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HEARING TO DISCUSS RURAL DEVELOPMENT CHALLENGES AND OPPORTUNITIES

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

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HEARING TO DISCUSS RURAL DEVELOPMENT CHALLENGES AND OPPORTUNITIES

Tuesday, February 13, 2007

U.S. SENATE,
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
Washington, DC

The Committee met, pursuant to notice, at 9:52 a.m., in room SR–328, Russell Senate Office Building, Hon. Tom Harkin, Chairman of the Committee, presiding.

Present: Senators Harkin, Lincoln, Nelson, Salazar, Brown, Casey, Klobuchar, Lugar, Cochran, Coleman, Thune, and Grassley.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

Chairman HARKIN. The Committee on Agriculture, Forestry and Nutrition will come to order. This morning we are having another in our series of hearings leading up to the Farm Bill, and this morning we are having a hearing on rural development.

I will just make an opening statement and then I will introduce Senator Chambliss, and I know some Senators also want to introduce some of our guests and I will ask them to do that at that point in time.

Typically, when the Farm Bill is discussed, rural development and the challenges and opportunities facing rural Americans and their communities are not especially high on the list of topics. In the reality, the Farm Bill is the single most important piece of legislation we deal with, having a broad focus on rural development.

Despite their unique challenges, rural communities offer many advantages. Ironically, rural America is a wonderful place to live and raise a family, too often, it is a hard place to make a living and support a family. The new Farm Bill hold much promise for helping rural Americans capitalize on the strengths on their communities to increase economic growth, jobs, and the quality of life.

We need to examine the Department of Agriculture's numerous rural development programs to see what is working and what needs improvement. We also need to foster better coordination between the various Federal agencies, State and local governments, nonprofit and charitable entities, and private individuals and businesses.

One innovation which has already proven its value involves a cluster of communities joining together to identify their strengths and their needs and then to work cooperatively with governments and businesses, educational, and nonprofit entities to carry out a rural development strategic plan. This is a sound approach and one I hope we can encourage in the new Farm Bill.

We also have to opt to consider better focus in USDA rural development assistance toward those communities who have devised a plan to make the most effective use of Federal dollars. The experience thus far shows that certain strategies and Federal initiatives hold a lot of promise, for example, adding value to farm commodities and products, whether for energy or a host of other bio-based products helps to increase farm income, rural economic growth, and jobs, of course, while reducing our dependence on imported oil.

The Value Added Agricultural Product Market Development Grants have worked well; I hope they can be strengthened. We also know that basic infrastructure is critical to the prospects of any rural community, from electricity, to drinking water and waste water treatment, and the high speed internet access which has now become a necessity.

We put funding in the 2002 Farm Bill for the specific purpose of funding USDA's backlog of approved applications for water and waste water programs, and I hope we can achieve a similar objective in this bill.

One last thing, quality health care is, of course, also essential, and I commend the Administration's proposal to help rural hospitals. I also support Senator Nelson's proposed legislation to help small rural businesses to get started and succeed. And we must continue to support cooperatives as they carry on their tradition of improving farm income and rural economic opportunities.

We also need to do what we can, and I am not certain I have an answer here, but I hope to explore it, how we hope move more venture capital for investment in rural areas. Community foundations can also help communities assemble more resources to help themselves. As we now know, there is a good deal of accumulated capital, though much of it remains untapped as a source of investment in those areas.

So those are just some of the areas I hope we can explore with the witnesses today, and others, as we move forward to the development of the Farm Bill. So I look forward to the testimony of our witnesses, and the valuable contributions they can make to our discussion in the rural development title of the new Farm Bill.

I will reserve time for Senator Chambliss to make his opening statement when we comes. I know that Senator Nelson and Senator Klobuchar wanted to make a couple of introductions before we proceed, and I would first recognize Senator Nelson for that purpose.

STATEMENT OF HON. E. BENJAMIN NELSON, A U.S. SENATOR FROM NEBRASKA

Senator NELSON. Thank you, Mr. Chairman. It is my pleasure to introduce Chuck Hassebrook who is the Executive Director of the Center for Rural Affairs in Lyons, Nebraska. The Center is a nationally recognized research, advocacy, and rural development organization that promotes family farming and ranching, small business and entrepreneurial rural development.

Chuck also serves on the University of Nebraska Board of Regents and is its past Chair. He formerly served on the on the U.S. Department of Agriculture National Commission on Small Farms, and was Vice Chair of the USDA Agricultural Science and Technology Review Board. He currently serves on the Nebraska Rural Development Commission.

Mr. Hassebrook is a University of Nebraska graduate, a native of Platte, Nebraska where his family is engaged in farming. He lives in Lyons, Nebraska with his wife Kate and sons Anton and Peter.

It is my great pleasure to introduce a very, very good friend, very strong advocate for rural development, and a partner over the years while I was in the Governor's Office and since I have been in the Senate, Mr. Chuck Hassebrook.

Chairman HARKIN. Thank you very much Senator Nelson, of course we all know Chuck Hassebrook, and that is a great introduction.

I will turn to Senator Klobuchar.

STATEMENT OF HON. AMY KLOBUCHAR, A U.S. SENATOR FROM MINNESOTA

Senator KLOBUCHAR. Thank you, Chairman Harkin. It is my pleasure today to introduce Joe Sertich. Joe is from northeastern Minnesota where, actually, my grandpa was a miner and my dad grew up. And Joe is the President of the Northeast Minnesota Higher Education District, which is a network of five community colleges, and one of them is Vermillion College, where my dad went to college.

You might think that Mr. Sertich looks young, but you should know that his son, as Senator Coleman knows—his son Tony is the Majority Leader of the Minnesota State House of Representatives. So we are very honored to have Mr. Sertich with us on the panel. Thank you.

Chairman HARKIN. Thank you. Senator Coleman also indicated that he wanted to say something on behalf of Mr. Sertich.

STATEMENT OF HON. NORM COLEMAN, A U.S. SENATOR FROM MINNESOTA

Senator COLEMAN. This is a great Minnesota family, Mr. Chairman, really committed to the public services. These issues are critical. I just want to welcome Mr. Sertich to the Committee, and I look forward to hearing his testimony.

Chairman HARKIN. Thank you very much. We will now begin our testimony. We are going to try to ask you to limit it to 5 minutes. I know a lot of Senators have questions and want to get engaged in conversation with you, so if you could—all of your statements will be made part of the record in their entirety, and I would as that if we could just start with Mr. Fluharty, and work down. I hope that your clock is working. I will give you 5 minutes. If you go a few seconds or a minute over, it is not going to bother us that much.

Mr. Fluharty, welcome, again to the Committee. You have been a witness here before many times in the past. We welcome you back. Please proceed.

STATEMENT OF CHARLES FLUHARTY, PRESIDENT, RURAL POLICY RESEARCH INSTITUTE, TRUMAN SCHOOL OF PUBLIC AFFAIRS, COLUMBIA, MISSISSIPPI

Mr. FLUHARTY. Thank you, Mr. Chairman, members of the Committee. I appreciate the opportunity to be here, as we begin deliberations, again, on a new Farm Bill.

Mr. Chairman, you asked us to look at the opportunities and challenges in rural America, and I believe we have given that fairly synoptic coverage in our written testimony, which I would ask is entered in the record. And I hope members and staff have an occasion to review the dynamic challenges that are there.

You and your colleagues have a very difficult task this year, as you all know. This title is very broad and it addresses a number of very critical national needs, and you are entering a year in which the baseline for this Committee is going to be an increasing challenge. So in my written testimony, I really tried to make a case for, despite those issues, the absolute necessity that RUPRI believes must be addressed: significant new investments and a different policy approach in the rural development title this year.

Simply put, there are two major reasons for that. One is a domestic consideration, and the other is an international consideration. I would like to review those just briefly for you.

There are two particular domestic challenges that I would suggest you must look at this time in our Nation's history. One is the rural disadvantage in Federal fund flows for economic and community development. I have laid that out, I think, very clearly. It is an ongoing challenge. This year, it is a $550 per capita difference, urban versus rural. Those are new numbers. That is very, very significant. That is a multi-billion dollar challenge for rural economic development and entrepreneurship.

The other is a unique challenge that results from your Federal designations and the growing interdependence of rural and urban areas. Counties are no longer adequate descriptors for this, and in everything from energy to food systems we need to think about the continuum of Federal commitment to rural strategies, from rural through urban areas.

In fact, RUPRI believes that we are going through a set of socioeconomic and demographic changes that are as important as the great shifts in the 1950's. We think they will have significant long-term rural implications for what is going on out there in the dirt.

The second issue is international competition. Every developed nation that we work with in OECD is going through the very same challenges this Committee is, but many of these public programs in other developed nations, frankly, are taking approaches that are more systematic, continuous, and at a deeper level of public investment. And these are the competitors that our rural regions must contend with, not the next county.

I will simply mention two. The EU has a major new rural broadband initiative that is going to essentially put broadband in every community in Europe. In addition, they just announced a multi-billion dollar European innovation fund that will link their universities to rural regions. We have neither of those right now, and that is significantly disadvantaging rural entrepreneurship in the United States.

My colleagues on this panel are going to offer a number of wonderful examples of the opportunities that are out there. There is much going on. We would endorse everything that is going to be mentioned as a sector-specific opportunity, but as a public policy institute, I would like to close with three policy challenges that you have to confront. You have to deal with the disadvantage that rural areas have in your Federal commitment, overall, to economic development.

Second, I would urge you to provide leadership to rethink essential public services. The Administration's approach is excellent, in terms of funding to address backlog, but we must also look at broadband and broader community resources.

Third, we really do need a new policy framework, and it needs to be a framework in which shared investments between the public, private, and philanthropic sector are scaled. There simply are not enough Federal dollars.

So Mr. Chairman, in that regard, I want to commend the Committee. As you all know in the 2002 bill, you passed something called the Rural Strategic Investment Program. It was unfortunately not funded. There are problems with that in today's market, but I would contend that it is the right model, and I would contend, if we can think about a scaled investment model that does three things: looks at regional frameworks in a very significant way, has laser attention to entrepreneurship and institutional innovation, and assures continuous commitment so that State and private dollars can be addressed in a Federal framework. I think we are well there.

Mr. Chairman, the recent New York Times article on ethanol was wonderful, and I will read your quote there. "We need to think big and act aggressively." Ethanol is a wonderful opportunity, but there are 2,000 rural communities that will not have an ethanol plant. 2,000 counties. There are many advocates for ethanol. There are 90 million rural Americans that need attention as well, and we need entrepreneurship beyond the ethanol juggernaut. We contend broader entrepreneurship is the future, and we believe a new framework is necessary."

Thank you, Mr. Chairman. Thank you, members of the Committee. I look forward to your questions.

[The prepared statement of Mr. Fluharty can be found on page 46 in the appendix.]

Chairman HARKIN. Well, Mr. Fluharty, thank you very much for that wonderful opening statement. It sort of sets the stage, I think, for our other witnesses and for our discussion.

I just want to also thank you at the outset for all the work that the Rural Policy Research Institute does.

Mr. FLUHARTY. Thank you, Mr. Chairman.

Chairman HARKIN. Great information that we get here on both sides of the aisle.

I think I stole that quote from Dick Lugar, by the way.

Mr. FLUHARTY. I am sure you did.

Chairman HARKIN. Mr. Hassebrook, we will recognize you next.

STATEMENT OF CHUCK HASSEBROOK, CENTER FOR RURAL AFFAIRS, LYONS, NEBRASKA

Mr. HASSEBROOK. Thank you, Senator Harkin, and thank you, Senator Nelson, for that kind introduction.

This Farm Bill presents an opportunity to invest in our future. There are proven strategies that work to revitalize our rural communities, largely based on small entrepreneurship and agricultural entrepreneurship. And if we invest in those strategies, we can set off a wave of development that revitalizes rural communities and creates genuine opportunity for rural people across this country.

You know, small entrepreneurship really is key. We analyzed the most rural agricultural counties in our region, the Western Corn Belt and the Northern Great Plains. What we found is that about 60 percent of all new jobs came from non-farm proprietorships. It was people creating their own job by starting a small business. And perhaps what is most exciting and encouraging about that is that when we survey rural high school students in our State we find that about half of high school students in rural areas want to own their own business. This is a strategy that has the capacity to draw our young people back to rural communities.

With that, I am very pleased that Senator Nelson is introducing a rural micro-enterprise and entrepreneurship bill that would provide $50 million in mandatory funding to provide loans, training and technical assistance to rural small businesses. This legislation is modeled after a program in Nebraska that was initiated by then-Governor Nelson. Last year, that program provided loans, training, and technical assistance to over 4,000 business, rural and urban and it has been a great success story.

And when I measure the success of that program I think of the families. I think of families like the Gaster family out in Indianola, Nebraska, out in southwest Nebraska. It is an area that has been losing population, suffering from drought. It is a tough place to make a living. And Mr. Gaster always had this hobby of making wood and copper barrels. Well, they turned that into a business, and today they are selling wooden and copper barrels over this entire country, with clients, in part, from Hollywood movie sets. They have clients like 20th Century Fox, Disney, and the Smithsonian Institution. And it has been successful to the point that not only is supporting Mr. and Mrs. Gaster, but their son is coming into the business.

My point is simply this: That is the kind of success that you can have when you invest in entrepreneurship. That is what we need to do, in my judgment.

There are also opportunities for entrepreneurship on the farm. You know, I was struck by a consumer panel that Better Homes and Gardens pulled together a few years ago where they found that about two-thirds of consumers say they would pay a premium for pork if it is raised on a small farm that is humane and environmentally responsible.

Now, those surveys usually overstate the demand, but let's say it is a quarter of consumers. That is a huge opportunity for small and mid-sized farms. And one of the programs that has helped farmers tapped that opportunity is the Value Added Producer Grants Program. It is a program that you created in this Farm Bill in 2002. I think it is the great success story of the rural development title of the 2002 Farm Bill. I would urge you to reauthorize that and strengthen it. Strengthen it by committing $50 million in mandatory funding, and strengthen it by putting a clear statutory priority on projects that help strengthen small and mid-sized farms.

Now, I am not proposing a means test. I am not proposing something exclusive. I am proposing a priority. When we analyzed the grants made under that program under the current Farm bill, we found that there are a lot of good projects funded, but when we graded projects for their relevance to strengthening small and mid-sized farms, we found that about 40 percent of the projects were graded an F for relevance in strengthening small and mid-sized farms. And I think a clear statement of priority in that regard by the Congress would really help strengthen that program.

A couple of other points. One, we think it is vital that we infuse entrepreneurship across the titles of the Farm Bill. It is not just a rural development title issue.

For example, in the research title, I would encourage you to include a program that provides mandatory funding for grants to be administered by the existing USDA rural development centers in places like Iowa State and Penn State, that they could turn around and then make grants to educational institutions, be they community colleges, be they the extension service—perhaps high schools, to provide entrepreneurship education to adult learners and to youth. The most exciting things I have seen in entrepreneurship in Nebraska is that we now have high schools that are teaching entrepreneurship.

You know, that is a big deal to me, because our schools work pretty well in rural areas. They certainly do in rural Nebraska, and rural Iowa, and a lot of rural communities. But you know, I kind of sense that, over the years, we have taught a lot of young people to leave. And what we are doing with these programs now is, we will educate you to leave if you want to leave, but if you want to stay, we are also going to educate you in a way that gives you some of the skills you need to create your own future in rural America through entrepreneurship. And to me that is exciting and we have seen some great examples of it.

One last thought I want to leave you with before closing. You might ask, those things sound neat, but where are you going to get the money for them? And what I would say is this, this Farm Bill will oversee about $50 billion a year in mandatory funding, most of it to address very real and very immediate needs. But if this Congress could just carve out 1 percent of that money to help create a future in rural America, $500 million a year for entrepreneurship, it could set off a wave of new opportunities in rural America that would result in, the next time you do a Farm Bill, maybe not having so much need for immediate assistance.

So thank you and I appreciate your time.

[The prepared statement of Mr. Hassebrook can be found on page 79 in the appendix.]

Chairman HARKIN. Mr. Hassebrook, thank you very much for your statement. Again, I thank you for all your leadership for the Center for Rural Affairs and for your many years of working with us here and testifying. And thank you also for all the help you gave us on the 2002 Farm Bill.

The ideas that you just rolled out are very provocative and I am sure we will have questions about entrepreneurship and how you teach it and who does it. I think I know it. I do not know how to define it and how to do it, but kind of a, I will know it when I see it kind of thing. So maybe you can help us think through how we carry it out.

Next, we will turn to Mr. Vernon Kelley. He is Executive Director of the Three Rivers Planning and Development District, and past President of the National Association of Development Organizations.

He is the author or father of what is called the Tupelo Miracle in his area.

Mr. Kelley, welcome to our Committee.

STATEMENT OF VERNON KELLEY, THREE RIVERS PLANNING AND DEVELOPMENT DISTRICT

Mr. KELLEY. Thank you, Mr. Chairman, honorable Committee, distinguished staff. I appreciate the opportunity to come today before you as you are considering the rewrite of the 2002 Farm Bill.

I am probably the only panelist that actually represents rural governments and local governments where the rubber meets the road and where the pain really hurts, the people that are your constituents and represent your constituents, and I appreciate the opportunity to be here.

I will warn you, I do not see, so the clock is not going to help me. That is the 100 percent truth and not a joke. So if I have to stop, you will just have to stop me.

Chairman HARKIN. You do not mind if Chuck Hassebrook just gives you the elbow, there.

Mr. KELLEY. That would be a tough one, because I am speaking from my heart, Mr. Chairman.

Three Rivers, we cannot claim the Tupelo story, but what we can claim unquestionably is partnership building. We work for eight counties, and the local governments were created in the 1970's, and I have over 30 years experience in economic development with local governments and rural governments.

We have built an area in north Mississippi, if you stick a pin in the center of it and do a 50–mile circle, there are more manufacturing jobs historically there in that 50–mile circle than anywhere else in the State of Mississippi. We have done such by becoming the upholstered furniture capital of the world. We are now facing foreign competition, and in the last decade, have lost over 10,000 jobs in my region, in manufacturing jobs.

And since July, and our workforce partnership that serves 27 counties as partners with the community colleges, businesses, and industry, as well as local governments in promoting workforce and on the job training—we have lost over 3,000 jobs. That is in 7 months.

Rural America is suffering, and we are suffering in our end of the State. We have been partners in several successful endeavors, and I think partnerships are the only way to accomplish it. As one of our board members on our Regional Solid Waste said so effectively 1 day before his council in Tupelo, our largest city of 30,000, "If I have to depend on the gates around on the city of Tupelo to make a living selling boats, I can close my office. I depend on the region."

We not only have to depend on the region now, but we compete nationally and globally. If you have read The World is Flat, you understand that what now happens across county lines happens across the oceans. We are successful in putting these partnerships together. We are the only region that I am aware of that has community colleges that serve as our one-stop coordinators and centers in our workforce area. We are very pleased that they are our partners. And without partnerships and building in the region, of your businesses and your colleges, as well as your local governments, you cannot be successful.

We put the first regional landfill together owned by local governments in the South. And 6 years consistent we have had the same tipping fee with local governments, industries, and businesses all paying the exact tipping fee, as opposed to private facilities where local governments get a bargain and they rake small businesses.

We are proud of that partnership. We have put a partnership together in businesses with our lending. Thanks to IRP and some rural development assistance, as well as other Federal programs, we have, since 1985, made over $69 million in loans in our region, with over 11,000 people working there today in these loans. During this 21–year period, we have less than 1.5 percent loss rate over the combined total.

We work with our banks, because without them we could not be successful. With these banks, we double that money, because we are always in a second lending position and made the banks our partners in economic development.

One of our newest ventures in partnership is called the DUL Alliance. It is three counties and three municipalities that have ignored local boundaries and crossed lines in expenditures and revenue advantages, putting together a mega-industrial site to seek a major impact in industries such as an automobile facility. It is now one of the top five sites in the Nation by the consultant's recognition, and we hope to be very successful to help offset some of this.

The point I am making is it has got to be in rural America regionally. No longer can the 5,000 town compete because it is not competing against the 10,000 town. No longer can rural America compete with the Atlantas, and the Memphises, and the Nashvilles individually, they have to group together.

Mr. Chairman, I would like to request that this Committee continue its efforts on the Rural Strategic Investment Program, an outstanding concept, and you are to be commended for it—and to broaden it, and expand it, and hopefully initiate this nationwide.

What I would also like you to consider in the Farm Bill rewarding partnerships—and I am going to have to go quick—rewarding partnerships where local governments work together. I want you to consider the infrastructure nationally, as almost all local government programs are loans. Where Federal Government grants go to major metropolitan areas, my local governments are having to borrow it and pay it back.

And Mr. Chairman, I wish the Committee would consider the structure of economic development in rural agencies similar to mine that have been very successful with nominal financing throughout the years in helping the local governments join together and be successful in economic development.

Mr. Chairman, I appreciate the opportunity. I wish I had an hour to talk to you, because my heart bleeds and loves rural America. God bless each of you for your efforts in helping rural America and your constituents back home, and God bless America.

[The prepared statement of Mr. Kelley can be found on page 89 in the appendix.]

Chairman HARKIN. Well, Mr. Kelley, thank you very much for your profound statement, and also for the written statement, which I had gone over last evening. And thanks for being here today.

Now we turn to Ms. Mary Holz-Clause, Co-Director of the Agriculture Marketing Resource Center at Iowa State University, and as I said, Associate Vice President for Extension, and Director of The Value Added Agricultural Program and Agriculture Marketing Resource Center.

Welcome to the Committee.

STATEMENT OF MARY HOLZ-CLAUSE, CO-DIRECTOR, AGRICULTURAL RESOURCE CENTER, IOWA STATE UNIVERSITY, AMES, IOWA

Ms. HOLZ-CLAUSE. Thank you very much, Senator Harkin, and all Senators, for the opportunity to talk with you this morning.

In addition to a few other of those titles, my husband and I are also family farmers in west central Iowa. I am going to speak with a lot of passion and from the heart when I talk about the Value Added Producer Grants today. They really are making a significant impact in rural America. The more than 46 farmer-owned ethanol plants in the U.S. are fueling our Nation's energy supply, and the 95 biodiesel facilities are making a significant difference.

However, we all know a lot about the excitement of the renewable fuels, but I want to talk about some other Value Added Producer Grants recipients. One of those is a farmer in central Iowa. His name is Kelly Biensen. Kelly raises certified Berkshire pork products and markets those on both coasts. Kelly received a Value Added Producer Grant a couple years ago, and just last year, to give you an example, he and the other 20 pork producers in Iowa are just getting commodity prices, and an additional $1.6 million because of the assistance that they received from the Value Added Producer Grant. They used the VAPG money to leverage and work in market development. This is an example of the impacts that are happening in rural America with the Value Added Producer Grants.

Another couple of example a Value Added Producer Grant is being used by a Texas marketing group that are now doing a value enhanced into a market that did not exist for them prior to receiving a grant. They used their funds and developed a market in Mexico.

A California cooperative group, created a tracking system so they were able to further develop their export market for raisin products.

The stories go on and on, and you can look at those in the official comments. Our producers have, for the most part, have some pretty marvelous examples of how they have taken those funds and leveraged that money to further develop either markets or coming up with new market strategies.

For instance, many ethanol producers have used funding from VAPG to develop hedging scenarios so that they can assure that they can be successful in the future. The program has made a significant impact on the farmers and the rural communities out there.

Closely tied to the Value Added Producer Grants is the Agricultural Marketing Resource Center. The Agricultural Marketing Resource Center is a virtual value added center, which means that it is all web-based. And on that website, generally there will be around a million to two million hits per month of farmers who are coming on and getting information, information on how to do business plans, feasibility, marketing studies. There is also background on about 250 different commodities and products. So this Agricultural Marketing Resource Center is truly a center for the whole United States.

We have had inquiries on how to increase the market development for pomegranates, and how to develop quality management systems for wild salmon fishing in Alaska. Armed with the resources that we have, and partnering with the University of California, Davis, and Kansas State University, our producers are getting the assistance they need. We are working very closely either with service providers or producers in your States to answer their value added questions to explore or helping producers.

Some of the studies that are going on right now include looking at the economics of producing ethanol from sugar beet pulp. Another one is looking at the impact of the current state of innovations and competitiveness for bioenergy in California. Researchers at Tuskegee University looking at the opportunity for meat goat production in the United States. The University of Nebraska is doing a project right now on specialty cheese production and looking at that marketing opportunity.

At the Agricultural Marketing and Resource Center, we have tried to focus it so that it is there for all U.S. producers and farmers. I have included in my testimony some quotes of people who have used the Center. I thought one that was particularly interesting was a wine grower who had been growing and been involved in the wine business for 27 years. And he wrote to us after we had created a winery financial area, and he said, “Thank goodness. Finally somebody is putting that together.”

And that is what the Agricultural Marketing Resource Center really wants to focus on, is to have those tool, those things, that producers need. If you go on the web, there is much information about production. We have done a wonderful job through our extension services and others of telling people how to grow things, but what we really want to focus on is, how do we turn that production into viable markets?

In conclusion, as I mentioned at the very beginning when I talked about the pork group, as I told you, they had made some significant metrics—$1.6 million additional money last year, but what was really amazing is perhaps a little harder to quantify. It is what the group has learned about the business, and marketing, and about themselves, and the attitude now that they say, you know what? There is a future out there in rural America. We can do this. We have the skill sets. We do have the confidence to go forward and do that.

So I know that you are going to be very busy, and have many questions, and many deliberations, and many demands put upon you, but I would encourage you to ensure the seamless continuity of this program—the Value Added Producer Grants, and encourage you both to reauthorize the Value Added Producer Grants in the next Farm Bill, and provide full authorized funding right now for the upcoming appropriation process.

Thank you very much.

[The prepared statement of Ms. Holz-Clause can be found on page 84 in the appendix.]

Chairman HARKIN. Thank you very much, Ms. Holz-Clause, for being here and your great statement.

Now we will turn to Mr. Sertich, President of the Northeast Minnesota Higher Education District, and Chair of the Rural Community College Alliance.

STATEMENT OF JOE SERTICH, CHAIR RURAL COMMUNITY COLLEGE ALLIANCE, CHISHOLM, MINNESOTA

Mr. SERTICH. Chairman Harkin, and members of the Committee, I thank you for the opportunity to testify today.

As we heard in the gracious introduction by Senator Klobuchar, I am Joe Sertich, President of the Northeast Minnesota Higher Education District in Chisholm, Minnesota. The district consists of five comprehensive community colleges in six towns: Iron Rapids, Eveleth, Virginia, Ely, International Falls, and Hibbing.

What Senator Klobuchar did not say is, long before she was a U.S. Senator, we recognized her father as an outstanding alum of Vermillion Community College in Ely.

Ely, by the way, some like to think of as the end of the road. The people there call it the beginning of the road. As a matter of a fact, if you were to walk out the backdoor of our college and walk to the North Pole, you would cross one tarred road, and that would be the Trans-Canadian Highway. So it is remote. It is rural.

We also have had an opportunity, thanks to the Rural Renaissance Initiative of Senator Coleman—and thank you for your welcoming comments, Senator—to host two town meetings, one in Hibbing and one in International Falls where the Senator comes out and utilizes us in the way we see us as a community center.

I am also privileged to serve in the elected position as Chair of the Rural Community College Alliance, a membership organization of over 100 rural community colleges, advocating for the 957 rural serving community college campuses across this country.

The Arrowhead region of northeast Minnesota, including the Iron Range has relied on a natural resource-based economy for over 100 years. In the early 1980's, mining accounted for 50 percent of the jobs and 60 percent of the income in northeast Minnesota. Today, mining represents 10 percent of both.

Seven years ago, massive layoffs occurred. Higher education saw these developments as an opportunity to serve as a catalytic intermediary for the region which was ripe for change. At the same time, community colleges saw the need to pool their resources to save administrative costs. The Minnesota State Colleges and Universities Board of Trustees chose to create the Northeast Higher Education District effective October 1st, 1999. The mission is to provide quality higher education to the communities throughout northeast Minnesota by developing a regional structure that will preserve college autonomy, but will also align programs and services to better prepare residents for learning, employment, citizenship, and life.

We quickly realized that new governance for rural northeast Minnesota must go well beyond the community college. By seeking new partnerships with the region's business and governments we created a new commitment to the future of the region.

The Northeast Higher Education District was selected as one of 36 participants in the Ford Foundation-funded Rural Community College Initiative.

The Blandin Foundation provided inter-community leadership development and startup financial resources to the Itasca Technology Exchange in Grand Rapids. The Northland Foundation was an initial investor to brand this regional initiative as True North. Iron Range Resources share a workforce development position with the District, because workforce has been identified as a major challenge in the region.

These are examples of how a region must work together to survive in this global economy, based on local assets and strategic investments. Technology was used as a tool to create living wage jobs across the region. In addition to attracting Blue Cross Blue Shield to the region, new healthcare training programs have spurred new investments by healthcare providers. And a heavy emphasis on creating new information technology firms, the business community is plugging gaps in the region's support network for new businesses.

This technology strategy was in direct response to outsourcing and offshoring Minnesota companies and others across our country were moving toward. Our goal was to create insourcing opportunities, proving our rural regions could compete.

In northeast Minnesota, we referred to insourcing recruitment strategies as "lakeshoring," which highlights the quality of life benefits available to workers seeking employment in information technology fields.

Eight years later, our economic health has improved with new economic projects under development. Rural community colleges throughout the country are taking more proactive roles in developing their communities and regions, and most of these institutions are 2–year granting community colleges.

A new international collaboration was formed in 2006 when representatives from the United States and Canada came together to identify common approaches to rural issues. My rural Community College Alliance colleagues are also members of the American Association of Community Colleges, and we work to coordinate our efforts together.

Because community colleges give students the skills desired by local industry, they have become the educational institution of choice for many rural businesses. Rural communities must not be left behind. Community colleges are in a unique position as place-based institutions utilizing their capacity to serve and assist rural regions.

Across rural America, innovation driven by entrepreneurial thinking must be encouraged and implemented. Now is the time for all regional leaders to play forceful roles in community development. Your rural community colleges are ready to step up and assist in this leadership challenge.

Thank you again, Mr. Chairman, and members of the Committee, for this opportunity to testify today. I appreciate your continuing leadership, and look forward to answering your questions.

[The prepared statement of Mr. Sertich can be found on page 98 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Sertich.

Thank you all for being here today. We will start a round of 5 minute questions. Five minute or 6 minute? Five minute. Whatever it says there, anyway.

[Laughter.]

Chairman HARKIN. One of the common themes I hear coming from all your testimonies and your written statements is this idea that somehow we have got to get away from this, what I call, categorical or silo approach to rural development and the need for more framework that is regional in nature that will leverage existing funding of Federal, State, local, private, philanthropic.

That all is very good. We have tried some regional approaches in the past. We have had regional councils of governments and things like that, and I am not certain it really worked very well. We have had some of these things in the past, since I have been on the Agriculture Committees, but nothing ever seemed to be the glue that held everything together.

And so, as I go down the line, I just want to say, what one or two things come to your mind right away, that could we do differently than what we have done in the past that would foster this kind of regional approach?

What programs need to change from how they do it right now? What do we need to do on the ground? Just give me one or two things that leap to your mind that—if you could write Farm Bill, what would you change to make that regional approach work?

We will start with Chuck Fluharty.

Mr. FLUHARTY. Mr. Chairman, I am just a farm boy from Appalachian Ohio, fifth generation on the farm. I love agriculture in my soul. I spent a lot of years in an agriculture association as an executive.

Mr. Sertich's testimony is very instructive. In my area of eastern Ohio, we lost our mills, we lost our mines, and our small farms could not compete. We did not have the regional framework Mr. Sertich talked about, and our region lags horrible.

Let me just share with you what we are competing with. The European Union, each year, spends a billion dollars on something called the LEADER Program, and that is a French acronym, but it essentially links agricultural commitments to regional strategies for shared investment.

It is a billion a year, and working in OECD countries, Mr. Chairman, you can see in the dirt how that works. The private sector links to philanthropy and it links to sub-regional development.

The key seems to me to be the shared investment strategy. And everyone here has talked about a model in which funding streams come together. I will say three things:

As I shared in my testimony, our rural development programs are excellent, but they do not have a vision. We do not have a policy goal right now in rural development. We have great programs. They are successful. If our goal is regional support, we are going to have to change a bit how we fund programs, because we are going to have to incent regional leadership to do this. It is a new model. It is working in a lot of regions simply because the private sector did it. I would argue that we need to think systemically about how we do that across rural America.

I think our Governors, I think our legislators, and most of our sectors are trying to do this. It is simply not been integrated, Mr. Chairman.

Chairman HARKIN. Well, again, we need some advice from all of you. You are the experts on what programs we need to change.

Mr. Hassebrook.

Mr. HASSEBROOK. Well, what I would say is put some money into—put some money into leadership development at the grassroots level, and engaging people in each small town in this process, because if you put together a regional plan, but the people involved in it are just agency folks and regional leaders, and you do not have leaders in each community that are invested in that and take it home and live it, that will not work.

So that is the key to me is, how do you engage local people in the local small communities.

Chairman HARKIN. Mr. Kelley.

Mr. KELLEY. Thank you, Mr. Chairman.

I partially disagree. I think it has worked in areas. I think it has worked in north Mississippi. And I think our Senator Cochran coming from the senior center would acknowledge that.

But I think what has to happen is fund the program. Turn around and give some credit for partnership. Cannot do it by themselves, Pontotoc cannot compete with the work by themselves. They cannot put internet services throughout the region by themselves. Right now, there are no incentives toward working together. In fact, it is almost a disincentive, as well as the incentives, grant-wise, to carry out plans are in metropolitan U.S.A., now it rural America where most of the RDA programs are loan programs.

My water and sewer systems are just totally depreciating [sic] in our small towns when all they can get is loans, where metropolitan areas get $3 billion a year in grants, CDBG, that they can prioritize and work within the existing system of EDA districts like myself that have proven over the years that they can build partnerships and work, and build the partnerships between local governments and community colleges.

Chairman HARKIN. Yes. I think we really need to take a look at what you have done down there. I am not familiar with it, but I think we really need to take a look at it.

Ms. Holz-Clause.

Ms. HOLZ-CLAUSE. One very specific program that I think would be a relatively easy fix is that Rural Cooperative Development Center funding is only for 1 year at a time. And what this group does is, these Rural Cooperative Development Centers, help people, and they go after these on a competitive bid, but they help businesses develop business plans, marketing plans. As many of you know, you cannot develop a business in a year time period, and so just in that situation, just allowing them to be able to have at least a 2–year time period to expend their money for the Rural Cooperative Development Center would allow those centers to be around for at least 2 years, to stay with businesses, and help them develop. But that is a relatively simple thing and can make a big difference, because there will be staying power there.21Another one is, I guess, just providing funding for some things. For instance, the Northern Great Plains Economic Development Authority was authorized, but that never got any wings underneath it. And that would have allowed for a regional approach to economic development. So perhaps just being a little more aggressive about what is already in there and making sure that it is being enforced.

Thank you.

Chairman HARKIN. My time has run out. Mr. Sertich, I will get you in my next round.

Senator Chambliss is unable to attend. He has another Committee and would like to have his statement entered in the record, and that will be done without objection.

[The prepared statement of Hon. Saxby Chambliss can be found on page 39 in the appendix.]

Now, this is the order that I have: Senator Nelson, Salazar, Casey, Klobuchar, Thune, Lugar, Coleman, Lincoln, Cochran, Brown.

Senator Nelson.

Senator NELSON. Thank you Mr. Chairman.

Mr. Hassebrook, as you mentioned, the Nebraska Micro-enterprise Partnership Fund has worked well in Nebraska. What has been done to really connect it with goals and a vision as to what we want it to accomplish? How do we connect the program in Nebraska to a vision for rural Nebraska, and how has that worked to bring in grassroots acceptance and partnerships?

Mr. HASSEBROOK. Well, I think the key has been that the Nebraska Micro-enterprise Partnership Fund has had an active board that included broad representation. It put together plans and priorities in terms of how they want to drive this out, and then made sure that they did a good job of funding programs that reach across the State.

This program has been a success. For example, I mentioned that last year it served 4,000 businesses. Well, those 4,000 businesses are responsible for keeping and, maintaining, and creating 7,500 jobs, and they were served at a cost of $330 a job. Now, to anybody doing economic development, $330 a job is a bargain.

And so I think the key has been, again, the broad board that sets goals, sets strategies, and then keeps the focus on small entrepreneurship.

Senator NELSON. I appreciate your pitching the bill which I am introducing today, which I hope some of my colleagues will take a close look at. Can you give us some idea of how that would work and how we have taken the experience in Nebraska to try and apply it to a broader base?

Well, the bill that Senator Nelson is introducing is a bill that essentially works through intermediaries. It would fund programs that could be run by public institutions, they could be run by nonprofit corporations, what have you, around the country, who would then turn around and provide loans, training, and technical assistance to micro-businesses, businesses with fewer than five employees.

And I cannot stress enough the training and technical assistance, because in our experience, when Central Affairs runs one of these programs, we make loans, but in fact the business planning that we help people do enables them to get twice the volume of loans from banks and other lenders than we actually lend. So it is really the training and technical assistance to these businesses that is most helpful.

And the last thing that I think is really critical about this bill is that, if you just put the money out there for existing programs, there are some States in some areas of the country that do not have programs and would not be served. So one of the most important features of this bill is that it creates a program that would provide assistance that would help new programs get started in areas that are currently underserved, which I think is critical.

Senator NELSON. And it is not overrun with staff, right?

Mr. HASSEBROOK. In fact, there is very little staff. There is about one-and-a-half staff in the Micro-enterprise Partnership Fund in Nebraska.

Senator NELSON. You might think we rehearsed this in advance, but we did not.

[Laughter.]

Senator NELSON. I just learned a long time ago that it is better to have somebody else qualify your expert witness.

As you look forward to the future, what other kinds of programs, you mentioned one or two—what other kinds of programs would attach vision to what you are attempting to try to do? In other words, what kind of achievable goals can you set, and then measure success toward those goals, as we have in this program?

Mr. HASSEBROOK. Well, are you talking about the program that you are proposing?

Senator NELSON. Well, any other program that might—I think you mentioned about $500 million across the board.

Mr. HASSEBROOK. I think the key is that we have to measure the number of opportunities that we are creating, and then we need to measure the quality of those opportunities.

Again, for example, one way you measure is you look at how it has impacted people's lives. The program in Nebraska, the Micro-enterprise Partnership Fund, when we analyze the businesses that have participated, and their situation going into the program, and their situation 3 years later after participating, we found that their business assets had grown substantially, their personal assets had grown substantially, their incomes had grown substantially.

And that is the kind of measure that you need to do. You need to look at how many jobs you are creating, whatever the program. I cannot stress enough self-employment as being one of the best forms of jobs. But then you have to look at how it impacts people's lives. Are their lives better as a result? And I think that is a key to measuring success, because we want to create quality opportunities that help people build assets and improve their lives.

Senator NELSON. The goal is to get them in a position where they can go borrow money themselves through the commercial banking and lending arrangement to where they have made their own income, they have their own profitability as well as the quality of life combination; is that accurate?

Mr. HASSEBROOK. Exactly, and, in fact, banks see this program in Nebraska as a great asset, because, first of all, the loans made through this program cannot be made to people who could get a loan from a bank, but what they do is they create a pipeline of customers by helping new businesses start. They create a pipeline of new customers for the banks.

Senator NELSON. Thank you, Mr. Chairman.

Thank you, Chuck.

Chairman HARKIN. Thank you, Senator Nelson.

Senator Salazar.

Senator SALAZAR. Thank you very much, Chairman Harkin.

And thank you, for the witnesses, for your testimony here today.

I have a comment and then a question to Chuck, and then to Ms. Holz-Clause. First let me just say that I think that, for all of us who sit on this Committee, this is a great opportunity for us to focus in on that part of America which is really, in many ways, a forgotten America.

I would imagine that for the last 50 to maybe 100 years people who have sat on this Committee have taken a look at the Farm Bill as the opportunity to address those areas of our country which continue to struggle on the vine.

I know in my own State of Colorado, even though the 1990's brought a big boom to our State, it was really confined mostly to about 12 of the 64 counties, which meant that the rest of the State was in decline, while overall, the State appeared to be doing very well. And I think with most of my colleagues here we have that kind of reality in the States that we live in.

My question to you, Chuck, is, first of all, with respect to the disparity in funding that our government provides to metro areas versus rural America, you said that it is a $550 disparity. To me, that is unconscionable. How is it that we can create support for our people in this country and then to have this disparity that you have described. My question to you is, how do we fix that? I would like you to be as specific as you can on that.

Mr. FLUHARTY. Sure.

Senator SALAZAR. And my question to you, Ms. Holz-Clause, has to do with Agriculture Value Added Programs. Obviously it was part of the 2002 Farm Bill. It is something that you described as working well in your community and your experience. We have been talking about Value Added Programs, and many places you might say for a very long time, and it seems like we have had some affect, but I think there is a lot more that we might be able to do.

So my question to you is, how can we take what we have and improve upon it and make it more effective?

Chuck, would you go first?

Mr. FLUHARTY. Thank you. I am going to come back to systemic issues, because I think there is a solution. The most recent data is a $300 disadvantage, just for community and economic development, per capita. Just run it out times 90 million rural Americans and you see the challenge.

Part of that is the CDBG formula, in which MSAs get a place entitlement. There are a lot of maps in my testimony. Let me tell you why they are important.

There are 40 million rural citizens in your MSAs. Those rural citizens are not eligible for your non-metropolitan grants for entrepreneurship. In CDBG moneys in those MSAs usually go to your urban and suburban areas. We have 40 million potential entrepreneurs trying to get ahead, who you do not target at all right now with CDGB, first thing.

Second, the purpose of a systemic commitment would be for this Committee to finally say this disadvantage will get addressed, but it gets addressed to advantage the programs these panelists are mentioning.

Senator LUGAR IS HERE. I will just give one great example. The State of Indiana, and it is to Chuck's point of how we integrate research with the various titles in the bill. The State of Indiana has engaged in a phenomenal enterprise, as Martin Jiske, the President of Perdue, created a Center for Regional and Rural Innovation, and a discovery park. The administration in Indiana created a Center for Rural Affairs. They took general revenue money and linked their small city CDBG which Governor Nelson did a phenomenal job of linking for regional collaboration when he was Governor of Nebraska.

Fire trucks are very critical. First responders are very critical. But the bottom line is, if small city CDBG gets eaten up by an entity over time and we never get scale, we cannot build budgets. We cannot build long-term investment plans regionally. It is a structural failure right now in how this government invests long-term in the 90 million people in rural America that want to build a business. It is a structural failure.

Senator SALAZAR. I would appreciate you working with us as we move forward on the Farm Bill to address that disparity.

Mr. FLUHARTY. I appreciate that.

Senator SALAZAR. Will you address the Value Added Programs?

Ms. HOLZ-CLAUSE. Thank you, Senator.

Certainly, as I look at the Value Added Producer Grants that have gone to Colorado producers, I was going to say there have been some, but there have not been as much as other regions of the country. And I think it goes back to what we talked about at the very beginning, and that is that we have to create a culture of entrepreneurship. We need to be starting that discussion and we need to be having entrepreneurial education in our high schools so that we are creating a long-term attitude among our producers, among our farmers, through our FFA programs, through 4H, to encourage that entrepreneurship.

And then from there, too, is having a greater infrastructure in place. For instance, your cooperative development center in Colorado is the Rocky Mountain Farmers' Union Center. Again, I told you, thy are just going year-to-year with funding. And so what we need to do is have a more systemic service providers there through the extension service and so forth that are funded that can help producers to really imagine what the possibilities can be. And so I think we—what I was going to say is that we have to develop a lot stronger infrastructure than we have in place: stronger SBDCs, Small Business Development Centers, stronger EDA Centers.

And again, part of that is education and full funding of a lot of those programs that are probably in existence now.

Thank you.

Senator SALAZAR. Thank you, Mary. My time is up.

Chairman HARKIN. Senator Casey.

Senator CASEY. Mr. Chairman, thank you very much for putting this panel together and for this hearing. I want to thank those who have testified already for your insight and for the real world experience that you bring to these issues as we do our work on the reauthorization for the Farm Bill.

I have a couple of questions. I did want to put, and I will submit it for the record, but as a highlight, of some of the recommendations that were made by the Pennsylvania Department of Agriculture. We all have to bring our States into these hearings. And I just wanted to highlight a couple of the recommendations that the leadership of our State has provided.

One of the recommendations, and I ask the panel members to react to this in addition to the question I am going to ask, one of the recommendations was a single definition of "Rural community," that can be applied to all rural development programs.

The second one is creating a new rural tourism development subtitle.

Third, and I know other States may have these priorities as well, funding projects in non-rural areas if the primary beneficiaries of the projects are rural citizens.

So they are among recommendations that come from my State, and I would ask you to respond to that. And then the second, the basic question I have though—well, maybe two, if I have time—revolves around access to capital, and I know that has come up in different ways, generally, but in particular, if you could speak to the question of access to capital in the context of health care, because one of the problems we have had in Pennsylvania is, other than Philadelphia, and Pittsburgh, and some of our major urban areas, and their being the two, we have a State of a lot of rural communities and a lot of small towns. For them to go to the marked and borrow money for a new MRI machine, or some kind of new technology, or some kind of expansion of their hospitals it gets very difficult. I also want to talk about cuts, but we will get to that in a moment.

But if you could respond generally to those recommendations, and then second to the question of access to capital either generally or specifically in the context of healthcare. I will open it up to anyone that wants to jump in, any and all.

Mr. HASSEBROOK. Well, I would jump in on the question of tourism. I think there are great opportunities in tourism in many places rural America, in part, in the 21st Century, access to uncrowded, natural space is going to be a premium. And I think that one of the things that we need to think about in this Farm Bill is, as we design our conservation programs, to design them in ways that get multiple benefits, including rural development benefits.

So for example, we are talking about a cooperative conservation partnership initiative that would provide the opportunity for communities to partner with USDA. So for example, if they want to use natural space as an asset to draw more tourists and support more businesses in their community, that would be considered by USDA, and there might be some additional incentives for landowners to participate and some additional cost-share funds for communities to put that together. I think that is a way that we could get more bang for the buck, by designing conservation programs to serve multiple ends.

Senator CASEY. Thank you.

Mr. FLUHARTY. Senator, just quickly, I caution the Committee. There are 68 different rural definitions right now in Federal statute. They are there because, in different sectors, unique needs need addressed. One of the challenges I see is, if we build rural regional from this Committee, we will fail. It needs to go into the dirt and be rational.

There are different rural regions. As I said, rural America does not exist. There are very, very diverse rural Americas. What is going to work in South Dakota is not going to work in Pennsylvania.

Second, in terms of capital, it is essential that we get linked funding flows. Under Secretary Dorr makes a phenomenal point, 90 percent of rural America's lands have equity at that level.

Now the question is, how do we move those to common investment strategies that makes sense for those people in the dirt. It can be a patient capital fund. The challenge is, when you look at new markets, the banks have not been able to get that money on the street as well as the VC and entrepreneurship firms have. We need flexible markets to allow regions to express in everything from local food systems to heritage in the arts, the way to go do that.

There is capital out there. We are not pulling it out. And, in that regard, what community and regional foundations are, in terms of match for seed capital development, is a phenomenal opportunity, to Senator Harkin's case that philanthropy can cede a great deal of this in regional models to start it.

Senator CASEY. Thank you.

Anyone else on those?

And the last question—oh, I am out of time. We will talk about cuts another time, Mr. Chairman, but I am sure that will go longer than 15–16 seconds, maybe.

[Laughter.]

Chairman HARKIN. Thank you.

Senator Thune.

Senator THUNE. Thank you, Mr. Chairman. I appreciate you holding this hearing. Thank you, panel, for your excellent testimony and insights.

This is an issue which I am extremely interested in. And if you look at what has happened in the last several decades, in the middle of the 20th Century, nearly 40 percent of the rural population lived on farms, and about a third of the rural workforce was laboring in production agriculture.

Currently, we have fewer than 10 percent of rural people living on farms, and only about 6.5 percent of the rural workforce is directly employed in farm production, which means we have a lot of people in rural areas no longer living on farms or deriving their livelihood from farms, although I would argue they all do indirectly.

And what we are facing in my State and a lot of other States is just chronic out-migration of young people. We are just losing them, and that is our greatest resource.

And what is left behind is 340 of our Nation's 386 persistent poverty counties are in rural America. So we have got some very difficult economic conditions in that part of that country. And I believe be that part of the focus of the Farm Bill ought to be, how do we revive and bring rural America back to vitality? In addition to the things we do with the commodity title of the Farm Bill and things that directly impact agricultural production.

But I have a couple of questions that I would like to pose in that regard. One has to do—the Value Added Producer Grants Program was something that—that was an amendment I offered to the House version of the Farm Bill in 2002. It seems to me, at least, that there have been some good projects that have been funded under that, but I guess the question that I have, and perhaps Ms. Holz-Clause can answer this, is are there, other than the issue of funding, which is obviously an issue that we have to address—are there statutory changes that can be made to that program that would make it more effective?

Ms. HOLZ-CLAUSE. Again, I would go back to—one of the statutory is to look at having a longer time period for that money available for the producer recipients. Oftentimes, that has a year to a 2–year time limit on that. As you know, business development oftentimes takes longer than that. And so we are not able to maybe see and quantify the types of results that are there, because the producers are required to use that money within a short time period. And so I think that could allow for more judicious use of that funding.

Another area is perhaps putting, when people are recipients of that, requiring some types of education, perhaps board education, so that all the board members understand their fiduciary responsibilities.

Again, there have been some magnificent results from that program. There have also been some that are not as successful. So what can we do to help educate those individuals who are in that business? And again, part of it, too, is, I think if we look longer term now we have seen more successes recently. When the program was young, I think both producers did not understand, perhaps, the program, and some of the value added businesses maybe were not ready for applying for the money when they did.

And so now that the program has been in existence, producers look at that and say, well, our business is not quite ready for it this year. We will wait until next year. Which then enhances and increases the success that they will use that money judiciously and wisely, and also better market development.

So those are a few suggestions I would have specific to that program. Thank you.

Mr. HASSEBROOK. I would place a priority on projects that strengthen small and mid-sized farms. Perhaps set aside a small percentage, 10 or 15 percent, for projects that address the needs of beginning farmers, minority farmers. Put a small amount of money toward outreach and assistance, because oftentimes small groups of producers who are not trained to write grants have a hard time getting access to the program.

And one last thought on that, maybe a modification allowing up 5 or 10 percent of the funds to be used for innovative projects that strengthen family farms, but are not technically value added.

For example, there are groups of farmers in Iowa trying to put together machinery cooperatives, because by owning equipment together, mid-sized farms can get their machinery costs down to levels of big farms. They need some help to do that, though. It takes some legal help in different things. And if we could use just a little bit of this money for say, any innovative idea out there to strengthen family farms, whether it is technically value added or not, that would be good.

Senator THUNE. Eighty-eight programs and 16 agencies that target rural economic development—it has already kind of been mentioned—in this Farm Bill, is there a way, and I know there are jurisdictions that run the gamut of this when it comes, but it just seems like, if you are somebody who wants to access some of this assistance, you would not even know where to start, really.

Is there a way that we can bring some efficiency and structure in a place where people could do one-stop shopping, for lack of a better phrase?

Ms. HOLZ-CLAUSE. That is an excellent idea, and actually, in the Agricultural Marketing Resource Center, we have started to do that, because as we work with farmers we discovered that. So at least that is something that is in process right now.

But you have definitely outlined, kind of, the frustration that farmers' have as they are looking for those opportunities.

Mr. FLUHARTY. Senator, let me say that it is not just farmers. Under Secretary Dorr and the Administration have moved in a significant way by rationalizing the grant formulas.

But we are working very closely now in Mississippi and Alabama with Governor Riley and Governor Barbour in their Department of Labor wired labor project with the community colleges of Mississippi and Alabama. That wired project builds regional dynamics. Commerce and EDA builds regional dynamics. Rural education builds community college dynamics. We have not figured out a way to link those flows in a logical cross sector way.

The reason is rural development does not have a congressional mandate to be clearer about advantaging in a regional framework.

Their programs are in stove pipes. This Congress could mandate some of that, and I would argue that it should go to other departments, because the people in the ground do not care. They just need to link up and do good things.

Senator THUNE. Thank you, Mr. Chairman.

Chairman HARKIN. Thank you, Senator Thune.

Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman.

Many journalists are beginning to discover the energy transformation in rural America, but it is very difficult for some of us around this table to discover this data.

And I appreciate so much your idea about reasonable organizational, or even State-wide programs, but I just wanted to ask, out of curiosity, for any of you who have sources of information or reports that have been written that would help frame these issues.

For example, ethanol is being produced at least in 15 States from corn, biodiesel in many of the same States. However, the promise of cellulosic ethanol, as the President mentioned it, could be a 50–State situation. And in due course, and in arguments about how many years and how fast the research, still the possibility of all sorts of things coming from farms into energy is likely.

Now, in addition to that, some have integrated the process. Fair Oaks Dairy, in Indiana, for example, 17,000 cows, need a lot of farm land for the feed to begin with. They produce a lot of manure, and from this comes methane, so they heat, not only their own situation, but prepare it to send back to the electrical grid system, and trade, at least, electricity power, and that probably is not the end of it. It is sort of the beginning of the thought of how many different things can occur on the farm if there is sufficient capital. But likewise, a grid system, some place for the milk to go, the integration of all this is tremendously important.

On the same farm, why, they are putting up some windmills. The beginning, once again, of something in which not all States have the air current or volume to do this, but many do.

Finally, let me just ask, is there any research on what this may mean to a single county or region? For example, clearly, money is coming in to county seats that have not seen very much. Are the bank deposits being left there, or in fact are they going somewhere else? In other words, is there likely to be a base of local capital coming from these situations as there is likely to be—some integration in terms of school finance or hospital finance, if wealth comes from new energy resources.

I say this as somebody who is trying to probe in my own State, to sort of trace where the flow goes. It is all so new, and it is very different. Some accounts say, after all, not many jobs are created by an ethanol plant, maybe 35, 40, 50. So not a huge amount. And yet a lot of money is involved, some to corn farmers, for example. But I am curious whether any of your institutes are tracing this giving us some idea of what the potential is quite apart from the actual, which is quite dramatic, because it informs a lot of issues, it seems to me, in terms of the political realities of what we are talking about today.

In other words, this is a discovery, on the part of most of America of rural America, of new wealth, new prospects, new reasons why people stay, why they prosper. Until then, this is a subject around this table, and about ended there—plus our witness, but now it is more interesting.

Can any of you inform me of where I can find out more information that you have produced?

Ms. HOLZ-CLAUSE. Senator Lugar, you certainly have kind of got my passion here. And outlined, as you talk about, farms of the future, to be holistic so they are integrated systems and that we are using all of these aspects.

Through our Center for Agriculture and Rural Development at Iowa State University we are tracking just exactly what you are talking about. I do not have those figures in front of me, but we will certainly get those to your staffers.

As you said, those 35 jobs of ethanol production then reverberate with a multiplier probably about 110 other jobs. And we are also tracking the difference between the farmer-produced ethanol plants, which use indigenous investment versus outside investment, and the impact that is having on demand. I am sorry I do not have that for you but I will get that for you. I believe, also, they are working very closely with their colleagues at Perdue on that project.

So thanks for asking it. It is really a vision that we have to have, looking at that from a holistic perspective. I will challenge all of you, as you are looking through the new Farm Bill, though, to also think about the impact that this new bio-economy is going to have on the infrastructure: the roads, the railroads, and those types of things, which are going to be so crucial for our changing bio-economy.

Senator LUGAR. Yes.

Mr. HASSEBROOK. Senator, I do not have the data, but I would make a couple of notes that are very relevant to the issue that you raised.

One is that, one of the good things about ethanol plants is the quality of jobs. When we looked at them in Nebraska, the bottom paying job tended to be about $13 an hour, which is a pretty good job in rural Nebraska, and that is a positive.

On the issue of ownership—wealth creation does tend to follow ownership. When Congress helped get the ethanol industry started, it provided tax incentives for all producers. With oil prices much higher now and profit margins much better, I think it may be time to consider whether those incentives ought to be targeted to projects that are locally owned and keep wealth in the community, as well as projects that are producing feedstock in a manner that is environmentally responsible.

Mr. FLUHARTY. Senator, we were doing economic impact analysis 10 years ago with your office on ethanol. At that time, it was six to eight jobs. At the scale now, it is 25 to 30. But the reality is, what do we do with innovation to build that into a regional asset base?

Wind energy is going to be in some places, cellulosic ethanol in another. The true, deep question is, how do local leaders, when an LLC is brought to them, know whether or not that is a wise regional investment? That is where our Research Title and Land Grant universities have to come in, with public goods.

These are going to be regional and cross-sectoral challenges, and the asset dynamics will be different in ever region. That is why a systemic commitment to regional entrepreneurship seems to me to be critical and can link to our research universities.

I do not believe the answers to those questions are there for local governments, regional governments, and State leaders, and they are all asking this. We just came away from NCSL's Agriculture Committee Chair's meeting. Every Ag chair in every State in local legislatures is saying, where are we with this? It is a huge challenge and the answers are not there yet, but it is a unique opportunity. It will be a regional opportunity, I would argue.

Senator CASEY. Thank you, Mr. Chairman.

Chairman HARKIN. Very probing. Thank you, Senator Lugar.

Senator Lincoln.

Senator LINCOLN. Thank you, Mr. Chairman. I certainly appreciate your dedication to this issue. And I want to say to our panel, thank you so much, not just for the information you bring to the Committee, but more important, your passion.

I am a product of rural America and very passionate about it. Mr. Kelley, my great-grandfather was actually a deputy sheriff in Yazoo City and his name was Kelley.

But I think for so many of us that have grown up in Rural America we realize the positive aspects for the future of this country, and what it means to reinforce rural America. I know, just in raising my children, I have recognized so much of what I have gained growing up in a small community, and now trying to recreate that in different environments is enormously difficult. And so it is important that we sustain them in a way that we can keep them going.

Just a couple of comments, and hopefully you will add more. I know a lot of what I wanted to talk about and ask about you have touched on a good bit. And I know, Mr. Fluharty, and certainly anybody else, CRS indicates that there are more than 88 programs that are administered by 16 Federal agencies that target rural economic development.

You mentioned the multiple different definitions of Rural America and how different regions definitely have their differences. And I guess some often argue that we focus too much here in Congress trying, and sometimes failing, unfortunately, to fund smaller, targeted programs, when perhaps we should consolidated, dedicate a larger share of those Federal dollars in a more streamlined and flexible set of resources.

Of course, we talk about CBDG. That is the most flexible money out there, quite frankly. And we fight every year in Congress to reinstate those dollars and to make sure they are there and reinforce how important they are because of that flexibility.

Just a little bit more on, and you have already touched a good bit, but the patchwork of programs as an obstacle to establishing consistent funding streams for regional rural development, or is it just that they are underfunded? And incentives for regional approaches, are they more important?

I know we have created several commissions. The Delta Regional Authority, which I am so grateful to Senator Cochran for his hard work and consistent dedication to that over the years, because it would not have happened if I had not have hung in there and said this is something that is really necessary and needs to happen. But maybe you will touch on that, if you do not mind.

But then the Value Added Producer Grant Program, we are very grateful to you all for expanding on that, Ms. Holz-Clause. How we build on an already successful program. I hope that we can certainly talk about that. And I would just go back to another thing that you had talked about, and that is, the rural areas have so few—really, no research staff. Mr. Fluharty, you have touched on that a lot, grant writers.

We have had to, in our Congressional Office, actually set up a special projects team that is devoted to helping our rural communities look at where they go for different things and actually provide them assistance. We are not allowed to write the grants for them, but send them in the directions where they can go to find that assistance, and it is difficult.

I know also, from my State office, what they tell me is that incomplete applications are really some of the biggest reasons why we have not been as successful as we should be with the Value Added Producer Grant Program.

So you might touch on whether or not we should be devoting more resource to the Agricultural Marketing Resource Centers, which have been under-utilized, underfunded, unfortunately, and allow them to provide more virtual technical assistance, or do we look toward local universities and nonprofits to provide technical assistance? Is that a more thorough way of developing that kind of assistance that our rural communities need, or do we do both? Much of that we have already talked about, but hopefully there is some more we can expand on.

Mr. SERTICH. Mr. Chairman, Senator Lincoln, I would like not to answer specifically each of your questions, but to talk about the flexibility and the streamlining that is so important.

And you have 957 rural-serving community colleges across this country who are already actively engaged in economic development initiatives. When I talk with my colleagues, college presidents, around my State and around the country, our jobs in rural communities and at rural colleges is very different than those in the metropolitan areas.

And so I think it would be helpful if we are looking at a rural strategic investment program that we position those institutions, not as yet another layer, but a place where we can do the convening, provide the technical assistance, do the research, write the grants, and most important, be responsible for the planning that needs to happen as regions self-define.

Senator LINCOLN. We have a great consortium of community colleges come together, six of them, that have been very effective in the grants they have received from the Department of Labor because they have worked collaboratively.

Ms. HOLZ-CLAUSE. Another area, Senator Lincoln, which you have touched upon, but which we could use a lot greater resource, would be the land grant systems. Almost every county has a county extension office. And again, I am going to support and encourage you to provide more funding to that, because those are resources that are already in existent—generally trained people very well.

But not every county is able to be staffed at the level they need to provide that.

So they could assist folks with the development of Value Added Producer Grants. So naturally I am going to suggest that you provide more funding to the Agricultural Marketing Resource Center, but also to look at providing, as I said, perhaps more assistance through the small business development centers, oftentimes, can help businesses with that, too.

So out of rural America, as you know, it has just been underfunding of the types of infrastructure and resources that we need that can help producers——

Senator LINCOLN. You do not think those two are redundant. You think they both need——

Ms. HOLZ-CLAUSE. They actually can compliment each other. I was going to say, in our counties, those groups work together very well, because, again, they both have resources that they are able to bring to that.

Mr. KELLEY. Senator Lincoln, I will claim kin to you, by the way. With honor, I might add.

I think when you look at the name, the Rural Development Administration, you have got to understand that rural development in rural America is a long-term process. It is not short-term. It is not quick fix. When we thought that things did not work maybe in the old 111, Senator Cochran knows that we have been working Well Springs 6 years, 6 years on that partnership.

It takes time, and it takes continuing solid funding to build these partnerships to hit that success. It also takes financial assistance. As rural America's strong program, CDBG, is great, but it is a hit-and-miss program where you can go after some money this year and you may get it and you may not, because you have to get 51 percent below the mod or you cannot address it.

We have no way in rural America to address long-term infrastructure needs. And business and industry expect local governments, through their partnership with their Federal partners in Washington, DC to provide the necessary infrastructure for economic development in rural America.

Senator LINCOLN. I cannot thank you enough for accentuating patience in this and the time that it takes to get there.

Thank you, Mr. Chairman.

Chairman HARKIN. Thank you, Senator.

Senator Cochran.

Senator COCHRAN. Thank you very much, Mr. Chairman.

I am glad to be here today to welcome my good friend, Randy Kelley, as a witness to our Committee.

I was just thinking back in time, the Rural Development act was enacted back in 1970 or 1971. It was right about then because I was drafting a statement for my candidacy for 1972, and I was trying to think up things to say to show my potential constituents what my priorities would be if I were elected to Congress.

And one of the statements I included in that announcement was that I would work for the full funding of the Rural Development Act. Now, I did not know what that meant, in terms of

[Laughter.]

Senator COCHRAN. In terms of dollars and sense. I was aware of what the Rural Development Act was. It authorized the Federal Government for the first time in many areas of infrastructure development to take a more active and direct role. It had been up to State and local governments prior to that, basically, to provide water and sewer systems, and infrastructure enhancements that Mr. Kelley addressed.

And we have made a lot of progress over the years, not just because I got elected in 1972. But then all of a sudden I wake up 1 day, Mr. Chairman, and you and I are sitting on the Appropriations Committee, and we have been active in the Subcommittee on Agriculture Department Appropriations, chairing in some cases, being ranking in some cases, and we have seen a lot of really. But I would invite the attention of the Committee to Randy Kelley's statement.

I had forgotten his name was Vernon. I was thinking, well, I know Randy Kelley, but I do not know about Vernon Kelley.

[Laughter.]

Senator COCHRAN. But he has had a lot of experience in rural planning and development. He has been involved in Three Rivers planning and development district a long time. It was incorporated in 1971. His statement refreshes my memory.

So contemporaneously with the Rural Development Act, we had local district-wide organizations being organized to try to help ensure that our priorities were identified and the Federal funds, when they did become available, were channeled to the most productive uses. And I think this is a testimony to the success of those programs. We have got to continue to make them better and find ways to enhance them, but I think getting back to the basics is also important. And that means we should fully fund the Rural Development Act and make sure that we provide the resources, and that is basically what goes through all these statements.

We have good organizations. Talented people are involved, and we need to be sure they have the resources and can share those in the communities where the needs are the greatest.

We have some great success stories in the Tupelo region of Mississippi, and we are going to have some more as time goes on. And it is because of hard work by people like Randy Kelley. So I am glad to be here today and welcome him and thank him for his contribution to the hearing.

And I guess my question is, what else can we do, after the appropriations process—and I think what we can do show some restraint and let there be more flexibility at the local level. Would you agree with that? Is that something we should strive for and not tie the hands with too many regulations and restrictions so that we are not trying to fit round pegs in square holes?

Mr. KELLEY. Senator, we would like to thank you for your service for over 30 years, not only to the State of Mississippi, but to rural America, in general. It has been quite an honor and a privilege, and you have done an outstanding job since 1971.

We agree. One of the first things is, just find it. You all have had some of the right ideas, and a lot of them, not just a few. You have been on the right track, but you have had difficulty funding them and, as a result, rural America has had to bear the burden of the cost in loans.

In loans, it is people in Pontotoc County, Arkansas, and in Forest City, Arkansas, and in South Dakota, and Iowa, that these small infrastructure projects that they need, they do not have the tax base. It is more costly to provide infrastructure in rural America. Three Rivers operates an internet system, the only wholesale DSL BellSouth distributor in the State other than BellSouth. We did that because our local governments did not have high speed interned.

Do you know that we cannot do that in north Mississippi more than three miles from the central office? In Boone you have dial-up. Three miles.

Infrastructure is costly in the long-term, and rural America needs the continued support that your great leadership has provided, but they need some assistance in full funding, and recognize that it is not fair for metropolitan areas to get grants and us to always have loans. Thank you.

Mr. FLUHARTY. Mr. Chairman, if I could follow and thank you for your service, and also thank Randy, and raise the structural issue Senator Lincoln raised.

Because of HUD, urban regions have huge abilities with very flexible funds to have significant capital to let local people make decisions about asset-based development. We do not have that in Rural America. If we did that, everything else would follow.

Senator COCHRAN. Mr. Chairman, I know my time is expired, and you have

Chairman HARKIN. You have been waiting a long time, so go ahead.

Senator COCHRAN. I have built up equity over time.

[Laughter.]

Senator COCHRAN. Well, I think we ought to take to heart what we just heard and look for specific language that we could use in improving the requirements and the demands that are made by the Rural Development Act on local administrative agencies like those represented here by this panel.

And I appreciate Mr. Fluharty's comments, and Randy's, and I have learned a great bit from this panel. This is an excellent panel, Mr. Chairman. Thank you very much for coming and organizing this hearing.

Chairman HARKIN. Great panel. It is wonderful to hear all these ideas and listen to Senators talk. I had forgotten about that Rural Development Act, and that came about that time. I just asked my staff, I said, how far underfunded are we? And they said, a lot.

[Laughter.]

Chairman HARKIN. I am trying to get a handle on that.

I turn to Senator Grassley, my colleague from Iowa.

Senator GRASSLEY. Thank you, Mr. Chairman. And you have, obviously, as just said, a very good panel, and you have good people I have worked with for a long period of time, Ms. Holz-Clause and Mr. Hassebrook. Maybe some of the rest of you I have worked with, but I remember them better, obviously, because she is from Iowa, and he is from just a little bit outside of Iowa.

First of all, I was going to bring up something that has been brought up by several members. So I am going to bring up the Value Added Program, but this is a program that I worked on in the 2000 Crop Insurance Bill, and then working with Senator Harkin, he and I worked to reauthorize that program and expand it. And now the Administration has cut that back, and I was going to ask, and you have already commented on it, but I wanted to bring up the impact of that program, and more importantly, the impact of the changes to the President's budget in it. Although I suppose that presidents before have suggested not spending as much money as we wanted to spend, but obviously it is going to harm the program. And I think since you have spoken to that I will move on to another question that I was going to ask about the payment limitations in the President's proposals or any proposals. And I have been working with Mr. Hassebrook on this for years, and will be working again this year on that issue.

For instance, what about if you just take the President's approach of anybody with adjusted income over $200,000? Any of you that would like to comment on whether proposal would help, hurt, or have no impact on rural communities by cutting off payments to those above the AGI $200,000?

Mr. HASSEBROOK. Well, I think the most effective approach is to do what you, Senator Grassley, proposed, and that is simply tightening the existing payment limitation rules.

You and I first got to know each other way back in the 1980's, working on Federal tax reform when we were dealing with tax sheltering opportunities and the damage that did to agriculture. The problem with the $200,000 AGI test is that it creates a powerful incentive for people to, basically, expand their operations so that they get more depreciation, more deductions, more interest write-offs, what have you, to keep their income down below $200,000.

So putting that $200,000 income limit in the Farm Bill would actually have, I think, the unintended consequence of providing an even greater stimulus for very big farms to grow, in the event their income is above $200,000——

Senator GRASSLEY. So it would have the opposite effect of what we were hoping to do of not paying big farmers to get bigger?

Mr. HASSEBROOK. Exactly, because they will have to get bigger to keep their income down for tax purposes.

Senator GRASSLEY. So you say that it would be negative, that approach. What about any payment limitation? Negative, positive, or neutral as far as rural development is concerned?

Mr. HASSEBROOK. I think it is very positive for three reasons. One is that keeping farms out there is a part of rural development, and until we have a payment limitation, the farm programs do at least as much to help big farms bid land away from beginning farmers and smaller farmers as they do to keep them out there.

And the second is, as long as we spend money on hundreds of thousands of dollars of payments subsidizing big farms to drive their neighbors out of business, we are not going to have the money to invest in our future in rural development.

Senator GRASSLEY. I would invite anybody else to comment.

Ms. HOLZ-CLAUSE. Mr. Hassebrook made a very good point that we have to create an opportunity for beginning farmers. And I think there have been some State programs that have attempted to do that, but there has not been, that I am aware of, a large Federal initiative that creates that environment.

Part of that too is allowing the opportunity, myself, as a family farm, how do we transition this to the next generation? Quite frankly, we do not know how to do that yet, because there are so many tax disincentives for that to occur for us, too. I am not a creative tax person, so I do not know how to do that, but we have to create opportunities for beginning farmers, for young farmers, for transitions of family farms. So that is a huge challenge for you and a huge opportunity, because if we do not, quite honestly, what if the average age of the American farmer—age 57, already. When I started quoted that statistic 30 years ago, it was 46.

So we have to be much more creative and innovative for beginning farmers and creating new opportunities for farmers. Quite honestly, a lot of these payment limitations has done just exactly what you have said. It has allowed the larger the farmer—and kept the young farmers from trying to get back into farming.

Mr. FLUHARTY. Just quickly, Senator, as a farmer, and a rural development policy soul, I believe the critical issue is to ensure we recognize that for all of our farmers, about 90 percent of their family household income, comes off of the farm. In the largest two categories of farms, that number is 28 percent.

The reality is, this Committee must retain the link between rural development and agriculture, whether it is in distribution or renewable energies, or it is landscape and local food systems. Mr. Chairman, I would argue this is the chance to fully fund what we started in 1970 and recognize its criticality to agriculture.

Globally, when we work with OECD nations, every nation is linking agriculture now to rural development. And I would just urge this Committee to take up that charge and not cede that rural development future to any other Committee of this Congress.

I think this issue is a challenge. The deeper issue is ensuring sufficient funding to keep those rural economies strong, because they are central to our farmer's future with their families.

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator COCHRAN. [Presiding.] Thank you, Senator Grassley.

Senator Lincoln, if you have any other questions, you have the floor, if you would like it.

Senator LINCOLN. Great. I would just like to, quickly—when you talk about the proposal that is out, particularly on payment limitation, the AGI of $200,000 there does incorporate both farm income and non-farm income, so you present a problem in terms of, I think, there, making sure that you are keeping the resources in rural America that need to stay there, because if you are going to limit the amount that agriculture producers can access in terms of safety net programs by incorporating in that number that non-farm income, I think you present a real problem of creating or undoing the foundation that is necessary in rural America. So I would certainly say that is an issue for me, without a doubt.

The other is the regional aspect, and we have talked an awful lot about regional aspects. For us, those issues are very different.

Many of our young farmers are large farmers because they have to be. I know that my contemporaries, the few that are left in farming, have to farm at an economy of scale that allows them to be productive as well as competitive in the global marketplace. And that means a larger farm, and therefore, with the capital investment that they have to make, a much more costly farm in many instances.

I think those are important things to add to that discussion, and I will continue to add them, but there are definitely compromises that can be made and ways that we can use those tools to enhance rural development. And to, again, encourage small farmers. I am not against that at all, that is for sure. I just want to make sure they can be competitive, because, for what we grow, it is very difficult.

The last thing I just wanted to add was a question. When we talked about the Value Added Producer Grant Program, it is huge, and it is very important, and I think it is a great tool. We have watched how we have been able to bring together some of our smaller minority farmers in a cooperative to be able to access different types of marketplaces, particularly in terms of food processing and moving in that next step, and adding the value added—keeping some of those facilities in our country. And also providing them U.S. produce as opposed to the imports that they have been bringing in to use in that processing.

It has been difficult. We have had to provide the one-stop shopping in our congressional office to see all the different places where these minority farmers and small farmers can access those programs. But in thinking about that, and looking at how much more I would hope the Agricultural Marketing Resource Center could do, do you think it would be more helpful for each State to get a value added allocation, since there is so much competition in that sense?

And again, I know I am a huge, huge, supporter of our county extension service. I keep telling my colleagues that, for after school programs, there are some tremendous that already exist if we just fund them, 4–H comes to mind. But nonetheless, should we look at an allocation per State, in terms of that? Would that be helpful, do you think?

Mr. HASSEBROOK. I do not like that approach very well, because I have seen some programs that get allocated by State. As long as—they just have to sign the dotted line to get the money. They oftentimes do not really use it for—they use it closely enough to the intended purpose to get by and that is about it.

Maybe a better solution, the one that we proposed, is that up to five or 10 percent of the money be allocated to grants particularly targeting low participation States and areas that have not had a lot of participants. That would be specifically used to do outreach on the program and to help producers put together proposals. So that, in every State, particularly those States where you have not had high participation, you have somebody out there sort of promoting the program and helping to put together proposals. I think that solves the problem.

Senator LINCOLN. It is a great opportunity to partner with the colleges and universities there that can help do those grant programs and provide that kind of assistance.

Ms. HOLZ-CLAUSE. In fact, I know right now that rural development is taking two or three staff people and having them go to those States right now where there has been low participation just to work with farmers and inform the. And service providers are also a very important conduit to the farmers. And so we are working with the cooperative development centers, the extension offices, Departments of Agriculture, and again, to try and get more good projects coming from those areas, as well.

I would agree that there should probably be a percentage that is targeted toward minority and low participation States.

Senator LINCOLN. That would be great.

Mr. SERTICH. Senator, also, at the heart of what my story is here today, is to really take the private business and industry, to take governments, and to take higher education, and put them together in a meaningful way.

And so what you are proposing when you ask the question, how can we do this best? Is to be sure all three parties are at the table. And I do not think any one of them necessarily has to be designated as the lead. Let's let these self-defining partnerships around initiatives, and Minnesota is a good example, with a lot of renewable energy and other value adds, they are going to beg workforce issues. And who better than a community college to be at that table to produce the skilled training that will ensure that those enterprises can become or remain globally competitive.

Senator LINCOLN. Well, thanks, Mr. Chairman, it is a passion, and we are grateful to all of you for your input and look forward to continuing to work with you.

Thank you.

Senator COCHRAN. Thank you very much, Senator.

Senator Grassley, do you have any other questions or comments that you would like to make?

Senator GRASSLEY. Only to comment on something that Mary led up to, and was going to be my last question, and she said we do not have a Federal program, or we do not have tax laws that make it easy to pass on land from one generation to the other. Iowa has this program, and several other States do, of tax exempt use of Federal bonds that let States give lower interest loans to young farmers. It helps a few people get started farming. Is there any advantage to something like that on the Federal level?

Mr. HASSEBROOK. I think so. You know, the reason that works in Iowa is because those bonds are federally tax exempt, and that provides enough of an incentive for people to lend to beginning farmers.

I think one of the best things the Federal Government can do—well, in the last Farm Bill, you said that it is OK—Congress said it was OK for the USDA to guarantee land contract sales by private landowners to beginning farmers.

If we can make a change in tax policy that would do away with the prohibition on USDA guaranteeing one of these loans made with tax exempt bonds to a beginning farmer, then you could go to a landowner who is trying to sell their land and say, look, if you sell this to a beginning farmer and you finance it yourself through a land contract, you are guaranteed repayment, and all of your interest is tax free, that would provide a powerful incentive for those landowners to sell to beginners. Now, the key there is to change the Federal tax policy.

Senator GRASSLEY. I believe that is it, Mr. Chairman.

Senator COCHRAN. Thank you very much, Senator.

Thank you all who participated in the panel this morning. I think this is an excellent selection of witnesses, and I congratulate Chairman Harkin on organizing this Committee.

The hearing record will remain open for five business days to receive statements and additional questions from the members of the Committee, and submitted testimony that we may receive.

Thanks again for your participation. We appreciate it very much. The hearing is adjourned.

[Whereupon, at 11:38 a.m., the Committee was adjourned.]

A P P E N D I X

FEBRUARY 13, 2007

Statement of United States Senator Bob Casey
Agriculture Committee Hearing on Rural Development
February 13, 2007

Mr. Chairman, thank you for holding today's hearing on rural development, which is critically important to the health of rural communities. Rural areas struggle with poverty, job loss, affordable housing, access to healthcare, and the difficult task for attracting new businesses to their communities. So federal rural development programs are critical for rural economic growth and job creation.

The rural development title of the new Farm Bill presents us with an opportunity to enhance our efforts in other Farm Bill titles, such as nutrition and energy. Funding biorefineries ensures benefits to the rural communities that grow the crops while providing people in cities with affordable domestic fuels. Farmers markets are another example of projects that bring benefits to rural areas by tapping into local markets while giving people in urban areas fresh, locally-grown produce.

Finally, I want to mention that the Pennsylvania Department of Agriculture has developed a series of recommendations for the 2007 Farm Bill, including some suggestions to improve rural development programs. I would like to include the list of recommendations in the record.

Some of these recommendations include: providing a single definition of "rural community" that can be applied to all rural development programs, creating a new Rural Tourism Development Subtitle, and funding projects in non-rural areas if the primary beneficiaries of the projects are rural citizens.

I look forward to working with my colleagues on this committee to incorporate these kinds of suggestions in the next Farm Bill.

Thank you.

Senator Saxby Chambliss
Ranking Republican Member
Senate Committee on Agriculture, Nutrition and Forestry
HEARING: Rural Development – Challenges and Opportunities

Opening Statement

In the 1930s, when many of the Federal government's rural development programs were first implemented, the distinctions between rural and urban life were far sharper than they are today. At that time there were few suburbs—little in the way of urban sprawl extending the city into the country—and most rural residents were farmers. Without electricity, telephone service, or good roads connecting rural residents to population centers, most rural residents were comparatively isolated.

Today, more people live in suburbs than in central cities, and the proportion of the nation's population that lives on farms has dropped dramatically, from 25 percent in 1930 to less than 2 percent today. Advances in transportation, computer technology, and telecommunications have the potential to provide rural residents access to many of the same resources utilized by the urban population. We want to make certain that our rural development programs are up to date and properly addressing the ever-changing needs of these evolving rural communities.

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 established the rural development mission area within the U.S. Department of Agriculture (USDA) to focus on the infrastructure, housing and community development, and business and industry development needs of rural communities. Today, the Rural Utilities

Service, Rural Housing Service, and Rural Business and Cooperative Development Service oversee a toolkit of over 40 programs to address the needs of families, businesses, communities, and nonprofit organizations in rural America.

However, the statutorily defined eligibility areas and targeted populations vary by program, making it difficult for USDA to leverage resources and frustrating potential partners who attempt to conduct work within multiple programs. Over time, various rural development programs have been created to address specific needs without consideration for how they might be coordinated with already existing programs. As a result, there is a confusing portfolio of loans, loan guarantees and grants for customers to understand. At the same time, it is difficult for USDA to measure the performance and effectiveness of the various programs. In response to this problem, USDA's recent farm bill proposal suggests that there is a need to better coordinate the statutory authorities

In addition to streamlining the rural development programs, USDA has also recommended the use of sizable resources to complete rehabilitation of all Rural Critical Access Hospitals as well as mandatory funding to address the current backlog of several essential community programs, such as the water and waste disposal loan and guarantee program.

USDA also proposes reauthorizing the Broadband Access Program and the Distance Learning and Telemedicine Program.

I am very interested to see what those of you who represent the true local needs of our rural communities think about the USDA proposal, and I am anxious to hear if you have additional ideas to help us improve the delivery of these programs.

Thank you Mr. Chairman.

Thad Cochran

Senate Committee on Agriculture
Nutrition and Forestry

Senator Thad Cochran

February 13, 2007

Mr. Chairman, thank you for holding this hearing today. I also want to welcome Mr. Randy Kelley of Pontotoc, Mississippi, to the Committee.

Mr. Kelley, in his capacity as the Executive Director of the Three Rivers Planning and Development District, and as Past President of the National Association of Development Organizations has extensive knowledge of challenges facing the rural economies of both Mississippi and the nation.

Through Mr. Kelley's leadership, the Three Rivers Planning and Development District has helped facilitate regional approaches to rural development. The District provides the technical assistance local governments need to participate in programs administered by the United States Department of Agriculture and other federal agencies involved in rural development.

Rural Development programs are critical resources for many communities in Mississippi. Water and Waste Disposal Grants, Single and Multi Family Housing Loans, and Rural Broadband Access are a few of the Rural Development programs that enable economically depressed communities the opportunity to obtain adequate infrastructure and services for their residents.

An issue that has been brought to my attention concerning rural development programs is that many programs cannot easily be adapted to meet regional needs. Programs that allow participation on a regional level would give communities the ability to better leverage resources and provide services on a greater scale. This is an issue that Congress should carefully consider during the farm bill debate.

I look forward to working with the Members of this Committee to ensure the needs of Rural America continue to be addressed in the new farm bill.

Senator Ken Salazar
Agriculture Committee Hearing
Rural Development Challenges & Opportunities
February 13, 2007

Chairman Harkin and Ranking Member Chambliss, thank you for holding this hearing on rural development challenges and opportunities. I thank the witnesses for talking with us today; I am greatly interested your ideas and vision for rural America.

Rural America and rural Colorado look to development programs to ensure the long term viability and sustainability of their communities. During my own farm bill listening sessions in Colorado I met many farmers and rancher around my state who are bound to their farms and their ranches through history, tradition, and purpose. They are committed to sustaining their way of life and we must be committed to aid them in this endeavor.

Though there is ample determination today in rural America, there are also great challenges. In Colorado, my rural constituents face lower incomes and are far more likely to be unemployed than people in suburban or urban areas. As a result rural populations continue to decrease. In addition, there is still a staggering digital divide that affects great portions of rural America. Rural health care is in a crisis with many communities lacking adequate facilities or staffing.

These challenges do not come without opportunities. The re-writing of the Farm Bill presents a vehicle to address these important issues. Most important, in my mind, is the fact that America is turning to rural America to address the question of how to make our country more energy independent. I remain optimistic that renewable energy can assist in a revitalization of rural America, and I believe all levels of government must work together to make it reality.

We can, and must, craft an energy title and a rural development title of the Farm Bill that, if properly funded and implemented, will significantly aid in the resurrection of the rural economic landscape. I will continue to work towards this end with my colleagues on this committee

Thank you again Mr. Chairman and Ranking Member for holding this hearing. Also, I once again would like to thank the witnesses for their time and expertise.

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Written Statement for the Record

Charles W. Fluharty
President, Rural Policy Research Institute
Truman School of Public Affairs
University of Missouri-Columbia

Before the

United States Senate Committee on Agriculture, Nutrition and Forestry

Washington, D.C.

February 13, 2007

The Rural Policy Research Institute provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places.

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Chairman Harkin, Ranking Member Chambliss, and members of the committee, 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 discussion and decision making.

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 frame a 21st century U.S. rural policy framework:

Guiding 21st Century Rural Policy Principles

1. Three critical components must be addressed:

- The importance of increasing 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.
- The federal government must also reverse recent disinvestments in rural programs.

2. A new rural policy framework must be created:

- It should build upon rural innovation, entrepreneurship collaboration and strategic investments.
- This must incent public, private and philanthropic investment cooperation, build regional frameworks for action, and focus upon innovation and entrepreneurship.
- 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, these critical contexts should frame and focus federal investments in the important developmental context which follows.

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 one-half percent per year (.05%) rate. Throughout the rest of U.S. rural counties, jobs grew at a rate two and a half 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 nonmetro 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 nonmetro employment in the U.S.
- 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 citizens live in small cities and towns in metropolitan counties.
- Hispanics accounted for over 25 percent of nonmetro population growth during the 1990s.[2]
- By 2000 half of all nonmetro Hispanics lived outside the Southwest, increasingly in areas of the Midwest and Southeast.[3]
- Nearly two-thirds of the nonmetro 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 noncore 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 noncore counties lost population.[5]

Rural poverty remains a searing and silent national tragedy.

- The nonmetro poverty rate is nearly 2 ½ 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.

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

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 Euros, with an additional $2.2 billion Euros 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.

- Please see accompanying written testimony from Indiana Lieutenant Governor Becky Skillman.

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 five years old
- Over the past ten years, every month nearly three people in a thousand create their own job – (in 2005 this represented 464,000 people per month -0.29 percent).[6] The highest activity is in theMountain 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 five 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 three-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]

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[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 US 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.

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.

- **The new rural development perspective within the United States Department of Agriculture / Rural Development, and its impact upon this Farm Bill process.**

- **New economic, demographic and institutional changes are 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.**

Thenew 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. The USDA began laying the groundwork for its first Outlook Forum in 1913. Shortly thereafter, the number of farms in America would reach its zenith, at 6 ½ million. Today two-thirds of these are gone, and most of the producers on the remaining 1 ¼ million farms are working in towns and farming part-time. Approximately 90% of total farm income now comes from off-farm sources, while 150,000 very large farms produce the majority of our food and fiber.

That first Outlook Forum, hosted in 1923, brought together our nation's most eminent leaders in agriculture, a tradition which remains strongly in force today. Over the last 85 years, however, the Forum has broadened its focus to include discussions of the latest scientific research and new products, global aspects of trade, health issues, and the changing dynamics and economy of rural America. Today, it brings together our nation's leading producers, scientists, economists, consultants, industry leaders, analysts and public policy makers. It is, without question, the preeminent U.S. agricultural policy forum each year.

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. Those forums were the place to gain some perspective on the future of agriculture and farm policy and to hear directly from farmers and ranchers. . .

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 two-thirds 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.

I am here today to assure all those who stood in line at the forums, I was listening. Now today I'm not prepared to present a detailed piece of legislation but I can tell you that 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.

Bottom line: 65 million people live in rural America. 63 million of them don't farm. 96% of the total income in rural areas – and virtually all the job growth -- is from non-farm sources. . .

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. . . .

Today, however, USDA Rural Development is a regional economic and community development organization:

- We recognize that sustainable development must be market driven, not program dependent.
- We want to be an investment banker for rural America, not a central planner or a lender of last resort.
- Our role is to support and empower local initiative, both public and private. We are an enabler, not a central planner.
- We also understand that money is part -- but only part -- of that role. We can't pay for everything -- and we don't want to. Rural America doesn't need Potemkin Villages that wither and die the moment the subsidy plug is pulled.
- What it does need is viable businesses, self-sustaining communities, and young families eager to build a future.

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. With this recognition, USDA leadership has joined the culminating apex of a decade-long dynamic, in which enlightened rural public decision makers, business and community leaders, and public policy scholars have coalesced around commitments to a set of principles for a new rural policy framework in the United States: "Regional Rural Innovation, Collaboration and Strategic Investment."

Over the past year, a tremendous groundswell has been building within the rural development constituencies, based upon this new 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, which address Farm Bill issues the possibility of a landscape -changing Farm Bill becomes more real.

Today, under your the leadership, Mr. Chairman, this Committee 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 four 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]

[10] The New Rural Paradigm: Policies and Governance, Organization for Economic Cooperation and Development. Paris: 2006.

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 nonmetropolitan 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 FY2003 Consolidated Federal Funds data, and found even greater nonmetropolitan

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[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.

disadvantage. Nonmetropolitan 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 nonmetropolitan areas. In metro areas, 14.5 percent of funds are allocated to community resources, in nonmetropolitan it is 8.9 percent, a 5.6 percent difference. Conversely, nonmetropolitan areas 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 one third as much on community resources in rural areas[14]. Per capita spending on community resources in 2001 was $286 per person less in nonmetro 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 grantmakers. 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 grantmaking foundations in the United States, only 184 engaged in rural development grantmaking. About 20 foundations engaged in rural development grantmaking 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 grantmaking 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 grantmaking in the U.S. amounts to $12 billion annually, a 2000 study of the 124 Fortune 500 corporations found that corporate grantmaking for rural, racial / ethnic organizations amounted to 1% of their total racial / ethnic grantmaking. In total, corporate grantmaking for rural groups constituted seven-tenths of one percent (.7%) of the grant dollars awarded by the

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[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."

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.

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.

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

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, across multiple foundations, 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 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. Secondly, 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] [19] [20] [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

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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.

multiple settings across the rural U.S., by major foundations such as the W.K. Kellogg Foundation, regional and community foundations, and corporate grantmakers.

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.

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, to 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 noncore 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 noncore 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 8 in Puerto Rico), and 582 Micropolitan Statistical Areas (577 in the U.S. and 5 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 noncore 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 nonmetropolitan 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, nonmetropolitan residents should be included when targeting rural populations. While nonmetropolitan counties do include some urban residents, with few exceptions nonmetropolitan 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 nonmetropolitan 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 U.S. micropolitan areas, which are ideal geographies for rural regional innovation strategies[22]. In most cases, the principal city in the micropolitan area provides the central locale for regional economic activity and service delivery.

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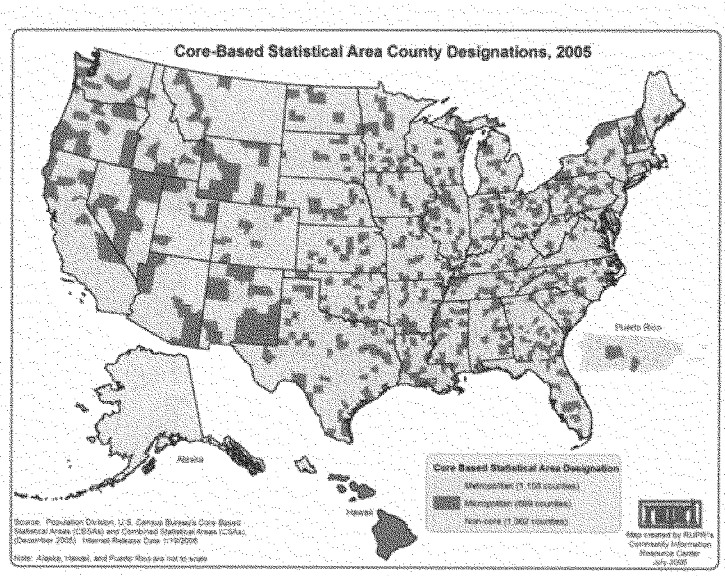
[22] All maps presented in this brief were prepared by Erin E. Barbaro, Geographic Information Systems Specialist with the RUPRI Community Information Resource Center.

Map 2 illustrates the U.S. urbanized area and small town geography. The green areas represent urbanized areas - cities with populations of 50,000 or more in metropolitan counties. (In a few cases, boundaries of urbanized areas fall into nonmetropolitan counties, but usually don't account for a significant portion of total population.) The dark brown areas represent small cities and towns (populations from 2,500 to 49,999) in metropolitan counties. The dark orange areas illustrate rural territory in metropolitan counties, and the light orange areas represent nonmetropolitan counties. These urban clusters also exist in nonmetropolitan counties, but are not shown on the map.

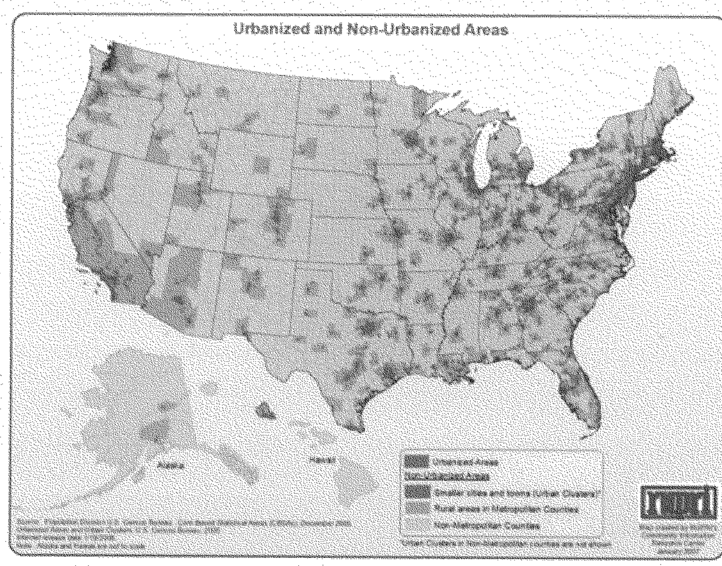
Maps 3 through 8 show the urbanized and non-urbanized areas in Iowa, Georgia, Minnesota, Virginia, Indiana and Arkansas, reflecting the same level of small town and rural population in the metropolitan areas of these states.

Maps 9 through 14 illustrate this dynamic in 6 metropolitan areas of these states, and illustrate the geography and populations that reside in small towns and rural areas in metropolitan areas. Each metropolitan area represents the continuum of urban to rural places and several of the metro areas have counties with no urban populations at all.

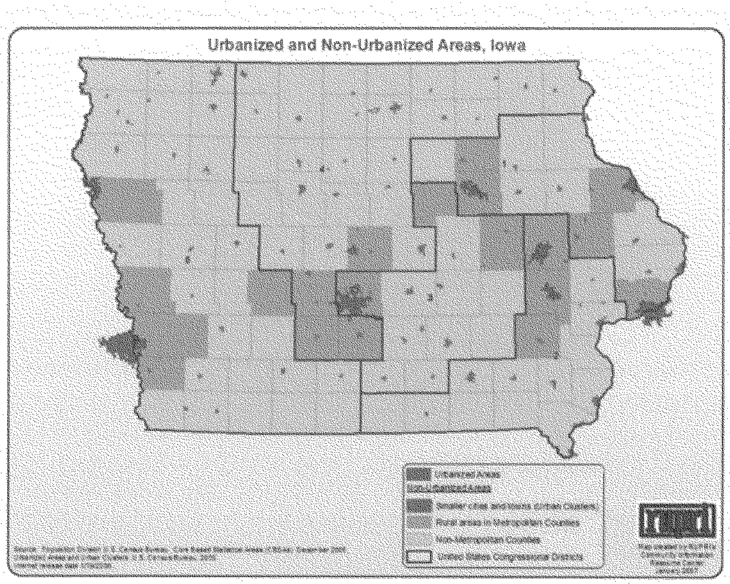
Map 1.


Core-Based Statistical Area County Designations, 2005
Puerto Rico
Alaska
Hawaii
Core Based Statistical Area Designation

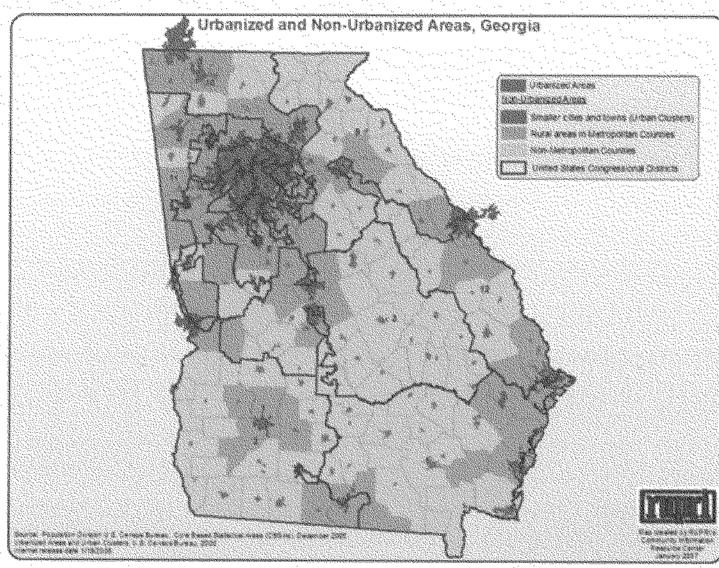
Map 2


Urbanized and Non-Urbanized Areas
Alaska
Hawaii

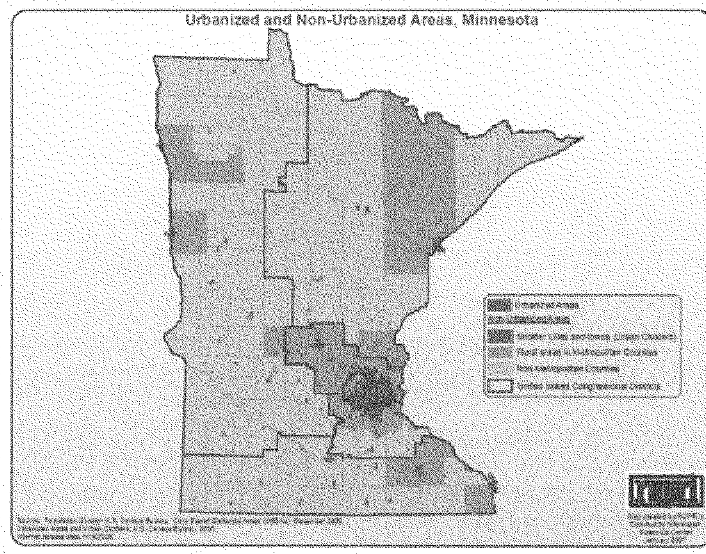
Map 3.


Urbanized and Non-Urbanized Areas, Iowa
Urbanized Areas
Non-Urbanized Areas
Smaller cities and towns (Urban Clusters)
Rural areas in Metropolitan Counties
Non-Metropolitan Counties
United States Congressional Districts

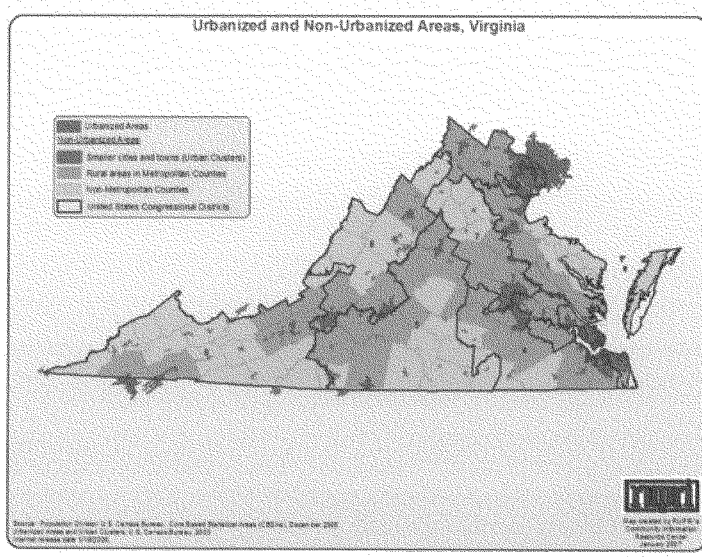
Map 4.


Urbanized and Non-Urbanized Areas, Georgia
Urbanized Areas
Non-Urbanized Areas
Smaller cities and towns (Urban Clusters)
Rural areas in Metropolitan Counties
Non-Metropolitan Counties
United States Congressional Districts

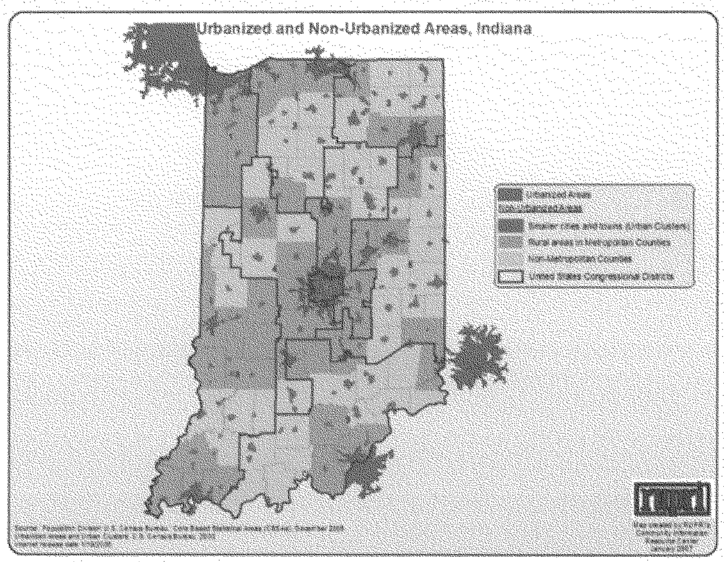
Map 5.


Urbanized and Non-Urbanized Areas, Minnesota

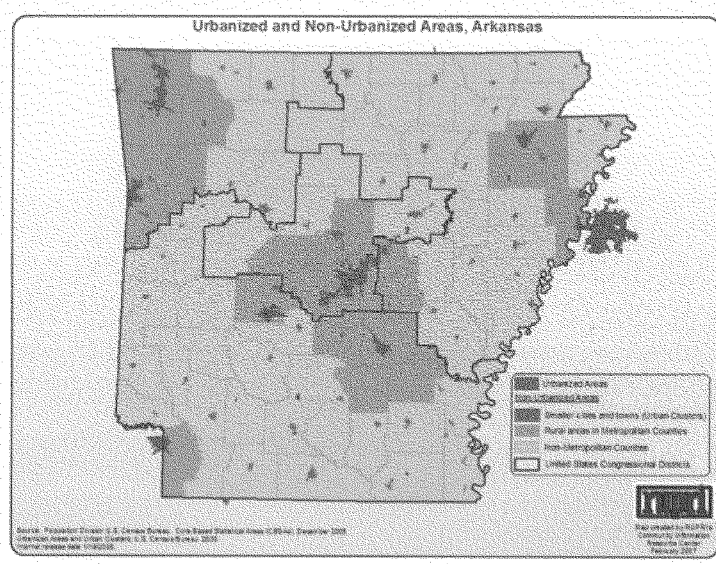
Map 6.


Urbanized and Non-Urbanized Areas, Virginia

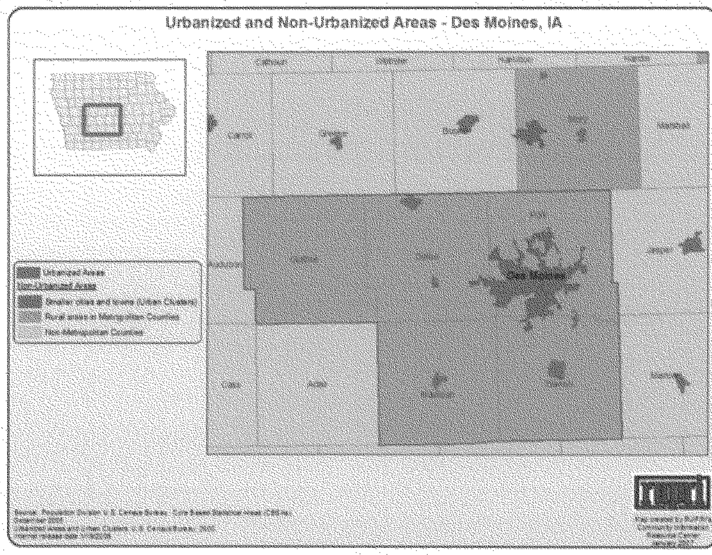
Map 7.


Urbanized and Non-Urbanized Areas, Indiana

Map 8.


Urbanized and Non-Urbanized Areas, Arkansas

Map 9.

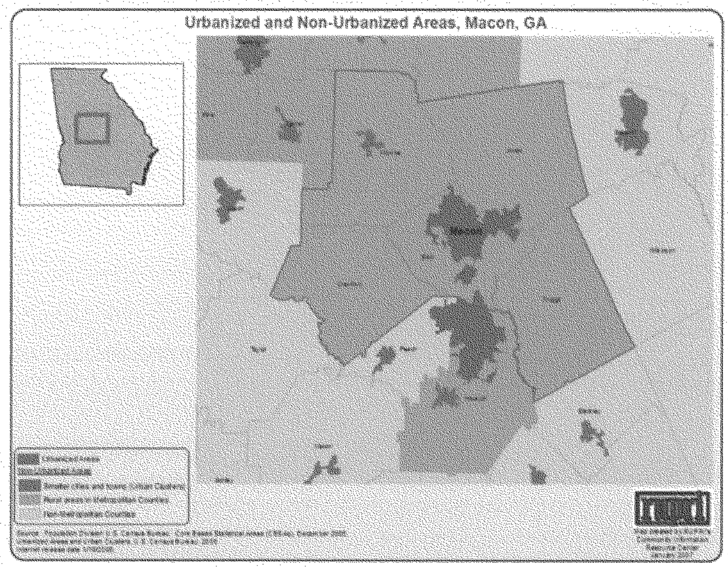


Counties in the Des Moines - West Des Moines IA Metropolitan Area: Distribution of Land Area and Population

	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

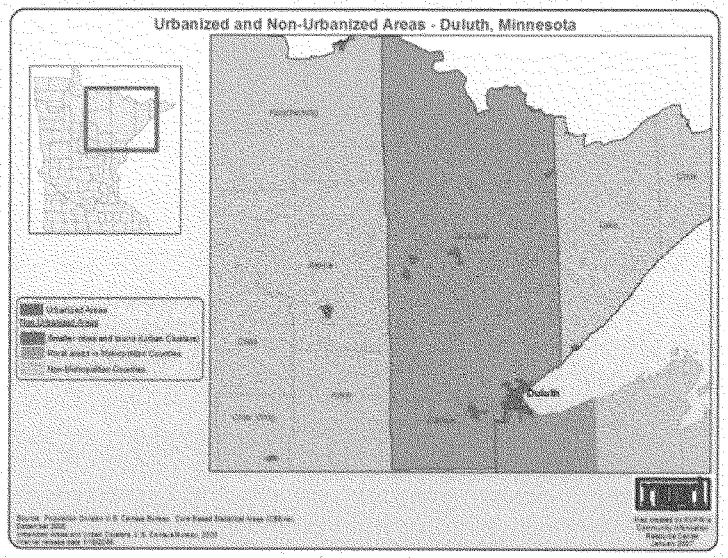
Map 10.



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%

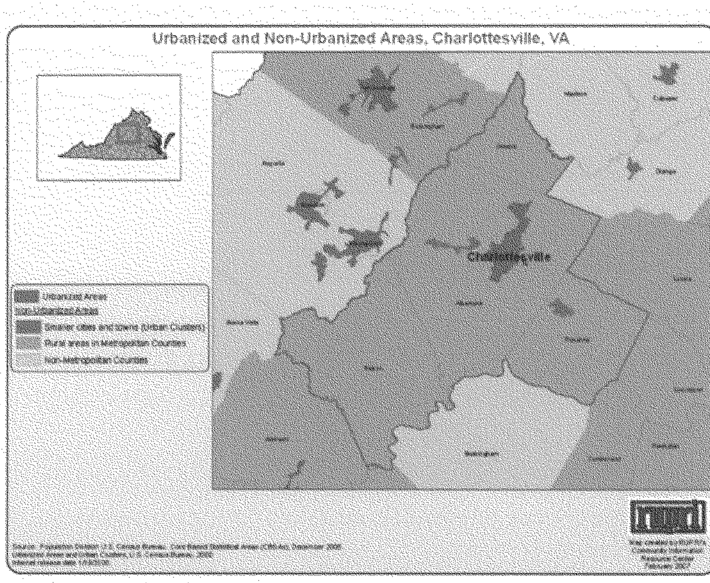
Source: U.S. Census Bureau, Census 2000

Map 11.



Minnesota Counties in the Duluth MN-WI Metropolitan Area: Distribution of Land Area and Population		
	Carlton	St. Louis
Total Land Area (Square Miles)	**875.5**	**6,736.7**
Percent Inside Urbanized Areas	0.0%	0.8%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	1.2%	0.3%
Rural Areas	98.8%	98.9%
Total Population	**31,671**	**200,528**
Percent Inside Urbanized Areas	0.0%	45.6%
Percent Outside of Urbanized Areas		
Small City/Town (urban clusters)	36.7%	17.8%
Rural Areas	63.3%	36.6%
Source: U.S. Census Bureau, Census 2000		

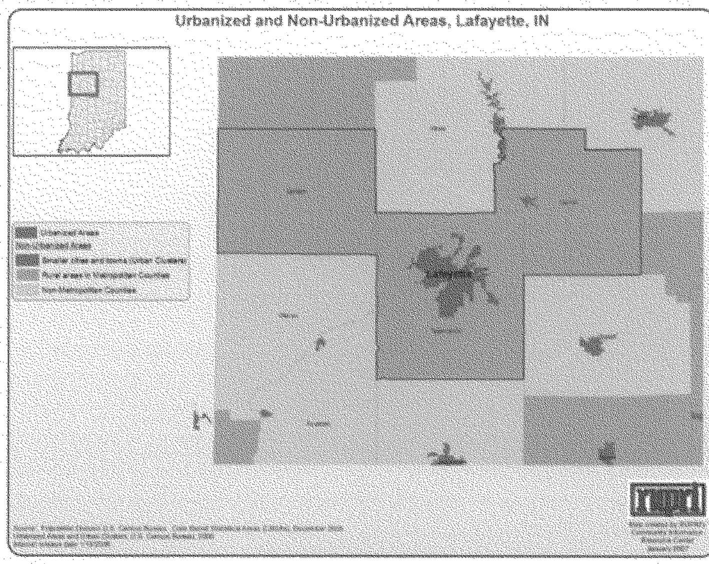
Map 12.



Counties in the Charlottesville VA Metropolitan Area: Distribution of Land Area and Population					
	Albemarle	**Fluvanna**	**Greene**	**Nelson**	**Charlottes-ville City**
Total Land Area (Square Miles)	**726.3**	**290.2**	**156.9**	**474.4**	**10.2**
Percent Inside Urbanized Areas	3.8%	0.0%	0.0%	0.0%	100.0%
Percent Outside of Urbanized Areas					
Small City/Town (urban clusters)	0.7%	1.6%	0.0%	0.0%	0.0%
Rural Areas	95.5%	98.4%	100.0%	100.0%	0.0%
Total Population	**79,236**	**20,047**	**15,244**	**14,445**	**45,049**
Percent Inside Urbanized Areas	45.8%	0.0%	0.0%	0.0%	100.0%
Percent Outside of Urbanized Areas					
Small City/Town (urban clusters)	5.9%	29.7%	0.0%	0.0%	0.0%
Rural Areas	48.3%	70.3%	100.0%	100.0%	0.0%

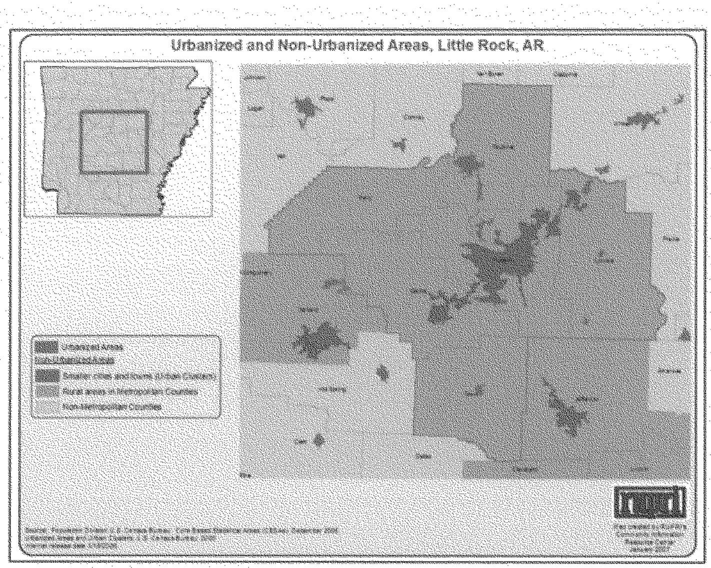
Source: U.S. Census Bureau, Census 2000

Map 13.



Counties in the Lafayette IN Metropolitan Area: Distribution of Land Area and Population			
	Benton	Carroll	Tippecanoe
Total Land Area (Square Miles)	**406.0**	**375.0**	**503.0**
Percent Inside Urbanized Areas	0.0%	0.0%	10.9%
Percent Outside of Urbanized Areas			
Small City/Town (urban clusters)	0.0%	1.4%	0.0%
Rural Areas	100.0%	98.6%	89.1%
Total Population	**9,421**	**20,165**	**148,955**
Percent Inside Urbanized Areas	0.0%	0.0%	84.5%
Percent Outside of Urbanized Areas			
Small City/Town (urban clusters)	0.0%	19.7%	0.0%
Rural Areas	100.0%	80.3%	15.5%
Source: U.S. Census Bureau, Census 2000			

Map 14.



Counties in the Little Rock-North Little Rock AR Metropolitan Area: Distribution of Land Area and Population

	Faulkner	Grant	Lanoke	Perry	Pulaski	Saline
Total Land Area (Square Miles)	**664.2**	**632.9**	**803.1**	**560.6**	**806.8**	**730.5**
Percent Inside Urbanized Areas	0.0%	0.0%	1.4%	0.0%	20.0%	4.6%
Percent Outside of Urbanized Areas						
Small City/Town (urban clusters)	3.5%	0.4%	0.9%	0.0%	0.7%	0.3%
Rural Areas	96.5%	99.6%	97.7%	100.0%	79.2%	95.1%
Total Population	**86,014**	**16,464**	**52,828**	**10,209**	**361,474**	**83,529**
Percent Inside Urbanized Areas	0.0%	0.0%	27.2%	0.0%	84.3%	49.0%
Percent Outside of Urbanized Areas						
Small City/Town (urban clusters)	51.1%	22.6%	18.0%	0.0%	3.0%	1.2%
Rural Areas	48.9%	77.4%	54.8%	100.0%	12.7%	49.7%

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.***

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 fifty 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 non-profits, 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.

While much of this is new, many encouraging examples are emerging across rural America. The Kerr-Tarr Hub in North Carolina is one such example. In this region, a local council of government is working with a number of county jurisdictions to identify and certify one industrial development location in each of the collaborating counties, all of which have agreed to share local tax revenue with partnering counties, in an effort to attract and grow business in a regional framework, rather than a competitive one. In many other regions, counties are seeking new avenues for cooperation and joint investments. The suggestions above seek to enhance the potential for federal support of these dynamics.

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.

As a new Farm Bill approaches, with tremendous federal budget challenges as a result of our continuing deficit, increased WTO trade pressure, and no lessening of competing demands from the very diverse constituencies affected by this omnibus title, are new framings to address the issues and opportunities raised above possible. I believe they are, and I would argue that models already exist. Several examples are briefly highlighted below.

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)[23]. 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" 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.

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[23] 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.

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 committee 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.

Testimony of Chuck Hassebrook
Executive Director, Center for Rural Affairs
Lyons, Nebraska

Before the
Committee on Agriculture, Nutrition, and Forestry
United States Senate

February 13, 2007

The 2007 farm bill presents an opportunity. Small scale entrepreneurship is a proven strategy to revitalize rural communities. It can create genuine opportunity across rural America with the support of a modest investment by the federal government.

As concluded the Kansas City Federal Reserve Bank, "entrepreneurs can generate new economic value for their communities. Entrepreneurs add jobs, raise incomes, create wealth, improve the quality of life of citizens and help rural communities operate in the global economy."

The importance of small entrepreneurship is particularly profound in the most rural areas. Our analysis of economic conditions in the farm and ranch counties of Iowa, Kansas, Minnesota, Nebraska and the Dakotas found that nearly 60 percent of job growth in the 1990s came from people creating their own job by starting a small non farm business. Small entrepreneurship is the one development strategy that consistently works in these communities.

It is also the strategy that has the capacity to bring back young people – including those who earn a college degree. Our surveys of rural youth in northeast Nebraska found that half would like to one day own their own farm or business. That opportunity has the potential to draw them back to rural America. Eight dollar per hour jobs in call centers won't.

Small business development helps rural people acquire assets and create wealth. That is essential. Asset and wealth-building through home ownership, business ownership and enhanced education lead to important long-term psychological and social effects that cannot be achieved by simply increasing income.

Assets like businesses and houses bond one to a place and help to build sustainable communities. A commitment to rural asset- and wealth-building strategies can lead to stronger individuals, families, and communities.

Rural Entrepreneur and Microenterprise Assistance Program

We strongly support Senator Ben Nelson's proposed Rural Entrepreneur and Microenterprise Assistance Program to tap the rural development potential of small entrepreneurship. The Program is modeled after a provision in the Senate version of the 2002 farm bill (but not the conference report) and also a program initiated in Nebraska by then Governor Nelson.

The program would provide $50 million of mandatory farm bill funding annually for grants to organizations to provide training, technical assistance and loans to rural entrepreneurs, principally those with five or fewer employees. A portion of the funding would be committed to developing new programs for currently underserved areas.

The Nebraska legislation that provides the model for this bill has made it possible for microenterprise development programs to lend $6,895,324 and provide training and technical assistance to 15,000 businesses over the last ten years. In 2006, each dollar of state funding for this program leveraged over $12 from other sources. Last year alone it helped create or save 7,500 jobs at a cost of $330 per job.

The Nebraska legislation has had a significant impact on participants' lives and the success of their businesses. Fewer than half of the new participants in the Rural Enterprise Assistance Program, which received funding through the legislation, had business assets of $5,000. But after three years, 2/3 had business assets in excess of $5,000 and ¼ had business assets of over $50,000.

The Program helped Jim and Marilyn Gaster of Indianola, Nebraska and their son Jeremy turn a coopering hobby into a highly successful enterprise, *Beaver Buckets.* The business has a nationwide customer base including Walt Disney, 20th Century Fox Studios, and the Smithsonian Institution for wooden barrels and casks such as old pioneer flour barrels, water kegs and cracker barrels. You'll find an amazing variety of coopered items ranging from an authentic replica of a "War of 1812" canteen to a pioneer era water keg on their web site - www.beaverbuckets.com.

Though the Nebraska legislation has helped thousand of rural entrepreneurs like the Gasters, the programs it funds are currently reaching only three percent of the state's microbusinesses. In Nebraska alone, an additional $2 million per year is needed to meet the full demand.

The Value Added Producer Grants Program

The next farm bill should also invest in agricultural entrepreneurship. The opportunities are significant.

Some of the greatest opportunities for small and mid-size farms are in market niches, made up of consumers willing to pay premium prices for products with unique attributes and food produced in ways they support. For example, two-thirds of participants in a Better Homes and Gardens consumer panel said they would pay more for pork produced on small farms that treat animals humanely and are environmentally responsible. Other opportunities lie in producing specialty crops, processing agricultural products and other farmer owned and controlled initiatives.

The USDA Value Added Producer Grants Program is the most significant achievement of the rural development title of the 2002 farm bill. It has funded a multitude of farmer and rancher initiatives to increase income, secure new markets, add value to products and link consumers willing to pay a premium for food produced in ways they support with family farmers who have what they want.

The Program should be reauthorized and provided $60 million annually in mandatory funding. In addition, the program should be improved and refined, including:

- Place an explicit statutory priority on proposals that increase the profitability and viability of small- and medium-sized farms and ranches and encourage protection of natural resources. The 2002 farm bill included a statement of intent that such projects be prioritized. But USDA has never implemented that priority. We analyzed the 2001 and 2002 grants awarded under the Program. Over 40% of the funds went to projects that we gave a grade of "F" for relevance to small and mid size farms.
- Set-aside 10-15 percent of program funding for projects concerning beginning and socially disadvantaged farmers and ranchers. Few of the projects funded by the Program to date have included significant participation by new or minority farmers.
- Allow a small portion of the funds to be used for innovative strategies to strengthen mid size farms other than value added agriculture. For example, a group of mid-size Iowa farmers is exploring creation of a cooperative to share ownership of the most expensive equipment and thereby lower machinery costs to competitive levels. But it takes legal work and research to launch such initiatives. A limit portion of the grants awarded through the Value Added Producer Grants Program should be available to support other innovative strategies to strengthen mid-size farms.
- Direct outreach to states with little or low participation in the program and set-aside a portion of total funding for grants to non-profit and educational organizations to provide technical assistance for grant proposals, especially in low participation areas.

Beginning Farmers and Ranchers

The future of agriculture depends on the ability of new family farmers and ranchers to enter agriculture. Providing opportunities for beginning farmers and ranchers is also important for rural communities – the viability of rural businesses, schools, and other community institutions are all dependent in part on the existence of new agriculturalists on the land. The new farm bill should include a comprehensive, multi-title new farmer initiative. I will touch on a few key parts that should be included in such an initiative.

The **Beginning Farmer and Rancher Development Program** should be reauthorized and providing $20 million in mandatory funding by the 2002 farm bill. Originally passed as

Section 7405 of the 2002 farm bill, this program was to provide grants to collaborative networks and partnerships to support training, mentoring, linking, education, and planning activities to assist beginning farmers and ranchers. However, the program never received funding.

Escalating land values across the nation have priced most beginning farmers and ranchers out of the market for land, the most valuable commodity in any agricultural operation. The 2002 Farm Bill established the **Beginning Farmer Land Contract** pilot program to allow USDA to provide loan guarantees to sellers who self-finance the sale of land to beginning farmers and ranchers. The 2007 Farm Bill should permanently and nationally implement this provision.

Current tax law should also be modified to provide incentives to sellers of land to beginning farmers and ranchers. The 2002 farm bill removed the prohibition on USDA loan guarantees being used in conjunction with state beginning farmer "aggie" bonds, but that provision will not go into effect until the parallel prohibition in tax law is removed. Combined with federal **"first time farmer bonds,"** which make interest income tax exempt if earned on contract land sales (seller financed) to beginning farmers, USDA guarantees would provide a powerful incentive to sell land on contract to beginners.

Finally, the 2002 farm bill should include a pilot program on individual development accounts targeted to beginning farmers. The **Beginning Farmer and Rancher Individual Development Account Program** would provide matching funds for dollars place in savings accounts for using in starting in farming or ranching. The accounts could be use for capital expenditures for a farm or ranch operation (e.g., expenses associated with purchases of land, equipment or livestock).

Rural Asset- and Wealth-Building

Asset- and wealth-building strategies have both individual and community benefits. They help individuals and families build an asset base that lifts the veil of poverty and dependence on low-wage work. Communities become stronger and more viable as opportunities and ownership are expanded to a wider group of people.

The issues of depopulation, poverty, and low-wage employment facing many rural communities are largely a function of a lack of opportunity in those communities. In order to create a future for those communities and their residents, a commitment must be made to enhancing opportunity through the building of assets and wealth.

The 2007 Farm Bill should include the **Individual Homestead Account** provision of the New Homestead Act (Section 104 of S. 675, 2005). Individual Homestead Accounts– like Individual Development Accounts employed primarily in urban settings – are savings accounts matched (generally with public funds) that allow tax-free withdrawals for certain purposes.

Allowable purposes for the accounts would include developing a small business, higher education, first-time home purchases in qualifying counties, unreimbursed medical expenses, and qualified retirement account rollovers. Any individual who is a bona fide resident of a qualifying county and of low or moderate income would qualify for matching funds to create an account.

Qualifying counties include 698 counties in 38 states that have experienced net out-migration of 10 percent or more over the past 20 years. These counties are also generally suffering from the greatest economic distress. As such, they are the segments of rural America most in need of hope and opportunity.

Rural Development Proposals in Other Farm Bill Titles

In the Research and Education title, we propose $50 million of mandatory funds for the **Entrepreneurship Education Program**. The Program would make grants to four-year and community colleges, extension services, non-profit organizations and primary and secondary schools to provide entrepreneurship education rural Americans. It would serve adult learners in both credit and noncredit settings. It would serve youth in primary and secondary schools and as traditional college students. Too often in rural America, we educate our young to move away. This program would help educate rural people to create their future in rural America.

In the Conservation title, we propose that the 2002 farm bill's Partnership and Cooperation Initiative be reauthorized as the **Cooperative Conservation Partnership Initiative (CCPI)** and significantly expanded. The new CCPI should support special projects for multiple producers to address specific resource concerns or opportunities on a local, state, or regional scale. The full range of resource concerns should be eligible, with a priority for projects which simultaneously address community development opportunities and environmental enhancement.

Public access to natural space can be a development asset for communities. It can draw young family to start businesses, populate schools and revitalize communities. And it can provide the basis for new tourism related self-employment opportunities involving bed and breakfasts, hunting, horseback riding, hiking, biking, wildlife viewing, etc.

The CCPI should be implemented on a competitive basis with public and private entities eligible to submit initiative proposals covering the full range of resource concerns. Up to 20 percent of a state's farm bill conservation program funding allocation should be available for cooperative conservation projects. Funds for selected projects should include financial and technical assistance, education and outreach, and monitoring and evaluation.

There should be flexibility in program rules to tackle specific local problems and opportunities. For example, the flexibility would allow for bonus payments to landowners who enroll in the Conservation Reserve Program, Wetland Reserve Program or the Grassland Reserve Program as part of a community plan to use access to natural space as a development asset.

Testimony to the U.S. Senate Agriculture Committee
February 13, 2007

By

Mary Holz-Clause

Interim Associate Vice President for Extension at Iowa State University Extension

Director of the Value Added Agriculture Program and Agriculture Marketing Resource Center

Good Morning. My name is Mary Holz-Clause. I am interim associate vice president for Extension at Iowa State University Extension, director of ISU Extension's Value Added Agriculture Program and director of the Agriculture Marketing Resource Center (AgMRC) a virtual value-added agriculture center for U.S. farmers and producers in the United States. My husband and I operate the family farm, putting us among the two million family farmers raising food, energy and fiber for Americans and the world.

These roles create a uniquely broad perspective for me to not only see, but actually understand, the impact value-added agriculture has for our nation's farmers and ranchers. The relationships I have as a value-added agriculture consultant, land-grant Extension administrator and family farmer enable me to know what's going on out there.

Value-added agriculture as defined by USDA is increasing the value of an agricultural commodity through changes in genetics, processing, or diversification; or by increasing the consumer appeal of an agricultural product.

Value-added agriculture is making a significant impact in rural America. The more than 46 farmer-owned ethanol plants in the U.S. are fueling our nation's automobiles and the nation's 95 biodiesel plants are extending the diesel fuel supply -- real life successful examples of farmers making rural development happen in their communities.

The renewable fuels explosion is but one example of value-added agriculture in the U.S. Value-added agriculture is also Kelly Biensen who, along with other central Iowa pork producers, began marketing certified Berkshire pork products to upscale restaurants on both coasts under a label called Eden Natural. With assistance from the Value Added Agriculture Producer Grant program and technical assistance from Iowa State University Extension and others, Kelly and his farmer group sold more than $1.6 million of value-added specialty pork in 2006.

Value-added agriculture brings jobs and opportunities to Rural America. Rural economic development is the true objective. One tool to assist this effort in the previous Farm Bill was the Value Added Agriculture Producer Grants. Since the first VAPG grant was awarded in 2001, more than 930 farmer groups from 49 states and Puerto Rico have used the assistance to write marketing plans feasibility studies or working capital to develop their business. More than 164 of these awards have been for renewable energy projects – all helping to reduce the nation's dependency on foreign oil and promote the welfare of rural America and our nation's farmers.

Producers use the VAPG grants to explore new markets -- a Texas group explored the market for value enhanced grain marketing to Mexico and a California farmer cooperative developed ID tracking software so they could maintain their export markets for their raisin products. The working capital portion of the VAPG has helped producer groups hire professional staff to assist with marketing or develop hedging and trading strategies for ethanol marketing. Another group used their money to develop their market for low linolenic soybean oil, an oil that is trans fat free and lower in saturated fats.

Tied to the VAPG is a program called the Agriculture Marketing Resource Center (AgMRC). AgMRC is a virtual resource which receives five percent of the VAPG program funds to assimilate and develop new resources for U.S. farmers and ranchers. The site receives more than one million hits per month and averages 1200 visits per day, with each visit lasting more than ten minutes. While on the site producers can find information on how to write a business plan, market opportunities for various products they grow, how to organize a group, strategies for marketing ethanol co-products, and more than specific information on more than 250 different crops and commodities grown in the U.S. Staff members have answered inquiries and done extensive research on questions ranging from the growth and demand of the pomegranate market to helping evaluate and establish quality standards of Alaska's wild salmon fisheries.

Right now, the Ag Marketing Resource Center is working directly with producers and service providers in Alabama, California, Colorado, Delaware, Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Mexico, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming. The Ag Marketing Resource Center is a value-added agriculture center for all of the United States.

We are targeting national areas of need for value-added agriculture information in biofuels, alternative fuels, specialty products and agritourism. Some of the topics include:

- Examining the economics of ethanol from sugar beet pulp.
- Evaluation of the current state of innovations and the competitiveness of bio-energy production in California.
- Analysis of success factors for value-added business ventures.
- In-depth marketing study on the specialty cheese market in the U.S.
- Development of cooperative networks of producers across the U.S.
- Analysis of the meat goat market in the U.S. which is being done with Tuskeegee University.
- Exploring the potential for biomass switch grass production in mid south.
- Further development and enhancement of a marketing tool that directly connects producers, processors and retailers across the United States. This program, called Market Maker is already in force in Illinois, Iowa, Kentucky, Nebraska and New York.

Since its inception, AgMRC has contracted or partnered with virtually every state to develop tools, spreadsheets, models and research applicable to value-added ag producers.

Last year staff members gave more than 120 presentations at a variety of national, regional and state conferences to educate producers about AgMRC and the Value Added Agriculture Producer grants. Presentations highlight new materials such as updates on consumer food trends, the implications of the exploding renewable fuels markets, development of the regional wines, agritourism potentials, among others. More than one half million people were reached in those outreach occasions.

The demand for information and assistance is real. From raising tilapia to transitioning to organic production to growing camelina and switchgrass for biomass, or mustard and canola for biodiesel, American farmers and ranchers are asking for and receiving help in their business enterprises.

As Jeff White in Virginia said, "Your 10 Year Winery Financial Plan was a great find. I do not know how I could have put together my business plan without it. Having all the necessary accounts in place and how changing just one variable then rippled through and showed its impact was invaluable. I will recommend it to anyone starting a winery."

Linda Jones from the Michigan Wine Growers group, "Wow! I am very impressed. I will be adding reference to these materials to our Resource Guide."

In California Fred Nickel of Brutocao Cellars had this to say about the Ag Marketing Resource Center. "Just wanted to let you all know what an absolute treasure this Winery Financial planning workbook is... I have been making wine and building/upgrading wineries for 27 years and this is one of the most comprehensive, functional tools I have ever seen."

Although the site is for farmers, non farmers such as free lance writer Ellen Rilla said "Thanks for all the good info. I just used your site last week while working with Time Magazine on an agritourism story that is due out in their new issue."

Jack Schultz, community development expert, world renown motivational speaker and author of the book of Boomtown USA: Says, "I was very impressed with the Ag Marketing Resource Center and will be blogging on your work. You are doing very important work for the diversity of ag in America."

In Kansas, Rainbow Organic Farms, owned by Diana and Gary Endicott, began marketing natural beef along with organic tomatoes in the Kansas City area under the trademarked Good Natured Family Farms brand name. Soon, the demand for their brand of beef became greater than the supply. So Rainbow Organic Farms began seeking producers who had similar beef production practices. The resulting group of approximately 20 producers became collectively known as the All Natural Beef Cooperative. The Endicotts needed to establish operating procedures and take the group collectively through the USDA process verified program, to maintain a consistent supply. Endicott took advantage of assistance available through the Agricultural Marketing Research Center (AgMRC). AgMRC created a process verified manual for the group and provided training for cooperative members while the group works through the USDA process verified program.

Both the Value Added Producer Grants and the Ag Marketing Resource Center have proven their value since inception. And much of the value in such public investments comes in the form of innovation. Nothing else exists that is as focused and comprehensive as the Ag Marketing Resource Center for marketing and business development information. The support and research functions associated with this project continue daily to provide new information and analysis as it emerges. Truly, the investment in this project has spurred innovation in the way information gets disseminated and used within agriculture at all levels. The site offers directories to help put producers together with consultants for special or long-term assistance and contacts in all 50 states knowledgeable in value-added agricultural efforts. Other new marketing tools are constantly being researched and added. One example is Market Maker, an electronic tool backed by high powered demographic databases that marries farmers and end-use markets, such as restaurants and specialty markets.

A moment ago I mentioned the Eden Natural pork group merely as one example. Clearly, they are returning significant additional money to their operations. But, I wish I could put a metric to how much this group has learned about business and marketing in the process. The value of that is huge for the future. These grants allow people to explore regions of the market and themselves that they could not otherwise afford to do. From afar, it is too easy for analysts or policy makers to discount the effects on these small businesses and rural America. The producer grant program is about changing people's lives by first changing their focus to marketing. Secondly, they see their skills change and grow. Ultimately, there is a new confidence that, yes, we can manage our economic destiny in rural America.

The Value Added Producer Grants Program is not just a tiny piece of a huge federal budget. In rural America, this program is a major driver of economic development and change to a market orientation at the producer level. This program is about teaching a man to fish and feeding him for life. But, it's also about feeding U.S. farmers as a whole, feeding small towns across the nation and feeding economic development in those areas.

In summary, the VAPG has helped more than the 930 award recipients reach for new markets and opportunities. The results range from modest to magnificent. AgMRC has responded to more than 4000 requests for information and assistance from across the United States and tracked millions of downloads of information from the web site. Without the tools of the AgMRC these producers most likely would not have succeeded in finding crucial information necessary for a successful environment for value-added businesses.

Without the producer grant funding, in many cases it would have been extremely difficult for the groups to afford quality technical assistance or manage through early financial strains associated with startup. This is money that can change the conversation with a banker. It is money that offers a leg up when confidence is not quite high enough yet. It is money that takes folks to a new place of cooperation and community. It's spinning out new businesses and ancillary businesses in the rural areas, where the impact can be enormous. I ask you to consider the extension of this program in the same reality we see out there in the trenches.

As I stated at the outset, my perspective is uniquely broad on this matter and my make-up forces me to be coldly objective. I am trained in business. What I have seen with the results from the Value Added Producer Grant Program has created extraordinarily significant positive result. To ensure seamless continuity of this vital program, I encourage you to both re-authorize the Value Added Producer Grants program in the next farm bill and provide full authorized funding for the program in the upcoming appropriations process.

Thank you for the opportunity to speak about a subject which is revitalizing small towns across America, providing new hope and opportunity for the nation's farmers. I will entertain any questions you may have.

THREE RIVERS
PLANNING & DEVELOPMENT DISTRICT, INC.

Promoting Economic & Community Development

WRITTEN STATEMENT FOR THE RECORD

VERNON R. KELLEY, EXECUTIVE DIRECTOR
THREE RIVERS PLANNING AND DEVELOPMENT DISTRICT
AND
PAST PRESIDENT OF THE
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
(NADO)

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

WASHINGTON, DC
FEBRUARY 13, 2007

P.O. BOX 690 • PONTOTOC, MISSISSIPPI 38863 • 662.489.2415 TEL • 662.489.6815 FAX

Thank you, Chairman Harkin, Ranking Member Chambliss and members of the committee, for the opportunity to testify today on the community and economic development challenges and opportunities facing rural America. As this committee debates and moves forward on the rewrite of the 2002 Farm Bill, I strongly encourage you to make rural development a central theme of the proposal.

My name is Randy Kelley. I am the Executive Director of the Three Rivers Planning and Development District (PDD), a multi-county regional planning and development organization headquartered in Pontotoc, Mississippi. I am also an ex-officio Board member and Past President of the National Association of Development Organizations (NADO). My professional background includes more than 30 years in regional and local economic development.

ABOUT THREE RIVERS PLANNING & DEVELOPMENT DISTRICT

The Three Rivers Planning and Development District was incorporated in 1971 for the purpose of assisting local governments, securing and packaging grants, and fostering regional cooperation and partnerships within our service area. Today, we offer a wide range of services and programs, including: loans to business and industry; computer services, internet and fiscal management services; Area Agency on Aging for senior services; Medicaid Waiver for nursing home eligible citizens in the region; solid waste disposal, collection management and billing; workforce development of in-school, out-of-school and business placement; and a host of special requests such as North Mississippi Mayors Association. We also provide staff support for the Pontotoc, Union and Lee (P.U.L.) Alliance – Wellspring Project, the first Regional Economic Development Alliance approved under the Advantage Mississippi legislation. The P.U.L. Alliance is a unique partnership that has allowed local governments to cross political lines and share in both the development costs and any potential revenue that may result from the development of a large-scale industrial site suitable for automotive or other major impact industries in our region.

Since its incorporation, the Three Rivers PDD has been a partner in the construction of virtually every water system, sewer system and industrial park throughout our region. We currently manage six different business development loan funds that are used to assist in business start-ups and business expansions, including a very successful USDA Intermediary Relending Program (IRP) fund. Since 1985, we have loaned more than $69 million to entrepreneurs and businesses in our highly rural region, resulting in the creation and retention of 10,810 jobs. In addition, we serve as the fiscal/administrative agent for The Mississippi Partnership, one of four workforce investment areas in the state. In this capacity, we have established strong connections with business leaders, local government officials, and most notably, three major community colleges who serve as vital strategic partners as One-Stop Operators.

The foundation of all Three River PDD activities is our partnerships with local, state and federal government officials, business leaders, educational institutions and volunteers. As a predominantly rural region, we have long recognized that we must build partnerships across sectors and at all levels of government, work regionally instead of individually, and develop an economic vision or roadmap to guide our strategic investments and initiatives.

In my testimony, Mr. Chairman, I want to focus on three pressing rural development policy issues. I also want to express our organization's general support of the concept and goals of the Rural Strategic Investment Program (RSIP). Established in the 2002 Farm Bill, RSIP offers a solid starting point for reshaping the vision, strategic direction and programs of rural America. While we recognize the program may need to be fine tuned, it offers great potential for supporting comprehensive strategic planning, multi-sector partnerships and flexible project implementation for infrastructure development, business and entrepreneurial development, and agricultural-led economic development.

SUMMARY OF RURAL DEVELOPMENT POLICY ISSUES:

- **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 communities are not only competing statewide and nationally, but most likely internationally.

- **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 local 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 USDA Rural Development portfolio for infrastructure, broadband and community facility projects is so heavily focused on direct loan and loan guarantee programs that most rural communities still cannot afford to tap into these programs.

- **Rural economic and community development is an exhaustive and lengthy process that takes organizational capacity, partnerships and sustainability, especially in today's rapidly shifting global marketplace.** It demands regional strategic planning, cooperation among public and private sector officials at all levels, regional institutional knowledge and capacity, and the ability to package and leverage various funding sources. The national network of 542 regional planning and development organizations, such as the Three Rivers PDD, are uniquely positioned to serve as the regional facilitators, technical resource providers and project coordinators needed to compete on a national and global scale.

First, 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 communities are not only competing statewide and nationally, but more likely internationally.

Within today's federal portfolio of community and economic development programs, the U.S. Economic Development Administration's (EDA) very small but effective economic development district (EDD) planning program is the only national program that requires local communities to think and plan regionally. Historically, the agency has rewarded local governments and grantees with a 10-percent federal bonus within its public works and economic adjustment assistance programs if they engage in multi-county planning and development. This successful model should be enhanced and expanded within the USDA Rural Development mission area.

The success of regional organizations such as the Three Rivers PDD during the past four decades has resulted in a growing body of program and policy research that supports the need for multi-state and sub-state regional approaches to local economic competitiveness. In the past three years alone, organizations such as the Alliance for Regional Stewardship, New America Foundation, Federal Reserve Bank of Kansas City, Southern Growth Policy Board, Rural Policy Research Institute's Center for Regional Competitiveness, Brookings Institute and Council on Competitiveness have all issued new reports and policy briefs stressing the need for federal incentives, resources and programs that support regional community and economic development, especially in small metropolitan and rural regions.

In our rural region of Northeast Mississippi, the vast majority of our counties and municipalities lack the financial, human and technical resources individually that are required to compete with urban centers such as Atlanta, Memphis and Nashville. The eight core counties of my region are home to only 261,880 people, including the City of Tupelo with nearly 35,000 residents and only five other cities with more than 5,000 population.

But the economic success story of Tupelo, along with our region's new Wellspring regional industrial park initiative, clearly demonstrate that rural communities and institutions can make substantial progress by working regionally to achieve the economies of scale, technical expertise, workforce pool and infrastructure financing needed to compete nationally and globally. With the Wellspring project, we formed an alliance to develop a large-scale industrial site suitable for automotive or other major impact industries in our region. The unique partnership allows local governments to cross jurisdictional boundaries and share in both the development costs and any potential revenue that may result from the development of the industrial park.

Our region has been blessed over the years with incredible national, state and local leadership, including the inspirational leadership and dedication of former House Appropriations Chairman Jamie Whitten. However, regional consensus building, multi-jurisdictional local cooperation and cross-sector partnerships among public, private and nonprofit organizations (including higher education institutions) are complicated, politically sensitive and personality-driven acts. Therefore, it is important that federal programs such as USDA Rural Development respect the autonomy of local officials, yet encourage and reward them for working regionally on issues such as infrastructure development, housing, business development and renewable energy development.

This is especially true when considering the limited federal grant resources made available each year to rural communities, as compared to our urban counterparts. Under current federal policies and programs, our nation's urban communities can rely on annual federal grant funds and entitlements for transportation, economic and community improvement initiatives that are designed to enhance their area's competitiveness and quality of life. Meanwhile, the bulk of federal assistance for rural communities too often ends up maintaining the status quo for citizens and communities through transfer payments and access to loans and loan guarantees for infrastructure upgrades.

As confirmed in a July 2004 study by the W.K. Kellogg Foundation, the federal government spent more than two times (and sometimes up to five times) as much per capita on metropolitan community development as it did on rural community development from 1994 through 2001. In addition, overall federal per capita spending is typically more than $100 greater each year for metropolitan citizens than non-metropolitan residents.

This is compounded by the fact that, according to the Rural Policy Research Institute, nearly 22 percent of total personal income in rural America comes from federal transfers, such as Social Security, Medicaid and agricultural payments. By comparison, only 13.6 percent of urban personal income is from federal transfer payments.

The US Department of Housing and Urban Development's (HUD's) $3.7 billion Community Development Block Grant (CDBG) program is one of the largest federal domestic assistance programs. Under the program, approximately 1,111 of the nation's largest cities and counties divide over $3 billion each year in entitlement spending. This flexible and stable funding allows them to meet important local needs. Meanwhile, the remaining 30 percent of funding is distributed to states for the small cities program. Although it is an essential and effective program, the nation's 14,000-plus rural communities must compete against each other on a state basis for one-time and sporadic assistance for these CDBG funds.

Adding further to the discrepancy between urban and rural areas is the type of assistance available to rural communities. Many of the federal economic development programs targeted to urban areas are in the form of grant assistance, while many rural programs, including USDA rural development programs, rely heavily on loans and loan guarantees with minimal grant support. Urban communities typically also have more access to capacity building and technical assistance dollars from HUD and other agencies, whereas most rural economic development planning is funded through EDA's $27 million planning program.

To achieve the required economies of scale, professional expertise and capacity, and local workforce pool, rural communities must start to think and act regionally to remain or become competitive on the global stage. While the responsibility to work collectively within a region is ultimately up to local officials and leaders, it is important for federal policymakers, especially USDA Rural Development, to provide the financial incentives and program structures to encourage regional cooperation and planning.

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 local 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 regions, but instead a basic necessity for economic competitiveness.

While USDA Rural Development is an essential partner for our rural communities, we are alarmed that its infrastructure, broadband and community facilities portfolio has become almost exclusively 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 communities struggling to establish new water, sewer, broadband and community services, as well as countless communities faced with the daunting task of replacing infrastructure that is approaching 50 to 100 years old. For distressed and underserved communities, especially the smaller and more rural areas, the trend of increased reliance on federal loan and loan guarantee programs puts costly infrastructure improvement projects out of reach. As a result, a good portion of our nation's rural 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 five 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 vast 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. As proven by USDA Rural Development investments over the years, the role of basic public infrastructure is at the core of both sustaining existing businesses, nurturing new companies and improving the quality of life in rural communities. That is why USDA Rural Development is so significant to local efforts to develop water and sewer facilities, technology-related infrastructure, housing and other essential community projects.

These are all fundamental for commerce. As stated earlier, the private sector relies, expects and demands that public entities provide and maintain these services and infrastructure.

In August 2004, the National Association of Development Organizations (NADO) Research Foundation (with assistance from the W.K. Kellogg Foundation) conducted an eForum entitled, "The Pulse of Small Town and Rural America." More than 200 regional development professionals and local government officials, 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 the second leading roadblock to 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 program, Rural Business Enterprise Grants (RBEG) program and 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 by the National Association of Counties (NACo), in which water and wastewater grants were the overwhelming top issue identified by county elected officials from the 20 state sample.

Third and finally, Mr. Chairman, rural economic and community development is an exhaustive and lengthy process that takes organizational capacity, partnerships and sustainability. It demands regional strategic planning, cooperation among public and private sector officials at all levels, regional institutional knowledge and capacity, and the ability to package and leverage various funding sources. The national network of regional planning and development organizations, such as the Three Rivers PDD, are uniquely positioned to serve as the regional facilitators, technical resource providers and project managers needed to compete on a national and global scale.

As a regional entity, our organization's greatest strength has been our partnerships with local governments, local economic development corporations, private sector entities including regional and local banks, community college presidents, federal and state officials and business leaders through our workforce board. Our most important role is to help improve institutional communications within our region, forge strategic partnerships and implement projects that will strengthen our economy and improve the quality of life for our citizens.

Study after study by federal agencies and universities have concluded that additional funding for 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, 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 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 underserved communities.

The Wayne State study concludes that our multi-county entities have established an impressive record of facilitating and leading a regional strategic planning process that "provides the critical backbone for economic development planning at the regional level...EDD activities are both effective and essential to local development." The report further states that "EDDs very effectively use the EDA funding they receive. They have a strong ability to use that funding to leverage funding from other sources to pursue development activities."

Programs such as the Rural Strategic Investment Program (RSIP) could 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 will also be more capable of taking a proactive approach to economic development, instead of the traditional reactionary model.

All of the nation's rural regions 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 officials more challenging.

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.

Thank you again, Mr. Chairman and members of the committee, for the opportunity to testify today on the community and economic development challenges and opportunities facing small town and rural America. I appreciate your time and interest. I look forward to answering any questions.

True North

Written Statement for the Record

Joseph M. Sertich, Jr.
President, Northeast Minnesota Higher Education District
and
Chair, Rural Community College Alliance

Before the
United States Senate
Committee on Agriculture, Nutrition and Forestry

Washington, DC
February 13, 2007

Minnesota
STATE COLLEGES
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Chairman Harkin, Ranking Member Chambliss, and Members of the Committee, I thank you for the opportunity to testify before the Committee on Agriculture, Nutrition, and Forestry regarding Rural Development challenges and opportunities, and I applaud your leadership in assuring that rural development receives more emphasis in this Farm Bill.

I am Joseph M. Sertich, Jr., President of the Northeast Minnesota Higher Education District in Chisholm, Minnesota. I was appointed president of the District in November 1999 and report to the Minnesota State Colleges and Universities Chancellor and Board of Trustees. The district consists of five comprehensive community colleges in six towns (Grand Rapids, Eveleth, Virginia, Ely, International Falls, and Hibbing) across Northeast Minnesota, with a combined enrollment of more than 4,000 full-year equivalent learners, with a $40 million budget and 600 employees. I am also privileged to serve in the elected position of Chair of the Rural Community College Alliance, a membership organization of over 100 rural community colleges advocating for the 957 rural-serving community college campuses across this country.

I would like to provide testimony that addresses three key contexts which should inform decision-making regarding rural development progress within the new Farm Bill:

- **Eight years of regional collaboration and what it means to rural Northeast Minnesota**
- **An emerging set of rural regional dynamics taking form across our country despite the lack of supporting federal policies.**
- **How our nation's place-based community colleges can serve as intermediary catalysts in serving rural regions.**

Eight Years of Progress in Northeast Minnesota – One of Many Stories

At the turn of the century, the Arrowhead Region of Northeast Minnesota discovered there was no better time to build the private/public partnerships necessary to position our region to better compete in the global economy. These partnerships would help strengthen our communities, by working in a new governance model based on regional collaboration. Driving this urgency was the realization that our rural region was fragmented in its view of the future of its economy. This lack of common focus eventually resulted in being at a *tipping point* moment, common in much of the rest of rural America, when an urgency to form regional frameworks even in the absence of supporting federal policy, became essential for our future.

The Arrowhead Region, including the Iron Range, has relied on a natural resource based economy for over 100 years. The three major drivers of the economy are often referred to as the three T's. The first T is *taconite* used in the making of steel through iron mining and ore processing. The second T is *timber* predominantly used in papermaking and fiberboard. And, the third T is *tourism* bringing millions of visitors to the region each year because of the beautiful lakes and forests.

In the early 1980's, mining accounted for 50 percent of the jobs and 60 percent of the income in Northeast Minnesota. Today, mining represents 10 percent of both. Asset identification to diversify the economy was always discussed across the region. But these discussions were not aligned with resources, signaling the need for the various threads to be woven into a single plan, based on strategic investments.

With economic health in decline, higher education saw an opportunity to serve as a catalytic intermediary for the region, which was ripe for change. Coincidentally, in early 1999, the community colleges saw the need to pool their resources to save administrative costs. Dramatic steps were implemented to reorganize the governing structure under one super regional umbrella. With one college president retiring and two more pending, the Minnesota State Colleges and Universities Board of Trustees chose to create the Northeast Minnesota Higher Education District effective October 1, 1999. Five community colleges were organized together in a District – the only one in the Minnesota State Colleges and Universities system. These five colleges share one regional President. The Mission is to provide quality higher education to the communities throughout Northeast Minnesota by developing a regional structure that willpreserve college autonomy but will also align programs and services to better prepare residents for learning, employment, citizenship and life. By creating a balance between local autonomy and regional unity, the member colleges of the Northeast Minnesota Higher Education District are positioned as resources for the region's communities, employers, and students. In this way, the colleges in the District are truly anchored to their communities and capable of cooperating with other colleges to cost effectively provide quality education for smaller cells of students.

One of the greatest challenges facing the District was a lack of vitality in each of its interdependent communities across the region. The economic crisis was challenging to the colleges, as were the decreasing statewide investments made in public higher education. Because of the heavier reliance on state appropriations, layoffs were imminent at smaller institutions. One advantage of the "consequence of challenges" was that it gave the followers the motivation to turn collective problems into progress, rather than just solve each of the problems as they arose. And, with LTV Steel Mining Company closing in 2000, it became obvious that there were serious regional problems. Fourteen hundred (1400) LTV workers lost their jobs. These workers and their families lived in communities across the entire region. Other mines, paper mills and wood product plants also announced layoffs or were threatening to close. Because of these and other catalytic events in June, 2000 we concluded that as our communities go – so go our colleges – and vice versa!

The plan for the proposed Northeast Higher Education District was centered upon five principles, intended to guide its future direction. The first was to insure appropriate measures of institutional autonomy. The second assured student and community access to quality educational programs. The third insured meaningful institutional cooperation. The fourth insured institutional stability and, the fifth--perhaps distinguishing principle, promoted effective relationships with the community, including advocacy and service to business and industry, and connections to regional and statewide economic development initiatives.

The region served is just over 13,000 square miles making it larger than the state of West Virginia. With a population of about 130,000 residents, the region has a population density of 10 people per square mile. This rural region is influenced by two important forces: globalizing markets and regionalizing strategies. Rural economies work best in a self-defined region where communities recognize their interdependence. The concept of community is often based on a shared sense of place, enabling "regions" to be defined as a "community." Thinking regionally may be the transcending answer to the question of how regions re-invent their economies.

I believe there are five critical components of a healthy community. The operative word for rural people is access. Access may have multiple descriptors, but at the end of the conversation, what's important is whether or not rural folks can get what they need in a reasonable period of time. Whether a community is defined as a town, village, city, county or larger economic region, it is still necessary to the residents to have access to all five critical components. The first one is *government.* People want a say in their own destiny and have a sense their voice is heard, especially as it relates to how people live together. Good government can be measured by voter turn out rates, numbers of candidates running for political offices or attendance at government meetings. The second critical component is *health and social services.* People want to sense they are taking care of one another for their collective and individual physical, social, and mental well-being. When unexpected circumstances arise, communities want safety nets to assure appropriate responses to health and welfare issues. This means rural people can get into clinics, have an ambulance to respond to an emergency, as well as have access to a wide portfolio of hospital and social services. The third component is *education and training*. This should start in the very early ages of child development and extends through Elderhostel programs for people in the twilight of their life. There should be strong coordinated higher education programming articulated with compulsory education. And, incumbent workers and businesses need customized training so companies and organizations can become or remain globally competitive. The fourth critical component is *community infrastructure*. This isn't limited to streets, utilities and broadband internet access, but also includes the many groups of people who make up the fabric of those communities, like service and faith-based organizations. Finally, the fifth, and probably most critical component is the *economy*. Some would argue that without an economy, the other four critical components need not exist. Today, the economy should receive a disproportionate amount of emphasis, because most rural communities are witnessing how this critical component is slipping the fastest and is the most difficult to reinvent or turn around.

After identifying assets in Northeast Minnesota, it became obvious the region needed to move toward a fourth T - *technology.* Technology supports the infrastructure that allows individuals to be more productive in the work place and in their pursuit of opportunities as life long learners. Technologically trained and equipped individuals can be at the cutting edge of the changes and innovations that will serve the region. The greatest danger to the viability of rural communities is not globalization but a retreat into isolationism and protectionism, so the fourth T, technology, was used as a tool to create living wage jobs across the region. In addition to attracting Blue Cross/Blue Shield to the region, new healthcare training programs have spurred new investments by healthcare providers. And, with a heavy emphasis on creating new information technology firms, the business community is plugging gaps in the region's support network for new businesses.

We quickly realized that new governance for rural Northeast Minnesota must go well beyond the community college. By seeking new partnerships with the region's businesses and governments, we created a new commitment to the future of the region. That shared commitment is now captured in True North, the region's new brand that describes the cooperation among higher education, the private sector and government. The interaction among these three key sectors is a critical component of any region's new governance. True North as a concept grew out of the existing regional community college education model. The mission of True North is to ensure that Northeast Minnesota remains a viable place to live, learn, work and grow.

True North leaders made it clear that this was "a low threshold, inclusive and collaborative" strategy for the greater good of the region. True North was not interested in replacing, removing or taking over for any of the people or organizations currently serving the region in many valuable ways.

Being proactive, planning for constructive change and getting in quickly behind the economy as it evolves are characteristics of True North that have become assets clearly not recognized before the new governance process began. Iron Range Resources, a regional economic development agency, actively partnered from the beginning with True North to align regional leaders in support of local initiatives, many of which are tied to global opportunities. True North also engaged with the Arrowhead Growth Alliance, a Northeast Minnesota leaders' forum for aggressive new business initiatives. The Rural Policy Research Institute, a multi-sector policy institute seeking to support more pro-active federal policy provided invaluable connections to national partners and collaboration.

The Northeast Higher Education District was selected as one of 36 participants in the Ford Foundation funded Rural Community College Initiative. The Blandin Foundation with a mission of strengthening rural communities provided intercommunity leadership development and start-up financial resources to the Grand Rapids, Minnesota site called the Itasca Technology Exchange, the first TechNorth Prep Center. The initial investor, the Northland Foundation under the leadership of President Tom Renier has been an investor and valued partner from the days of initial launch. It must be remembered that regional planning is a team sport, and most of the action takes place face-to-face at the community level. Modeling interdependence, preserving autonomy and creating a new place-based framework would advance regionalism.

True North's first major economic initiative is the TechNorth Prep Center Network. It is a system of work sites to match students seeking training and experience with businesses seeking young talent. The tenants of the TechNorth Prep Centers include start-up businesses, back-office contract service providers to compete with outsourcing, and larger, established organizations.

This strategy was in direct response to the "out-sourcing" Minnesota companies and others across our country were moving toward. Our goal was to create "in-sourcing" opportunities proving our rural regions could compete. In Northeast Minnesota, we referred to the recruitment strategies as "lakeshoring" highlighting the quality of life benefits available to workers seeking employment in the Information Technology field. Senator Norm Coleman's Rural Renaissance supported our efforts when he conducted an Open Forum at our Hibbing Community College Campus focused on in-sourcing and the needs of the private sector.

The True North experience offers several perspectives for other regions across our country to consider. Government, higher education, and the private sector each have much to offer, but their differing structures and goals can create challenges. For example, business has many ideas but simply lacks time to execute them. Government, although interested, has very broad goals. And colleges, while willing and responsive, are sometimes slow to change. The new governance structure has created new recognition for the community college campuses, which in turn serve as a trusted link between government and the private sector. Catalyst organizations need to invest their own resources early to illustrate their commitment. Initiatives need to take a long-term outlook, understanding that partnerships take time to develop. In that spirit, True North is still in its infancy, striving to expand the roles of its government and private sector partners.

Emerging Dynamics Across our Country

While regional planning for postsecondary education programs and services is being presented here as a relatively new concept for Minnesota's community colleges, it is not new nationally among community colleges. Whereas Minnesota began a network of municipally funded junior colleges prior to the Great Depression, and added additional junior colleges and technical colleges in the baby boom era of the 1960s, other states adopted a more comprehensive approach to statewide planning that incorporated regional community colleges in rural areas from the date of establishment.

Thus, for rural-serving community colleges, the "new regionalism" may not be new. So why now is there such renewed attention today? First, there is a growing recognition that county government cannot serve as the 21st century intermediary which provides the training and retraining to produce a skilled workforce that rural America desperately needs. The rural-serving community college can play this role in rural America. Second, there is an ever-growing recognition among economic development experts, scholars, and policymakers of the need for regional approaches and thinking related to rural development strategies. As truly *regional* providers, the rural community college can get past the rampant "turfism" that exists within other structures of local government in rural America. So, regionally, True North happened not because it was the right time or the right place, but because it was both the right time and the right place.

This is best accomplished when local autonomy is preserved, because most economic development begins in communities, but planning is done regionally. America's rural community colleges offer unique "place-based" capacity to engage rural people and institutions in the process of building and sustaining healthy communities.

Governance is the means by which people come together to identify key problems and opportunities, craft intelligent strategies, marshal necessary resources, and evaluate outcomes. An essential starting point is understanding the importance of *interdependence* among governmental and nongovernmental organizations. Government's role seems likely to evolve into coordinator through multiple policy-related networks comprising public, private, non-profit, and associated actors. Each player in the governance network brings unique roles, power bases, skills, resources, and values.

Governance is especially important for rural areas because of their disadvantage in community capacity – their limited ability to craft and implement new economic development strategies. Rural communities are small and sparse, and have access to fewer resources than metro areas. Creating new governance structures can be difficult because rural communities are seldom accustomed to working with their neighbors to solve common problems. Rural elected officials often spread their time across many responsibilities with minimal professional support. Most rural regions have a good foundation for new governance right in their backyard – a strong base of grassroots institutions and organizations, such as a community college.

The role colleges and their leadership can play in regional and community development continues to get more attention. In a report entitled, "Capitalizing on the Potential of Minnesota's Rural Campuses," prepared for the Center for Rural Policy and Development, Manning, et al (2004) found that rural regions across the nation are currently threatened by declining populations, slowing economies, and legislative power transfers to urban and suburban regions. The report points out that the very survival of colleges located in these rural regions is at stake and the potential for these rural campuses to survive will depend on collaboration led by college leaders with their communities and better focused missions.

On a national level, Rural America is at a *tipping point* that is very real. There is a congealing set of forces at work, to combat the sense of hopelessness many rural places are experiencing. We must move from sector to place-based frameworks to improve linkages, move public sector investments from subsidy to a *Regional Competitive Advantage*, and create a governance structure that will exploit the forces needed to advance regional cooperation.

The traditional, historic sector and governance lines were blurred in Northeast Minnesota. This resulted in building trust among partners for a shared vision of a new economy. Additionally local visions, expressed through a regional context have had national and international implications. When the True North story is shared, whether at a Rural Community College Alliance Annual Conference in Lexington, Kentucky or a Post Secondary International Network Meeting in Canberra, Australia, a common vision is linked, and new relationships and collaborations are forged, both supportive and practical. These new relationships have grown to include other countries and organizations. A new international collaboration of rural community colleges was formed in 2006 when representatives from Canada and the United States came together to identify common approaches to rural issues, including extending access and building sustainable communities. This new partnership, the Alliance of Rural Colleges, is a consortium representing the Association of Canadian Community Colleges, the Rural Policy Research Institute, and the Rural Community College Alliance, all partners in the National Institute for Rural Community Colleges.

Rural Community College Alliance colleagues are also members of the American Association of Community Colleges. Senior AACC principals, including Chair Ed Coulter, President George Boggs and Vice President of Government Relations David Baime participated in this year's Rural Community College Alliance conference, to reinforce a coordinated approach in addressing the special needs of rural America. We look forward to strengthening our efforts through an Affiliated Council in the American Association of Community Colleges and the development of rural policy as it relates to the community college role.

Our Rural Community Colleges

Regional colleges are now taking more proactive roles in developing their communities and regions, and most of these institutions are two-year degree granting community colleges. All seek to create better jobs and spur economic opportunity in their regions. There are 43 regional colleges with benchmark practices and well-defined programs to meet their economic development goals, both in the United States and abroad. Five goals stood out among the various regional colleges:

- Produce skilled and professional workers
- Act as the source of innovation and technology diffusion
- Act as a broker of services
- Act as a repository of information
- Act as a wellspring for new businesses

Entrepreneurship built rural America, but unless new ways of building partnerships and interacting among opinion leaders and entrepreneurs becomes more natural, the chances for continued entrepreneurship are slim. The role small entrepreneurial companies play in the United States economy, creating more than two-thirds of new jobs and accounting for two-thirds of the innovation in the last twenty years, means these "engines of innovation" are transforming new ideas and technology into real products and services sold to real customers in real markets, creating real jobs. True North focuses like a laser beam on entrepreneurship, especially small companies, and successes are becoming more frequent. Because community colleges give students the skills desired by local industry, they have become the educational institution of choice for many rural businesses.

Rural communities must not be left behind. The shared interest of all of a region's people should result in policies to benefit smart growth for densely populated areas while removing barriers that prevent rural economies from thriving. Community colleges are in a unique position, as place-based institutions with the capacity to serve, to assist these rural regions. Unique private/public partnerships now serve as models for effective collaboration bridging fast-paced advancements and leading to new governance. Globalizing markets and regionalizing strategies can influence rural regions for positive change.

Across rural America, evidence of this success is mounting. Innovation, driven by entrepreneurial thinking, must be encouraged and implemented. Now is the time for all regional leaders to play forceful roles in community development, and rural community colleges are ready to step up and assist in this leadership challenge.

Thank you again, Mr. Chairman and members of the committee, for this opportunity to testify today on the rural community and economic development opportunities and challenges facing rural America. We appreciate your continuing leadership, and look forward to answering your questions.

Additional Questions for Mr. Kelley

1. What are the primary lessons you have learned from your regional governance experience that this Committee should take into account in designing a new system of rural development assistance?

2. On page 5 of your written testimony you state, "responsibility to work collectively within a region is ultimately up to local officials and leaders. . . ."

What should USDA and Congress do differently to encourage and facilitate local officials and leaders taking responsibility to work together in regions?

What incentives has your organization and its partners provided to generate both partnership and local leadership?

3. How should regional collaboration be encouraged? Which organizations are most likely to be effective leaders? Who should be at the table?

4. To what extent do you believe the lack of venture capital is a serious impediment to the typical rural community seeking to promote development?

5. In considering strategic regional initiatives, how large a geographic area should a regional initiative encompass? What is a reasonable minimum population in a collaborative area? Is there a size, either geographic area or population, beyond which a region would be too large for an effective regional development strategy?

Senator Ken Salazar
Senate Committee on Agriculture
February 13, 2007

Questions

All Witnesses:

1. During the past year, I held numerous Farm Bill Listening Sessions across Colorado. In general, my constituents asked for three things regarding the Rural Development title:

- *Create more and simpler programs for the creation of farmer-owed cooperatives*
- *More accessible loan and grant programs*
- *More funding for rural development programs and technical assistance*

Do you have any thoughts on those common sense recommendations?

Mr. Joe Sertich, Chair of Rural Community College Alliance:

1. What would you like to see in the 2007 Farm bill for rural Education?

Mr. Chuck Hassebrook, Center for Rural Affairs:

1. What would you do to simplify programs for the creation of farmer owned cooperatives?

Mr. Charles Fluharty, President, Rural Policy Research Institute:

1. Over the past few years, we have seen an influx of capital to rural areas as alternative energy becomes more widespread. It is important that these rural energy initiatives benefit rural communities, and not just investors from Wall Street. What do you think is the best path we can take in the 2007 farm bill to insure rural communities can grow from these opportunities?

2. One area I am interested in seems to line up with your asset-based development principle. Specifically, how do we help our farmers and ranchers become at least part-owners of these assets that we are developing for renewable energy or other value added enterprises?

THREE RIVERS
PLANNING & DEVELOPMENT DISTRICT, INC.
Promoting Economic & Community Development

1. What are the primary lessons you have learned from your regional governance experience.

Mr. Chairman, our region has learned first hand that local governments, educational institutions, nonprofit organizations, community development foundations and local economic development organizations, along with a host of other entities, must work regionally. We can still respect and retain our traditional local jurisdictional boundaries, yet also work together in true partnerships.

As noted in my testimony, the Three Rivers PDD helped create the Polk-Union-Lee (P.U.L.) Alliance more than six years ago and we continue to provide the staff support for this innovative three-county partnership. Through the P.U.L. Alliance, a regional partnership of county and municipal governments, our region has just landed a mega-project that will create more than 2,000 quality new jobs in our very rural area. Since the hearing, Toyota has officially announced that it will be opening a new $1 billion manufacturing plant at our Wellspring mega-industrial site and should be open and operational by 2010. Our three counties, along with federal and state partners, will be sharing the cost of more than $160 million in infrastructure improvements to support this project.

While we have been blessed with this new project, it must be noted that our counties and municipalities took and shared an incredible risk; our local officials put aside their individual jurisdictional pride and agreed to share any local tax revenue, infrastructure improvement costs and other development costs. In addition, our organization spent considerable financial, political and human capital to create and maintain this regional partnership. Regional approaches are necessary, but always remember that partnerships take organizational and individual leadership, commitment and dedication, in addition to a willingness to compromise and work toward a common good.

While there only a few mega-projects the size of Toyota each year across the nation, the concept of regional cooperation and strategic alliances can and must be applied if our rural regions and communities are to be competitive in today's global climate. When the leaders of Toyota announced the selection of the Wellspring site, they made repeated comments about the unique nature of our regional partnership of county and municipal government, along with the deep-rooted since of cooperation and partnerships within our region of local government, workforce development providers, community colleges, economic developers, financial institutions and our community development foundation.

None of rural counties could afford the necessary infrastructure, workforce and professional expertise required to pursue and secure a project the size of the Toyota facility. It has taken us more than six years to put our regional strategy together for this one site, find the right corporate partner, complete the dozens of rounds of very complex and intense negotiations with the company, state and locals, and announce the final project. After six years of planning and negotiations, now we are moving into the

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full implementation phase of infrastructure improvements, land acquisition and plant construction, which will take more than two full years. The main point being, as stated repeatedly by several Senators at the hearing, economic development projects take time, institutional capacity and strategic planning.

Our local efforts in Northeast Mississippi serve as a great model for the nation and, in fact, states and local communities across the country are already studying our model and working to replicate our most recent success. Programs such as the Rural Strategic Investment Program (RSIP) would make this dream a reality for hundreds of regions across rural America. RSIP recognizes the importance of regional strategies being crafted with multi-sector input and ownership, followed by flexible program resources for regions and local communities to implement their vision and priorities.

2. What should USDA and Congress do differently to encourage and facilitate local officials and leaders taking responsibility to work together in regions?

USDA and Congress should work together to establish and fund programs such as the Rural Strategic Investment Program (RSIP). This program would provide much needed resources for the development and implementation of comprehensive regional strategies that focus on the assets and strengths of region. It would provide incentives and resources, rather than federal mandates, for local governments, nonprofits, educational institutions, agriculture and other industry interests to work together regionally. Most importantly, it would provide flexible grant dollars for regions and local communities to implement their projects and priorities, rather than fighting to fit their projects into categorical programs that offer more direct loans and loan guarantees than matching grants.

While the current portfolio of USDA Rural Development programs are essential and valuable, they are designed to meet targeted needs and projects, mostly for infrastructure, community facilities, housing and rural electrification and telecommunications. These are all essential, but RSIP would add resources for institutional capacity and expertise, regional strategies, renewable energy planning and development, business feasibility, entrepreneurship, support for workforce development, and other similar activities not easily covered or funded under USDA today.

Additional, USDA Rural Development should provide further rewards and incentives for both existing and new programs, such as increasing the federal share in projects where locals have demonstrated regional partnerships and cooperation. Projects that are prioritized and screened through a regional strategy process should also be given priority consideration and funding.

3. What organizations are most likely to be effective leaders? Who should be at the table?

Rural regions and communities are diverse, with different organizations having specific skills and strengths. However, the existing national network of regional development organizations, such as the EDA network of economic development districts, have a 40 year proven track record of program innovation, public accountability and partnership building, especially with local governments. In the late 1960s and early 1970s, most of these organizations were focused exclusively on regional economic development planning, with their annual $54,000 planning grant from EDA. Today, the typical regional development organization has a multi-million dollar budget and staff of 20 to 85 professionals dealing with aging, community and economic development, emergency management planning, business development finance, housing, transportation and workforce development. It all depends on local needs and priorities, the interests of local governments, and the executive leadership and initiative of the region's staff.

Regional development organizations have the governance framework that should serve as the building blocks for any new regional strategies boards. Under the newly revised EDA guidelines, our board must now be at least 50 percent local government officials, with no less than 30 percent private sector officials including representation of chamber of commerce, higher education and workforce development organizations. Rather than form another new organization that further dilutes the participation of regional and community leaders, we should build upon this improved EDA framework. Our local officials are already asked to serve on countless committees and boards, which is becoming a major problem in rural areas where we have limited leadership capacity, time and resources. The best solution is to build upon existing organizations and boards, rather than create a duplicative or competing system.

Local elected and appointed government officials are essential players. Our counties and cities are typically the providers of matching funds for federal and state programs. These leaders are also accountable to local citizens, involved in many sectors of the community, and often times, have both public and private sector experience.

In our region, we also partner regularly with our community development foundation, community college presidents, rural electric cooperatives and local economic development corporations, plus numerous nonprofits and community development organizations. The key is to have an organization such as the regional development organization with the regional perspective, staff capacity and institutional knowledge needed to sustain projects and programs over years and decades.

4. To what extent is the lack of venture capital a serious impediment to rural community development?

Access to venture capital can be a major impediment to rural innovation, competitiveness and entrepreneurship. While venture capital is often available, there still remains a lack of networks, institutional expertise and professional development for individuals who are striving to fine tune and implement their business vision and plans. We have used programs such as USDA's Intermediary Relending Program (IRP) very successfully in our region. However, we have a tremendous amount of risk and liability under IRP since we must repay USDA over time. Overall, the various loan programs of the Three Rivers PDD have made 452 loans worth more than $69 million to assist in business start-ups and business expansions in our rural region. We are very aggressive in marketing our programs and building partnerships with our banks. However, we could always use more flexible lending programs and resources to help our local entrepreneurs and businesses.

5. What is the appropriate size of a rural region?

I would strongly encourage the committee to use the existing boundaries of EDA economic development districts and other related regional planning and development organizations as the core regions of RSIP and other region-based programs. These regional boundaries were created predominantly by the states under state law or executive order, with federal certification and local government approval. The EDA regions typically serve a multi-county region with 250,000 or more population. However, the regions range from three counties to nearly 20 counties, depending on the county structure of the state, population and commuter patterns, and economic and geographic relationships within the region and state.

To be effective, regions must also be flexible and dynamic. For example, our organizations core delivery region covers eight counties in northeast Mississippi. However, our organization administers and staffs a workforce investment board for a region spanning 27 counties in north and northeast Mississippi. At the same time, we organized and staff the highly successful three-county P.U.L Alliance – Wellspring mega-industrial site partnership within our region. The key is to have a core region, with enough population, organizational capacity and economic similarities. At the same time, regions and organizations must have the flexibility, incentives and governance framework to establish and participate in special projects and initiatives with neighboring regions and communities. Generally, the average EDA planning district has about 250,000 residents and 3 to 20 counties. However, in some places like the Upper Great Plains, Midwest and Northwest, the regions might cover a much larger geographic area with a smaller population.

The bottom line is that today's regions must have a sufficient scale, from workforce, financial, knowledge and infrastructure, to compete globally. The vast majority of communities with 5,000 or even 25,000 population that attempt to compete individually will be crushed by their state, national and global competitors. Yes, rural regions and areas with high amenities, such as lakes, mountains and beaches, may thrive as tourism and retirement destinations. However, the vast majority of rural communities need to work regionally to support local entrepreneurship, innovation and competitiveness. I would argue that regions must be multi-county in scope, with a general minimum of 75,000 to 100,000 population and a preferred concentration of 200,000 or more.

In addition, it is essential that metropolitan areas, both small hubs and larger economic centers, be linked to our rural regions through the regional development strategy process. With today's commuter patterns and citizen mobility, urban and rural communities within a sub-state region or even multi-state region are being connected and linked in new and dynamic ways. Rural communities are no longer living in isolation, but rather as part of a large region.

Response to Additional Questions for Dr. Joe Sertich

Senate Committee on Agriculture, Nutrition and Forestry

February 13, 2007 Hearing

1. **What should USDA do better to incorporate the resources and expertise of community colleges into USDA-backed rural economic development efforts?**

The USDA could recognize rural-serving community colleges as catalytic intermediaries responsible for convening disparate groups across their regional service area. Planning dollars could be made available to rural-serving community colleges willing to take on this important planning role.

Community colleges also are uniquely positioned to deliver technical assistance and educational programs to advance USDA goals. For example, the Administration's new Farm Bill proposal includes a $46 million commitment to leverage $1.2 billion for the renovation for our nation's rural Critical Access Hospitals. While this commitment reinforces the critical importance of rural health care, this may not be the best utilization of that USDA commitment. Many, if not all, of these facilities can secure renovation funding elsewhere. However, if that $46 million was used to enhance allied rural health care workforce training programs, delivered through our rural serving community colleges, rural health care would be significantly improved. The allied rural health care workforce is a critical challenge in rural America, and research clearly shows that a workforce trained in our rural community colleges chooses to remain in those rural areas for sector employment. However, these programs have been historically underfunded.

In another sector, a USDA commitment within the renewables framework of the Farm Bill could support the National Network for Pulp and Paper Technology Training, a national consortium of rural community colleges utilizing advanced workforce technology training programs to create a globally competitive workforce for this sector. The colleges within this network, geographically dispersed across the U.S., have created world class workforce programs, articulated to the industry need within these rural regions. Advancing these rural serving community colleges, through this network, would provide immediate, practical support for the renewables agenda.

2. **Does the law need changes to allow community colleges to be more fully involved in supporting USDA's programs and initiatives?**

The rural-serving community colleges should be written into the law for the Rural Development title as the lead planning institution who will convene all sectors in the defined region through the Rural Strategic Investment Program.

3. **With the new private capital and economic resources coming into many of our communities right now as a result of the ethanol and renewable**

energy boom, is there still a need for broader regi nal development strategies?

Yes, the natural resource dependent regions across our country are not necessarily moving toward ethanol and as a country we are not yet experiencing a renewable energy boom in most rural areas.

4. **How should regional collaboration be encouraged? Which organizations are most likely to be effective leaders? Who should be at the table?**

The planning component and responsibility given to rural-serving community colleges should require the private sector, government and higher education partnerships that are convened for the purpose of promoting economic growth by agreeing to economic development strategies. This process should include a low threshold inclusive participation so stakeholders from all walks of life feel welcome. It is critical that the lead economic drivers from the private sector, the elected officials from government as well as lead staff positions, and those in authority to influence change from higher education all be at the table for these planning sessions. In addition, other non-profit groups and interested stakeholders need to be identified as equal partners in the planning process.

5. **To what extent do you believe the lack of venture capital is a serious impediment to the typical rural community seeking to promote development?**

For most regions across the country this is the #1 problem. Angel investors and renewable loan funds are often the only two major sources for venture capital making it very difficult for new innovations to emerge.

6. **In considering strategic regional initiatives, how large a geographic area should a regional initiative encompass? What is a reasonable minimum population in a collaborative area? Is there a size, either geographic area or population, beyond which a region would be too large for an effective regional development strategy?**

The region should be at least 100,000 people, and self-defined where interdependence among those people who live in the region can be demonstrated. The concept of a regional community should be based on a shared sense of place that is natural forming. There also needs to be a desire by stakeholders to want to reinvent their economy.

Senator Ken Salazar Questions:

1. **During the past year, I held numerous Farm Bill Listening Sessions across Colorado. In general, my constituents asked for three things regarding the Rural Development title:**

- *Create more and simpler programs for the creation of farmer-owed cooperatives*
- *More accessible loan and grant programs*
- *More funding for rural development programs and technical assistance*

Clearly simpler programs of all types will serve institutions and those accepting the responsibility for planning in a way that will make it more probable that stakeholders will come to the table and follow through on those strategic plans. Because venture capital is the #1 problem for economic development in rural regions any assistance that would make loans more accessible and make the acquiring of grants through the grant programs more readily available would reduce barriers for regions who typically do not have full time staff devoted to this important function. Finally, rural community colleges have become the technical assistance and workforce development engines for their regions. More funding to these Rural Development programs so that technical assistance in addition to planning can be provided to rural community colleges will enhance and assist those plans in moving forward in a way that will help those regions reinvent their economy.

1. **What would you like to see in the 2007 Farm Bill for rural Education?**

I would like to see the rural development title recognize rural-serving community colleges as an intermediary so that these institutions can serve as a catalyst for convening groups to put regional plans together in ways that will promote economic growth across those regions. This catalytic intermediary role will position the workforce development system so critical to any economic development initiative. Money should be appropriated for regions to self-define with higher education, the private sector, and government as major stakeholders identified with others in ways that will lead that region toward a better economic future.

Pennsylvania's Recommendations for the 2007 Farm Bill

2002 Farm Bill	2007 Farm Bill Recommendations
Title I - Commodity Programs	
Dairy	
• Price support is provided through government purchases of butter, nonfat dry milk, and cheese. • National dairy market loss payments authorize the Milk Income Loss Contract (MILC) program.	Strengthen the dairy farmers' safety net by eliminating the Dairy Price Support Program and restructuring the MILC program into the Milk Target Price Program. Under this new system, dairy farmers would receive a direct payment from the Commodity Credit Corporation (CCC) whenever the price of manufacturing milk failed to reach a target price. Develop a Milk Revenue Insurance Program specifically for the dairy industry to help farmers create their own safety nets. Revive expired programs encouraging farmers and dairies to learn and use futures markets. Require greater transparency in how manufacturing milk prices are derived and greater timeliness in how prices are reported to the public.
• Federal Milk Marketing Orders classify and fix minimum prices according to the products in which milk is used.	At the same time, merge manufacturing classes of milk into one, allowing milk supplies to better meet the most urgent market needs. Class I fluid milk prices should be based on current, rather than forward markets, and should be stabilized. For example, the Class I price mover could be based upon a 3-month moving average of the manufacturing value in order to reduce retail price volatility. Provide for the sale of raw milk within existing milk marketing orders.
• Dairy Export Incentive Program (DEIP) subsidizes exports of U.S. dairy products. Under DEIP, the CCC is required to make payments, on a bid basis, to an entity that sells U.S. dairy products for export.	DEIP should be extended to the extent permitted by the subsequent bilateral and multilateral trade agreements Round of GATT.
Wheat, Feed Grains, Upland Cotton, Rice, and Oilseeds	The Pennsylvania Department of Agriculture is intrigued by the farm bill recommendations of the American Farmland Trust (AFT), recognizing that those recommendations stem from an expectation that the Doha Round would have precluded continuation of existing programs for these commodities. AFT's major policy recommendations include: 1. "Green payments" to create greater incentives for farmers to deliver environmental benefits; 2. Revenue-based risk management programs to replace counter-cyclical programs; 3. A $1 billion grants program to foster innovative enterprises, markets and regional food systems; and 4. A new cooperative conservation program to encourage further stewardship.
Wool and Mohair	Extend current marketing loan provisions.

Pennsylvania's Recommendations for the 2007 Farm Bill

New Subtitle: Specialty Crops	Incorporate state block grants and other provisions of the Specialty Crops Competitiveness Act of 2004; extend provisions through lifespan of the farm bill.
New Subtitle: Aquaculture	Add farm-raised fish to the definition of livestock (provide access to FSA and NRCS programs).

Title II - Conservation	Create a $100 million per year nutrient management demonstration program in the Chesapeake Bay watershed to incubate, demonstrate and transfer innovative nutrient and animal waste management measures, such as cover crops, soil testing, plant tissue testing, soil amendments, feed management, manure separators, manure incinerators, on-site and regional manure processing facilities, manure marketing assistance, digesters and other promising practices and technologies that could help address the nutrient challenges facing estuaries across the nation. With fully 20% of the excess nitrogen load to the basin originating from manure, there is potential for substantial water quality improvements. Increase cost-sharing assistance through the Environmental Quality Incentives Program (EQIP) to $2 billion annually, and improve EQIP by rewarding states that identify and reward the most cost-effective and innovative producers of environmental benefits. Establish a regional stewardship program through cooperative conservation agreements to support regional nutrient and sediment water quality and land stewardship initiatives of national or state priority. The program could leverage new funds and promote integration of multiple programs at both the state and federal level. A cooperative conservation project could be designed by one or more states in collaboration with groups of farmers to meet regional environmental challenges. Expand the ability of conservation districts, cooperatives, state agencies, and others to deliver needed technical assistance to farmers. Expanding conservation programs requires an equally significant investment in our region's program delivery system. Expand incentives for good private forest land stewardship, including mandatory funding for the Healthy Forest Reserve Program and the Forest Lands Enhancement Program and the creation of a newly funded subprogram administered within EQIP. Reform EQIP to provide funding to support implementation of alternative manure utilization or treatment technologies to address nutrient imbalance issues facing many farmers in Pennsylvania.

Pennsylvania's Recommendations for the 2007 Farm Bill

Land retirement, including Conservation Reserve Program, CREP, the Wetland Pilot Program, and WRP	Programs should target lands that, for ecological reasons, should not be annually planted in row crops. However, Congress should consider allowing annual mowing of grasses, thinning of trees, etc. where practicable to increase available biomass for energy uses. Reform the Conservation Reserve Enhancement Program (CREP) to ensure that only highly environmentally-sensitive lands are being enrolled so that high productivity soils are not being taken out of production unnecessarily. Reform CREP by enrolling more streamside buffers and other marginal, environmentally-sensitive lands that can filter runoff and provide habitat for wildlife. Expand the Wetlands Reserve Program (WRP) to 5 million acres and improve WRP by recognizing the water quality benefits of enrolled lands.
Working lands, including EQIP, CSP, and other programs providing assistance on lands in production.	All current programs for working lands should be authorized at higher funding levels and fully appropriated. In addition, EQIP should be expanded to include helping producers comply with federal, state and local requirements pertaining to production of renewable energy for on-farm use – at least when that energy is generated from agricultural wastes.
Farmland Protection Program (FPP) and the Grasslands Reserve Program.	Amend the authorizing language to recognize that the public benefits provided by FPP are broader than just topsoil conservation to include sustaining long-term production agriculture. Direct half of FPP funding by formula and cooperative agreements with states; block grant the other half to states willing to match federal funding. Relieve USDA of responsibility for retaining reversionary interests in easements in states that have a farmland preservation program to which those interests could be transferred. Give farms enrolled in FPP or qualifying equivalent state program priority under other programs authorized in this title.
Misc.	
Privacy of personal information relating to natural resources conservation programs	Section 2004 of the 2002 Farm Bill creates what is now 16 USC Sec. 1244(b), prohibiting the release of information collected in administration of conservation programs except to the Attorney General for enforcement, aggregated statistical information, cooperating state agencies and tribal governments, or upon the farmer's consent. Extend this language to other programs, particularly APHIS.
New Provision	Give priority in funding to certified organic producers recognizing that their production practices already conserve water and trap atmospheric carbon.

Pennsylvania's Recommendations for the 2007 Farm Bill

Title III – Trade	
General Provisions	Continue existing credit guarantee, market access, export enhancement, and other programs to the extent possible under bilateral and multilateral trade agreements. Authorize a new cost-share program to incentivize producers, processors, wholesalers and exporters to provide continuous source verification. Allow cooperatives (or state departments of agriculture) to become Foreign Market Development Program cooperators. (This program tends to run through national commodity groups.)
Food Aid and Development Programs	Continue these programs to the extent possible under subsequent bilateral and multilateral trade agreements.

Title IV - Nutrition Programs	
Food Stamps	Increase Food Stamp asset limits for eligibility to a more reasonable level (e.g. $4,000 instead of $2,000). Increase monthly food stamp benefits to a level that encourages more eligible seniors to apply and enables beneficiary families to reach the end of the month with their Food Stamp benefits rather than having to turn to emergency food assistance programs.
• Use of Food Stamp Employment and Training Program funds. Under the Food Stamp Act (as amended) USDA is required to provide federal funding to states for employment and training programs for food stamp recipients.	USDA makes nutrition education funds available to Department of Public Welfare from the Food Stamps Program. The farm bill should explicitly state that state-appropriated funds for food purchase, when foods are provided with nutrition education programs and materials, can be used to match USDA dollars.
• Food Stamp Program Access Grants	Continue authority for these competitive outreach grants and increase authorized funding levels.
• Electronic Benefits Transfer (EBT) System	Add a new provision requiring that USDA, rather than farmers selling at farm markets, bear the risk of a Food Stamp participant having overspent his or her allotment, since most farmers don't have the special type of credit card readers needed to process EBT card transactions and must apply for reimbursement from USDA after the sale.
Commodity Donation Programs	
• The Emergency Food Assistance Program (TEFAP)	Require USDA to provide administrative costs to distribute bonus TEFAP commodities (USDA now offers administrative funds only for Pennsylvania's base allocation; any bonus commodities are distributed using State Food Purchase Program funds).
• Commodity Supplemental Food Program	Extend the program and increase funding authorized.
• Community Food Security Grants	Extend the program and increase funding authorized.

Pennsylvania's Recommendations for the 2007 Farm Bill

Nutrition Programs	
• Farmers' Market Nutrition Program (FMNP)	Extend authority for the Senior FMNP; increase funds authorized for both WIC and Senior programs. Authorize grants for pilot projects to improve WIC voucher redemption rates, which lag behind the Senior program throughout the country.
Fresh Fruit and Vegetable Program	Extend the program and increase funding authorized.
• Locally-produced foods pilot	The 2002 Farm Bill authorized $400,000 for up to 200 incentive grants for schools to buy locally. With over 5,000 local education entities just in Pennsylvania, authorizing only 200 incentive grants is all but meaningless. That $400,000 would be better spent helping groups of farmers and farm cooperatives to pay product liability insurance premiums, one of the biggest barriers to getting farm products into schools.

Title V - Credit	
FSA Farm Loan Programs	Fund FSA direct loan programs at a level that will permit allocation of farm ownership funds to FSA state offices and farm operating funds to be available throughout the fiscal year. Extend and increase funding for cost-sharing state mediation programs; extend scope of the program to include resolution of disputes between farmers and rural communities, among family members as a farm transitions, etc. Increase loan guarantee cap to $1 million. Simplify, extend and expand the 2002 pilot in five states (one of which was Pennsylvania) allowing FSA to guarantee direct land sale contracts between sellers and buyers; make the program available nationwide.
Farm Credit System (FCS)	Allow FCS cooperatives to mitigate their financial risk by expanding authority for commercial lending beyond production agriculture, co-ops, and rural housing to incorporate other types of loans for which USDA offers loan guarantees.

Title VI - Rural Development	Provide a single definition of "rural area" across all RD programs authorized in the farm bill. Population of less than or equal to 25,000.
Rural Community Advancement Program	Extend and increase flexibility provided to state directors to shift program funds to meet state needs.
Rural Utilities Service Programs	
• Water and Waste Facilities	Increase funding for Water and Waste grants to communities unable to afford full debt service.
• Broadband Programs	Eliminate requirement for existing RUS borrowers to "sign off" on new entities applying to provide broadband access to rural communities.

Pennsylvania's Recommendations for the 2007 Farm Bill

Rural Business – Cooperative Service Programs	Allow all RBS programs to fund projects in non-rural areas if the primary beneficiaries of the projects are rural citizens (e.g., farm markets, ethanol plants).
• Business & Industry Loan Guarantee Program	Continue funding set-asides for cooperatives and for energy projects. Declare any project that is eligible for the Value-Added Agricultural Product Marketing Development Grant program to be eligible for the B&I Loan Guarantee Program also.
• Rural Business Enterprise Grants	Increase authorized funding levels. This is the only business grant program that gets enough funding to sub-allocate to the state offices, but even though PA gets about 4% of the allocation, it's still only around $1 million per year. Clarify that agricultural projects, including agritourism, are eligible grant purposes.
• Value-Added Agricultural Product Marketing Development	Authorize more funding for Value-Added Producer Grants and allow loan funds to count as match; provide specifically for value-added dairy projects.
• Agricultural Innovation Center Grants	Extend authorization for Ag Innovation Centers and authorize their own funding line item instead of taking funds out of Value-Added Producer Grants.
• Rural Cooperative Development Grants	Authorize multi-year funding for Cooperative Development Centers that are frequently engaged in multi-year development projects.
Rural Housing Service (RHS) Programs	(Note: only the Community Facilities Program of RHS is authorized by the farm bill. Single family and multi-family housing programs, including Farm Labor Housing, are authorized under the Housing Act of 1949 and come under the jurisdiction of the Banking Committees.)
• Community Facilities (CF) and Related Programs	Increase funding for CF grants to communities unable to afford full debt service.
National Rural Development Partnership (NRDP)	Funding for the NRDP should be restored to at least FFY 2000 levels. At a minimum, Rural Development State Directors should be authorized to provide allocated Salary & Expense funds to eligible rural development council organizations. The Secretary should be required to solicit contributions from other NRDP member agencies (the farm bill can't require agencies outside of USDA to contribute without losing jurisdiction of the bill to congressional committees beyond agriculture).
New Subtitle: Rural Tourism Development	Specify as an eligible purpose under the Business and Industry Guaranteed Loan Program and the Intermediary Relending Program. Establish matching grant program comparable to value-added agricultural grants, or at the very least, make tourism (including agritourism) an eligible purpose for a Rural Business Enterprise Grant.

Pennsylvania's Recommendations for the 2007 Farm Bill

Title VII - Research and Related Matters	The Pennsylvania Department of Agriculture will largely defer to Penn State University's College of Agricultural Sciences on this title.
High-priority Research	Priorities for research investments should include cellulosic ethanol and other energy-related areas (including research into energy by-product uses, such as dried distillers grains or glycerin), odor management, and animal health and biosecurity.

Title VIII - Forestry	
Replacing the Forestry Incentive Program and Stewardship Incentive Program with the Forest Land Enhancement Program (FLEP)	USDA Forest Service has not always requested appropriation of any portion of the $100 million authorized for this sustainable forestry planning and implementation cost-share program. When they do get money, they have occasionally diverted it to fire-fighting needs. However, FLEP authority should be continued.
Sustainable forestry outreach initiative	Continue with current policy.
New Provision: Timber harvest levels in National Forests	Require the Secretary to manage national forests in accordance with each forest's management plan, including harvesting the full amount of timber called for in the plans to maintain forest health.
New Provision: Cellulosic ethanol incentives	Whether handled in the research, forestry, or energy title, provide production incentives for cellulosic ethanol as part of national forest management.

Title IX - Energy	Extend all 2002 energy programs. Authorize a higher funding level for Renewable Energy Development Loan and Grant Program (Sec. 9006), especially for grant programs.
New Provisions: Incentives for Energy Crop Production	Either in the commodity or energy title, provide incentives to farmers to produce cellulosic feedstocks and shift production to energy crops or higher-BTU varieties of current crops, such as corn. New energy ventures should be supported with either a new venture capital program or reauthorization of the Rural Business Investment Program.
	The conservation title and the energy title should be linked. For example, things such as switch grass, woody biomass and other cellulosic feedstocks, cover crops, carbon sequestration, CREP (need changes to CREP to allow farmers growing switchgrass on CREP ground to be able to harvest that in the fall), water quality, and soil and air quality all benefit from renewable energy and thus both titles of the farm bill should mesh together.
	The energy title or a new risk management title should extend crop insurance to 'renewable energy insurance' to insure crops grown for renewable energy production, including cellulosic, that have not been covered historically.
	The energy title should foster, or possibly mandate, community or cooperative approaches to renewable energy development. For example, grants to encourage a cellulosic or ethanol plant to locate next to a landfill so it can take the methane gas and use that as a fuel source.

Pennsylvania's Recommendations for the 2007 Farm Bill

Title IX – Energy (Continued)	The energy title should be used initially to purchase energy credits or carbon credits as a way to stimulate agricultural interest in these programs in their infancy.
	The energy title needs to foster and encourage producer, consumer and government education.
New Provision: Liability protection for conversion of agricultural wastes to energy uses	The energy title should include, at least on a pilot basis, an incentive towards converting agricultural waste products into renewable energy, such as burning low grade wood wastes or building digesters, by limiting liability under certain environmental laws – perhaps a pilot in a state like Pennsylvania with extensive nutrient management programs and a manure hauler/broker licensing program.

New Title X - Biosecurity and Emergency Response	First responder support for training and equipment (through Rural Development's Community Facilities loan and grant programs). State Animal Response Teams/County Animal Response Teams cost-share (through APHIS). Provide CCC funds to cost-share on-farm biosecurity measures comparable to conservation measures (through FSA). Mandate payment of producer indemnities when a quarantine is issued and a producer destroys animals or plants as ordered (through APHIS). Ensure privacy of NAIS data notwithstanding any provision of law. Establishment of a National Farm Safety Training Center in Pennsylvania.

New Title XI - Risk Management	Provide for a state level third party appeals system for settling producer disputes. The established USDA/FSA state committee is a good forum for resolving the disputes. This could be the first level of appeal and would utilize a group knowledgeable about NAP crops, local agriculture and government programs. *NAP stands for Noninsured Crop Disaster Assistance Program.* Provide protection for all crops/commodities produced commercially within each county, using the best historical information available. This initiative should be done in close cooperation with state departments of agriculture and/or other public organizations that have a common interest in such activities. Utilize RMA/USDA to provide technical assistance in policy development, developing premium rates, underwriting rules, reinsurance, and authorized federal subsidies. Provide producers the option to have separate insurance units for each FSA tract (portion of an FSA farm serial number) in areas of the U.S. where the mile-square section surveys are not in effect. Develop a product that provides revenue insurance plans such as AGR and AGR-Lite to new and beginning farmers so they have the opportunity to utilize federal risk management programs. Strong consideration should be given to permit such producers to have protection and premium rates

Pennsylvania's Recommendations for the 2007 Farm Bill

New Title XI - Risk Management (Continued)	established based on information for similar farms that have sufficient historical information to meet the requirements of these insurance plans. Improve the quality adjustment provisions of the crop insurance policies to be more responsive to local actual market prices of damaged commodities compared to the prices of undamaged commodities. Such adjustments shall include such items usually considered in the U.S. Grain Standards and other causes such as falling numbers and other conditions that affect the price that the producer receives. In implementing this provision, it would seem reasonable that quality adjustment discounts in excess of 5% would be covered by the insurance policies. The definition of commodity quality damage should be presumed to be due to natural disasters unless there is compelling evidence that it was caused by the actions of an individual. The current system usually applies the same discount nationwide and the point at which discounts trigger is too low to be effective. Add new and modify existing crop insurance programs to better fit the needs of producers that are in transition or adding new enterprises such as direct marketing fruits and vegetables and organic production. Streamline policies and procedures similar to private farm owner's insurance policies. Allow more flexibility in the production record keeping requirements for crop insurance. Reinstitute the use of Ag Management Assistance (AMA) funds authorized in the crop insurance law for additional premium subsidy to make the better performing, higher levels of coverage more affordable. AGR-Lite and Whole Farm Revenue Insurance: • Provide higher levels of coverage on AGR/AGR-Lite whole farm revenue programs. Current deductibles are too high for producers. • Low revenue in the 5-Year Income History can reduce the approved AGR to the point where the insurance will not provide adequate coverage. A method to add a 10% 'floor' in the 5-year history would be desirable. • Include crop insurance payments and Noninsured Crop Disaster Assistance (NAP) as allowable income in the 5-year history. Adding Multiple Peril Crop Insurance (MPCI) indemnities and NAP to allowable income would provide a floor to compensate for low revenue years. • Producers need a higher revenue guarantee. The maximum effective coverage for AGR-Lite is 72% (80% coverage, 90% payment rate). In many cases, thin profit margins do not allow a 28% drop in revenue without severely impacting the viability of the farm operation. Consider an 85% coverage level and 100% payment rate like several of the MPCI coverages.

Pennsylvania's Recommendations for the 2007 Farm Bill

New Title XI - Risk Management (Continued)	• The animal/animal product rates need reviewed to more accurately reflect the risk. More analysis is needed to see which risk pool livestock commodities should go into versus simply putting all livestock in the highest risk pool. • Currently, some expanding operations cannot get enough coverage to match their risk. While the indexing formula helps to increase coverage, it falls short of providing enough protection to fully insure the risk associated with increasing intended revenue. An alternative method to more accurately reflect the actual risk for the insurance year would be helpful. • Late fiscal year income tax filers feel they are treated unfairly when compared to calendar year filers. Fiscal year filers must pay premium before or in their insurance year, whereas calendar year filers pay premium after the end of the insurance year. In addition, late fiscal year filers must project two years in advance which may prove to be difficult based on changing market conditions. • Carryover commodities still in the production phase present some unique beginning and ending inventory challenges. The inventory rules should be reviewed to ensure the procedures provide clear directions on how to handle these commodities. In addition, clarity should be provided as to whether or not coverage is provided for these commodities. Examples of these commodities include: Christmas trees, shellfish, nursery and livestock. • Commodities produced for on-farm feed cannot be listed as an intended commodity. The theory is that the crop value is transferred into the animal. This is an issue where one intended commodity is used as an expense for another commodity. One challenge is that the feed revenue is not reported on the tax forms. The only alternative is to purchase an MPCI forage policy. • Definition of 'Animals' needs to be revised to ensure it is inclusive of production agriculture. The current definition is 'living organisms other than plants or fungi that are produced or raised in farming operations including, but not limited to, aquaculture, bovine, equine, swine, sheep, goats, poultry, aquaculture species propagated or reared in a controlled environment, bees, and fur bearing animals, excluding animals for sport, show or pets.' Under the National Shellfish Sanitation Program, shellfish can only be harvested from areas that are demarcated, monitored for water quality, and identified clearly on tags that must accompany each lot of shellfish harvested. In addition, commercial operations control predators and wave action which may damage the crop. For shellfish farm eligibility, it may be helpful to modify the definition by adding: 'Shellfish (licensed commercial producers under the local approving authority in a certified growing area).' This will further define the controlled environment and eliminate recreational versus commercial operations.

Pennsylvania's Recommendations for the 2007 Farm Bill

New Title XI - Risk Management (Continued)	Another definition issue involves 'fryers.' While poultry is currently listed in the definition, a fryer is not. It also needs to be clear that animals under contract are insurable. • Add the peril of quarantine and bio-terrorism as insurable causes of loss. These are the two catastrophic events that many producers fear most, and either one could destroy their farming business. • Strengthen the policy regarding establishing local market value, particularly for direct marketers. Currently, the policy indicates that if published prices are not available, then the average price offered by two commercial buyers be used, one nominated by the policyholder and one by the insurance company. This needs to be strengthened in two ways. First, for direct marketers it should be the best estimate of those involved in direct marketing, as commercial buyers are not involved. Second, requiring that the value for estimating the revenue for the producer's intention report for the current year should be determined at the time the intentions report is filed. Otherwise the producer loses the price fluctuation protection otherwise provided by the policy. There are reports where the price is either not finalized at the time the intention report is filed, or that it is adjusted at claims time. Neither is acceptable because such changes can reduce the producer's protection that was initially sold to them and adversely impacts the collateral value of the policy. Develop a 'Small Farm Revenue Assurance' product to provide the many small operations a streamlined, reasonably priced access to risk management. Currently, these farmers are not participating in RMA programs but do participate in ad hoc disaster programs. Develop a new initiative on product liability coverage for direct marketing. Develop a new initiative on health care cooperatives. Authorize multi-year funding on basic crop insurance education grants. Organics transitional support: • Extend authority for cost-share program. • Establish transitional assistance grants through FSA via state departments of agriculture.
New Title XII - USDA Readiness	Recognition of the aging USDA workforce. Authorization of additional salary and expense funding for a one-time readiness exercise in FSA, NRCS, RD, and Extension.

Title XIII - Misc.	
• Country-of-Origin Labeling	This provision of the 2002 Farm Bill has yet to be fully implemented. Require implementation in the 2007 Farm Bill.

Pennsylvania's Recommendations for the 2007 Farm Bill

• Specialty Crops	Move to a new subtitle with other commodities (Title I); reauthorize provisions of the 2004 law to get into sync with the 2007 Farm Bill. Significantly increase authorized funding.
• Animal and Plant Protection	Extend provisions and move to new biosecurity title.
• Animal Welfare Provisions	Extend provisions and move to new biosecurity title.
Food Safety	
• Food Safety Commission	The Commission was established in the 2002 Farm Bill, but never acted upon. The Secretary should appoint this Commission to help modernize the food safety system so pathogenic organisms that contaminate food at the farm level can be prevented and also aid in the prevention of new threats, such as bioterrorism.
New Provision	Direct NASS to ignore NAICS codes and count all equine and timber in 2007 Census of Agriculture and beyond; authorize sufficient additional funding for this data collection. *NAICS stands for North American Industry Classification System.*

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February 20, 2007

The Honorable Tom Harkin, Chairman
Senate Committee on Agriculture, Nutrition and Forestry
731 Senate Hart Office Building
Washington, D.C. 20010

The Honorable Saxby Chambliss, Ranking Republican
Senate Committee on Agriculture, Nutrition and Forestry
416 Senate Russell Office Building
Washington, D.C. 20010

Dear Senators Harkin and Chambliss:

I am writing to offer testimony for the record on the hearing that was held recently on the Farm Bill of 2007.

I represent the Association of Farmworker Opportunity Programs, known by the acronym AFOP. We are the national federation of agencies that provide federally funded job training services to America's migrant and seasonal farmworkers. Our member agencies are either nonprofit organizations or public agencies, operating in 48 states and Puerto Rico. The programs operate with competitive grants administered by the United States Department of Labor, pursuant to Title I, Section 167 of the Workforce Investment Act of 1998.

The federal commitment to job training for farmworkers dates back to the mid-1960s. It has been "housed" in the Department of Labor since the early 1970s, serving over one million agricultural workers since that time. Of course, there is never enough funding to reach more than a small percentage of the estimated 2.5 million farmworkers each year. With a high turnover rate in the industry, we estimate the funding through DOL only reaches between 2% -4% of the eligible population. Eligibility includes proof of citizenship or work authorization.

In addition to funding constraints, there is a more important obstacle within the WIA services that I wish to address today. The Department of Labor program (called the National Farmworker Jobs Program, or NFJP) has always been predicated on the supposition that farmwork will forever be low wage, sporadic and dead ended, offering few if any work-related benefits. Thus, the emphasis has been and continues to be on helping eligible farmworkers retrain for careers in other industries. Furthermore, the high tech, high growth jobs focus of the current DOL administration leaves out most of rural America, and certainly does not turn a spotlight on agricultural jobs.

From our point of view, that is lamentable. However, it is understandable. Most work in America is found in urban centers, and most high paying careers appear to be in the high growth and high tech sectors—neither of which describes the agricultural industry. For those farmworkers who wish to leave the agricultural sector, it is appropriate to assist them in retraining for positions in other parts of the economy, and we believe the Department of Labor program does an adequate job of meeting that particular need.

However, the National Agricultural Workers Survey has found that about 66% of farmworkers would prefer to stay in the agricultural industry if they could afford to feed their families, experience a career ladder, and obtain health insurance and other job-related benefits. Moreover, the agricultural employer sector of our economy is anxious to achieve a more stable and better-trained workforce as farmers strive to keep up with the demands of global competition for their products.

Interestingly, both farmers and farmworkers would like to remain in the business of growing the nation's food, but are being forced to make choices that lead them away from their first vocational interest. Today, AFOP offers a program to help correct that problem. **The program we offer for the Farm Bill of 2007 has the endorsement of one of the largest agricultural employer groups in the country, the National Council of Agricultural Employers.**

We believe that the Farm Bill of 2007 should establish a federal investment in the farm labor workforce of this country. Specifically, we propose that there be a program established to train agricultural workers in the latest technologies that farmers employ, to learn skills in multiple crops to extend the time they can work in harvests and plantings, and obtain leadership skills and experiences so that they can become managers. In addition, such a program should also help farmers and farmworkers learn the best techniques for protecting the safety of the food supply, a goal of our government since at least the events of September 11, 2001. A series of food supply catastrophes in the mid part of this decade have highlighted this need. AFOP members are skilled and experienced at teaching pesticide safety, heat stress protection, and other health related issues to farmworkers.

With over 340 offices throughout rural America, with staff that are able to speak the same language as the farmworkers they serve and provide instruction to people with low educational attainments, and a long history of serving workers and growers, the AFOP community is well positioned to help implement such a program. We recommend that Congress implement it as a competitive national grants program, stipulating that groups with a history of assisting farmworkers partner with grower groups, including associations and co-operatives.

The details of the program are incorporated into this testimony and appear below my signature. We have included sample amendment language that could provide the basis for a program that would be authorized for $100 million per year, a modest investment in the farm labor sector of our economy. We would be pleased to provide any oral testimony at future hearings or to answer any questions you or your staff might have on this proposal. I can be reached at the above address, via telephone at (202) 828-6006, ext 101 or via email at strauss@afop.org.

I thank you for permitting me to submit this testimony on behalf of the Association of Farmworker Opportunity Programs, and I look forward to hearing from you.

Sincerely,

David A. Strauss, Executive Director

ASSOCIATION OF FARMWORKER OPPORTUNITY PROGRAMS in collaboration with the NATIONAL COUNCIL OF AGRICULTURAL EMPLOYERS offers the following proposal for the Farm Bill of 2007:

SEC. XXXX GRANTS TO IMPROVE THE SUPPLY, STABILITY, SAFETY AND TRAINING OF THE AGRICULTURAL LABOR FORCE.

`(a) IN GENERAL- The Secretary shall make grants to nonprofit organizations, or to a consortium of nonprofit organizations, agricultural labor organizations, farmer or rancher cooperatives, public entities and community-based organizations with the capacity to assist agricultural employers and workers with improvements in the supply, stability, safety and training of the agricultural labor force.

`(b) USE OF FUNDS- An entity to which a grant is made under this section shall use the grant to provide services to assist farmworkers to reach, retain, upgrade and return from agricultural jobs including: agricultural upgrade and cross training; labor market information; transportation; short term housing, including housing for unaccompanied workers and migrant rest stops; traveler's aid; workplace literacy and ESL; health and safety instruction, including ways of safeguarding our national food supply; and limited emergency and financial assistance.

`(c) AUTHORIZATION OF APPROPRIATIONS- There is authorized to be appropriated to carry out this section $100 million for each of fiscal years 2007 through 2011.

OVERVIEW OF PROPOSED AMENDMENT

The amendment to the Farm Bill seeks to assist agricultural employers, rural communities and farmworkers with services that will improve the supply, self-sufficiency, health and safety and the stability of the agricultural labor force.

Goals of the Amendment

An amendment to the Farm Bill could address many of these issues by creating a cost effective support program for farmworkers through partnering with agricultural employers and the American consumer. An initiative supporting farmworkers that signaled a **joint commitment** of farmers, consumers, and advocates to a **stable workforce** and ***safe and secure food supply for America*** could be placed within the Farm Bill.

Goals: The most important authorized activities would all be centered on supporting employers and rural communities by enabling farmworkers to:

- Reach agricultural jobs
- Retain agricultural jobs
- Work safely in these jobs
- Help protect the nation's food supply
- Obtain upgraded agricultural jobs
- Return to home base areas from agricultural jobs

Authorized Activities

The legislation would authorize a menu of services that are valued and needed by workers, growers and consumers. The program should build **economic incentives to participate for both** growers and workers and for consumers to recognize the value of these initiatives.

Examples of services that meet these goals:

- **Upgrade training** could help growers stabilize their workplace and allow workers gains in income
- **Cross training and skill building** could allow workers to increase self sufficiency by retaining farm employment and gaining either employment time and/or income and would help fulfill growers' need for more skilled workers
- **Training in food safety will increase workers' knowledge of proper and safe techniques for the field production, handling and packing of food and food products**
- **Housing for Unaccompanied Workers in High Impact Migrant areas** could help employers ensure a predictable supply of workers for short periods and help stabilize employment.

- **Migrant Rest Stops** would provide safe and affordable short-term housing for migrants and also help ensure a predictable supply of workers to local areas. The Migrant Labor Center in Hope, Arkansas is one model, which could be replicated in other high impact migrant streams.

- **Pesticide safety training** helps growers meet a federal mandate placed on them. It also helps keep farmworkers safe from the dangers of pesticides.

- **Workplace safety training** would promote safety in the workplace and lower injury rates for workers and workers compensation rates for growers. This would include heat stress reduction and other health/safety issues.

- **Improved Labor market Information** would help farmworkers assess employment and earnings opportunities and help ensure an adequate number of workers while avoiding chronic oversupply and undersupply due to inaccurate information about the timing and/or number of employment opportunities. There is a West Coast model in La Voz Del Campo, published by La Cooperativa Campesina de California and California's Employment Development Department.

- **Limited financial and/or emergency assistance** could help workers return to their home base areas from agricultural areas at the conclusion of employment or because of severe disruptions in employment.

- **Transportation** assistance and **Traveler's Aid** services could lower the costs workers experience in reaching and/or returning from agricultural jobs. These services would promote more supply certainty for growers. Research indicates that the costs of reaching and obtaining employment are substantial and depress workers' earnings. Farmworkers are periodically stranded far from their home base when employment opportunities end earlier than anticipated. Transportation assistance would not only help farmworkers return to their home base areas but lessen the burden on local communities.

ELIGIBILITY

Eligibility for the program should be **based on farm employment** (the applicant is going to an agricultural job, currently in an agricultural job, or returning from an agricultural job).

SCOPE AND BUDGET

The program should be national, but focus on **high impact agricultural areas.** The program would have low unit costs partially offset by worker and user fees.

We estimate that for $100 million and with low average unit costs of $500 (estimated) the program could serve up to 200,000 workers.

OFFICE OF THE LT. GOVERNOR
STATE HOUSE
INDIANAPOLIS, INDIANA 46204-2797

REBECCA S. SKILLMAN
LT. GOVERNOR

February 13, 2007

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 Senator Lugar, a long-time champion for the needs of rural communities in our home state.

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 5500 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 <u>all</u> 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 non-profit 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 <u>all</u> 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.

PROTEUS
INC

We provide farmworkers, immigrants, and others, with a variety of services that improve their health, education, and economic opportunities.

February 20, 2007

The Honorable Tom Harkin, Chairman
Senate Committee on Agriculture, Nutrition and Forestry
731 Senate Hart Office Building
Washington, DC. 20010

The Honorable Saxby Chambliss, Ranking Republican
Senate Committee on Agriculture, Nutrition and Forestry
416 Senate Russell Office Building
Washington, DC 20010

Dear Senators Harkin and Chambliss;

I am writing to offer testimony for the record on the hearing that was held recently on the Farm Bill of 2007.

My name is Terry Y. Meek and I am the executive director of Proteus, Inc. This organization that I lead is a state-wide, non-profit organization based in Des Moines, Iowa. Our mission is to provide farmworkers, immigrants, and others with a variety of services that improve their health, education, and economic opportunities. As such, Proteus is the grantee for several federally funded grants that support our work with Iowa's agricultural workers. I am also a Board Director for the Association of Farmworker Opportunity Programs (AFOP).

AFOP has also submitted testimony for the record, but I would submit additional information from the perspective of a program operator.

Proteus receives approximately $1.5 million in funding from the Department of Labor through the Workforce Investment Act's National Farmworker Jobs Program (NFJP). With this funding we primarily assist eligible migrant and seasonal farmworkers to obtain vocational training that will enable them to leave seasonal or part-time work for farmers and enter full-time employment in careers that offer them benefits and increased stability for their families. Also with the NFJP funding, Proteus is able to provide Pesticide Safety Training and other support services for migrant farmworkers that come to Iowa each year to work for the seed corn industry.

The NFJP guidelines, eligibility qualifications, and other operational factors often preclude Proteus from responding to the agricultural employer and meeting his specific needs. Our major focus, due to the Department of Labor funding source, for many years has been assisting eligible farmworkers train for jobs and careers outside of agriculture. In fact, it is often difficult to forge good relationships with agricultural employers because they perceive that we may be taking away their workforce.

We do, however, know that there are many farmworkers who would favor finding a way to continue working in agriculture--to increase their skills, become managers, improve their English language skills, and earn better wages and benefits through upgraded agricultural employment. In short, they view agriculture as an estimable occupation, a career opportunity; they would remain there if the opportunity offered itself. And, many of the agricultural employers I have talked to want a more stable, better trained workforce.

A federal investment in the agricultural labor workforce as described in the AFOP testimony is needed. The two key areas that I will address in my testimony are the need for training funds aimed at agricultural upgrades and funds for pesticide safety and other health safety training issues.

Training Funds for Agricultural Upgrades:
In the past Proteus has been approached by an Iowa nursery owner. He was interested in upgrading several of his temporary workers to mid-level manager level, but was unable to do so because the workers lacked sufficient English reading and writing skills to enter the required certification program offered by their regional association. He stated that this scenario could be found at other nurseries around the state and nation.

Last summer there was an Iowa melon farmer that was unable at the last minute, through a bureaucratic complication, to obtain the number of H2A workers needed for his harvest. These are just two examples of situations where training funds for agricultural upgrades or cross-training would have been beneficial to Iowa's agricultural employers. There are other such stories throughout the state and country.

The NFJP couldn't meet the workforce needs that these Iowa employers experienced. These employers needed resources that would have provided their own workforce with skills gained from upgrade training or cross-training. In turn, these added skills would have enabled the workers to work a longer season or year-around in jobs paying increased or better wages, possibly with benefits.

Pesticide and Other Agricultural Safety Training:
Proteus offers Pesticide Training to approximately 100 migrant workers each summer. With additional funding we could expand this work to other seasonal and year-around agricultural workers. Employers are required by law to assure that the training occurs, but the ability of the employer to have a third party conduct the training assures that the workers will openly ask their questions, be able to communicate in their primary language, and be given thorough training from qualified, bilingual trainers. Agricultural employment is dangerous in many ways--the weather, pesticide and herbicide use, tools and equipment, communicable diseases, personal wellness and health issues, etc. all are topics that must be covered in a good safety program. With the increased number of diverse agricultural workers, employers are faced with the need to be able to adequately train their diverse and ever changing workforce in a culturally and linguistically appropriate manner. This can offer obstacles for the smaller to medium sized farm employer.

I want to thank you for permitting me to submit this testimony regarding the need for a federal investment in the agricultural workforce here in the United States. I hope that you will seriously consider such a program in the Farm Bill of 2007. I look forward to working with you in developing such a program that will greatly benefit both agricultural employers and their workforce.

Cordially yours,

Terry Y. Meek
Executive Director

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Additional Questions for Dr. Fluharty

1. You testified about the need for a rural framework that will leverage existing funding – federal, state, local, private and philanthropic – as well as act as the "glue" for new regional planning approaches.

Specifically, what has to change from the existing USDA programs and how they work now?

What specific funding steps are needed actually to accomplish these goals in rural communities?

2. In your written testimony you discuss the quantitative and qualitative differences in federal funding between urban and rural America. You describe federal payments to rural America as predominantly "transfer" or income support payments rather than investments in economic growth and new economic development.

Please elaborate on the difference between "transfer" payments to rural America and "investment" funding to foster economic and community development?

To clarify, does rural America receive less investment funding than urban and suburban areas using relevant measures of comparison?

Specifically, what difference does this disparity make in outcomes or results?

3. You make a compelling case for a new rural vision, and bold leadership, to build rural collaboration, innovation and strategic investments. However, these processes take time, energy and buy-in across multiple constituencies. Some would argue the bureaucracy, rivalries and disagreements involved will overwhelm practical application.

What is your response to this challenge?

4. In your testimony, you say that other countries have already implemented rural policies focused on regional innovation.

Are there valuable lessons from those experiences elsewhere that we should consider in drafting new rural policy here?

5. How should regional collaboration be encouraged? Which organizations are most likely to be effective leaders? Who should be at the table?

6. To what extent do you believe the lack of venture capital is a serious impediment to the typical rural community seeking to promote development?

7. In considering strategic regional initiatives, how large a geographic area should a regional initiative encompass? What is a reasonable minimum population in a collaborative area? Is there a size, either geographic area or population, beyond which a region would be too large for an effective regional development strategy?

Additional Questions for Mr. Kelley

1. What are the primary lessons you have learned from your regional governance experience that this Committee should take into account in designing a new system of rural development assistance?

2. On page 5 of your written testimony you state, "responsibility to work collectively within a region is ultimately up to local officials and leaders. . . ."

> What should USDA and Congress do differently to encourage and facilitate local officials and leaders taking responsibility to work together in regions?
>
> What incentives has your organization and its partners provided to generate both partnership and local leadership?

3. How should regional collaboration be encouraged? Which organizations are most likely to be effective leaders? Who should be at the table?

4. To what extent do you believe the lack of venture capital is a serious impediment to the typical rural community seeking to promote development?

5. In considering strategic regional initiatives, how large a geographic area should a regional initiative encompass? What is a reasonable minimum population in a collaborative area? Is there a size, either geographic area or population, beyond which a region would be too large for an effective regional development strategy?

Additional Questions for Ms. Holz-Clause

1. Iowa has a number of programs and centers addressing both value-added agriculture and bio-energy. Not only is technology needed for these ventures, but so is the infrastructure and the workforce to construct, manage and market the products.

> How should and could institutes such as yours cooperate and form partnerships within strategic regional frameworks?
>
> How would you go about supporting groups of communities and rural citizens to help build and execute a regional development strategy?

2. How should regional collaboration be encouraged? Which organizations are most likely to be effective leaders? Who should be at the table?

3. To what extent do you believe the lack of venture capital is a serious impediment to the typical rural community seeking to promote development?

4. In considering strategic regional initiatives, how large a geographic area should a regional initiative encompass? What is a reasonable minimum population in a collaborative area? Is there a size, either geographic area or population, beyond which a region would be too large for an effective regional development strategy?

Additional Questions for Mr. Hassebrook

1. Nebraska has been the model for community foundations. What more should the federal government do to promote community foundations which, as the experience in Nebraska shows, can really add financial resources and capital to a community's development efforts?

2. Should USDA give credit in its funding allocations to communities where community foundations are contributing funds and helping reach goals?

3. Iowa has a microenterprise assistance model run by the Institute for Social and Economic Development. The program trains clients and helps them to develop their business plans. But, rather than providing a loan, the institute insists that clients apply to commercial lenders that have agreed to evaluate loan applications. What is your view regarding that approach?

4. How should regional collaboration be encouraged? Which organizations are most likely to be effective leaders? Who should be at the table?

5. To what extent do you believe the lack of venture capital is a serious impediment to the typical rural community seeking to promote development?

6. In considering strategic regional initiatives, how large a geographic area should a regional initiative encompass? What is a reasonable minimum population in a collaborative area? Is there a size, either geographic area or population, beyond which a region would be too large for an effective regional development strategy?

Additional Questions for Dr. Sertich

1. What should USDA do better to incorporate the resources and expertise of community colleges into USDA-backed rural economic development efforts?

2. Does the law need changes to allow community colleges to be more fully involved in supporting USDA's programs and initiatives?

3. With the new private capital and economic resources coming into many of our communities right now as a result of the ethanol and renewable energy boom, is there still a need for broader regional development strategies?

4. How should regional collaboration be encouraged? Which organizations are most likely to be effective leaders? Who should be at the table?

5. To what extent do you believe the lack of venture capital is a serious impediment to the typical rural community seeking to promote development?

6. In considering strategic regional initiatives, how large a geographic area should a regional initiative encompass? What is a reasonable minimum population in a collaborative area? Is there a size, either geographic area or population, beyond which a region would be too large for an effective regional development strategy?

Responses to the Honorable Senator Tom Harkin
Senate Agriculture Committee
By

Mary Holz-Clause
Interim Associate Vice President for Extension at Iowa State University Extension
Director of the Value Added Agriculture Program
and Agriculture Marketing Resource Center

Iowa has a number of programs and centers addressing both value-added agriculture and bioenergy. Not only is technology needed for these ventures, but so is the instrastructure and the workforce to construct, manage and market the products.

How should and could institutes such as your cooperate and form partnerships with strategic regional frameworks.

Groups that provide statewide services to the value added agriculture industry recognized more than six years ago that the whole can be greater than the sum of its parts. Federal and state agencies including USDA Rural Development, Iowa Department of Agriculture and Land Stewardship, Iowa Department of Economic Development, Iowa State University Extension and private statewide service providers including the Iowa Farm Bureau Federation and the Iowa Area Development Group joined the information group, called the Value Added Agriculture Support Team (VAAST). The purpose of this group is to coordinate programming, cooperatively sponsor educational offerings and provide a seamless delivery of services for firms in or starting in the value added agriculture business. Through this coordination function and meeting at least monthly, the group is aware of what new firms may need assistance and who is best suited among the group to do so. As the organizations have evolved, their offerings have been tailored so they do not compete with others in the state. Examples of cooperation are collectively writing and receiving grants and contracts that individually the various organizations were not likely to receive, joint programming such as sponsoring a series of educational offerings needed for the ethanol industry and now supporting the biodiesel firms, development of an Iowa Renewable Fuels Association, among others.

This same approach of cooperation has been successfully replicated by service providers in Nebraska and perhaps others that we are not aware. USDA-RD has staff working nationally to encourage replication of this model.

A major theme emerging from the December 11, 2006 Statewide BioEconomy Summit hosted at ISU in Ames was the need for a statewide collaborative partnership/institute to incent local, regional and statewide collaboration and communication among multiple institutions, agencies and private sector interests. It is anticipated that many issues will emerge as the new and rapidly developing bioenergy sectors evolve. While ISU's top priority is to become a leading bioenergy research institution, another companion role for

ISU Extension is to build partnerships with Iowa's other academic institutions and private sector interests to assure appropriate dispersed capacity for identifying and addressing emerging priorities across the state. These issues may include development of programs and incentives for building local biofuel demand and availability, livestock sector adjustments; adjustments to water quality, quantity and environmental impacts; resolving infrastructure issues such as rail and rail car shipping constraints for accessing coastal and international markets; bioenergy workforce training; and regional demonstrations for new farming systems for bioenergy crops. In general, most of these issues will require multiple decision-making entities to become involved in the search for solutions on a region by region and statewide basis if the solutions are to be sustainable and quickly adapted to assure sustainable competitiveness and rural vitality.

A Bioenergy Engagement and Demonstration Institute concept has been emerging that could eventually serve as a model for a statewide institute that facilitates formation of strategic rural frameworks and partnerships. Just this week, ISU Extension and the Community Vitality Center partnered with the Iowa Farm Bureau to organize a 7 county central regional workshop to identify the emerging bioenergy education, research, infrastructure, and economic development issues for addressing on a regional basis. County extension directors and farm bureau coordinators from each county were asked to invite 6-12 leaders from diverse groups with a stake in bioenergy development. Included in the audience were a cross-section of bankers, farmers, livestock feeders, county supervisors, investors, economic developers, city officials, environmental leaders and other local experts from academia and bioenergy projects. Several panel members provide perspectives on the top priorities for keeping the region competitive in Bioenergy. The audience then participated in small group discussions caucused by county and identified many of the priorities listed above but with a unique regional flavor. To facilitate the formation and implementation of regional agenda/action groups to address the issues identified, there is a need for seed funding of projects that incent collaboration among the entities with something to contribute and to provide leverage for bringing other resources into the process. The statewide Extension Network is uniquely positioned to facilitate this process as County Extension Education Directors in all of Iowa's Counties have been asked to identify a similar core bioenergy stakeholder group of diverse interests region by region for invitation to future bioenergy webinars and workshops.

How would you go about supporting groups of communities and rural citizens to help build and execute a regional development strategy?

Provide a flexible program that uses multiple approaches to facilitate development of community and county capacity while providing incentives for regional collaboration and strategic regional planning. In rural America there are a multitude of different groups that step forward to provide leadership for betterment initiatives, depending upon the community and region. A preference should be given to existing groups that are open to broad participation and collaboration by diverse public and private interests and networks with resources and expertise to contribute to solutions. In contrast, networks whose primary function is to build internal staff capacity and exclude other existing networks of expertise operating in the region should be given low priority as grant recipients. Regional projects should be connected to statewide partnership networks that facilitate development of best-practices, lessons-learned, and transfer of ideas and innovations to other regions with seed funding, outreach and demonstration initiatives.

For instance, in many areas when we facilitate strategic planning with groups, we ask them to bring in people from surrounding counties or whatever geographic area makes sense based upon the natural barriers, common interests and synergies for working together. We encourage individuals and groups to consider a regional strategy to garner additional human, social and capital resources. When groups are supported to consider regional strategies initially, they see the merits of this approach and can become natural allies. However, as one person said initially in a regional economic strategy group, "we first need to overcome the fact that although our basketball high school teams compete on Friday night, that we must come together and work toward common economic development to keep our local high schools viable and vibrant."

This activity uses standard facilitation and planning techniques but often requires more staff because of the scope of the activities. Followup is critical and can be the toughest part to keep funded and staffed. The key to having this activity bear fruit is to achieve continuity and develop community leadership to drive that. As the faces change and the dynamics swirl, these projects require flexibility and innovation. This work takes special skills.

How should regional collaboration be encouraged? Which organizations are most likely to be effective leaders? Who should be at the table?

The response depends on the functions, but in general local and regional Extension networks, economic development organizations, local financial institutions, local farm and business sector leaders, local government officials, councils of government, housing development groups, regional tourism organizations, higher education institutions and community colleges, k-12 education, hospital and health care networks, transportation and utility interests, community foundations, youth and senior organizations.

Regional collaboration should be encouraged when it makes sense for groups to collaborate as mentioned previously. The most effective groups to facilitate these leaders are organizations in the community that are respected, have a long term commitment to the community and have both adequate and research-based resources to deliver and assist groups. Naturally, one such group is the Cooperative Extension Service and farmer organizations such as the National Farmers Union, Farm Bureau Federation and the commodity organizations. Others who may participate will vary from community to community and may include a formal economic development organization, the chamber of commerce, boards of supervisors and regional coordinating councils.

Depending on the situation, the individuals who should be at the table will vary. It is very important that service providers are inclusive in inviting and doing what is necessary to get diverse ethnic, religous and socio-economic populations involved in the process. The group planning should be reflective of all the citizenry.

Often this leadership will self select. But, the facilitators should be sensitive to the possibility that there are others who need to be at the table. This is a question that should be posed early. This activity should not be about picking winners and losers or coming too quickly to judgment about action plans. It is a process and the process is the key. What is magical when it works is the fact that often the process brings people together as a team and they would never have otherwise cooperated. This is a vital part of changing the dynamic in a community.

To what extent do you believe the lack of venture capital is a serious impediment to the typical rural community seeking to promote development?

Sometimes it is important to be precise in our terminology. For any business, there is a need for startup capital that is absolutely at risk, then there are levels of bridge capital, mezzanine financing, equity capital, operating lines of credit and term notes. While the aggregate level of cash in the economy is more than sufficient to support small business innovation and growth, the skills and tools to access it are really the key to open the vault. It would be highly recommended that all recipients of value added agriculture producer grants be required to attend training to understand the basics of business planning and development. What is needed in nearly every case is a requirement for serious business training coupled with a mentoring program to gain continuity.
A few rapid growth rural ventures are sometimes interested in public offerings and therefore rural access to venture capital can be important for a few rapidly growing firms. However in general, most rural ventures do not meet venture capital criteria. Venture capitalists are looking for high returns and exit strategies.

Rural entrepreneurial projects typically experience slower growth in returns and there often is a preference for locally owned ventures. There can be gaps in both equity capital and debt capital for rural entrepreneurs. Most rural banks do not provide loans for micro-enterprise entrepreneurs or small business startup loans of less than $35,000 to $50,000, particularly if the enterprise lacks collateral or represents an industry that is not familiar to local banking expertise

Iowa Department of Economic Development has experimented with formation of 10-17 local community seed capital funds, each with a goal of raising more than $1 million in local equity. It is important that these local funds be linked to larger funds so that they can participate in investing in local and regional projects as well as access due diligence expertise to build local due diligence capacity. The Community Vitality Center and ISU Extension has suggested a concept of developing five or more regional rural venture capital funds. If ISUE were to initiate such an endeavor, the regional seed capital funds would seek a collaborative approach to involve a broader set of rural and urban investors and collaborations with community colleges and ISU research and technology centers so as to facilitate transfer of technology and growth of existing firms as well as new entrepreneurial projects.

I can not speak about availability of capital in the minority and ethnic community, but have heard from people who work those areas that there certainly is lacking the skill sets to develop viable feasibility and marketing plans.

Programs such as the Cooperative Development Centers, funded through USDA Rural Development have funded centers who provide individuals to work with populations to develop viable businesses that can secure credit. However, the funding for this program is minimal (about 6 million/year for the entire U.S.) and the program does not fund Centers for more than one year, so continuity of both the staff and services that can be provided varies depending on which centers were funded.

A number of ISU Extension Centers, including the Leopold Center for Sustainable Agriculture, Community Vitality Center, and ISU Extension Value Added Program have jointly organized a project with the Iowa Bankers Association, Iowa Area Development Group, Iowa Community Development Financial Institutions, Ag Ventures Alliance and other technical assistance providers to survey rural entrepreneurs, Iowa bankers, and revolving loan fund managers to identify the potential gaps that may exist in debt and equity capital financing for rural entrepreneurs and small business startups. This is important particularly in Iowa because according to the latest SBA statistics, a majority of Iowa's new jobs are created by small businesses with less than 20 employees. If small rural startup firms are constrained from success due to lack of access to capital and technical assistance, then Iowa's future rural vitality will be difficult to sustain. The project collaborators have assembled the resources to use the survey information to craft a business plan for targeting and expanding CDFI services in Iowa. Experts from Affiliates of ShoreBank and the national CDFI association will be brought in to assist in designing a business plan that will address the gaps in rural equity and debt capital that are identified.

In considering strategic regional initiatives, how large a geographic area should a regional initiative encompass? What is a reasonable minimum population in a collaborative area? Is there a size, either geographic area or population beyond which a region would be too large for an effective regional development strategy?

As we examine regional economic development strategies that have been successful, we need to review why they have been successful. A common and defined reason or set of objectives is the foremost important in shaping and sustaining a regional development strategy.

A great example of an effective strategic regional initiative is the Southwest Iowa Coalition and Grow Iowa Foundation, which represents a collaboration among a wide range of groups from 22 counties in Southwest Iowa. This coalition includes local and and regional extension staff, economic developers, Resource Conservation & Development Districts, local bankers, community colleges, councils of government, agency representatives, and others.

Other groups such as the Community Vitality Center (CVC) and Illinois Institute for Rural Affairs have a mission of effectively serving limited numbers of strategic initiatives for all rural counties in their respective states.

The effectiveness of a strategic initiative depends on the nature and function of the initiative. By nature, tourism is a regional function because people travel through a region to get to a destination or multiple destinations and they like to eat, sleep, and shop along the way. CVC surveys suggest that entrepreneurship is a local community function that should be linked to regional networks when gaps exist in local capacity. Day care is primarily a local function because people want small children to be near where they work, however it may be a strategic regional function to assure that day care exists in all local communities. Transportation is a regional function that involves communities along specific highways, rails, pipelines, telecommunication networks, utility networks, and multi-modal infrastructure. Donors prefer to donate to their hometown or local community rather than to counties or regions, therefore if these mechanisms are organized regionally, they must be available locally and have a local feel and direction.

Another project we have facilitated included nine counties in North Central Iowa. However, as the project has developed, natural subsets or projects emerged and the thing rationalizes itself. Flexibility in planning is crucial. Here again, it is the process that matters and the action plans will reveal themselves.

Questions from Ken Salazar

Create more and simpler programs for the creation of farmer-owned cooperatives
More accessible loan and grant programs
More funding for rural development programs and technical assistance. Do you have any thoughts on those common sense recommendations?

Funding that helps identify mentors and defray some of their expenses is one thought. As you suggested these are common sense recommendations. More technical assistance with a longer time frame is necessary. Better qualified plans and applicants who have received assistance, coaching and mentoring will help to ensure more successful businesses. Most loan and grant programs without good viable business plans will be money wasted.

Response to Senator Salazar's Questions

Comment regarding constituents' request for more funding for Rural Development.

The only practical way for the farm bill to elevate the federal investment in the future of rural America is to increase the commitment of mandatory funding to rural development. Discretionary funding is squeezed tighter every year.

There is one way to shift money to rural development while making farm programs more effective in strengthening family farms: close payment limitations loopholes. A payment cap that cuts farm program costs by three percent would free-up sufficient funds for:

1) ***The Rural Entrepreneur and Microenterprise Assistance Program***, which Senator Salazar is cosponsoring, at $50 million annually to provide grants to organizations to provide training, technical assistance and loans to rural microentrepreneurs;
2) ***The Value Added Producer Grants Program*** at $60 million annually, over three times the funding level in most recent years;
3) ***The Entrepreneurship Education Program*** at $50 million annually to provide grants to four-year and community colleges, extension services, non-profit organizations and primary and secondary schools to provide entrepreneurship education to rural Americans;
4) ***The Beginning Farmer and Rancher Development Program*** at $30 million to provide grants to collaborative networks and partnerships to support training, mentoring, linking, education, and planning activities to assist beginning farmers and ranchers; and
5) $50 million in federal matching funds for ***Individual Homestead Accounts***, savings account established by low and moderate income rural people for use only to start farms and businesses, buy homes or obtain education.

Closing payment limitations loopholes would strengthen, not hurt, small and mid size farms. The single most effective thing Congress could do to strengthen family farms is to stop subsidizing mega farms to drive their neighbors out of business. In theory payments are limited to $360,000. But even that overly generous limit is a loophole ridden farce.

In reality there is no limit. Large, aggressively expanding operations get bigger federal checks for every acre they add. As a result, farm programs subsidize mega farms to drive small and mid size farms out of business by bidding land away from them. Without effective payment limitations, farm programs have the opposite of the intended effect – to undermine rather than enhance opportunity for hard-working family farmers.

Farmers understand this. A recent 27 state poll of farmers and ranchers by the Extension Service and Farm foundation revealed that the one change farmers across the nation want most in federal farm programs is to reduce payments to mega farms.

How to simplify Programs for the creation of farmer owned cooperatives

The most important program for creation of farmer owned cooperative programs is the Value Added Producer Grants Program.

We have proposed detailed legislative language to simply the application process and make it more user friendly by authorizing a separate, less complex application procedure for smaller grants. In addition, our proposal would require USDA to publish an eligibility assessment handbook for applicants. That would help prevent good projects from being denied on technicalities and greatly lower frustration with the program. In addition, we propose the following improvements in the Value Add Program:

- Commit $60 million annually in mandatory funding.
- Establish an explicit statutory priority on proposals that increase the profitability and viability of small- and medium-sized farms and ranches and encourage protection of natural resources. The 2002 farm bill included a statement of intent that such projects be prioritized. But USDA has never implemented that priority. We analyzed the 2001 and 2002 grants awarded under the Program. Over 40% of the funds went to projects that we gave a grade of "F" for relevance to small and mid size farms.
- Set-aside 10-15 percent of program funding for projects concerning beginning and socially disadvantaged farmers and ranchers. Few of the projects funded by the Program to date have included significant participation by new or minority farmers.
- Allow a small portion of the funds to be used for innovative strategies to strengthen mid size farms other than value added agriculture. For example, a group of mid-size Iowa farmers is exploring creation of a cooperative to share ownership of the most expensive equipment and thereby lower machinery costs to competitive levels. But it takes legal work and research to launch such initiatives. A limit portion of the grants awarded through the Value Added Producer Grants Program should be available to support other innovative strategies to strengthen mid-size farms.
- Direct outreach to states with little or low participation in the program and set-aside a portion of total funding for grants to non-profit and educational organizations to provide technical assistance for grant proposals, especially in low participation areas.

Response to Senator Harkin's Questions

1) What more should the federal government do to support community foundations?

I recommend that the farm bill provide matching grants to communities for the purpose of promoting and cultivating gifts to community foundations/funds. That should be an integral part of your proposed Rural Collaborative Investment Program.

Second, the Finance Committee should consider creation of a tax credit for contributions to endowments that support community development. Montana passed pioneering state legislation in this regard several years ago, that has since been replicated in Nebraska (Endow Nebraska) and some other states.

2) Should USDA give credit in funding allocations to communities where community foundations are contributing matching funds?

In general, it is good to require some hard cash match for grants. When communities have some skin in the game, they have more ownership in the projects undertaken with federal funding. They have more commitment. But I think equal credit should be given for match provided from city budgets and other community source. Match from the city budget can signal as great a commitment as match from a community foundation.

Also, care must be taken to not disadvantage limited resource communities. Some communities have very little money and few people with capacity to contribute. A small match from a limited resource community should be given equal weight to a large match from a more affluent community.

3) Thoughts on microenterprise programs that include loan funds versus those that only train, provide technical assistance and help prepare clients to apply to commercial lenders.

Those two options are not mutually exclusive. The Rural Enterprise Assistance Program, which we operate, uses both approaches. In most years, we help clients secure nearly twice the funds from other lenders as we lend ourselves. We provide all the services provided by the Institute for Social and Economic Development, including assisting clients in preparing business plans for loan applications to commercial lenders.

But we also make loans to clients who cannot get them from private lenders. In fact our loans are available only to clients who cannot obtain commercial financing and still our loan loss rate is no higher than most commercial lenders.

So in my judgment, the ideal program is a full service program that provides training, technical assistance, and for those who cannot obtain commercial lending, loans. Programs like those of the Institute for Social and Economic Development are valuable programs. I just think the addition of a loan option adds some additional value.

4) How should regional collaboration be encouraged and who should be at the table.

Non profits, local governments, businesses and other community leaders and organizations should all be invited to the table.

The most effective regional collaboration is that which involves the rank and file folks who will go back to each community and make things happen. To the extent regional collaborations involves only agency people and maybe a representative of the city council in each community it is hard to translate it into something that changes what actually happens in the community.

In establishing regional collaborations, I would recommend that one step of the process be local leadership development seminars where everyone interested in being involved can get engaged, get informed and hone their leadership skills. That process should then feed citizen leaders into the collaboration who can bring regional initiatives back home and put them to work on the ground.

5) The Importance of Venture Capital

Lack of venture capital is in some instances an impediment. *But I do not believe it is the most critical impediment in most very rural places.* I suspect it is much more of an impediment in larger growth centers.

Venture capital is typically searching for high growth companies with the potential for very significance scale and very high rates of return. We work primarily, though not exclusively, in towns of fewer than 5,000 people. In those towns, you don't find many of those opportunities.

The greater potential for our smaller communities would be to encourage people with assets to form investment clubs for equity investments in small start-up businesses that can contribute to the community. These investments clubs should be formed, not with the expectation of returns of over 20 percent like most venture capital funds, but rather with the goal of preserving capital while making a commitment to the community. That would be helpful in the small towns in which we work.

6) What should be the geographic area for regional initiatives?

There is no one size fits all answer. Federal programs should be flexible and responsive to fit the capacity and preparedness of people and communities. Communities with economic development staff and ongoing programs may be ready to move into regional collaboratives encompassing over 25,000 people.

But many limited resource small towns would benefit more by entering a collaboration with a handful of neighboring small towns that encompass a population of between 5,000 and 10,000. Many small towns are not ready to be part of larger regional collaborations. They do not the staff, expertise or leaders to participate and engage their community in larger regional initiatives.

That is why I propose a two tier approach to your Rural Collaborative Investment Program. Provide for participation at a lower tier for small collaborations of limited resource communities – involving at least five units of government and 5,000 people. Provide smaller grants up to $150,000 for entrepreneurship, leadership development, youth engagement, community philanthropy and developing environmental, cultural and heritage assets to improve quality of life and attract residents.

A small grant option may be of more value to small, limited resources communities than being part of a larger and better funded regional imitative. If communities don't have the capacity to be meaningful participants in larger collaborations, they will gain little from them.