.2%	62.1%	7.8%

Source: U.S. Census Bureau, Census 2000

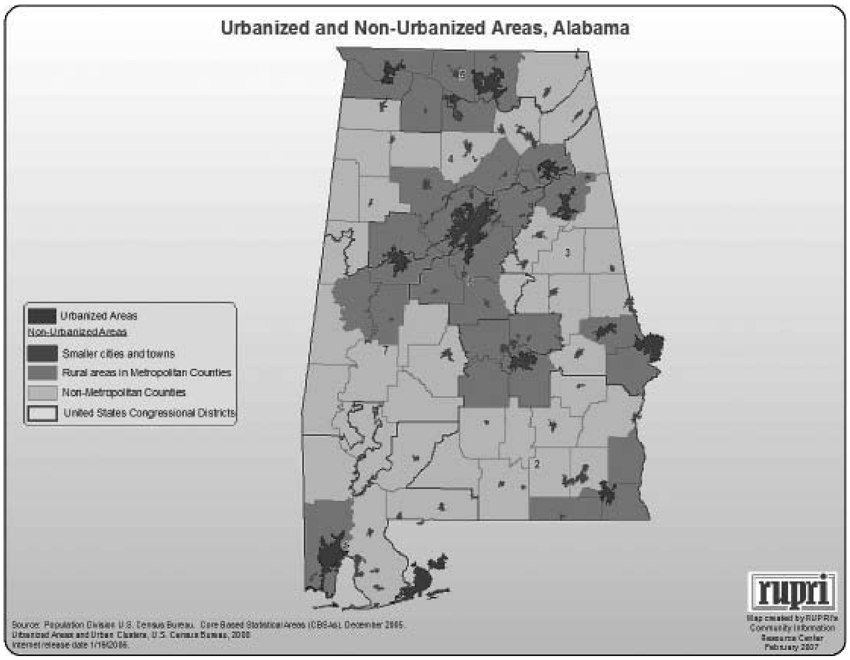


Counties in the Macon GA Metropolitan Area: Distribution of Land Area and Population

	Bibb	Crawford	Jones	Monroe	Twiggs
Total Land Area (Square Miles)	**255.6**	**326.5**	**395.5**	**397.3**	**362.7**
Percent Inside Urbanized Areas	31.2%	0.0%	1.1%	0.0%	0.0%
Percent Outside of Urbanized Areas					
Small City/Town (urban clusters)	0.0%	0.0%	0.0%	1.2%	0.0%
Rural Areas	68.8%	100.0%	98.9%	98.8%	100.0%
Total Population	**153,887**	**12,495**	**23,639**	**21,757**	**10,590**
Percent Inside Urbanized Areas	85.2%	0.0%	18.4%	0.0%	0.0%
Percent Outside of Urbanized Areas					
Small City/Town (urban clusters)	0.0%	0.0%	0.0%	25.1%	0.0%
Rural Areas	14.8%	100.0%	81.6%	74.9%	100.0%

Source: U.S. Census Bureau, Census 2000

Alabama



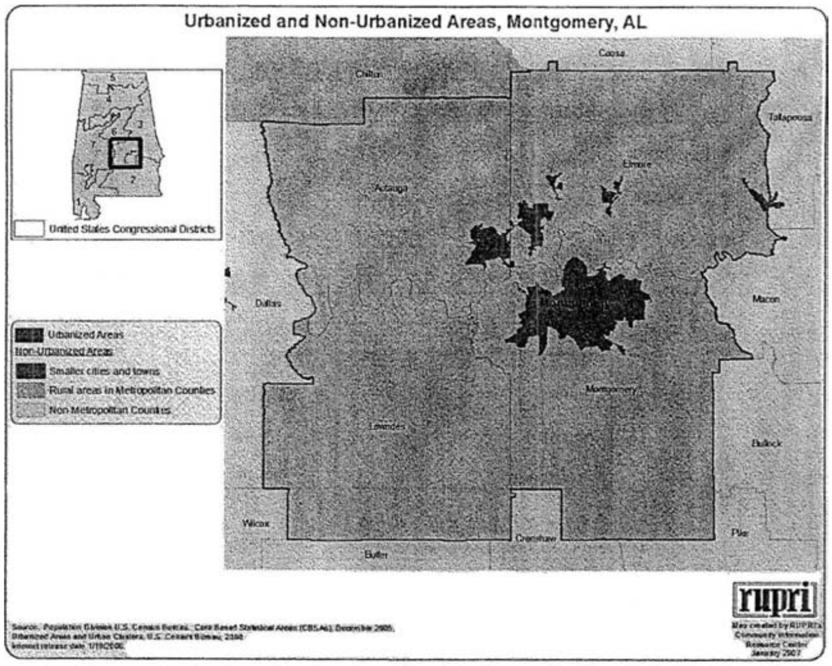
Distribution of Population in Alabama				
	Urbanized Area	Small Urban	Rural	Total
Metropolitan	1,932,943	155,400	1,044,910	3,133,253
Micropolitan	7,439	293,772	509,734	810,945
Noncore	-	75,985	426,917	502,902
Total	1,940,382	525,157	1,981,561	4,447,100

Percent of Population that is:	
Rural	44.6%
Nonmetro	29.5%
Non Urbanized	56.4%
Percent of the rural population residing in metropolitan counties	52.7%

Distribution of Population in Congressional Districts, 110th Congress, Alabama

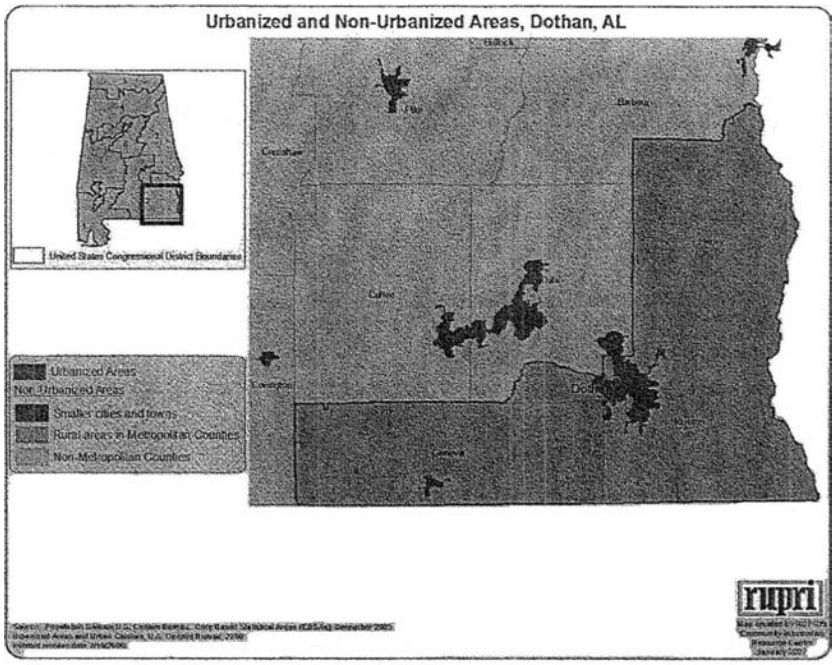
District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
1	635,300	50.3%	14.1%	35.6%
2	635,300	29.4%	20.6%	50.0%
3	635,300	40.2%	13.1%	46.7%
4	635,300	10.8%	15.7%	73.4%
5	635,300	51.9%	7.6%	40.6%
6	635,300	56.4%	5.6%	38.0%
7	635,300	66.4%	5.8%	27.7%
State Total	**4,447,100**	**43.7%**	**11.8%**	**44.6%**

Source: U.S. Census Bureau, Census 2000



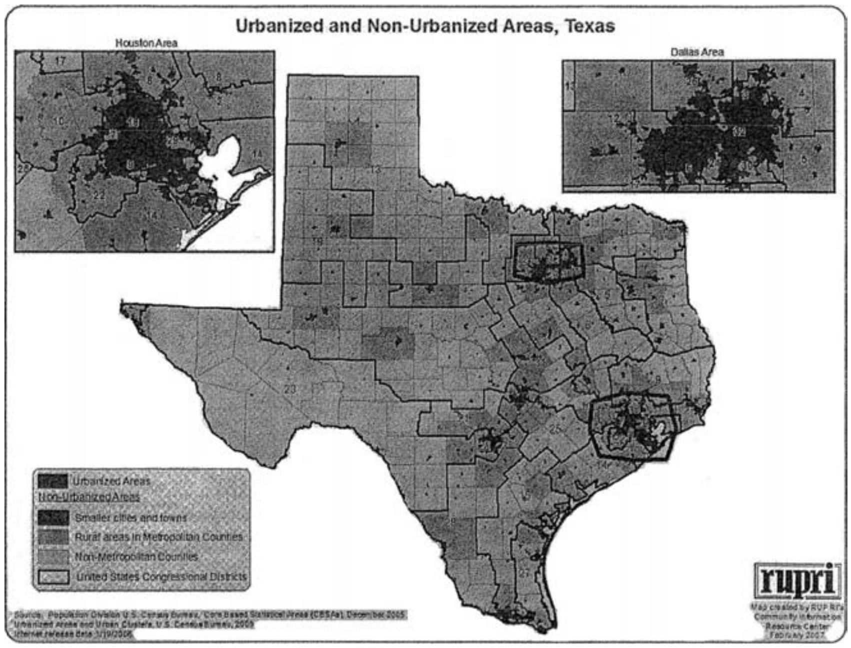
Counties in the Montgomery AL Metropolitan Area: Distribution of Land Area and Population				
	Autauga	Elmore	Lowndes	Montgomery
Total Land Area (Square Miles)	**604.4**	**657.2**	**725.0**	**799.8**
Percent Inside Urbanized Areas	0.0%	0.0%	0.0%	12.4%
Percent Outside of Urbanized Areas				
Smaller Cities and Towns	2.7%	3.0%	0.0%	0.0%
Rural Areas	97.3%	97.0%	100.0%	87.6%
Total Population	**43,671**	**65,874**	**13,473**	**223,510**
Percent Inside Urbanized Areas	0.0%	0.0%	0.0%	88.1%
Percent Outside of Urbanized Areas				
Smaller Cities and Towns	55.4%	37.5%	0.0%	0.0%
Rural Areas	44.6%	62.5%	100.0%	11.9%

Source: U.S. Census Bureau, Census 2000



Counties in the Dothan AL Metropolitan Area: Distribution of Land Area and Population			
	Geneva	Henry	Houston
Total Land Area (Square Miles)	**578.9**	**568.3**	**581.6**
Percent Inside Urbanized Areas	0.0%	0.0%	7.7%
Percent Outside of Urbanized Areas			
Smaller Cities and Towns	0.6%	0.0%	0.0%
Rural Areas	99.4%	100.0%	92.3%
Total Population	**25,764**	**16,310**	**88,787**
Percent Inside Urbanized Areas	0.7%	0.0%	65.1%
Percent Outside of Urbanized Areas			
Smaller Cities and Towns	12.5%	0.0%	0.0%
Rural Areas	86.8%	100.0%	34.9%
Source: U.S. Census Bureau, Census 2000			

Texas



Distribution of Population in Texas				
	Urbanized Area	Small Urban	Rural	Total
Metropolitan	14,797,856	994,442	2,152,250	17,944,548
Micropolitan	1,625	918,936	600,258	1,520,819
Noncore	-	491,214	895,239	1,386,453
Total	14,799,481	2,404,592	3,647,747	20,851,820

Percent of Population that is:	
Rural	17.5%
Nonmetro	13.9%
Non Urbanized	29.0%
Percent of the rural population residing in metropolitan counties	59.0%

Distribution of Population in Congressional Districts, 110th Congress, Texas				
District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas* Small cities and towns	Rural Areas
1	651,619	27.6%	23.3%	49.1%
2	651,620	84.7%	4.7%	10.6%
3	651,619	99.0%	0.0%	1.0%
4	651,619	28.6%	21.1%	50.3%
5	651,619	48.4%	19.3%	32.3%
6	651,619	66.4%	13.5%	20.1%
7	651,620	99.7%	0.0%	0.3%
8	651,620	20.2%	29.4%	50.4%
9	651,619	99.8%	0.0%	0.2%
10	651,620	70.8%	10.0%	19.2%
11	651,620	45.9%	25.0%	29.2%
12	651,619	77.1%	5.7%	17.2%
13	651,620	42.8%	27.6%	29.7%
14	651,619	56.3%	14.8%	28.9%
15	651,625	66.1%	16.0%	17.9%
16	651,619	97.1%	1.2%	1.7%
17	651,620	47.5%	16.7%	35.8%
18	651,619	99.9%	0.0%	0.1%
19	651,619	47.5%	26.6%	25.9%
20	651,619	99.8%	0.0%	0.2%
21	651,615	66.7%	14.3%	19.0%
22	651,619	94.2%	0.4%	5.4%
23	651,612	49.5%	26.6%	23.9%
24	651,620	99.3%	0.0%	0.7%
25	651,618	58.3%	17.0%	24.8%
26	651,619	86.2%	4.3%	9.5%
27	651,619	75.1%	13.3%	11.5%
28	651,627	57.5%	21.8%	20.7%
29	651,619	99.4%	0.0%	0.6%
30	651,620	98.2%	0.6%	1.2%
31	651,619	61.5%	16.3%	22.1%
32	651,620	99.9%	0.0%	0.1%
State Total	**20,851,820**	**71.0%**	**11.6%**	**17.5%**

Source: U.S. Census Bureau, Census 2000

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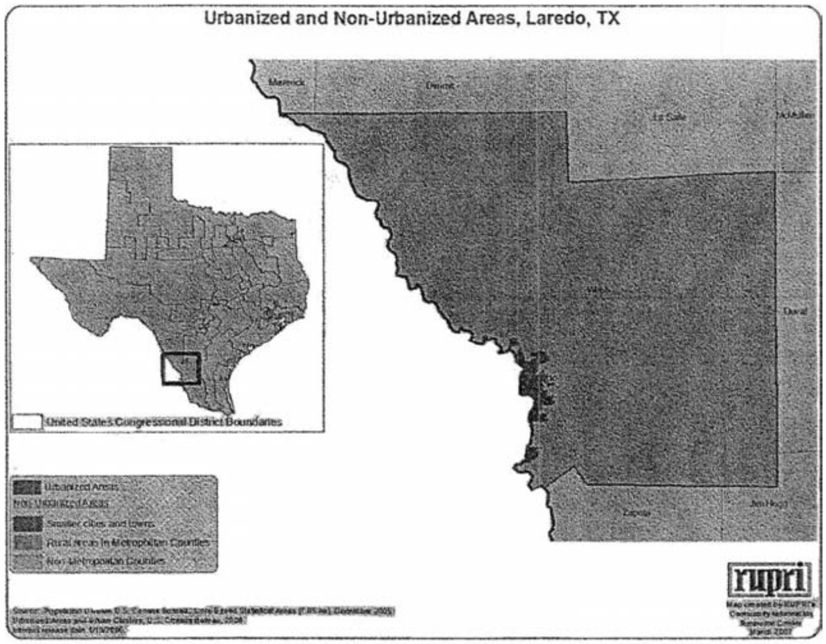
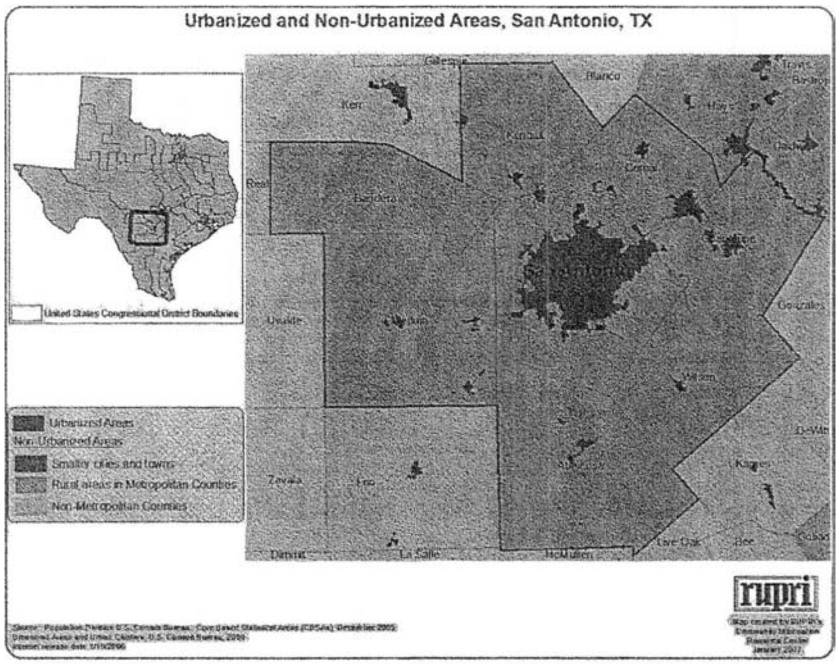


Distribution of Population and Land Area in the Laredo, TX Metropolitan Area	Webb County
Total Land Area (Square Miles)	**3,375.5**
Percent Inside Urbanized Areas	1.3%
Percent Outside of Urbanized Areas	
Small City/Town (urban clusters)	0.1%
Rural Areas	98.6%
Total Population	**193,117**
Percent Inside Urbanized Areas	91.1%
Percent Outside of Urbanized Areas	
Small City/Town (urban clusters)	4.7%
Rural Areas	4.2%

Source: U.S. Census Bureau, Census 2000



Counties in the San Antonio TX Metropolitan Area: Distribution of Population				
County	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas* Small cities and towns	*Percent Outside of Urbanized Areas* Rural Areas
Atascosa	38,628	0.0%	39.6%	60.4%
Bandera	17,645	0.0%	0.0%	100.0%
Bexar	1,392,931	93.8%	0.3%	6.0%
Comal	78,021	1.9%	55.0%	43.0%
Guadalupe	89,023	23.0%	35.2%	41.8%
Kendall	23,743	0.0%	37.3%	62.7%
Medina	39,304	0.0%	44.3%	55.7%
Wilson	32,408	0.0%	17.4%	82.6%

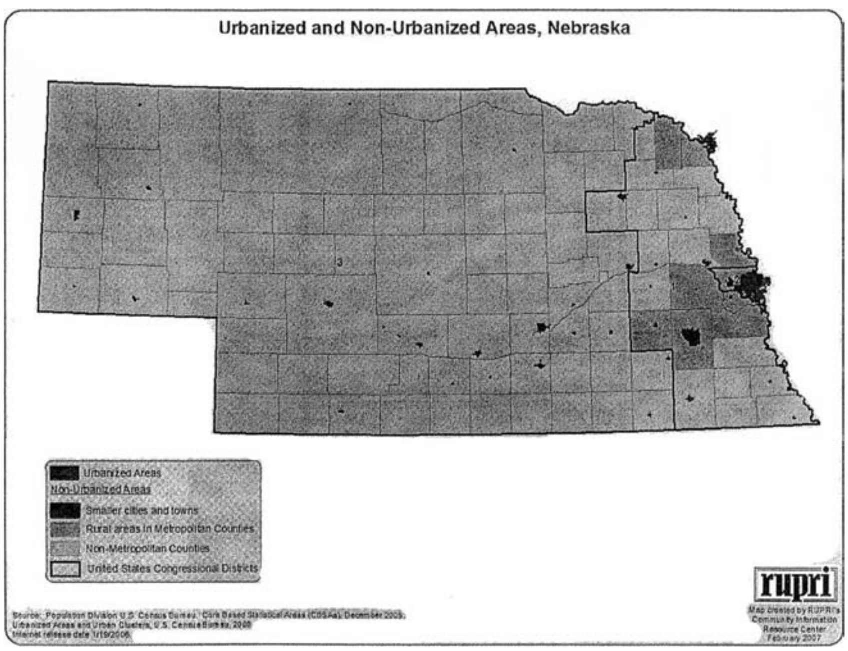
Source: U.S. Census Bureau, Census 2000

Counties in the San Antonio TX Metropolitan Area: Distribution of Land Area

County	Total Land Area (Square Miles)	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small cities and towns	Rural Areas
Atascosa	1,235.6	0.0%	0.7%	99.3%
Bandera	797.5	0.0%	0.0%	100.0%
Bexar	1,256.1	31.5%	0.3%	68.2%
Comal	574.7	0.3%	5.3%	94.4%
Guadalupe	714.6	1.5%	3.0%	95.5%
Kendall	663.1	0.0%	1.2%	98.8%
Medina	1,334.5	0.0%	0.8%	99.2%
Wilson	808.5	0.0%	0.5%	99.5%

Source: U.S. Census Bureau, Census 2000

Nebraska



Distribution of Population in Nebraska				
	Urbanized Area	Small Urban	Rural	Total
Metropolitan	804,826	28,189	109,488	942,503
Micropolitan	-	254,773	141,433	396,206
Noncore	-	104,918	267,636	372,554
Total	804,826	387,880	518,557	1,711,263

Percent of Population that is:	
Rural	30.3%
Nonmetro	44.9%
Non Urbanized	53.0%
Percent of the rural population residing in metropolitan counties	21.1%

Distribution of Population in Congressional Districts, 110th Congress, Nebraska

District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas* Small cities and towns	Rural Areas
1	570,325	43.3%	21.9%	34.8%
2	570,421	97.9%	0.0%	2.1%
3	570,517	0.0%	46.2%	53.8%
State Total	**1,711,263**	**47.0%**	**22.7%**	**30.3%**

Source: U.S. Census Bureau, Census 2000

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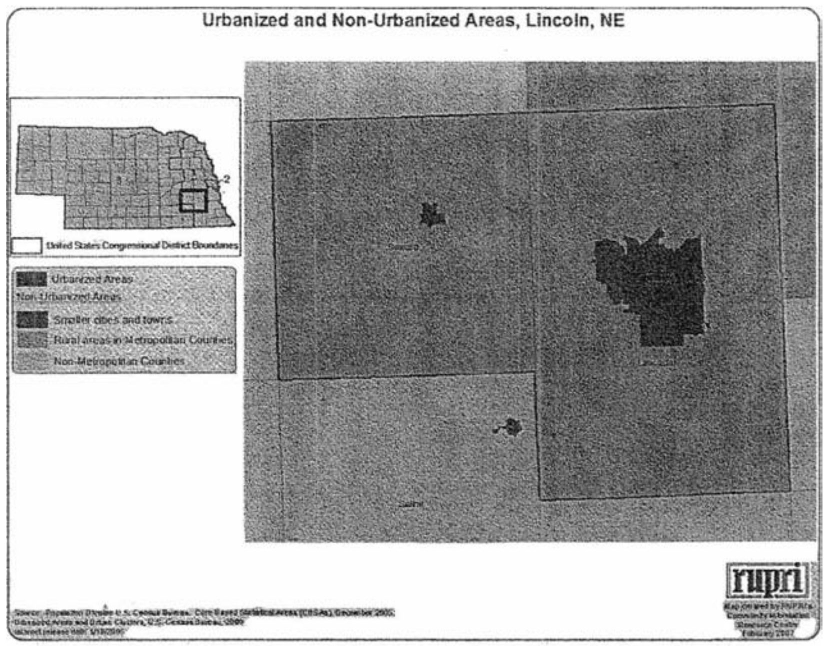
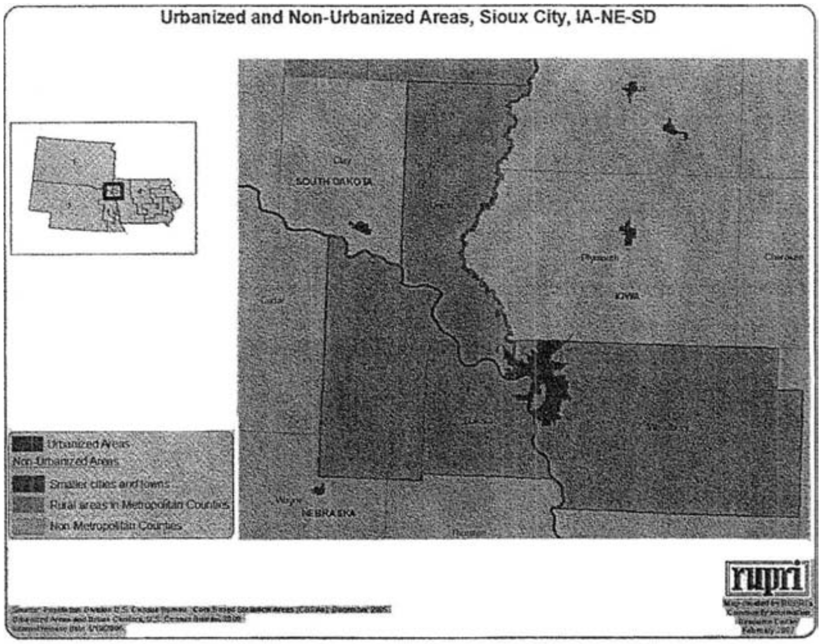
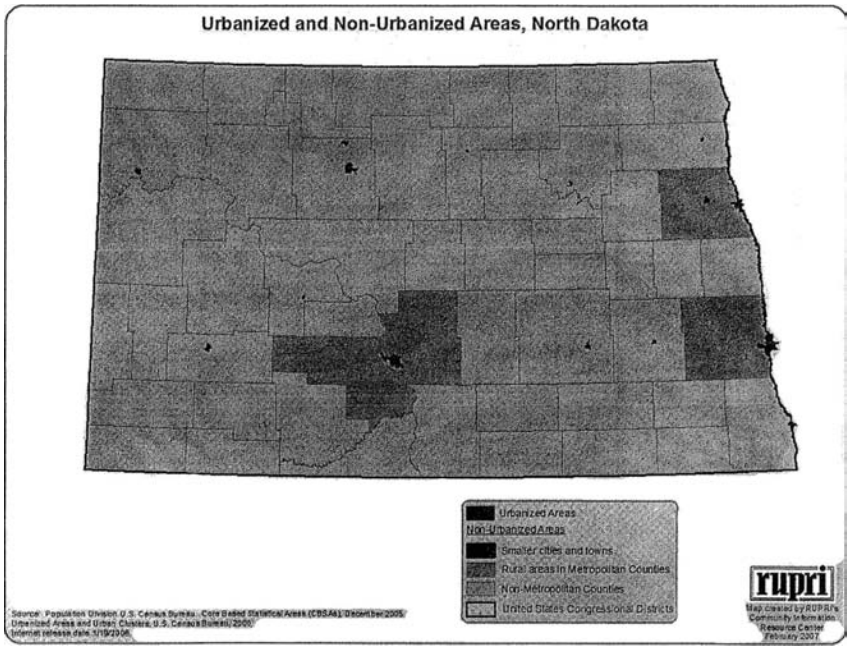


Counties in the Lincoln NE Metropolitan Area: Distribution of Land Area and Population		
	Lancaster	Seward
Total Land Area (Square Miles)	**846.4**	**575.8**
Percent Inside Urbanized Areas	9.3%	0.0%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	0.0%	0.6%
Rural Areas	90.7%	99.4%
Total Population	**250,291**	**16,496**
Percent Inside Urbanized Areas	90.5%	0.0%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	0.0%	38.4%
Rural Areas	9.5%	61.6%
Source: U.S. Census Bureau, Census 2000		



Nebraska Counties in the Sioux City IA-NE-SD Metropolitan Area: Distribution of Land Area and Population		
	Dakota	Dixon
Total Land Area (Square Miles)	**267.4**	**482.7**
Percent Inside Urbanized Areas	2.6%	0.0%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	0.0%	0.0%
Rural Areas	97.4%	100.0%
Total Population	**20,253**	**6,339**
Percent Inside Urbanized Areas	78.4%	0.0%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	0.0%	0.0%
Rural Areas	21.6%	100.0%
Source: U.S. Census Bureau, Census 2000		

North Dakota



Distribution of Population in North Dakota				
	Urbanized Area	Small Urban	Rural	Total
Metropolitan	230,217	5,332	48,417	283,966
Micropolitan	-	98,358	52,225	150,583
Noncore	-	24,487	183,164	207,651
Total	230,217	128,177	283,806	642,200

Percent of Population that is:	
Rural	44.2%
Nonmetro	55.8%
Non Urbanized	64.2%
Percent of the rural population residing in metropolitan counties	17.1%

Distribution of Population in Congressional Districts, 110th Congress, North Dakota

District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small Cities and Towns	Rural Areas
At Large	642,200	35.8%	20.0%	44.2%

Source: U.S. Census Bureau, Census 2000

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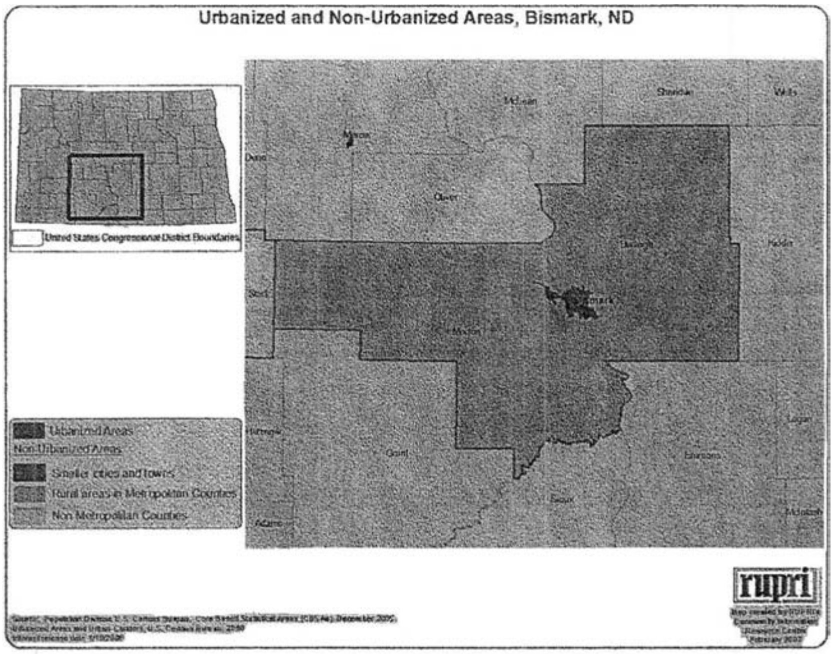
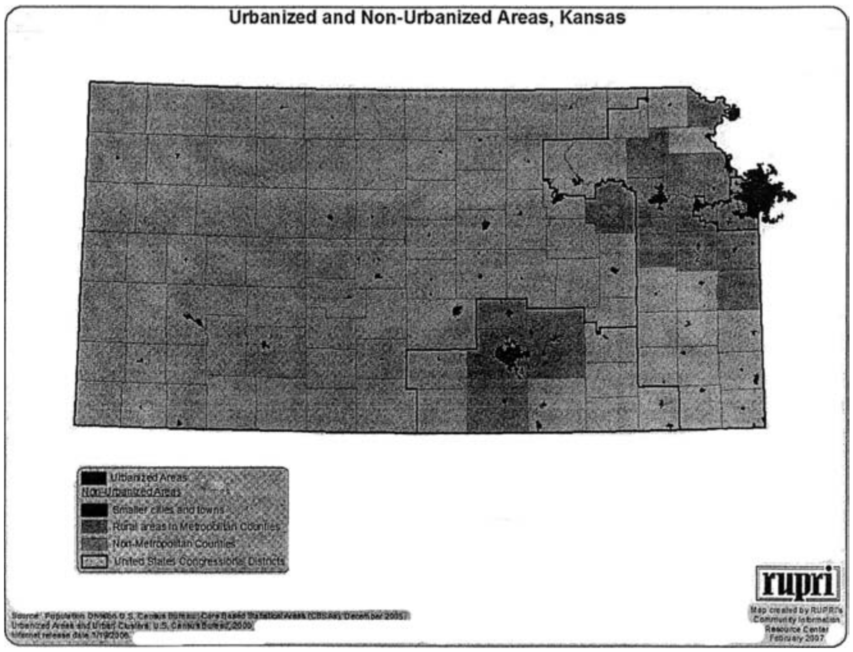


Counties in the Bismark ND Metropolitan Area: Distribution of Land Area and Population		
	Burleigh	Morton
Total Land Area (Square Miles)	**1,668.1**	**1,945.2**
Percent Inside Urbanized Areas	1.6%	0.4%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	0.0%	0.0%
Rural Areas	98.4%	99.6%
Total Population	**69,416**	**25,303**
Percent Inside Urbanized Areas	83.4%	65.4%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	0.0%	0.0%
Rural Areas	16.6%	34.6%

Source: U.S. Census Bureau, Census 2000

Kansas



Distribution of Population in Kansas				
	Urbanized Area	Small Urban	Rural	Total
Metropolitan	1,207,640	154,370	282,282	1,644,292
Micropolitan	-	423,571	180,094	603,665
Noncore	-	134,500	305,961	440,461
Total	1,207,640	712,441	768,337	2,688,418

Percent of Population that is:	
Rural	28.6%
Nonmetro	38.8%
Non Urbanized	55.1%
Percent of the rural population residing in metropolitan counties	36.7%

Distribution of Population in Congressional Districts, 110th Congress, Kansas				
District Number	Total Population	Percent in Urbanized Areas	*Percent Outside of Urbanized Areas*	
			Small cities and towns	Rural Areas
1	672,091	0.0%	52.5%	47.5%
2	672,102	25.2%	34.6%	40.3%
3	672,124	91.7%	2.9%	5.4%
4	672,101	62.8%	16.1%	21.1%
State Total	**2,688,418**	**44.9%**	**26.5%**	**28.6%**

Source: U.S. Census Bureau, Census 2000

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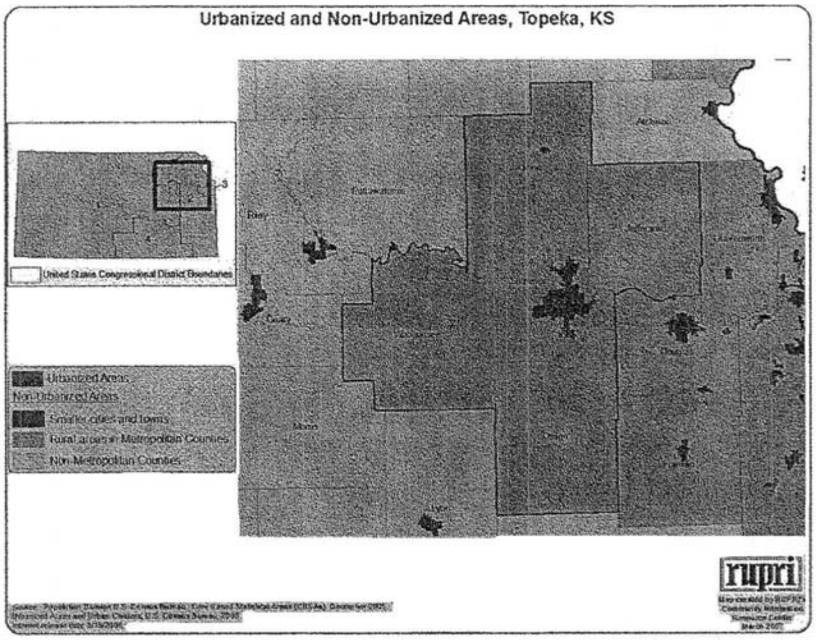

Counties in the Topeka KS Metropolitan Area: Distribution of Land Area and Population

	Jackson	Jefferson	Osage	Shawnee	Wabaunsee
Total Land Area (Square Miles)	**657.8**	**557.0**	**719.3**	**556.3**	**799.8**
Percent Inside Urbanized Areas	0.0%	0.0%	0.0%	12.7%	0.0%
Percent Outside of Urbanized Areas					
Smaller Cities and Towns	0.2%	0.0%	0.0%	0.0%	0.0%
Rural Areas	99.8%	100.0%	100.0%	87.3%	100.0%
Total Population	**12,657**	**18,426**	**16,712**	**169,871**	**6,885**
Percent Inside Urbanized Areas	0.0%	0.0%	0.0%	83.9%	0.0%
Percent Outside of Urbanized Areas					
Smaller Cities and Towns	26.0%	0.0%	0.0%	0.0%	0.0%
Rural Areas	74.0%	100.0%	100.0%	16.1%	100.0%

Source: U.S. Census Bureau, Census 2000

PREPARED STATEMENT OF HON. REBECCA S. SKILLMAN, LT. GOVERNOR, STATE OF INDIANA, INDIANAPOLIS, IN

Dear Mr. Chairman and Members of the Committee,

Thank you for the strong commitment you have shown to rural America by holding a hearing to talk specifically about rural policy in the next farm bill. Growing up in Bedford, a rural community in south central Indiana, I am truly the product of a small town. I have spent most of my career working on the issues that impact our small cities and towns. Rural issues are my passion, and I am deeply honored today by the opportunity to participate in this conversation with our Federal policymakers including our new partners Congressmen Donnelly and Ellsworth. Congressmen, we look forward to working closely with you in this legislation to advocate for the many needs of small communities back in rural Indiana.

When Governor Mitch Daniels and I took office in January 2005, Indiana, like many states, faced grave challenges with the lack of economic opportunity for Hoosiers—particularly those citizens living in our rural communities. In working to build an economic recovery, we pledged that Indiana would not be a state of "haves" and "have-nots." Today, with Governor Daniels' innovation and strong leadership, we have turned the corner toward prosperity for every region of our state.

Last year was a banner year for our state. We brought 22,540 new jobs to Indiana with an average annual salary of $42,000. These new projects represent more than $8 billion in private capital investment in Indiana. Agriculture is a significant piece of this new growth. In 2006, we saw $2.68 billion invested in food and agriculture projects which created 1,218 new jobs. This investment included 17 new ethanol plants and four biodiesel facilities—all of which are located in rural areas such as the Town of Claypool, a community of just under 500 people in northeast Indiana, Linden, a town of 690 people in west central Indiana, and Rensselaer, a city of 5,500 in northwest Indiana.

Indiana is indeed seeing a new day of opportunity. But, with this progress, we know that significant challenges remain for our small towns and cities. In Indiana, 75 percent of our land mass is rural, and 44 percent of our population lives in rural communities. We are a manufacturing economy. With recent downturns in the national manufacturing sector, we have suffered deep employment losses. In 2004, manufacturing accounted for 16 percent of our total employment, down from 25 percent in 1980. Such losses have necessitated a transformation of our traditional economy.

Rural Indiana lags behind in this transformation. In non-metropolitan employment, manufacturing still accounts for 24 percent of Hoosier jobs. In addition, educational attainment in rural areas lags behind the rest of the state. And, per capita income in non-metropolitan areas is less than 85 percent of the per capita income in metropolitan areas.

Governor Daniels and I know that such discrepancies cannot be ignored. We both know that Indiana's economic recovery will not be complete unless it includes *all* Hoosiers. If we are to continue to have a growing agriculture economy, we must have a thriving rural economy. If we are to enjoy a statewide economic renaissance, rural Indiana must also thrive.

With that pledge, we have made a commitment to the importance of rural Indiana and the need for dedicated resources to build on its strengths. In 2005, we created the Office of Community and Rural Affairs (OCRA). OCRA is a stand-alone agency that provides resources and technical assistance to our small towns and cities. Putting economic opportunity first and foremost, the agency has a mission to assist rural communities in building capacity to achieve their own vision for the future.

In order to identify the highest priority issues, I convened a statewide conversation later branded as the Rural Indiana Strategy for Excellence (RISE 2020). Partnering with the Indiana Rural Development Council and the Center for Regional Development at Purdue University, OCRA held more than twenty listening sessions in which over 650 rural constituents participated. From these sessions, seven core areas of focus emerged, including the need to:

- Promote regional frameworks and partnerships;
- Build civic leadership and engagement;
- Focus on asset-based community development;
- Build capacity for rural innovation (entrepreneurial culture);
- Promote diversity, access and inclusiveness;
- Promote youth engagement; and
- Leverage resources for wealth creation and retention.

Using these points of focus as a guide, OCRA set key priorities for the agency in a strategic plan we refer to as "Breaking the Boundaries"—a name that reflects our commitment to breaking down the current barriers rural communities face in accessing resources and developing opportunity. These priorities include:

- Developing a strategy to attract and expand philanthropic capital;
- Attracting and retaining entrepreneurial talent;
- Generating creative practices and programs for rural workforce development;
- Seeking innovations in rural broadband development and deployment; and
- Expanding health and human service delivery to reach marginalized populations.

In our work, a core philosophy is to build partnerships in and leverage resources from the public, private and academic sectors. OCRA works very closely with other state agencies involved in economic development projects such as our Indiana Economic Development Corporation, the Indiana State Department of Agriculture and the Department of Workforce Development. The agency also works side-by-side with other partners such as the local USDA Rural Development Office, universities, utilities and nonprofit organizations to partner and complement their core activities.

Two prominent examples of partnership and leveraging resources include the creation of a state Rural Capacity Grant Program and the manner in which we administer the Federal Community Development Block Grant Program (CDBG). In December 2006, OCRA awarded nearly $3 million in a competitive grant process that challenged communities to develop creative ways to build capacity in workforce training or education needs and in rural entrepreneurship. In the scoring process, extra points were given to those communities that included a local match from their community foundation. Grants were awarded to 23 community partnerships, many of which involved local economic development organizations, regional workforce training entities and small business development centers. Local matching funds totaled $1.114 million, of which $163,000 or 14 percent were local foundation matches.

In addition to the Rural Capacity Grant Program, OCRA has retooled the way it administers the CDBG program to encourage partnerships and leverage funding. At present, Indiana's state allocation from the U.S. Department of Housing and Urban Development is approximately $27 million. Historically, there has been no focus by the state on how those dollars have been allocated. Beginning in 2007, we have restructured the scoring system to include weighted scores that reflect OCRA's key priorities such as the development of micro-enterprise programs, sewer and water infrastructure and health clinics. As with the Rural Capacity grant awards, extra points are given to those communities that provide a philanthropic match.

From our early experience, we have quickly identified community foundations as an untapped resource. In Indiana alone, a recent study by the Indiana Grantmakers Alliance estimates that $3.3 billion in local wealth could be captured through community foundations over the next ten years. With the continuing decline in state and Federal dollars available for investment in communities, community foundations show great promise to become critical strategic investors in Indiana and beyond.

In closing, let me suggest that rural development should happen by choice, not by chance. As I hope is evident from my testimony, Governor Daniels and I are choosing to invest in rural Indiana so that *all* 6.2 million Hoosiers will share in our state's economic recovery. We have accomplished a great deal in a very short time by taking stock of our resources and developing a framework that enables us to target these assets toward solving critical challenges for our rural citizens.

In sharing our story with the Committee today, we are hopeful that policy leaders in other states may be inspired to take similar action to strengthen the small towns and cities in their own landscapes. Further, we hope that the Committee will carefully consider those measures within the Rural Development Title which could be shaped to encourage and nurture this model.

Thank you for this opportunity.

The CHAIRMAN. Thank you, Mr. Fluharty. And that leads into your comments about Billy Ray Hall. Billy Ray Hall is President of the North Carolina Rural Economic Development Center, based in Raleigh but does a great work in my home county. And in our home State of North Carolina, 85 of the 100 counties are considered rural, so Billy has quite a task to do and does it well. Mr. Hall, we look forward to your testimony.

STATEMENT OF BILLY RAY HALL, PRESIDENT, NORTH CAROLINA RURAL ECONOMIC DEVELOPMENT CENTER, INC., RALEIGH, NC

Mr. HALL. Thank you, Chairman McIntyre and the Ranking Member Musgrave. I can't help but to move away from my comments to tell you the story about North Carolina. We had 26 definitions of rural and so we decided to work with a committee. We worked for 2 months and we decided that every county that didn't have a city over 50,000 would be rural and we put out rural programs in those counties. I don't know how much help that will be to Secretary Dorr, but I would suggest that he might think about it.

In terms of my comments, and I think it is challenging for me to say to you something you don't already know, but I want to remind us, if I can, and take a ride with the person who got up in rural North Carolina, or rural Colorado or Georgia or Texas, this morning. They got up and they went and turned on the water. If they were in rural areas, they generally pay twice as much for water as if they lived in a major urban area, partly because the costs that were underwritten to provide those water and sewer systems. They were underwritten in a day when we provided more Federal and state support to those areas. He then went outside, got in his car and started down the road and he saw a for sale sign on a farm. He was reminded, in 1948, there were 302,000 farms in North Carolina. In 2004, 4,000 people sold their farms because they couldn't make a living. He is wondering if he is the next one of the 48,000 farmers in North Carolina who may lose his farm.

He drives a little further down the road and he looks at a vacant manufacturing building in which his wife used to work in and was able to bring home health insurance. She is no longer there. She joins the 70,000 people who lost their job in the last 5 years in North Carolina as manufacturing moved offshore.

He then drives on into town and he thinks about his child who he is trying to get to stay in school and remembers that the workforce in rural areas, over 60 percent have less than a high school diploma or a high school diploma. He knows that tonight he has to go home and help his child with the homework, but he doesn't have access to the Internet, so it is going to take him much longer to work on the homework.

The then moves into the community and moves up to the gas station and begins to at least feel a little better because he thinks he has heard on the national scene that we are going to move to biofuels. The idea, maybe our farmers will produce those biofuel feed stocks; and maybe our farmers will own the production facilities; and maybe this grocery store or this gas station will provide the gas.

He then moves down the road to the job where he started while he farms part time, because he is like ⅔ of the farmers in North Carolina; they have to work off-farm jobs to be able to support their farm. He goes in and remembers that he has got a patent to work on. He has now created a new business but he is not sure how to do the marketing plan, but he has hope, just as he did when he was at the gas station, that he has heard discussions at the national level that entrepreneurship is going to be the new area which we emphasize.

Now, I say that just to remind us of this: there are two basic needs in rural America, particularly rural North Carolina, that need your attention. The U.S. Department of Agriculture has been a major partner with the support groups, namely water and sewer. In rural areas, our water and sewer is critical. We still have children playing in waste whenever it rains and the septic tanks fail. We have systems that need grants, not loans. Fairness is the issue. What is a fair price to pay for water? Around two percent of median household income, if you believe the research.

Second, we need high-speed Internet. Twenty-six counties in rural North Carolina lack 70 percent access or have less than 70 percent access. Five counties have less than 50 percent, but yet we are told that is the road to the future and it is where e-learning and e-medicine is going to occur. We need to continue supporting the expansion of telecommunications in the Department of Agriculture.

Now as to the citizen's hope for the future. He is particularly interested, or she is, in building an entrepreneurship support system and hopes that the U.S. Department of Agriculture and others will reemphasize a way of encouraging entrepreneurs in rural areas, because he knows that the major employers are net losers of employment in rural America and that small businesses are the hope for the future.

Finally, he says to himself, "I hope that the discussion at the national level will translate into policies in rural North Carolina." Our farmers need to produce the feed stock, our universities are in a position to do research, and more particularly, our farmers and business people would like to be the producers of ethanol and soy diesel and other biofuels that are possible in the future. That is what I hear from people all over North Carolina and we have been listening for 20 years. Our relationship with the Department of Agriculture, state government and others goes extremely well, but the message is quite simple from rural areas. "We are willing to do everything we can, but there comes a limit as to what we can afford in the name of a national clean water policy, there comes a limit to our opportunities in providing food and agricultural products when trade is not favorable to our results, and there is a limit as to what we can do in providing high-speed Internet when major corporations won't provide it." We ask for USDA to continue to support the programs and an enhanced program that is flexible in supporting local priorities. Thank you for this opportunity to speak.

[The prepared statement of Mr. Hall follows:]

PREPARED STATEMENT OF BILLY RAY HALL, PRESIDENT, NORTH CAROLINA RURAL ECONOMIC DEVELOPMENT CENTER, INC., RALEIGH, NC

Thank you Chairman McIntyre, Ranking Member Musgrave and Members of the Subcommittee for this opportunity to present our views on the development needs of rural America, as you prepare legislation to guide Federal investments in our communities through USDA.

I am Billy Ray Hall, President of the North Carolina Rural Economic Development Center (Rural Center). For the past twenty years, the Rural Center has worked to make life better for people in rural North Carolina. As a statewide nonprofit organization, the Rural Center has developed, promoted, and implemented sound economic strategies to improve the quality of life of rural North Carolinians.

Throughout these 2 decades, the Rural Center has had a very productive partnership with USDA Rural Development, working together on ventures that brought new jobs and businesses, infrastructure improvements, innovative technology, and community facilities to rural communities.

Today I will be talking with you about the challenges and opportunities before us in rural North Carolina; the lessons that the Rural Center has learned over the last 20 years that have bearing on the deliberations of this Committee; and why it is critical that USDA Rural Development remain a lifeline to our rural communities as we grapple with the dramatic changes ahead.

First, a bit of background on North Carolina. If ever there was a study in contrasts, North Carolina is it. Located in the heart of the state, the Research Triangle Park is home to multinational companies with 40,000 full time employees and a total payroll of $2.7 billion. The park is near, and strongly connected to, three world-class universities—the University of North Carolina, Duke University and N.C. State University. The state's banking and finance industry has experienced skyrocketing growth in recent years and achieved a dominant position in interstate banking. The combined financial assets headquartered in Charlotte total over $1.8 trillion, second only to New York City. As a result of such engines of growth, the state as a whole has experienced dramatic population growth in the past 2 decades. By 2030, North Carolina's population is expected to climb to 12 million, an increase of nearly 50 percent over the 2,000 total.

It will come as no surprise to anyone that a large percentage of this growth is concentrated in and near our urban centers, especially in the Charlotte and Raleigh-Durham-Chapel Hill areas. These urban areas and the smaller cities and towns surrounding them consistently rank at the top of nearly every national score card as best places to live and/or do business. And, we're proud of them.

That doesn't mean that we have not done right by our rural communities in North Carolina. In fact, I would assert that no other state in the nation has believed in or stood by its rural areas more than ours. I think back to the farm-to-market roads built by Governor Kerr Scott beginning in the late forties and to the balanced growth policy of Governor Jim Hunt in the seventies, which made good on the promise of providing jobs, public services and a good education in all parts of the state. And then the N.C. Rural Economic Development Center was created in 1987 to address the increasing economic disparity between rural and urban areas as a result of dramatic economic change. Since that time, the Rural Center has become the state's recognized rural policy leader and, thanks to incredibly strong partnerships with the N.C. Congressional delegation and Federal agencies, the N.C. General Assembly, the philanthropic community and corporate North Carolina, we have been able to invest more than $400 million in the state's 85 rural counties.

And yet—even with this substantial commitment by the State of North Carolina and the tireless efforts of hundreds of creative local leaders, rural North Carolina today finds itself in an intense struggle to stay afloat. Consider these facts.

- Rural North Carolina's two great economic pillars, agriculture and manufacturing, have experienced massive job losses over the last 2 decades.
    - Agriculture—still a powerful $68 billion industry in North Carolina with great opportunity for growth—now employs less than .25 percent of the population in on-the-farm jobs.
    - The eighth largest industrial employer in the country, North Carolina is losing manufacturing jobs rapidly, especially in traditional, natural resource based industries. Since 1990, North Carolina's rural counties have lost nearly 150,000 manufacturing jobs, many of which are in textiles, apparel and furniture. In fact, rural areas have lost 70,000 manufacturing jobs just since 2001.

  No state has felt the impact of job loss more than ours!
- Jobs in mills meant that families could earn a decent wage near home and receive basic benefits. Former manufacturing workers now face the reality that their limited education (nearly 60 percent of North Carolina's rural population has only a high school education or less) does not prepare them for the more challenging jobs of the knowledge economy.
- Poverty is on the increase. Rural North Carolina's poverty rate is now estimated to be well over 14 percent, with a total of 564,000 people in poverty and many more living at the economic fringes. Child poverty is 45 percent higher in rural areas than in urban areas and in the state's northeast corner averages 26 percent.

- Rural communities are doing all they can. For example, many of the state's smallest towns now charge twice as much for water service as their large urban counterparts. The average "ability to pay" (based on population, per capita income and tax valuation) in North Carolina's towns under 10,000 people is a score of only 6.78 points out of a possible 100. In other words, a vast majority of these towns do not have the capacity to go forward with infrastructure projects, no matter how much they desire to improve services for their local citizens.

My point is this. We're stretching ourselves to the limit at the local and state levels. And I have every reason to believe that North Carolina will continue its strong commitment to its rural communities. But we cannot address these enormous challenges and take advantage of new opportunities in rural North Carolina without a strong Federal partner.

I will now shift my focus to four specific issues that we are addressing at the Rural Center, offer my thoughts on what we've learned about these issues and suggest ways that Congress, through the farm bill and other critical legislation, can help.

1. Stimulate small business growth and entrepreneurship development.

As a result of plant closings and job losses suffered by our rural communities, North Carolina was among the first to recognize the importance of homegrown jobs. In the economy of the future, rural communities will become increasingly dependent on risk-taking, innovative individuals to create jobs and grow businesses.

Small business is already a powerful force in rural areas of our state:

- Rural North Carolina has nearly 90,000 establishments with fewer than 50 employees. These small businesses account for more than 95 percent of all establishments in the state's 85 rural counties;
- In addition, there are nearly 265,000 self-employment establishments in rural areas;
- While North Carolina's largest establishments (100 employees or more) reduced their payrolls by 44,000 jobs during the period 2002–2003, establishments with fewer than 20 employees added 43,000 new jobs; and
- A recent survey showed that more than 60 percent of rural businesses are started by individuals who grew up in rural North Carolina and most indicate no intention of selling or relocating their businesses.

Yet small business owners cite serious concerns. These include a sense of isolation, lack of knowledge about emerging markets, lack of access to capital, limited understanding of available business support services, and the need for more training and education programs tailored for different levels of experience.

The Rural Center began responding to these needs nearly 20 years ago when it established the North Carolina Microenterprise Loan Program to help rural men and women create small businesses to support themselves and their families, and later added the Capital Access Program, which is operated in conjunction with the state's banks. Together, the two programs have had significant impact on small business development in North Carolina:

- Since 1992, the N.C. Microenterprise Loan Program has served 2,600 businesses and made 1,267 loans totaling nearly $7 million to a diverse customer base that includes 47 percent minorities; 53 percent women; and 41 percent low-income individuals.
- Since 1994, the Capital Access Program has made more than 1,600 loans totaling $92 million, which have helped create/retain over 12,000 jobs.

Then, in October 2003, the center intensified its small business development efforts by establishing the Institute for Rural Entrepreneurship to serve the needs of rural entrepreneurs and develop statewide policies in support of entrepreneurship. Just last month, the Institute joined with nearly 50 statewide partners for the second annual entrepreneurship summit that drew 600 public and private leaders and announced a dozen initiatives to bolster entrepreneurship development. Among these were:

- The N.C. Consortium for Entrepreneurship Education, a collaboration of the Rural Center, the N.C. Department of Public Instruction, N.C. Community College System, University of North Carolina System and the N.C. Independent Colleges and Universities to improve, increase and connect entrepreneurship education across all age levels; and

- The Rural Venture Fund, a new source of capital specifically designed for qualified businesses in economically distressed counties of North Carolina. It will enable the Rural Center to fill a gap in available types of business finance for rural business owners. This fund will be a unique hybrid capable of making equity investments and issuing subordinated debt. The fund was established with $3 million in initial capital; the goal is to identify other sources to reach a total of $7.5 million.

To support the emergence of a dynamic, growing small business sector in rural North Carolina and rural America:

The Rural Center supports efforts by Congress to establish a new rural entrepreneurship and microenterprise assistance program to provide training and technical assistance to qualified intermediary organizations, so they in turn can build the capacity and expertise of rural entrepreneurs. A low-interest loan fund should be established to assist this effort, in addition to the technical assistance grants. This is one development strategy that consistently works in rural communities.

2. Invest in the construction and maintenance of water and sewer infrastructure in rural areas.

Nothing is more important to the economic future of rural communities than a reliable supply of clean water and dependable systems for disposing of wastewater. One North Carolina state senator became famous for saying, “If you can't flush, you can't dance.” The meaning is clear. Without clean water, we cannot grow businesses, we cannot grow neighborhoods, and we cannot ensure the health of our citizens.

In 2006, the Rural Center completed its Water 2030 Initiative, the most comprehensive water resources study ever undertaken in North Carolina. The study documented the need for $16 billion in public water, sewer and storm water infrastructure investments statewide by 2030. In the near term, the state faces $500 million in immediate, critical capital needs. The project also examined financing options for clean water infrastructure and questions about long-term water supply.

Here's what we found, in brief:

- Private market loans now account for 70 percent of water and sewer financing in North Carolina, yet low bond ratings prevent more than 60 percent of local governments from qualifying;
- Federal program budgets continue to be reduced, especially grant monies that are so critical for the most impoverished communities;
- By 2030, North Carolina's water consumption is expected to increase from 241 billion gallons a year to 335 billion gallons for households alone; and
- Continued population and industrial growth will place additional pressure on water quality. Currently, water in nearly 3,000 miles of the state's river systems is considered unsafe for drinking and recreation.

On the state level, the N.C. Water 2030 Initiative has led to renewed calls for a dedicated, permanent state funding source for clean water infrastructure and a new clean water bond fund to finance infrastructure. Bills now before the General Assembly (H.B. 127 and S.B. 208) would set the bond level at $500 million.

Based on the Water 2030 study and the Rural Center's extensive experience in water and sewer grants management (It manages the state's largest water and sewer grants portfolio and has provided more than $326 million in grants to 426 communities since 1994):

The Rural Center strongly supports efforts by Congress to increase funding to USDA Rural Development and other agencies to help rural communities invest in water and wastewater infrastructure.

3. Ensure that farmers and rural communities benefit from the burgeoning biofuels industry.

Even though agriculture remains robust and highly diversified in North Carolina, farming as we have come to know it is changing dramatically. Small and medium sized family farms are rapidly disappearing, with serious consequences to the businesses and communities that have depended on them.

North Carolina leaders believe that the emerging biofuels industry holds tremendous potential for reinvigorating the rural economy of North Carolina. In addition to crops grown in North Carolina including sweet potatoes, corn, soybeans and switch grass, the state has abundant sources of energy in its wood chips, animal waste and municipal waste, creating opportunities for ethanol production from cellulose.

The private sector is stepping up its efforts to make North Carolina an energy-producing state through investments in research and facilities. In 2006 the North Carolina General Assembly created the Biofuels Industry Strategic Plan Work Group, with the Rural Center as one of five convening agencies. With the participation of more than 40 state, university and industry leaders, the work group has developed a nine-point plan to make this state the top biofuels producer on the East Coast.

The plan will be submitted to the N.C. General Assembly March 30. Its recommendations include research on biomass feedstocks, creation of a public-private partnership to build a test facility for biofuels production, increased public awareness of the benefits of biofuels, and appropriate, targeted incentives. In addition, it establishes the goal that, by 2015, 10 percent of the liquid fuels sold in the state will come from biofuels grown and produced in North Carolina.

The 2007 Farm Bill proposed by USDA includes several provisions to advance biofuels research, production and commercialization. The Rural Center recommends passage of these provisions, including:

(1) Authorize a program to provide direct support to producers of cellulosic ethanol. Conventional ethanol is produced from grain, primarily corn. Cellulosic ethanol—made from such sources as switch grass, wood and straw—has the potential to replace a larger portion of fossil fuels. Targeted Federal investment will be beneficial in helping overcome the initial barriers to production of cellulosic biomass and agricultural processing waste products for ethanol and electric power production.

(2) Expand and improve the Federal Procurement of Biobased Products program. The program encourages Federal purchases of biobased products.

(3) Provide loan guarantees for cellulosic ethanol projects in rural areas. The guarantees would support billions in investments in plant-based ethanol production in rural communities providing jobs and stability to the local economy.

4. Stimulate deployment of broadband technology to rural communities.

Access to broadband infrastructure is vital for communities to remain competitive in the global market and to support the transition to a knowledge-based economy. With the creation of the e-NC Authority by the General Assembly in 2000, North Carolina became one of the most aggressive states in the country in increasing Internet availability for rural areas.

Housed by statute in the Rural Center, the e-NC Authority is charged with bringing the benefits of broadband technologies to rural and distressed urban areas of the state. Its primary work centers on assisting counties with Internet connectivity planning and coordination of technology-based economic development initiatives.

The authority has had a measurable impact on North Carolina by expanding Internet infrastructure, applications, training and economic promise. It has managed over $20 million in incentives grants to build broadband infrastructure across the state and has overseen development and implementation of such demand-building activities as the e-Communities Program. The authority also has created a system of Business and Technology Telecenters that serve as hubs of innovation in economically distressed counties.

But the job is far from done. In 26 rural North Carolina counties, less than 70 percent of households and businesses have the ability to access broadband Internet. Five counties have less than 50 percent access.

The Rural Center supports efforts by Congress to increase the amount of Federal dollars devoted to broadband build-out in the rural areas. Specifically, the center calls for Congress to:

Strengthen the Rural Development Telecommunications Program of the U.S. Department of Agriculture. The program provides loans and grants to build broadband infrastructure and to support distance education and telemedicine in rural communities. The e-NC Authority supports making the funding more accessible, providing increased funding through the grant programs, and streamlining the application process to make it easier for distressed com-

> munities to apply and participate. In addition, the authority suggests that there be more collaboration with intermediary organizations and that Congress consider changing eligibility requirements to allow statewide organizations such as the e-NC Authority to apply for funds on behalf of the rural communities of the state.

To conclude, let me state how important a flexible, well-funded USDA Rural Development program is to the future of rural areas and small towns. Federal funding should be mandatory, providing assured funds to State USDA-Rural Development staff to implement programs, rather than tied to discretionary funding decisions that are vulnerable to changing Administration priorities that leave poor rural communities even further behind. Federal rural development programs work best when USDA staff, nonprofit intermediaries, community based organizations, and local governments leverage each other's strengths, coordinate and tap all available resources. Not one of these parties working alone can transform a rural region from one of despair to one of hope. Federal rural development programs should challenge rural areas to identify their own priorities and strategies and then align Federal investments with regional strategies. USDA rural development programs can and must help state, regional and local partners address the basic needs of local communities, such as water and wastewater systems, key community facilities, telecommunications, and housing. But they should also be agents of change by helping rural areas support new economic ventures that build on natural assets and the unique character of rural places. Rural development programs also should enhance community and regionally based networks that are using innovation and entrepreneurship to form a new rural economy.

The CHAIRMAN. Thank you so much. Good to have you from back home and thank you for delivering your excellent message within the timeframe allotted. Mr. Rick Harris, President of Sunkist Taylor, LLC, from Tracy, California, thank you so much for traveling the distance to be with us today and we are glad to have you here in Washington. You may proceed.

STATEMENT OF D. RICHARD "RICK" HARRIS II, PRESIDENT, SUNKIST TAYLOR, LLC, SALINAS, CA

Mr. HARRIS. Thank you very much, Mr. Chairman McIntyre, Ranking Member Musgrave, and Members of the Subcommittee. My name is Rick Harris. I am President of Sunkist Taylor, LLC, a joint venture of Sunkist Growers Farmers Cooperative and Taylor Farms, formed in July 2006, in large part to expand the reach of a product line we developed and market it through the Value-Added Grant Program. Some of those products you will see up front. It is my pleasure to discuss our experiences with that program, kind of taking vision to reality.

By way of background, Sunkist Growers is a farmer-owned citrus marketing cooperative owned by approximately 6,000 growers in California and Arizona. Eighty percent of these growers have fewer than 40 acres and therefore should be considered small farmers. In recent years, all citrus producers in the U.S. have seen dramatically increased competition from foreign suppliers. Additionally, our costs of production have risen significantly. These competitive issues have compelled Sunkist to search for new market niches in order to increase returns for our grower-owners. However, as a farmer-owned cooperative, the exploration of some of these new market niches is constrained by the capital required to undertake research and development of the infrastructure to bring them to reality.

Some of our grant experience: In 2004, Sunkist was in the process of exploring the delivery of fresh-cut, ready-to-eat citrus and other fruits to schools. In order to help offset the expensive nature of product launch, we were often competing against massive marketing budgets of major corporations comprising the snack and beverage industry. Sunkist undertook the process of applying for one of the USDA value-added grants. We were extremely pleased to have been awarded a $450,000 grant for Fiscal Year 2004 to assist Sunkist in those efforts. Our cooperative growers matched that award with over a million dollars in other funds. Those combined public-private funds were utilized to develop the packaging and provide working capital to begin marketing this line of fresh-cut products, called Fun Fruit® to make it more fun for kids at schools, into major school districts across the East Coast. Fun Fruit® is a line of fresh-cut orange wedges called Smiles®, de-stemmed seedless grapes called Giggles®, wedges of pineapples called Pals®, and sliced apples called Grins®, and baby carrots called Kidders®, again, trying to make it fun for kids to eat healthy. As nearly everyone has seen in news articles about childhood obesity, our growers have been particularly worried that if we lose kids to unhealthy snacks now, we won't be selling those whole fruits later to adults.

In addition, we continue to be facing trends that mean more eating away from home, what we call kind of cupholder cuisine. I sure it is very familiar here in Washington. This is required us to think more about convenience. We were originally approached by Boston public schools who challenged us to find a way to get kids to eat more fruits and vegetables, especially because of the difficulty younger kids have with whole fruits. The Fun Fruit® concept was created to help wean kids away from these unhealthy snacks. In other words, let us mimic what the big snack companies do, but make the items healthful. We even put the USDA ½ cup requirement on the Fun Fruit® packages so that the school districts' food service personnel would know that the kids are getting exactly the right contribution size. And of course there is no fat in that fruit.

Sunkist Growers has also spent significant resources on technology, hence the value-added side, related to this product line to improve shelf life and food safety. Since the original grant, millions of these packages have been distributed to school kids from Boston to New York City, North Carolina and now, with our new joint venture, on the West Coast as well. We obviously also applaud current efforts to bring more fruits and vegetables to schools.

Recommendations: Looking forward, Sunkist Growers strongly recommends an increase in authorization for this program to $60 million annually in the upcoming farm bill. The history of the program has seen it repeatedly funded at less than 50 percent of the current $40 million authorization. The funding shortfall has caused USDA Rural Development Agency to apply an overall award cap at $150,000 in 2005 and $300,000 in 2006. Furthermore, penalties have been applied to applicants that have previously received awards or have gross sales over a particular level. Those penalties significantly compromise our ability to return this program to a successful award based upon competitive merit. Through these restrictions, the program is turning away from the very entities, such as farmer-owned cooperatives, that may have the best likelihood of bringing sustainable products to the marketplace. Please remember Sunkist Growers' single grant award was $450,000. That translates to $75 per grower. If the USDA is to continue to limit the recipients of these awards and ensure distribution of funds to entities with the greatest producer benefit, we believe it may be more appropriate to apply standards such as those in the Market Access Program.

[The prepared statement of Mr. Harris follows:]

PREPARED STATEMENT OF D. RICHARD "RICK" HARRIS II, PRESIDENT, SUNKIST TAYLOR, LLC, SALINAS, CA

Mr. Chairman, Members of the Subcommittee, my name is Rick Harris. I am the President of Sunkist Taylor, LLC, a joint venture of the Sunkist Growers farmer cooperative and Taylor Farms formed in July of 2006 in large part to expand the reach of a product line we developed and marketed through the Value-Added Agricultural Market Development Producer Grant program. It is my pleasure to briefly discuss our experiences with that program.

Background

As you may know, Sunkist Growers is a farmer-owned cooperative that primarily markets citrus both domestically and throughout the world. Eighty percent of our growers have fewer than forty acres and therefore should be considered small farmers. There are approximately 6,000 grower-owners of this cooperative in California and Arizona. Earnings derived from Sunkist's activities are returned to the grower-owners on a patronage basis, thereby enhancing their overall income.

In recent years Sunkist, and all citrus producers in the U.S., have seen dramatically increased competition from foreign suppliers. Now we experience significant competition throughout the year from both northern and southern hemisphere production. Additionally, the cost of production for citrus has risen significantly due to a variety of factors including taxes, regulatory labeling, labor, environmental and food safety compliance.

These competitive issues have compelled Sunkist to search for new market niches, beyond traditional citrus marketing, in order to increase returns for our grower-members. However, as a farmer-owned cooperative, our exploration of some of these new market niches is constrained by the capital required to undertake research and development of the infrastructure necessary to bring them to reality.

Sunkist Grant Experience

In 2004, Sunkist was in the process of exploring one of these market niches involving the delivery of fresh cut, ready-to-eat citrus and other fruits to schools. We anticipated that if the proper technology was applied, and infrastructure available, it would be possible to enhance our sales to school districts throughout the U.S., and then later bringing the product lines to the general public through other distribution channels.

In order to help offset the expensive nature of product launch, where we are often competing against the massive marketing budgets of the major corporations comprising the snack and beverage industry, Sunkist undertook the process of applying for one of USDA's Value-Added Agricultural Product Market Development Grants.

That program was specifically designed to encourage and enhance farmer participation in value-added businesses, including through farmer cooperatives, to help them capture a larger share of the value of their production and improve their overall income from the marketplace. It also helps promote economic development and create needed jobs in rural areas.

We were extremely pleased to have been awarded a $450,000 grant in Fiscal Year 2004 to assist Sunkist in those efforts. Our cooperative's growers matched that award with over $1,000,000 in other funds.

Those combined public-private funds were utilized to develop the packaging and provide working capital to begin marketing this line of fresh-cut fruit products named Fun Fruit® to major school districts across the East Coast.

Fun Fruit® is a line of fresh-cut orange wedges, called Smiles®, de-stemmed seedless grapes called Giggles®, wedges of pineapples called Pals®, sliced apples called Grins®, and baby carrots called Kidders®. As nearly everyone has seen in news articles about childhood obesity, our growers have been particularly worried that if we lose kids to unhealthy snacks at an early age, we may not be marketing whole fruit later on to them as adults. In addition, we continue to be facing trends that mean more eating away from home."cupholder cuisine" as some term it. This has required us to think about more convenience.

We had originally been approached by Boston Public Schools who challenged us to find a way that we could get kids to each more fruits and vegetables, especially because of the difficulty many younger kids have with managing whole fruits. The Fun Fruit® concept we created was to help wean kids away from unhealthy snacks—in other words, let's mimic what the big snack companies do, but make the items healthful. We even put the USDA ½ cup requirement on the Fun Fruit® packages so the school district foodservice personnel know that the kids are getting the correct serving size. And there is no fat in fruit!

Sunkist Growers has also spent significant resources on technology related to this product line in order to improve shelf life and food safety. Since the original grant, millions of packages have been distributed to school kids from Boston to New York City to North Carolina and with our new joint venture, we are now on the West Coast, too.

Recommendations for Program Enhancement

Looking forward, Sunkist Growers strongly recommends that the Subcommittee look favorably upon increasing the mandatory authorization for this program to $60 million annually in the upcoming farm bill and also encouraging full funding of that authorization level. The history of the program has seen it repeatedly funded at less than 50% of its current $40 million authorization.

That funding shortfall has caused USDA's Rural Development Agency to apply an overall award cap of $150,000 in FY 2005 and $300,000 in FY 2006. Furthermore, penalties have been applied to applicants that have previously received awards or have gross sales over a particular level. Those penalties significantly compromise our ability to return to this program for a successful award based upon competitive merit.

Please remember that Sunkist Growers' single grant award was $450,000. That translates into $75 per individual grower-member of the cooperative under this program.

While we recognize the difficult position that USDA has been placed in, the net effect of these restrictions has been to limit the effectiveness of the program. Clearly the program needs robust funding. Concurrently, a balanced approach to eligibility for future grants is necessary. By limiting the ability to receive multi-year competitive merit awards, and utilizing gross sales as a measure of fiscal merit, the program is turning away the very entities—such as farmer-owned cooperatives—that may have the best likelihood of bringing sustainable products to the market place.

If USDA is to continue to seek to limit the recipients of these awards and ensure distribution of funds to entities with the greatest producer benefit, we believe that it may be more appropriate to apply standards such as those used in the Market Access Program. Under the MAP program, no penalties are applied to applications submitted by farmer cooperatives.

However, farmer cooperatives are obligated to provide a competitively merit-based application to USDA and to demonstrably carry out the terms of that application over the course of the award period. In short, the MAP program eligibility guidelines recognize that farmer cooperatives are a collection of individual producers acting together for their mutual benefit and thereby maximizing the public-private investment of funds.

Conclusion

Congress faces many challenges in the current budget environment. We appreciate the difficulty of your task and at the same time, we want to emphasize the continued importance of the Value-Added Agricultural Market Development Producer Grants and other essential programs that seek to enhance the competitiveness of the U.S. agricultural sector, strengthen farm income, improve our balance of trade, promote rural development, and create jobs.

Thank you again, Mr. Chairman and Members of the Subcommittee, for the opportunity to share our views. I would be pleased to answer any questions that you may have.

The CHAIRMAN. Thank you, sir. Thank you for your testimony. I would like to yield my time to our Ranking Member of the overall Committee and former Chairman of the Committee, Bob Goodlatte, if you have any questions.

Mr. GOODLATTE. Thank you, Mr. Chairman. At this time, I don't have any questions. I appreciate it.

The CHAIRMAN. All right. Reclaiming my time, I would like to just ask one or two quick questions, given our time constraints. Mr. Hall, you noted in your testimony that 26 rural North Carolina counties, in 26 counties, less than 70 percent of the households and businesses have broadband access. The Broadband Program under the USDA has come under a great deal of scrutiny due to how the agency defines under-served areas. These counties would certainly be considered under-served with regards to broadband. What thoughts do you have, in the criteria we set at the Federal level for under-served, when it comes to broadband access?

Mr. HALL. I think under-served is anything less than, say, 85 percent of the service area. I think the second part of it is geographical coverage. You have got to think about the geography of the region and whether you are going to limit the developable area. Secretary Dorr, in answering that question, talked about the private sector being able to run a line 6 miles. I think the question is, without a bias to technology, which includes wireline and wireless, we could talk about under-served areas that do not have geographical coverage of some form of wireless so that the people are able to participate. I think it is particularly true also in the Midwest, when we think about areas being spread, and in Texas where densities are low, but the USDA is the sole hope for partnering with the private sector in the states to provide access in these areas.

The CHAIRMAN. And let me ask you about one other thing. You mentioned in your testimony about small businesses and innovative entrepreneurs who play such a large role in rural areas. One of the true virtues of these homegrown businesses is that the local owners have little intention of moving their business away simply to capture lower labor costs in another town. Your Microenterprise Loan Program and Capital Access Program focuses particular on this group of entrepreneurs. Can you share with us how these programs work and what the needs for capital are for programs like this in rural America?

Mr. HALL. Yes, sir. And I appreciate you bringing up the two programs that we administer. I never realized that 5 minutes was that short until you told me I had to stop talking in 5 minutes. Where I am from in North Carolina it takes about 5 minutes to say, "Hi, you all."

The CHAIRMAN. Yes, I understand.

Mr. HALL. Two things: We have been running the Microenterprise Program now for 14 years and what we have found with the 2,700 people we have assisted, the 1,300 loans we have made, there are two or three things about entrepreneurs that we followed up with focus groups in rural areas. One, entrepreneurs, when provided adequate technical assistance and appropriate finance, can succeed, not 20 percent of the time as they normally do, but 80 percent of the time. That is our track record with startup businesses. Second, the entrepreneurs themselves, in responding to needs, have identified the need for venture or near-venture funding to get their businesses into mainstream activity. Many of the Federal programs, like the Small Business Investment Corporation's support, are targeted to and used in urban areas. Rural areas, where entrepreneurs develop and there is a shortage of capital, most state programs tend to be incentives that deflect income tax. For the small business owner, they are not going to have income tax for 2 or 3 years. The issue is how do they get working capital in the short term to hold their business in place? And that is where equity or near-equity investments are needed. We have just recently created a rural venture corporation that will be for the first time dedicated to only rural ventures.

The last part of it, I would say, is in listening to the rural entrepreneur. They desperately need a forum where they can sit together and discuss their needs in terms of technical assistance, marketing assistance and others. I would encourage each of us to think about setting those fora in place in rural America. They certainly work in the hotbeds, as rated by national magazines. Number one, Mecklenburg County and number two, Lake County, are both in North Carolina. They are designated as hotbeds for entrepreneurship. The critical thing they have is councils for entrepreneur development in each community. The question is how do we get those in rural areas, and how is it supported by USDA as the mechanism that spurs entrepreneur development?

The CHAIRMAN. Thank you, sir. Mr. Fluharty, if I may ask you, you mentioned in your testimony that a serious disadvantage that rural communities face are those where they lack grant writers and economic development teams, which many of their larger towns have and of course the urban areas tend to have. Can you tell us specifically what programs exist that close that technical gap, and what mechanism we should look at to use to improve technical assistance to rural areas who sometimes can't even afford to pay a grant writer much less find one?

Mr. FLUHARTY. Three quick recommendations: First, obviously, in many areas, our council governments or regional development organizations do that. I think that is an excellent model. Second, within individual sectors, we are finding new linkages, whether it is in the state offices or rural health, and I would simply look at the rural health infrastructure of our nation as a model for what we could do in entrepreneurship and innovation from this Committee. Some community colleges in many areas are building entrepreneurship programs. We are working in Alabama with Governor Riley and Governor Barbour in Mississippi on a project from wired USDA, I mean Department of Labor, with the community colleges, building entrepreneurship in first-generation learners. Again, it is a system to build some sort of framework for entrepreneurship, but counties now buy in the hospital system, *et cetera*.

The really key issue is, Mr. Chairman, what is the intermediary, like the center for rural North Carolina, that does that? Is it a cog? Is it a new entity? Is it an entrepreneurship system you build? But the reality is, without CDBG for rural areas, we do not have the ability to compete with urban and suburban areas unless we create something. The CDBG Program is excellent. It is not year to year. It is not continuous. You cannot build a capital plan. You cannot build a strategy for a region. The number one thing this Committee could do is look at systemic commitments to regional strategies for innovation and entrepreneurship in some form, like a rural CDBG that would enable an organization like Billy Ray's, or counties and regional development organizations, to build that human and institutional capacity to capture those opportunities. Entrepreneurship systems have to be built. As Billy Ray said, once you see it, you can feel how it works in letting entrepreneurs build a future. This

Committee has the potential to do that, Mr. Chairman. I would urge you to look at that. Thank you.

The CHAIRMAN. Thank you. And we would look forward to working with you on that. Mrs. Musgrave.

Mrs. MUSGRAVE. I would just like to make a couple of comments about community colleges, and you have all emphasized what a contribution they make to our communities, our areas, our regions, and I would just say wholeheartedly, we have to improve community colleges. They can do so much. They have so much capacity and we need to help them grow even further. Just the other day, I met with court reporters, not a group that I had met with, but boy, what an opportunity. I am sitting there listening to them and I am thinking as we go to closed captioning, what an opportunity for community colleges to enable a woman with three kids to work from home with the new technology and make $45,000 a year. And I am just hearing things all the time that community colleges could engage in to improve the workforce and the opportunity for folks in rural America. And as I think about that and we emphasize entrepreneurship here today, do you have any specific ideas to make these community colleges, our land-grant universities, our junior colleges, even better in this area?

Mr. FLUHARTY. Let me mention three things very quickly. We are honored in a collaboration with the American Association of Community Colleges and the Rural Community College Alliance in building a national institute for rural community colleges. If you look at the renewables development, community colleges have three advantages. They are thinking about a workforce that will remain in place. If we do a study of allied rural healthcare, and we have done a lot of work with the Office of Rural Health Policy in this, if you raise up a rural man or woman as a first-generation learner, train them in allied healthcare in a rural community college, their potential for staying within 30 miles of that training is 92 percent. Where the college is, they don't name the college. We all know that. It is, "I am going to the college, because it is there where there is nothing else."

Second, when we think about building a rural middle class, community colleges are the entry point for first-generation learners. Third, because of their workforce design, if we build asset development systems in renewables in regions around those colleges, we can build world-class technology partnerships with those institutions. We are very excited to be working with these two consortia of community colleges, because they are building networks. I would just mention one. A number of these colleges are working in pulp and paper cutting-edge technology globally. As we think about renewables, we need to think about, in USDA, some of those dollars going to existing programs that build networks that are already in place and working. I am in land-grant system. I am a product of the land-grant system. I love the land-grant system. I honestly believe that community colleges are creating the extension service of the 21st century knowledge economy and we need to better link extension to them and build programs that target community colleges. There are hundreds of examples of it and we look forward to working with your staff to assist in building some models for you.

Mrs. MUSGRAVE. Well said. You know, as we talked about hospitals earlier in rural America, as we talked with Secretary Dorr, I look at the community college where I live and I mean, RNs are coming out of there. We have a such a nursing shortage nationwide, but rural areas are particularly hard hit and I just marvel at the ability of these community colleges to meet the needs that are so severe in rural Colorado and around the nation for healthcare providers. So I am excited to see what we can do to make the situation better for community colleges. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Ranking Member Musgrave. Just in the interest of time, we are moving right on schedule and we will soon conclude by 12 noon, but I would like to invite any of the other members of the panel who have not directly answered a question, if you have any additional comments you would like to make, literally for just a minute or two, something you think you need to highlight. Mr. Harris?

Mr. HARRIS. Sure. I think it is still on. Okay. One of the things I did want to mention is the Sunkist project was really a microcosm of what is happening in the Value-Added Grant Program that is available to small farmers all the way up to major cooperatives. The process that we go through is very much like starting a company, where you need a business plan and then follow through with the execution. So some of the things that actually were talked about on the panel I think kind of tie in with the kind of support that even at our level, we needed to create this business plan to make those products that are out in schools today. But the same thing happens with somebody that comes up with an idea and then drives down the road and looks for how to actually end up executing that. So one of the things that I would recommend, in addition, obviously, to increasing the funds for this program, is kind of a linkage between the business plan analysis side of the program and then the final execution into the product stage.

The CHAIRMAN. Okay, thank you very much. Commissioner?

Ms. LANDKAMER. Thank you, Mr. Chairman. I just want to reiterate, again, the Federal-local partnership. I think at times that gets lost. We actually put many of the programs on the ground that you determine are appropriate and we need to be at the table when we talk about these things. So I just want to say that. And it is all about partnerships and as Mr. Fluharty always says, if you have seen one rural community, you have seen one rural community. And so all our places are a little different and we need that flexibility and the ability to leverage dollars in order to make sure that people can stay in that community and be sustainable and have a good quality of life. So that is what we are looking for and we think that some of the programs, like RSIP, could really help do that. So thank you.

The CHAIRMAN. Thank you. You have been an excellent panel today and before we adjourn, I would like to ask the Ranking Member if she has any final comments.

Mrs. MUSGRAVE. I do not, Mr. Chairman, but thank you.

The CHAIRMAN. Thanks again to our staff, in the advent of this new Congress and new Subcommittee with its jurisdiction. Thank you, to the members of our panel who have done such a great job in your testimony. Under the rules of the Committee, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses, please note, to any questions that was posed by a Member of the panel. Or if you have any additional points or testimony you would like to bring to our attention, please submit it within the next 10 days. This hearing of the Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture is now, within the time allotted, adjourned.

[Whereupon, at 12 p.m., the Subcommittee was adjourned.]

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