HEARING TO IDENTIFY DUPLICATIVE FEDERAL RURAL DEVELOPMENT PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT, RESEARCH, BIOTECHNOLOGY, AND FOREIGN AGRICULTURE

OF THE

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HOUSE OF REPRESENTATIVES

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WITNESSES

HEARING TO IDENTIFY DUPLICATIVE FEDERAL RURAL DEVELOPMENT PROGRAMS

WEDNESDAY, MARCH 21, 2012

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

The Subcommittee met, pursuant to call, at 10:10 a.m., in Room 1300 of the Longworth House Office Building, Hon. Timothy V. Johnson [Chairman of the Subcommittee] presiding.

Members present: Representatives Johnson, Scott, Hultgren, Hartzler, Costa, and McIntyre.

Staff present: Mike Dunlap, Tamara Hinton, DaNita Murray, Lauren Sturgeon, Wyatt Swinford, Heather Vaughan, Suzanne Watson, Andy Baker, Liz Friedlander, John Konya, Jamie Mitchell, and Caleb Crosswhite.

OPENING STATEMENT OF HON. TIMOTHY V. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM ILLINOIS

The CHAIRMAN. The Subcommittee on Rural Development, Research, Biotechnology, and Foreign Agriculture hearing to identify duplicative Federal rural development programs, will come to order. Thank you all for being here today and welcome.

Today, we are discussing government efficiency, which, because of our limited resources, is more important now than ever. We must find ways to deliver more effective programs using fewer resources. This is particularly important to our rural communities. Previously, this Subcommittee has called attention to the fragmentation of the government's efforts to address economic development in rural areas. With at least 16 Federal agencies which operate over 88 programs designed to benefit small communities across the country, it is incumbent on Congress to ensure these efforts are implemented in a coordinated fashion.

This Subcommittee has spent a great deal of time reviewing whether the purpose and goals of agriculture programs in our jurisdiction are being met. Those hearings served to inform the Committee about how scarce resources are being utilized and where opportunities exist to streamline and improve rural development programs. Previous efforts by the current Administration, such as the 2010 Memorandum of Understanding Between USDA and SBA are in acknowledgement of the unorganized approach to rural development we face today.

The recently convened White House Rural Council is another indicator that the Administration recognized that our agencies need to coordinate better among themselves. However, none of these efforts by themselves have been a catalyst for permanent change. The efforts put forth so far have been insufficient to address the concerns about duplicative efforts and the lack of coordination among agencies, which have the authority to provide assistance to rural America. Stakeholders across the country have shared burdens about the confusing array of agencies and programs, as well as an overly burdensome application process, which puts assistance out of reach for small communities which might need it the most.

Following Congressional direction, the GAO, Government Accountability Office, has taken an extensive look at some of these issues and will present their initial findings here today. So I hope that their reports and continuing work will serve to advance this discussion and provide additional insight on how our agencies are or aren't working.

We also look forward to testimony by USDA to hear more about their efforts to administer their programs we are reviewing. In particular, I hope that additional insight will be provided into how the Administration is making tangible changes to the way scarce resources are made more accessible and how USDA is leveraging smaller budgets to benefit more communities in a tight fiscal environment.

We appreciate the work our witnesses put in to preparing their testimony and look forward to an in-depth discussion.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF HON. TIMOTHY V. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM ILLINOIS

Thank you all for being here today, and welcome.

Today we are discussing government efficiency, which—because of our limited resources—is more important now than ever. We must find ways to deliver more effective programs using fewer resources.

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This Subcommittee has spent a great deal of time reviewing whether the purpose and goals of agricultural programs under our jurisdiction are being met. Those hearings served to inform the Committee about how scarce resources are being utilized and where opportunities exist to streamline and improve rural development programs.

Previous efforts by the current Administration, such the 2010 Memorandum of Understanding between the USDA and the Small Business Administration, are an acknowledgement of the unorganized approach to rural development we face today. The recently convened White House Rural Council is another indicator that the Administration recognizes that our agencies need to coordinate better among themselves. However, none of these efforts in themselves have been a catalyst for lasting change.

The efforts put forth so far have been insufficient to address the concerns about duplicative efforts and the lack of coordination among agencies which have the authority to provide assistance to rural America. Stakeholders across the country have shared concerns about the confusing array of agencies and programs, as well as an overly burdensome application process which puts assistance out of reach for small communities which might need it most.

Following Congressional direction, the Government Accountability Office has taken an extensive look at some of these issues, and will present their initial findings here today. It is our hope that their reports and continuing work will serve to advance this discussion and provide additional insight on how our agencies are—and are not—working together.

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We appreciate the work our witnesses put into preparing their testimony for this morning and look forward to an in-depth discussion.

The CHAIRMAN. I would like to recognize my friend and Ranking Member, the gentleman from California, Mr. Costa.

OPENING STATEMENT OF HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. COSTA. Thank you very much, Mr. Chairman, for holding this hearing. I think it is important for the Subcommittee to always exercise its role in appropriate oversight, and we are pleased that we have today here the Government Accountability Office, the GAO, to provide us with information on recommendations that we can go further with as well as with the United States Department of Agriculture's Rural Development Programs. And their input, obviously, is always well taken.

I look forward to hearing from the testimony.

Rural America faces challenges. I am always a little bit hesitant to use the word unique because it is oftentimes an overused word. But they have challenges that we don't have in urban America. And because of the population disparities in our country today, oftentimes our rural elements in our country get overlooked. And that is one of the important efforts that this Subcommittee needs to deal with.

The USDA Rural Development has—the United States Department of Agriculture—over 500 offices. Whether those offices all are necessary today is a valid question, but they do, I know because of my own personal experience, provide help to rural communities for businesses, as well as entrepreneurs, to deal with economic developments, especially as things change. For example, in many areas we don't have access to high-speed Internet, it is dial-up. And yet for these companies to compete effectively they have to have the same sort of access in a global economy to deal with their products that they are pursuing.

So it is important for this Subcommittee to look at programs that may be duplicative. But we need to ensure that what may appear on paper as duplicative in practice is in fact not duplicative. And if it is, then we should address it.

Take, for example, the United States Department of Agriculture's Value-Added Producer Grant Program, identified as potentially duplicative in the GAO's report. These grants I know from personal experiences help agricultural producers and cooperatives provide market value-added efforts to the products they produce on a host of efforts. In 2011, the Blue Diamond growers in California—you are probably familiar with the almonds that they produce, one of the largest cooperatives in California and maybe in the country—provided a grant to help them launch its first retail products in France. We know that it is not always a level playing field when we are talking about trade throughout the world. It was very helpful to helping Blue Diamond market their products in Europe.

In my Congressional District as well, the Rosa Brothers have a milk company in Hanford, California. They received a grant to help them offer delivery of locally produced dairy products. Congress created these programs in 2000 on a bipartisan basis. They looked at it again in 2002 and in the 2008 Farm Bills to address areas where other Federal agencies were not. I am not aware of other Federal economic development programs that focus in this area on agricultural efforts and products that we can compete with globally if we have a level playing field.

So when we consider the rural development, economic development programs, I think we should also keep in mind and look at it closely as a Subcommittee. Mr. Chairman, the President's proposal in January to combine Federal Government's business and trade agencies. I think this has merit and we ought to look at it. This is a combination of agencies that is an area where we can get better bang for our buck.

Among the departments and agencies targeted for consolidation are the Department of Commerce and the Small Business Administration. This proposal could go a long way towards address concerns of overlapping Federal economic development programs. That is not to say that there aren't other areas that we can look at streamlining on rural development programs, as we are going to look at today and as we will hear from the witnesses. One of the ways this Subcommittee can help minimize the overlap of USDA's economic development programs with those administered by other agencies is to ensure—and we have talked about this, Mr. Chairman—that the definitions of *rural* are flexible enough to meet the demands in rural America, because we know in many counties across the country—whether it is in Illinois or whether it is in Kansas or whether it is in California or any other state in the Union—that we may have an urban center within a very rural county and they fall off the definition of what is defined by *rural*.

On February 15 in 2011 and September 13 in 2011, our Subcommittee held hearings in which the USDA witnesses were asked by Members on this Committee, in a bipartisan basis, about the status of the report on rural definitions that the USDA was required in the 2008 Farm Bill that was produced in June 2010. And obviously, we were frustrated that the report had not been submitted given that the report could be one of the most helpful tools in figuring out how we target our efforts for rural development. Although they have given us responses, I am not optimistic that the report will be provided before the time that we try to reauthorize the 2012 Farm Bill. I don't still to this day understand why it is so difficult to provide this report.

Since we are examining the USDA's economic development programs, I want to take a minute just to talk about an effort in California that can and should serve as a model for the agencies across the country. We have heard from farmers and ranchers and businesses throughout rural communities that the challenges they face in accessing capital—probably more than any other single factor—is what has hit hardest in these past few years—access to capital during tough economic times.

In California, the United States Department of Agriculture's Rural Development established the California Financial Opportunities Roundtable. The California Opportunities Roundtable participants include not only the Federal entities that include the Small Business Administration, the Federal Reserve Bank in San Francisco, and many other private businesses and state agencies. This innovative capital access project uses impact investing to drive growth in rural communities across California, while achieving financial returns for the investors at the same time. I want to say that we ought to look at reauthorizing in the farm bill the work that the USDA Rural Development has done in California, which serves, potentially, as a model for the rest of the country with limited Federal resources.

Finally, I want to thank the Chairman again and our witnesses today for working with all of us on the Subcommittee to ensure that we get the most effective use of the Federal tax dollars in rural development programs to meet the needs of rural America.

I yield back my time.

The CHAIRMAN. Thank you, Mr. Costa.

I would also like to note that Mr. McIntyre is not a Member of the Subcommittee. He has joined us and in consultation with Mr. Costa we have agreed and we are pleased to have you here joining us today. The chair would like to request that other Members submit their opening statements for the record so the witnesses may begin their testimony and to ensure that there is ample time for questions.

[The prepared statement of Mr. McIntyre follows:]

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

Thank you Chairman Johnson and Ranking Member Costa for allowing me to join this hearing today to discuss rural development and the government's modest role in promoting jobs and growth in rural America. Having grown up in Robeson County, a poor and rural county in southeastern North Carolina, I am keenly aware of the problems facing rural citizens and am particularly interested in the topics that we will discuss today.

Citizens in rural places experience great difficulty in accessing the infrastructure and amenities that are available in our urban centers. The modern economy requires that businesses be able to access broadband services to connect to the global marketplace, three phase electric power to run industrial equipment, and clean water to support communities that supply the labor and skills needed for commerce. If we are to take seriously our obligation to serve all of the citizens of this great country, we must not solely cast our views at the problems facing the population centers in the cities and suburbs. Rural Americans deserve the attention of their government and need an agency that directly focuses on addressing rural problems.

We are here today to discuss potential duplicative government programs in Rural Development. The Rural Development Mission Area at the United States Department of Agriculture is comprised of three agencies—the Rural Utilities Service, the Rural Housing Service, and the Rural Business-Cooperative Service. Each of these agencies is tasked with the challenge of addressing specific concerns in the rural economy. Those that work at USDA Rural Development live in the communities that they serve and are intimately aware of what rural means and what needs to be done to ensure that rural America remains a place that families choose to live and businesses are able to grow. While it is clear that these three agencies espouse similar goals as other government programs housed in different agencies throughout the government, the reality is that USDA is the only government agency with the reach to provide the service and expertise that is needed to serve rural America. To take any responsibility away from USDA in the areas of infrastructure investment, housing, or business development would be a great disservice to rural residents, not just in North Carolina but throughout the country.

The costs associated with bringing needed services to rural America can be high. Utility companies and telecommunications providers must incur higher capital costs to make the investments necessary to provide services to rural Americans on par with those that we take for granted in urban centers, but rural communities and businesses have continually shown us that they can and will responsibly take on these investments when financing for such endeavors is available.

The United States Department of Agriculture has been at the center of the effort in addressing rural economic challenges. This effort began in the last century with rural electrification. After the passage of Norris-Rayburn Act in 1936, the Rural Electric Administration was funded to provide loans to private companies, public agencies, and cooperatives for the construction of electrical supply infrastructure in rural parts of the country.[1–2] Prior to the REA, only three percent of the 6.3 million farms in the United States received electricity.[3] Within 2 years of the establishment of the Rural Electric Administration, 350 cooperative projects in 45 states were delivering electricity to 1.5 million farms.[4] Today, all rural residents are able to access power and nearly 98 percent are connected to telephone services.[5] The successes of our rural electric and telephone systems did not happen without leadership, vision and partnership between the public, nonprofit, and private sectors.

The challenges of investing in rural infrastructure are not a thing of the past. We face many of the same difficulties today. In my district in southeastern North Carolina, many communities in rural parts of Columbus, Bladen and Pender County are unable to access fast and reliable Internet and must instead rely upon expensive and inefficient satellite Internet connections to access the web. Telecommunication providers are not eager to invest in the rural market to provide broadband due to high network construction costs and the relatively few subscribers that the connection would provide. To help bridge this divide, the Rural Utilities Service offers grants, low interest loans and loan guarantees to companies that take the lead to make investments in rural broadband. This is exactly the type of high value, high return investment that the Federal Government should make to empower private sector growth and rural economic opportunity, and I will continue to work with USDA and stakeholders back home to do the work that needs to be done to ensure a vibrant and dynamic rural economy.

I am looking forward to hearing testimony from the panel before this Subcommittee and thank the chair for holding today's hearing.

The CHAIRMAN. So with those preliminary comments and my thanks to everybody for being here, the witnesses, let me introduce our first panel, who is actually one witness, Mr. Dallas Tonsager, Under Secretary for Rural Development, USDA, Washington, D.C. Just proceed when you are ready.

STATEMENT OF HON. DALLAS P. TONSAGER, UNDER SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. TONSAGER. I am pleased to have this opportunity to discuss the important role USDA Rural Development plays in the economic development of our nation's rural communities.

Through the Consolidated Farm and Rural Development Act of 1972, Congress charged USDA with leading the Federal Government's effort to ensure a prosperous rural America and declared this task "so essential to the peace, prosperity, and welfare of all

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[1] Dow, E.F. "Federal Administration of Rural Electrification." *The American Political Science Review* 31.6 (1937): 1107–112. Print.

[2] Malone, Laurence J. "The Origins of the New Deal Rural Electrification Initiative: Market Failure in Delivering Electricity to Rural Areas Before 1930." *Economic History Association.* March 18, 2012. *http://eh.net/encyclopedia/article/malone.electrification.administration.rural*.

[3] Beall, Robert T. (1940). "Rural Electrification." *United States Yearbook of Agriculture.* Washington, D.C.: United States Department of Agriculture. p. 790–809. Retrieved December 30, 2008. *http://naldc.nal.usda.gov/download/IND43893747/PDF*.

[4] Schurr, Sam H., Calvin C. Burwell, Warren D. Devine, and Sidney Sonenblum. *Electricity in the American Economy: Agent of Technological Progress.* Westport, CT: CONTRIBUTIONS IN ECONOMICS AND ECONOMIC HISTORY, Number 117, Greenwood Press, 1990.

[5] Malone, Laurence J. "The Origins of the New Deal Rural Electrification Initiative: Market Failure in Delivering Electricity to Rural Areas Before 1930." *Economic History Association.* March 18, 2012. *http://eh.net/encyclopedia/article/malone.electrification.administration.rural*.

our citizens that the highest priority must be given to the revitalization and development of rural areas."

Secretary Vilsack and I care deeply about rural America. Over the last 3 years, thanks to resources made available by Congress, we have made historic investments designed to form the foundation of a rural economy that is built to last. And under the Secretary's leadership through the White House Rural Council, USDA has worked closely with partners across the Federal family to leverage resources that maximize benefits for rural communities.

As the only department with the primary responsibility of serving rural areas, the presence of USDA field offices in every state helps us serve that specific need of rural communities. Our direct personal contact with these communities creates efficiencies in our program delivery, and the employees who deliver our programs possess expert knowledge of the challenges and opportunities in these communities.

Rural Development appreciates the ongoing efforts of the U.S. Government Accountability Office to identify potential overlap in Federal programs, and we take pride in our uniquely rural focus and our local program delivery model, which differentiates rural development from other Federal agencies.

Rural Development's utility programs enable communities to maintain and upgrade critical rural infrastructure that often carries a high price tag. Our electric and telecommunication programs are the only Federal programs that finance the construction of electric and telecom networks from the beginning to end. Our Water and Environmental Program is the only Federal program that lends directly to communities, particularly very small communities. In order to obtain financing from us, water and sewer authorities must demonstrate they have been unsuccessful in obtaining financing elsewhere.

Rural Development has been responsive to GAO recommendations to increase coordination of Federal programs, water funding systems in the Colonias along the U.S.-Mexican border. In addition, Rural Development recently proposed a modification to our Colonias regulation that would allow us to better target resources to the areas with the highest level of need.

Rural Development business and cooperative programs provide invaluable assistance to rural, small, and mid-sized businesses. Our Business and Industry Program is the only Federal guarantee program that offers a maximum guarantee of up to $40 million and specifically targets agricultural cooperative businesses. In response to the GAO recommendations, Rural Development has significantly enhanced its collaboration with the Small Business Administration that began by signing an MOU with SBA in 2010.

Our housing programs ensure low and very low-income families throughout rural America have access to safe, decent, and affordable housing. Our Direct Home Loan Program is the only means-tested loan program to directly finance the purchase of homes in rural areas. In addition, communities interested in approving any central community facilities like schools, libraries, hospitals, and public safety buildings can walk into a local Rural Development office to work directly with our knowledgeable employees to apply for funding.

In order to continue to serve rural America, we recognize a need to reposition our agency for the 21st century. To that end, we have proposed continual process improvements to ensure that our agency operates in a responsible stewardship of the taxpayers' dollars. Since 2004, Rural Development's portfolio has doubled and now stands at $165 billion. I am pleased to report that the principal dollars delinquent more than 1 year remains at approximately two percent. Such results are the product of consistent and proactive servicing of the loan portfolio and working with trusted borrowers to restructure their loans and avoid foreclosures.

Improvements to our IT infrastructure remain a central part of our strategy to manage a growing portfolio with reduced resources. Employees need to be able to complete their mission anytime and anywhere to support our customers. Rural Development's innovative work with multi-county regions is an important support mechanism for building an American economy that is built to last. USDA is collaborating with the departments across the Federal Government to support rural communities and are working in multi-county coalitions that foster economic development on a regional scale.

I appreciate the opportunity to work with Members of the Subcommittee to build a foundation for American competitiveness. Thank you for your support of these programs, and at this time, I would be happy to take your questions.

[The prepared statement of Mr. Tonsager follows:]

PREPARED STATEMENT OF HON. DALLAS P. TONSAGER, UNDER SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, I am pleased to have this opportunity to discuss the important role USDA Rural Development plays in the economic development of our nation's rural communities.

I am proud to represent agencies that are working tirelessly to realize the President's vision for America: "a country that leads the world in educating its people; an America that attracts a new generation of high-tech manufacturing and high-paying jobs; a future where we're in control of our own energy; and our security and prosperity aren't tied to unstable parts of the world. An economy built to last, where hard work pays off and responsibility is rewarded." Undoubtedly, USDA Rural Development (RD) has a key role to play in this effort, for the continued revitalization of our American economy will depend upon a prosperous rural America.

Through the Consolidated Farm and Rural Development Act of 1972 (Con Act), Congress charged USDA with leading the Federal Government's efforts to ensure a prosperous rural America and declared this task "so essential to the peace, prosperity, and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas." Today, Rural Development is responsible for implementing a suite of programs with the sole mission of improving the quality of life and economic condition of rural communities.

Secretary Vilsack and I care deeply about rural communities. Over the last 3 years, thanks to resources made available in the 2008 Farm Bill and the 2009 American Recovery and Reinvestment Act, we've made historic investments in rural America designed to drive job growth and form the foundation of a rural economy that is built to last. We want to build a better future for the men and women who live, work and raise their families in rural communities—and to extend the promise of middle class jobs where hard work pays off and responsibility is rewarded.

And as you know, rural America has unique challenges and assets. Rural communities are characterized by their isolation from population centers and product markets and benefit most from initiatives that integrate local institutions and businesses with state and Federal agencies that have intimate knowledge of their local needs. Delivering effective programs to rural America, which comprises over 75 percent of the total land mass of the United States, is a continual challenge.

As the only Federal Department with the primary responsibility of serving rural areas, the presence of USDA field offices in every state helps us serve the specific needs of local rural communities. Our direct personal contact with these communities creates efficiencies in program delivery in that one phone call to USDA Rural Development allows local elected officials to identify resources for a wide range of community and economic development activities. Our partnerships with public and private institutions allow us to fund local and regional business development, expand infrastructure and provide access to affordable, long-term credit in rural areas. The employees who deliver Rural Development's suite of programs work alongside farmers, ranchers, homeowners, schools, businesses, nonprofits, cooperatives, tribes and local governments to strengthen local economies. They are members of the communities they serve and possess expert knowledge of the economic challenges and opportunities that exist in their particular regions.

In 2011 alone, Rural Development allocated almost $29 billion nationwide to upgrade community facilities like schools and hospitals, boost the reliability of the electric grid, fund renewable energy projects, provide affordable and reliable Internet access and create homeownership opportunities for more than 140,000 families. Since 2009, Rural Development has provided homeownership opportunities to more than 435,000 families. Sixty-three percent of 2011 funding supported loan guarantees that enabled private lenders to safely increase the pool of capital available in rural areas for credit-worthy businesses, communities, and homebuyers. About 34 percent of our investments were secure, affordable direct loans that will be paid back with interest.

Rural Development appreciates the ongoing efforts of the U.S. Government Accountability Office (GAO) to identify potential overlap in Federal programs, and we take pride in our uniquely rural focus and our local program delivery model which serves to differentiate Rural Development from other Federal agencies. Our direct personal contact between agency personnel, lenders, borrowers, communities, families and individuals is invaluable and provides in-person technical assistance that would otherwise be unavailable.

Rural Development's utility programs enable communities to maintain and upgrade critical rural infrastructure which often carries a very high price tag. Our Electric and Telecommunications programs are the only Federal programs that finance the construction of electric and telecom networks from beginning to end. Our Water and Environmental program is the only Federal program that directly lends and provides grants to communities, particularly very small communities. In order to obtain financing from us, water and sewer authorities must demonstrate they have been unsuccessful in obtaining financing elsewhere.

In GAO–10–126, GAO examined numerous Federal programs, including USDA Rural Development, the Environmental Protection Agency (EPA), the Department of Housing and Urban Development (HUD), and the Economic Development Administration (EDA), that provide assistance to rural communities along the U.S.-Mexico border, or Colonias, for drinking water and wastewater projects. In that report, GAO suggested that "Congress consider requiring Federal agencies to develop a coordinated plan to improve the effectiveness of drinking water and wastewater programs in the border region and recommends that the agencies take steps to comply with statutory and regulatory requirements."

USDA Rural Development is committed to coordinating with other funding agencies at the Federal, state, and local level where possible to meet the needs of rural communities across the country, particularly the high-need Colonias areas along the U.S.-Mexico border. In addition, Rural Development disagreed with GAO's assertion that we did not comply with the existing statute related to Colonias water and wastewater funding. We are pleased to report that on Friday, March 9, 2012, Rural Development released a proposed modification to our Colonias regulation which allows for additional priority points to Colonias areas that are un-served and that are facing significant health risks. Rural Development will continue our work to improve our program delivery to ensure that our country's neediest areas receive funding.

Rural Development's business and cooperative programs provide valuable assistance to rural small and mid-size businesses and cooperatives. No other Federal program provides funding for similar purposes to cooperatives and majority-controlled producer-based business ventures in rural communities. Our Business and Industry program is the only Federal guaranteed loan program that specifically targets agricultural cooperative businesses and is available to nonprofits as well as for-profit entities.

In GAO–11–318SP, GAO examined overlap and fragmentation among Federal economic development programs, including USDA Rural Development's business programs, the Small Business Administration's 8(a) program, and HUD's Hispanic Serving Institutions Assisting Communities program. In its assessment, GAO recommended that the Federal agencies need to pursue enhanced collaboration across the programs. Additionally, GAO requested that the agencies “collect accurate and complete data on program outcomes and use the information to assess each program’s effectiveness.”

To enhance inter-agency collaboration on economic development, USDA Rural Development signed a Memorandum of Understanding (MOU) with the Small Business Administration (SBA) in April 2010 to improve service delivery to small businesses in under-served rural areas. Under the MOU, the agencies agreed to advise potential borrowers of the other agency’s programs, to make each agency’s programs more complementary, and to develop joint training seminars on each agency’s programs. More recently, SBA and USDA are holding a series of joint roundtables across the country focused on increasing investment in rural communities. The meetings have presented opportunities to hear from stakeholders of both agencies about the challenges and benefits of investing in rural America. With regard to data collection, Rural Development’s Rural Business Service has commenced a series of trainings to improve the collection and maintenance of data related to program performance measures and to improve data integrity. The agency evaluates program performance based on jobs created/saved; businesses assisted; and kilowatt hours of electricity generated/saved. Additionally, the agency uses Customer Service Scores to evaluate program effectiveness and satisfaction.

Housing drives rural economies and supports healthy rural communities. Rural Development housing programs ensure low and very-low income families throughout rural America have access to safe, decent and affordable housing. Our direct home loan program is the only means tested mortgage loan program to directly finance the purchase of homes in rural areas. Rural communities interested in building or upgrading essential community facilities, like schools, libraries, hospitals and public safety buildings, can walk into a local RD office to work directly with our knowledgeable employees to apply for funding.

We at Rural Development take our mission of serving rural America very seriously, and we have long recognized the responsibility we share with the rest of the Federal Government to reduce the burden on future generations created by recurring budget deficits. In order to continue to serve rural America, we recognize a need to reposition our agency for the 21st century. To that end, we have pursued continual process improvements to ensure that our agency operates as a responsible steward of taxpayer dollars. Since 2004, Rural Development’s portfolio has doubled, and now stands at $165 billion. Today, I am pleased to report that the principal dollars delinquent more than 1 year remains at approximately two percent of the principal.

Such results are the product of consistent and proactive servicing of the loan portfolio and working with trusted borrowers to restructure their loans and avoid foreclosure. Rural Development also has a longstanding record of streamlining its programs, which has consistently provided the mission area with the ability to successfully implement new programs and to meet increased demand for financing in multiple industry sectors with an unprecedented level of funding, even as staff levels steadily decreased.

Efficiencies

Looking to the future, Rural Development is in step with the Department of Agriculture’s broader efforts to improve the reliability and efficiency of the services we provide. In January, Secretary Vilsack unveiled USDA’s “Blueprint for Stronger Service”. Under this initiative, the Department identified 379 recommendations for improving USDA’s office support and operations, which includes ways to streamline the provision of administrative services, such as civil rights, information technology, finance, human resources, homeland security, procurement, and property management. To realize further efficiencies, USDA has proposed closure of 259 domestic offices, facilities and labs across the country, as well as seven foreign offices, while ensuring that the vital services they provide are not diminished. Rural Development alone plans to close 43 offices. In some cases, offices are no longer staffed and many are within 20 miles of other USDA offices. In other cases, technology improvements, advanced service centers, and broadband service have reduced some need for brick and mortar facilities.

Rural Development is currently focused on managing these reductions, streamlining our programs wherever possible, and servicing our existing portfolio to maintain its low delinquency rate.

Collaborative Efforts

Rural Development’s innovative work with multi-county regions is an important support mechanism for President Obama’s “Blueprint for America” and building a prosperous American economy that is “Built to Last.” Through a number of efforts, USDA is collaborating with Departments across the Federal Government to support rural communities that are building durable, multi-county coalitions that foster economic development on a regional scale. In addition to providing direct economic benefits, regional collaboration allows rural communities to capitalize on economies of scale in infrastructure and public services, to encourage the development of specialization in industrial sectors that would make them more competitive, and to locate facilities and services where they provide the greatest benefit at the lowest cost. We will continue to partner with other Departments to leverage Federal resources to more effectively support regional economic development efforts.

Conclusion

Rural Development is resolutely pursuing President Obama's vision of an America that leads the way in the development of renewable sources of energy, reinvigorates a sustainable manufacturing industry, and promotes the economic well-being of all Americans. Through our network of local economic development experts across rural America, we support innovators and entrepreneurs, individual families and entire communities. Our presence in the rural communities that we serve, combined with our local knowledge and uniquely rural focus, sets us apart from other Federal programs and helps us maintain our low delinquency rate.

We know these investments will pay dividends for years to come.

I appreciate the opportunity to work with Members of the Subcommittee to build a foundation for American competitiveness. Thank you for your support of Rural Development programs. At this time, I am happy to answer your questions.

The CHAIRMAN. Thank you, Mr. Tonsager.

Let me just start with what I think is probably a self-apparent question, but obviously one of the charges of this Committee will be developing an assessment for how we know how programs succeed or fail or in between and how those evaluations that you make form future decisions. So my question is, right now, how do you evaluate the success of various programs? And how is that evaluation the basis for specifically how those evaluations form future decisions on regulatory changes, applications, and so forth? I think you get the gist of my question.

Mr. TONSAGER. I think the first thing in these kinds of evaluations to remember is this is primarily about individual people and groups of people who have identified within their community something that is needed. In the case of single-family housing borrowers, of course, success is by somebody who has repaid their housing loan and successfully done their housing. For a community that needs a water and sewer system, it is having a successful project that has been well planned, thought out, and meets the needs of that community and they have been able to repay their loans successfully.

So, we begin with that to remember that these are about these communities, thousands of leadership people who have come together to come up with a plan who need resources and want to accomplish a specific task, maybe a hospital. So if we build a hospital or finance a hospital in a community, the hospital is successfully serving that community.

Another, of course, important major is job creation, and we have a couple of processes associated with the measurements of job creation. In some cases, we have a calculation for a formula that has been provided for us where they estimate, for example, the construction of a new home and how many jobs that might be creating.

In our business programs, we have been using a process to estimate the number of jobs created, including local judgment by our staff, and then there are a couple of formulas that we look at the size of the loan. But we are transitioning in that process to getting actual results, and by 2013, we will have actual results on loan-making and the jobs created as the projects are implemented.

The CHAIRMAN. Within your department, I am assuming in any department of the government there is always duplicative programs, which, as you look and see where you can make improvements, what programs do you think stand out as administered in a way and implemented in such a way that they do qualify as duplicative in areas that you would like to see addressed?

Mr. TONSAGER. Sure. We have approximately 42 tools right now that we use to work with rural communities and we like to have it as a one-stop center, of course. But we believe there are a couple areas that we would like to work closely with you. One we have four programs that provide revolving loan funds for businesses and local communities, and we think there would be a lot of sense in being flexible with the programs so we can still serve that broad audience, but we probably don't need four different programs for that purpose, as well as some of our grant programs we believe that could potentially be combined.

So this year, we propose a budget, for example, not to fund the Rural Business Opportunity Grant Program but to put those funds into the Rural Business Enterprise Grant Program. We think that makes a lot of sense. We don't want to diminish anybody's access, but we would like to work with you regarding flexibility in the programs. There may be a reduction in the number of programs that are available for that.

The CHAIRMAN. Last, we will hear in a few minutes GAO's assessments and they have raised a number of issues—do you feel that you have addressed those issues completely or do you think you have some work to do in terms of addressing some of the issues they raise?

Mr. TONSAGER. Oh, we know we have some work to do. I know they have scored us as partially addressing issues. We know we have some progress to make on some of the statements. In some cases, we will disagree with them regarding what is said, but yes, we recognize we need to make some progress.

The CHAIRMAN. With that, then, I would recognize the Ranking Member, Mr. Costa, for questions.

Mr. COSTA. Thank you very much, Mr. Chairman.

I raised the issue in my opening statement and I don't know if you can report to us, but again I find it baffling at this point. In 2008, we required as a part of the reauthorization of the farm bill to work on this rural definition issue, which has been problematic to some of us who represent very rural districts. And I mean for folks this information—I know my Subcommittee Members know this—but I represent the number one agricultural county in the nation, Fresno County, over $6 billion. Kern County I share with another colleague is number three with over $4 billion in farm gate receipts. Yet Fresno is not defined as being rural because it has a large urban city in the center of the county. Why can't we get this report? It is 2012. It is 4 years later.

Mr. TONSAGER. We have provided, as you mentioned, a number of elements to the report that included the information requested regarding the various definitions. And so previous testimonies have provided that. It is true that we have not provided our distinct what we would recommend for a definition. We are still working internally through that process. I would like to offer some thoughts, though, regarding that.

We have the current authority, of course, applies very hard line numbers that if you cross the number it is no longer eligible. We have an immediate Census coming up October 1. We will be implementing new Census data regarding rural definitions from year 2010, and that means some communities that have grown will no longer be eligible for programs. Some communities may have shrunk and may become newly eligible.

Mr. COSTA. Well, just on that point there are a couple of other questions. For example, the Administration has a Strong Cities, Strong Communities Program that includes six cities across the country—and again, one of them happens to be the City of Fresno, which is the sixth largest city in the state now, but yet USDA is involved in this effort, this model program. You are supposed to be effectively coordinating with Federal agencies, but yet it doesn't follow under the definition of rural.

Mr. TONSAGER. We try to work with each of the efforts that are regionally based to have employees involved, and I believe——

Mr. COSTA. So the definition in this case isn't a hard line?

Mr. TONSAGER. For the technical discussion that is in fact—we don't approve all programs.

Mr. COSTA. Let me move on again because of time.

Mr. TONSAGER. Sure.

Mr. COSTA. USDA's Rural Utilities Service Programs aren't the focus of our hearing today, but I did mention that in my statement. Since you raised it in your statement, we are focusing on duplicative Federal programs, but I want to know USDA's perspective on claims that rural broadband is duplicating efforts of the Commerce Department's National Telecommunications efforts.

Mr. TONSAGER. The Department of Commerce had Recovery Act funds for that purpose but they no longer are engaged in those programs if I understand correctly.

Mr. COSTA. So then it wouldn't be overlapping——

Mr. TONSAGER. Right. That is correct.

Mr. COSTA.—with government-backed programs by private investment companies to expand broadband in our rural areas?

Mr. TONSAGER. We work with private companies in financing broadband projects.

Mr. COSTA. Finally, I learned from data that the USDA's Economic Research Service, ERS, that shows that Federal investment in rural areas is lagging behind investments in urban areas. It seems to suggest that the claims of geographical overlap in the Federal programs in this instance might be unfounded or at least overstated. Have you seen the data and are you prepared to provide an assessment that resonates with your experience?

Mr. TONSAGER. I recently saw the data, have not had time to study it. It is my belief that that is the case. We are most anxious to use our resources to try and draw other Federal program resources more to rural areas than it has been.

Mr. COSTA. It is your belief, then, that there is not an overlap?

Mr. TONSAGER. It is my belief that rural areas do not get as much Federal resources as urban areas do.

Mr. COSTA. On a percentage, per capita basis?

Mr. TONSAGER. Yes, sir.

Mr. COSTA. Okay.

Well, Mr. Chairman, my time has expired but we will obviously follow up and I will submit some additional questions for the record that I would hope we would have a response for.

Mr. TONSAGER. Thank you, Congressman.

The CHAIRMAN. Thank you, Mr. Costa.

The chair would then recognize the gentleman, Mr. Stutzman, from—well, I guess he is not here.

I recognize the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Tonsager, one of the things you mentioned was flexibility in moving from four programs to one and reducing those administrative costs, and I quite honestly—if we can go from four to one and reduce those administrative costs and give you more flexibility, I think that is a great thing and helps the taxpayers. I guess my concern goes back to what my colleague from the other side of the aisle is bringing up, which is the accountability issue. If you want the flexibility and we want to give it to you, you have to understand that the accountability measures have to be there and when the departments ignore the timely filing of reports so that we can make sure the taxpayer funds are being spent wisely, then that certainly gives pause to us giving more flexibility. So I would like for you to speak to that issue.

And then I would like for you to speak to two other issues; one is the coordination between the USDA and the SBA and how that has worked; and then two is the number of businesses who have received funding from the USDA that are still in business after 3 years, so those three things, sir.

Mr. TONSAGER. Sure. Yes, we need to be held accountable. We understand that. And we do work our best to file reports in a timely manner. I am not sure which specific reports you have concern about. We do believe in transparency and we know that if we provide you the information regarding our performance, it helps self-correct because you will bring discipline to that argument.

If you would provide me with the particular reports that are lacking, I can give you more information about that.

Mr. SCOTT. We will get that to you.

Mr. TONSAGER. Okay. Let us see. I am sorry. Please forgive me.

Mr. SCOTT. The relationship between SBA and USDA and how that has worked with the——

Mr. TONSAGER. Sure.

Mr. SCOTT.—consolidation if you will of the——

Mr. TONSAGER. We did establish the Memorandum. We are doing joint trainings between our people that are involved in business funding and trying to learn from each other regarding their abilities in business lending. Our program, of course, goes to very large loans where SBA is somewhat restricted in size. We advocate with clients regarding use of the SBA loans so we have our staff trained in how the SBA loans work. And if it is better suited for them in some cases, then we would advocate that they would pursue an SBA loan. And we also work more closely with lenders so we would have a group of business and industry loan lenders, some 1,800 banks that like to use our program. We try and coordinate—especially when both SBA and the B&I Program is in the same financial institution.

Mr. SCOTT. Do you have the information on the number or the percentage of businesses that you are involved in the initial or the startup funding that are in business after 3 years?

Mr. TONSAGER. I am sorry. I don't have that with me today but we will certainly provide it to you.

[The information referred to is located on p. 33.]

Mr. SCOTT. All right. Thank you.

Mr. Chairman, I don't have any further questions. I yield back my time.

The CHAIRMAN. Thank you, Mr. Scott.

The Chair would recognize the gentleman from North Carolina, Mr. McIntyre.

Mr. MCINTYRE. Thank you, Mr. Chairman. Thank you for this opportunity. As former Chairman of this Subcommittee, I have a couple of questions for the Under Secretary, and it good to see you again, Mr. Under Secretary.

I know USDA Rural Development has taken the lead in addressing one of the most pressing challenges facing rural America; that is the digital divide separating rural and urban areas. And I know you are familiar with that with the major success story that we had in North Carolina down in Columbus County, a very rural area that now has—with the help of ATMC, a local provider there—98 percent completed its mission to connect nearly 1,000 rural residents who otherwise had no access to high-speed Internet. And I still remember the lady last August who ran out of her house when she saw me out there with the crews say thank you, thank you. My son can now do his homework at home instead of having to go all the way back into town to try to go to a library or to the school. He could come home and the young boy can be at home to do his homework.

How is USDA uniquely situated, do you believe, to take the lead for the Federal Government in investing in our rural telecommunications infrastructure as compared to other departments or agencies?

Mr. TONSAGER. Well, we of course have a 70 year old tradition in rural America. We financed the National Rural Electric System through decades that saw the very first light bulb and then went to virtually every corner of the United States. We have done the same with the National Rural Water System and we have not gotten everywhere with rural water. But we have been building that over a very long period of time.

Mr. MCINTYRE. Yes.

Mr. TONSAGER. So we have unique skill sets in making very large credit available to very large organizations and have done so in a very positive manner. So our presence in rural America and our long-term history of making financial commitments that work quite well, is a major component of what we do.

Mr. MCINTYRE. Can you speak about the effort to build on and build out with respect to broadband investments that are being made by the USDA?

Mr. TONSAGER. Sure. Along with our responsibility for building that system, we also have tools for building businesses. And so we have been conducting webinars, bringing in companies that do direct marketing and I think that is one of the great hopes that was brought by Congress to not only build this system but make sure economic opportunity happened for those people that live in those communities. So as we build out the system we are conducting these webinars with local organizations, businesses, and companies and bringing together those efforts so that people might begin to use this wonderful tool of broadband to build their economic lives.

Mr. MCINTYRE. I know that a lot of folks are always concerned about duplicative services, but I would like for you, given your unique position and the experience you have had in doing these types of things, to explain to us how USDA Rural Development that gives significant assistance to much-needed infrastructure investments—water, wastewater, broadband, telephone, and electric infrastructure—we know that EDA, HUD, Department of Transportation, and EPA also do certain aspects of that but how do you believe that USDA with its extensive field staff makes a difference when it comes to rural America; so we can get a handle on what is the difference here and why is USDA Rural Development so critical in meeting these needs to keep rural America from being left behind?

Mr. TONSAGER. Sure. In my testimony I talked about the charge in the 1972 Con Act regarding taking the lead in rural areas. So we see ourselves as an aggressive organization in trying to bring resources. We know that our mission is rural. We know that other Federal agencies might not have as aggressive an approach. I mean generally they are a passive provider of resources. We see our job as taking our resources, trying to bring more to the table with private sector, with other Federal agencies and trying to make sure that rural citizens have access to as much Federal Government resources as we can possibly get. So we think our position, having a field structure, and our mandate to be assertive in our view in providing these resources makes us unique.

Mr. MCINTYRE. Thank you. And I speak for all of us who have constituents and ourselves that live in rural areas that with this time of year and April 15 fast approaching that rural America are just as much taxpaying citizens as those in urban and suburban America and should not be left behind. And I want to thank you for the efforts you make on behalf of rural America and our citizens, the American taxpayers who do see a return on their investments that we are reminded of every year at April 15. The difference it makes in their lives when they see rural broadband, water, and wastewater projects and the infrastructure come to make their quality of lives inline with their fellow American citizens. God bless you and thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. McIntyre.

Now, I would recognize the gentleman from Illinois, Mr. Hultgren.

Mr. HULTGREN. Thank you, Mr. Chairman.

Thank you for being here today. A couple questions. I understand that Rural Housing Service has been trying to get some access to the same employment data that HUD uses to verify tenants' incomes. What benefit would this earned income verification data provide to RHS and I wonder what is preventing you from using it?

Mr. TONSAGER. I will have to ask my folks what the status of that proposal. I thought we were getting close if not had gotten to that point yet. It would help with the evaluation of loan applications and its time limits of getting the loan applications done. Having information available would help us make sure the portfolio performs well and that we are making loans to eligible applicants as well as making sure that they get repaid. And I am sorry. I don't know if any of my staff knows for sure. We will have to report back on the status of that.

[The information referred to is located on p. 33.]*

Mr. HULTGREN. If you can get us the information, that would be great on that. That would be terrific.

GAO and others have proposed consolidation of the Rural Housing Programs with HUD. I wonder, do you think the rural areas would see the same attention under HUD's management as they currently receive?

Mr. TONSAGER. I believe that we provide real opportunities to remote rural citizens. Forgive me for using the term *unique* for rural America, but the people in rural America don't make as much money. And our particular program, I think the guarantee program especially is well suited to rural communities in that we don't have a particular down payment requirement. We have been very successful in repayment to the point where for the program cost, it doesn't cost the taxpayers any money. There is cost, of course, with our system of delivery but not with the fee that we are assessing. We don't have a cost and the performance of the program has been very good.

So, the uniqueness of the programs for housing addresses the needs of rural people and how to get that delivery in the far corners of rural America becomes the challenge for perhaps HUD and others if it were to be combined.

Mr. HULTGREN. If it were combined, I mean is there any expectation or what is the expectation of the amount of savings as you combine the programs as far as salaries being saved, expenses for the agency? And then I wondered if there is a savings, how USDA would seek to reallocate those resources if there was a consolidation or savings of administrative costs?

Mr. TONSAGER. I have not seen any particular identification of what those savings might be. I would say for the guarantee program particularly the amount of resources is pretty modest. We are working with private institutions. The financers are doing the great bulk of the work. Much of our work is monitoring of those loans in that case. The direct program costs more because it is more of a hands-on approach with individual people and helping them to get good credit. So I am sorry; I just don't have the information.

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* **Editor's note:** The information request has been answered in three parts, labeled *Insert 2–5*.

Mr. HULTGREN. Okay. There again, if you have that information, if you can get that to us or if your staff has that information, that would be helpful.

Mr. TONSAGER. Sure.

Mr. HULTGREN. Switching gears a little bit. Under the current requirements, a community must be outside of a metropolitan statistical area to qualify for Rural Housing Programs. MSAs are no longer the compact area they once were and communities located far from the urban core can still be considered part of the MSA. I wondered why do you have this blanket exemption and do you feel some communities are disadvantaged by this exemption?

Mr. TONSAGER. Of course, it is required by law. I mean we have a specific requirement regarding the geographic area that we can serve, so we have to follow that to the letter in doing that.

We are anxious to look at flexibility and I know Congressman Costa's concern about the rural definition issue. When we find ourselves with multiple definitions running into is that we can't address the needs of a whole community. We are doing a bit here, a bit there, and we are struggling with that definitional issue and trying to come to grips with what would be the most useful discussion to have. But the Secretary is focused a good bit on flexibility in the existing programs and we are studying that closely.

Mr. HULTGREN. What are your recommendations for addressing those definitional issues? Are there proposals that are in place? Is there legislation that is introduced that would address that concern?

Mr. TONSAGER. Not at this time. We have not made proposals at this time.

Mr. HULTGREN. Do you expect that to be coming or what is your thought there?

Mr. TONSAGER. We expect after a review process to put forward some material on the subject.

Mr. HULTGREN. Okay. But it would take legislative change you believe——

Mr. TONSAGER. Yes.

Mr. HULTGREN.—to bring that definition?

Mr. TONSAGER. Yes, there are very concise definitions in the statute regarding each program area. And it would take definitely statutory change.

Mr. HULTGREN. Okay. My time has expired. I yield back. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Hultgren. The gentlelady from Missouri, Mrs. Hartzler.

Mrs. HARTZLER. Thank you, Mr. Chairman.

In your testimony, you discuss the coordination between USDA and the Small Business Administration in 2010 in an effort to improve service delivery to small businesses in rural areas. So what was the result of this coordination?

Mr. TONSAGER. There has been significant activity. We do training together with the SBA. We provide clients coming in the door information regarding potential use of SBA applications or SBA programs if they are better suited to their needs in that area. So we have ongoing efforts with SBA all the time. And I mentioned earlier that we see our field structure as an opportunity to draw more resources from other Federal agencies into rural areas. So we see our tools as an opportunity to leverage those agencies to bring their resources. And so we attempt to do that with as many of the other Federal agencies as we can, including the SBA.

Mrs. HARTZLER. That is very good. Does your interagency coordination include a conscious effort to determine which agency should be funding which type of investment even when both agencies might have clear authority to do so?

Mr. TONSAGER. We tend to look at the individual applicants and try to advocate with them regarding that. We haven't, I don't think, done a strategy where we looked at which agency would be best suited in an individual area, so I may not be quite understanding your question well enough and I will ask my colleagues if they have any thoughts.

And my deputy points out that the lender is the applicant to us in the loan guarantee case. And so we work with them.

Mrs. HARTZLER. Yes. All right, that makes sense. Now, I missed the first part of the hearing due to being at another hearing at the same time—sorry—but we were talking about consolidating programs here. I came in where you were saying that you believe that four revolving loan funds could be consolidated, also some grant programs. Is that the only duplication or consolidation that you think could be done in the Department?

Mr. TONSAGER. Well, we should consider perhaps some of the guarantee programs. You know, we have a guarantee program for large energy projects, we have our Business and Industry Loan Guarantee Program, and we have a guarantee program and our REAP Program, which is also energy-related.

We don't have a clearer saying do this, this, and this, but, if we can look at still having the same audiences that we are all trying to serve and limit or reduce the number of programs that are applicable that might be of value, less NOFAs we have to put out, less procedures we have to go through. So we don't have a defined kind of agenda on that. We are just suggesting if we combine some of the tool sets and broaden them out, get more flexibility as the Secretary has talked about, it would make some sense.

Mrs. HARTZLER. Sounds like some good ideas. Have you put that into a format that could be transferred over to a legislative initiative?

Mr. TONSAGER. We have not but we would be more than happy to work with some Members on any proposals you might want to consider.

Mrs. HARTZLER. I would be interested in seeing in writing some of your suggestions of specific programs you think could be consolidated to increase efficiencies that we can move forward with because I think that makes sense for the taxpayer and for the people that we are trying to serve.

So thank you for what you are doing for rural America. It is very important, I appreciate it.

Mr. TONSAGER. Yes, thank you, ma'am.

Mrs. HARTZLER. I yield back my time.

The CHAIRMAN. Thank you. With that, I believe there are no more questions. We thank you for your testimony and appreciate your being here and look forward to hearing from you again.

Mr. TONSAGER. Thank you, sir.

The CHAIRMAN. We will now assemble the next panel, which is essentially one witness. Our witness now for the second panel is Mr. William Shear, Director, Financial Markets and Community Investment, Government Accountability Office.

Please begin when you are ready, Mr. Shear.

STATEMENT OF WILLIAM B. SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, D.C.

Mr. SHEAR. Thank you. Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee, I am pleased to be here this morning to discuss our work on overlap, fragmentation, and potential duplication in economic development programs.

As part of our series of reports on these programs, most recently in February 2012, we reported on the existence of overlap and fragmentation among those Federal economic development programs that support entrepreneurs. Specifically, we focused our analysis on 53 of the 80 economic development programs at Agriculture, Commerce, HUD, and SBA that fund entrepreneurial assistance because these programs appear to overlap the most among the 80 economic development programs.

My testimony today is largely based on information on these 53 programs that is discussed in our recent February 2012 report. Specifically, this testimony discusses our work to date on, first, the extent of overlap and fragmentation among these programs; and second, the availability of meaningful performance information on these 53 programs. I will also provide an overview of the nature of our ongoing work.

In summary, based on our work to date we have found that programs that support entrepreneurs overlap based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. The programs generally can be grouped according to at least one of three types of assistance—first, technical assistance; second, financial assistance; and third, government contracts. Much of the overlap and fragmentation among these 53 programs is concentrated among programs that support economically distressed and disadvantaged areas and programs that are disadvantaged in small businesses. In addition, many of these economic development programs also operate in both urban and rural areas.

While most of the 53 economic development programs that support entrepreneurs have reasonable performance measures, intend to meet their annual performance goals, few evaluation studies have been completed and little evaluative information exists that assesses the programs' effectiveness at what they are intended to serve.

In addition to the work discussed in our recent report, I will mention two other sources of information—first, progress made by the agencies in implementing collaborative practices we had recommended; and second, our continuing work to be discussed in a report on economic development programs we plan to issue this summer.

With respect to collaborative practices, in April 2010, USDA and SBA signed a Memorandum of Understanding. The MOU defined and articulated a common outcome focused on improving service delivery to small businesses in under-served rural areas. USDA's April 2011 survey of state directors indicates progress under the MOU in several areas, including field offices advising borrowers of SBA's programs, referring borrowers to SBA and its resource partners, and explaining ways to make USDA and SBA programs more complementary. However, we have not received comparable information from SBA indicating progress in this area. In addition, HUD, USDA, and SBA have provided limited evidence that they have taken steps to develop compatible policies and procedures with either Federal agencies and this also goes to the issue of defining roles and responsibilities.

With respect to our remaining audit work, a large part of it will focus on the extent to which the programs are duplicative, overlapping, or fragmented and we are especially focusing on the provision of economic development assistance by the various agencies and programs in rural America.

Chairman Johnson and Ranking Member Costa, this concludes my prepared statement. I would be happy to answer any questions at this time.

[The prepared statement of Mr. Shear follows:]

PREPARED STATEMENT OF WILLIAM B. SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, D.C.

Economic Development

Efficiency and Effectiveness of Fragmented Programs Are Unclear

Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee:

I am pleased to be here today to discuss our work on overlap, fragmentation, and potential duplication in economic development programs. Over the past year, we have issued a series of reports on potential duplication among Federal economic development programs, including a number of rural development programs.[1] Most recently in February 2012 we reported new information on the existence of overlap and fragmentation among those Federal economic development programs that support entrepreneurs.[2] Specifically, we focused our analysis on 53 of the 80 economic development programs at the Departments of Commerce (Commerce), Housing and Urban Development (HUD), Agriculture (USDA), and the Small Business Administration (SBA) that fund entrepreneurial assistance because these programs appear to overlap the most.[3] According to agency officials, these programs, which typically

[1] GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue,* GAO–11–318SP (*http://www.gao.gov/products/GAO-11-318SP*) (Washington D.C.: Mar. 1, 2011) and *Efficiency and Effectiveness of Fragmented Economic Development Programs Are Unclear,* GAO–11–477R (*http://www.gao.gov/products/GAO-11-477R*) (Washington, D.C.: May 19, 2011).

[2] GAO, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue,* GAO–12–342SP (*http://www.gao.gov/products/GAO-12-342SP*) (Washington D.C.: Feb. 28, 2012).

[3] The number of programs administered by Commerce, HUD, SBA, and USDA that were identified in GAO–11–477R (*http://www.gao.gov/products/GAO-11-477R*) as supporting entrepreneurial efforts decreased from 54 to 53 because Commerce merged its Minority Business Opportunity Center program and Minority Business Enterprise Center program into one program that is now called Minority Business Center. In addition, two of the original Commerce programs identified in our March and May 2011 reports—Community Trade Adjustment Assistance and Research and Evaluation—have been replaced with two other Commerce programs—Trade Adjustment Assistance for Firms and the Economic Development—Support for Planning Organizations—because one of the original programs had temporary funding and the other original program was misclassified as an economic development program. The two new Commerce programs

Continued

fund a variety of activities in addition to supporting entrepreneurs, spent an estimated $2.6 billion in enacted appropriations on economic development efforts in Fiscal Year 2010.[4]

Economic development programs, if effective, can develop and expand, and thus contribute to the nation's economic growth. However, the ways that these programs are administered could lead to inefficient delivery of services to entrepreneurs, such as requiring recipients to fill out applications to multiple agencies with varying program requirements, and could compromise the government's ability to effectively provide the needed service and meet the shared goals of the programs.

My testimony today is based on information on these 53 programs that is discussed in our recent February 2012 report. Specifically, this testimony discusses our work to date on (1) the extent of overlap and fragmentation among these programs and (2) the availability of meaningful performance information on these 53 programs. Because we have ongoing work that will be issued later this year, we also provide an overview of the nature of our ongoing work.

In summary, based on our work to date, we have found that:

- Programs that support entrepreneurs overlap based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. Much of the overlap and fragmentation among these 53 programs is concentrated among programs that support economically distressed and disadvantaged areas and programs that assist disadvantaged and small businesses. In addition, many of these economic development programs also operate in both urban and rural areas.[5]
- While most (45) of the 53 economic development programs that support entrepreneurs have reasonable performance measures and tend to meet their annual performance goals, few evaluation studies have been completed and little evaluative information exists that assesses the programs' effectiveness.

As we continue our ongoing work, we are conducting additional analyses of these 53 programs to determine, among other things, (1) what support do Federal economic development programs provide to entrepreneurs and to what extent the programs are duplicative, overlapping, or fragmented; (2) the effects on entrepreneurs and the steps agencies have taken to address any duplication, overlap, or fragmentation; and (3) the extent to which these programs have established and met performance goals and been evaluated for effectiveness.

For our February 2012 report, which this testimony is based on, we focused our analysis on the 53 economic development programs at Commerce, HUD, USDA, and SBA that fund entrepreneurial assistance because these programs appeared to overlap the most. We examined the extent to which the Federal Government's efforts to support entrepreneurs overlap among these numerous, fragmented programs by examining their missions, goals, services provided, and targeted beneficiaries and areas. We also collected information on performance measures that the agencies collect to track the performance of each of the 53 programs, and any evaluation studies conducted or commissioned by the agencies evaluating the effectiveness of these programs. This process included meeting with agency officials to corroborate the publicly available information. We also determined the reasonableness of the performance measures by assessing each measure against agency strategic goals and specific program missions to determine the extent to which they are aligned. The work on which this statement is based was performed from June 2011 through February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Programs that Support Entrepreneurs Overlap and Are Fragmented

Based on a review of the missions and other related program information for these 53 programs, we determined that these programs overlap based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. The programs generally can be grouped according to at least one of three

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that have been added should have been included in the March and May 2011 reports, according to Commerce officials.

[4] We excluded the portion of the Community Development Block Grant funding that HUD reported is not used to support economic development. The total enacted appropriations for these 53 programs was about $5.6 billion for Fiscal Year 2010.

[5] While the definition of rural can vary among programs, USDA's typically defines it as covering areas with population limits ranging from less than 2,500 to 50,000.

types of assistance that address different entrepreneurial needs: help obtaining (1) technical assistance, (2) financial assistance, and (3) government contracts. Many of the programs can provide more than one type of assistance, and most focus on technical and/or financial assistance:[6]

- *Technical assistance:* Thirty-six programs distributed across the four agencies provide technical assistance, including business training and counseling and research and development support.
- *Financial assistance:* Thirty-three programs distributed across the four agencies support entrepreneurs through financial assistance in the form of grants and loans.
- Government contracting assistance: Seven programs distributed between two of the four agencies support entrepreneurs by helping them qualify for Federal procurement opportunities.

Table 1 illustrates overlap among programs that provide entrepreneurial assistance in terms of the type of assistance they provide. For example, USDA administers nine of the 36 programs distributed across the four agencies that provide technical assistance, including business training and counseling and research and development support. The agency also administers nine of the 33 programs distributed across the four agencies that support entrepreneurs through financial assistance in the form of grants and loans. *Appendix I* lists the programs GAO identified that may have similar or overlapping objectives, provide similar services or be fragmented across government missions. Overlap and fragmentation may not necessarily lead to actual duplication, and some degree of overlap and duplication may be justified.

Table 1: 53 Programs That Support Entrepreneurs, by Type of Assistance, as of September 30, 2011[a]

	HUD	SBA	USDA	Commerce	Total[b]
Technical assistance only	2	6	5	4	**17**
Financial assistance only	3	5	5		**13**
Technical and financial assistance only	7	3	4	2	**16**
Government contracting assistance only		2			**2**
Technical and government contracting only		1			**1**
Financial and government contracting only		2			**2**
Technical, financial, and government contracting assistance				2	**2**
Total	**12**	**19**	**14**	**8**	**53**

Source: GAO analysis of information provided by Commerce, HUD, USDA, and SBA.

Notes:

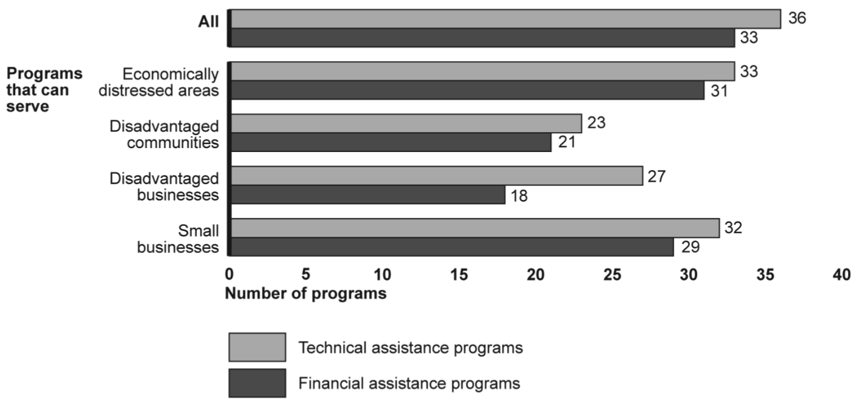
[a] Some of the programs may not have received funding in Fiscal Year 2011.

[b] The 36 technical assistance programs include those in the following categories: technical assistance only; technical and financial assistance only; technical, financial, and government contracting assistance; and technical and government contracting assistance only. The 33 financial assistance programs include those in the following categories: financial assistance only; technical and financial assistance only; technical, financial, and government contracting assistance; and financial and government contracting assistance only. The seven government contracting assistance programs include those in the following categories: government contracting assistance only, technical and government contracting assistance only, financial and government contracting assistance only, and technical, financial, and government contracting assistance.

Furthermore, we found that much of the overlap and fragmentation among these 53 programs is concentrated among those that support economically distressed and disadvantaged areas and programs that assist disadvantaged and small businesses, including those in rural areas (see *Fig. 1* below). For example, 23 programs provide technical assistance to businesses operating in areas that are disadvantaged; USDA administers nine of these programs. In addition, USDA administers 5 of the 26 programs that provide technical assistance to disadvantaged businesses.

[6] SBA administers the two programs that solely provide entrepreneurs with assistance in obtaining government contracts: the HUBZone program, which supports small businesses located in economically distressed areas, and the Procurement Assistance to Small Businesses program, which serves small businesses located in any area.

Figure 1: Programs That Provide Technical and Financial Assistance, by Type of Business and Community Served, as of September 30, 2011.



Source: GAO analysis.

Note: Some of the programs may not have received funding in Fiscal Year 2011.

The number of programs that support entrepreneurs—53—and the overlap among these programs raise questions about whether a fragmented system is the most effective way to support entrepreneurs. By exploring alternatives, agencies may be able to determine whether there are more efficient ways to continue to serve the unique needs of entrepreneurs, including consolidating various programs. In ongoing work, we plan to examine the extent of potential duplication among these programs as well as determine the effects of this fragmented system on the delivery of technical assistance to entrepreneurs.

To address issues arising from potential overlap and fragmentation in economic development programs, we previously identified collaborative practices agencies should consider implementing in order to maximize performance and results of Federal programs that share common outcomes. Our work to date shows that Commerce, USDA, and SBA have taken initial steps to implement at least one of the collaborative practices—defining and articulating common outcomes for some of their related programs. For example, in April 2010 USDA and SBA signed a Memorandum of Understanding (MOU) in response to GAO's 2008 recommendation that the agencies should establish a formal approach to encourage further collaboration. The MOU defined and articulated a common outcome focused on improving service delivery to small businesses in under-served rural areas. Under the MOU, USDA and SBA agreed that their field offices would advise potential borrowers of the other agency's programs that may meet their small business financing needs and coordinate the referral of small business applicants to one another where appropriate, work to make each agency's programs more complementary by minimizing differences in program fees and processing and closing procedures, and develop joint training seminars on each agency's programs. In addition, USDA and SBA agreed to measure progress under the MOU. USDA's April 2011 survey of state directors indicates progress under the MOU in several areas, including field offices advising borrowers of SBA's programs, referring borrowers to SBA and its resource partners, and exploring ways to make USDA and SBA programs more complementary. However, we have not received comparable information from SBA indicating progress in this area. In addition, HUD, USDA, and SBA have provided limited evidence that they have taken steps to develop compatible policies or procedures with other Federal agencies, or to search for opportunities to leverage physical and administrative resources with their Federal partners.

Agencies Lack Meaningful Information on the Effectiveness of Programs that Support Entrepreneurs

Based on our work to date, we found that 45 of the 53 economic development programs we identified that support entrepreneurs have reasonable performance measures and tend to meet their annual performance goals; however, the four agencies have either never conducted a performance evaluation or have conducted only one in the past decade for 39 of the 53 programs. In order to effectively evaluate and oversee the services being provided, Congress and the agencies need meaningful performance information such as performance measures and evaluation studies. This information is needed to help decision makers identify ways to make more informed decisions about allocating increasingly scarce resources among overlapping programs. Specifically, performance measures can provide information on an agency's progress toward meeting certain program and agency-wide strategic goals, expressed as measurable performance standards. In contrast, program evaluations are systematic ways to assess a broader range of information on program performance. As a result, evaluation studies can help identify which programs are effective or not, explain why goals were not met and identify strategies for meeting unmet goals, and estimate what would have occurred in the absence of the program.

Without results from program evaluations and performance measurement data, agencies lack the ability to measure the overall impact of these programs, and decision makers lack information that could help them to identify programs that could be better structured and improve the efficiency with which the government provides these services. Moreover, the Federal Government has recently required the Office of Management and Budget (OMB) to coordinate with agencies to ensure that they better track the results of their programs. Specifically, the GPRA Modernization Act of 2010 (GPRAMA) requires OMB to work with agencies to, among other things, develop outcome-oriented goals for certain crosscutting policy areas and report annually on how these goals will be achieved.[7]

Other GPRAMA requirements could lead to improved coordination and collaboration among agencies. For instance, GPRAMA requires each agency to identify the various organizations and program activities—both within and external to the agency—that contribute to each agency's goal. In ongoing work, we plan to determine reasons why the agencies (1) do not conduct more routine evaluations of these programs and (2) have not established and do not track performance measures for 8 of the 53 programs.

Framework for Ongoing Analysis

As mentioned earlier, our ongoing work focuses on, among other things, (1) what support do Federal economic development programs provide to entrepreneurs and to what extent the programs are duplicative, overlapping, or fragmented; (2) the effects on entrepreneurs and the steps agencies have taken to address any duplication, overlap, or fragmentation; and (3) the extent to which these programs have established and met performance goals and been evaluated for effectiveness. To examine the support Federal economic development programs provide to entrepreneurs and to what extent the programs are duplicative, overlapping, or fragmented, we will review information on the activities and services that the agencies conduct to administer each of the 53 programs, as well as associated budget information for each program. We will also evaluate the agencies' methods for tracking the activities conducted, services provided, and associated costs against criteria that we have established related to internal control standards. To identify the effects on entrepreneurs and the steps agencies have taken to address any duplication, overlap, or fragmentation, we will, among other things, conduct interviews with select Federal agency and regional commission officials, entrepreneurs, and state and local partners in select areas across the U.S., including rural areas. During these interviews we will determine how the Federal agencies collaborate to support entrepreneurs, identify any reported lessons learned from these collaborative efforts, as well as challenges they face to collaboratively support entrepreneurs. We will also obtain their views on the negative effects that the overlapping, fragmented, or duplicative programs have on the efficient delivery of services to entrepreneurs. Finally, we will interview program officials to determine the reasons why the agencies do not conduct more evaluation studies.

Chairman Johnson and Ranking Member Costa, this concludes my prepared statement. I would be happy to answer any questions at this time.

Contacts and Staff Acknowledgements

For further information on this testimony, please contact me at [**Redacted**] or [**Redacted**]. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this testimony include Marshall Hamlett and Triana McNeil, Assistant Directors; Cindy Gilbert; John McGrail; Jennifer Schwartz; and Karen Villafana.

[7] Pub. L. No. 111–352 (2011).

Appendix I: List of Programs That Support Entrepreneurs and Related Budgetary Information

Program	FY 2010 obligations
Department of Commerce	
Grants for Public Works and Economic Development Facilities	$158,930,000
Economic Development/Support for Planning Organizations	$31,391,000
Economic Development/Technical Assistance	$9,800,000
Economic Adjustment Assistance	$45,270,000
Trade Adjustment Assistance	$18,987,000
Global Climate Change Mitigation Incentive Fund	$25,000,000
Minority Business Centers (merged the former Minority Business Enterprise Centers and Minority Business Opportunity Center programs)	$10,113,693
Native American Business Enterprise Centers	$1,351,500
U.S. Department of Agriculture	
Empowerment Zones	$500,000
Woody Biomass Utilization Grant Program	$5,000,000
1890 Land-Grant Institutions Rural Entrepreneurial Outreach Program/Rural Business Entrepreneur Development Initiative/BISNET	$0
Small Business Innovation Research	$22,000,000
Biomass Research and Development Initiative Competitive Grants Program	$0
Value-Added Producer Grants	$19,400,000
Agriculture Innovation Center	$0
Small Socially-Disadvantaged Producer Grants	$3,500,000
Intermediary Re-lending	$8,500,000
Business and Industry Loans	$52,900,000
Rural Business Enterprise Grants	$38,700,000
Rural Cooperative Development Grants	$8,300,000
Rural Business Opportunity Grants	$2,500,000
Rural Microentrepreneur Assistance Program	$9,000,000
Department of Housing and Urban Development	
Community Development Block Grant (CDBG)/Entitlement Grants	$2,760,223,970
CDBG/Special Purpose/Insular Areas	$6,930,000
CDBG/States	$1,176,594,747
CDBG/Non-entitlement CDBG Grants in Hawaii	$5,791,797
CDBG/Brownfields Economic Development Initiative	$17,500,000
CDBG/Section 108 Loan Guarantees	$6,000,000
Section 4 Capacity Building for Affordable Housing and Community Development	$50,000,000
Rural Innovation Fund	$25,000,000
CDBG Disaster Recovery Grants	$100,000,000
Indian CDBG	$65,000,000
Hispanic Serving Institutions Assisting Communities	$6,250,000
Alaska Native/Native Hawaiian Institutions Assisting Communities	$3,265,000
Small Business Administration	
8(a) Business Development Program	$56,817,000
7(j) Technical Assistance	$3,275,000
Procurement Assistance to Small Businesses	$3,164,000
Small Business Investment Companies	$24,262,000
7(a) Loan Program	$518,869,000
Surety Bond Guarantee Program	$0
SCORE	$7,000,000
Small Business Development Centers	$112,624,000
504 Loan Program	$70,645,000
Women's Business Centers	$13,997,000
Veterans' Business Outreach Centers	$2,500,000
Microloan Program	$42,901,000
PRIME	$8,000,000
New Markets Venture Capital Program	$0
7(a) Export Loan Guarantees	$0
HUBZone	$2,189,000
Small Business Technology Transfer Program	$0
Small Business Innovation Research Program	$0
Federal and State Technology Partnership Program	$2,000,000
Total	**$5,561,941,707**

Source: Commerce, HUD, SBA, and USDA.

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The CHAIRMAN. Thank you for your testimony.

I have one question. Your testimony indicated most of the fragmentation found among these programs is concentrated in programs which have carve-outs for economic or other eligibility criteria. In your judgment, do those set-asides and carve-outs lead to a fragmentation of program delivery?

Mr. SHEAR. You have asked a very good question. And to a large degree, for the carve-outs, the set-asides can create certain challenges in delivering programs; yet it involves a view by the Congress and others toward what types of targeting is appropriate in programs. So it is one of the challenges in terms of how programs are structured. So, for example, for counseling and training programs, some of the programs across the agencies are more focused on lower-income populations than some of the others. If you were going to try to combine the programs, it would be a challenge to have programs under common administration that would be able to provide those carve-outs. So yes, the carve-outs can create a challenge in terms of avoiding fragmentation; but nonetheless, we think there are opportunities to try to address the fragmentation issues.

The CHAIRMAN. Thank you. That is all the questions I have.

I recognize the gentleman from California, the Ranking Member, Mr. Costa.

Mr. COSTA. Thank you again, Mr. Chairman.

Mr. Shear, it is my understanding that the GAO, when doing your evaluation on the potentially duplicative nature of the Federal economic development programs on the four agencies that you looked at statutory and regulatory population requirements. Is that correct?

Mr. SHEAR. Yes. In our initial work which we reported on a little over a year ago, our first attempt there was to look at the design of these 80 programs and there we were focusing very much on what the programs could fund. So it was our first high-level look at these programs.

Mr. COSTA. Is that a useful tool, do you think, in preventing overlap?

Mr. SHEAR. Being here today, I can say that, yes, I think it was a very effective tool in a sense that we were able to capture information on how programs were designed to identify what should be part of the landscape to drill down on. So where the question was a year ago, how much could be made of what we found? We viewed it as more of a step to lead to what the agencies could focus on and what we could focus on going forward, and that is why we are drilling down in this area. So if I could take it one step further——

Mr. COSTA. I was going to say, so what is your follow-up going to be?

Mr. SHEAR. Our follow-up here is that in one thing I am reporting on today, you notice we use the words *overlap* and *fragmentation* because in terms of the drill-down we have done among these programs and the information we have collected and continue to collect and examine is that we have a story that is largely of overlap rather than duplication. We certainly have a story of fragmentation where you have various parties and various agencies undertaking activity that should be coordinated in a better fashion.

Mr. COSTA. So in your final report—again because my time is limited here——

Mr. SHEAR. Yes.

Mr. COSTA.—are you going to then make recommendations to the Subcommittee and the full Committee on how we can avoid the overlapping and duplication in these four agencies?

Mr. SHEAR. Yes. The biggest part and the drill-down on rural America and in reaching out to stakeholders in the economic development process in rural America is to try to get an idea as far as to what degree there might be duplication in some of the, for example, loan guarantee programs, some of the technical assistance programs that Rural Development has *versus* SBA and EDA. And so——

Mr. COSTA. So you are also looking at——

Mr. SHEAR.—we are also doing more of a drill-down. We are looking——

Mr. COSTA. Go ahead.

Mr. SHEAR. I am sorry. We are doing more of a drill-down to see to what degree——

Mr. COSTA. In what timeline are you going to report to——

Mr. SHEAR. We expect to report at the end of July on that.

Mr. COSTA. Of this year?

Mr. SHEAR. Of this year. What we expect to recommend in terms of what our expectation of recommendations I will just list one of them. Under the GPRA Modernization Act, the agencies are actively involved in crosscutting issues, including serving small businesses. And so what we are looking for is informing decisions on strategically how overlap and fragmentation and how service delivery can be improved by looking for opportunities for those to—so we are going to be recommending actions that will better able the Congress and the agencies to better serve the economic development needs of its communities.

Mr. COSTA. A couple quick questions on your report to us. Are you going to look at significant differences in the cost of delivery?

Mr. SHEAR. Yes. We have collected extensive information from all four agencies on the cost of delivery. The data quality varies among the agencies. We continue to ask them for more refined cost data, so we are really trying to push as far as we can based on what data the agencies have.

Mr. COSTA. You will be able, you think, to make recommendations on which models work best?

Mr. SHEAR. We think we will be able to inform decisions. We are not in the business of picking which programs should be the winners or losers of what agencies but to provide information that will inform decisions about how government programs and economic development programs can be structured to be more effective.

Among the things we might find is that the data itself that agencies collect and more importantly how the agencies use that data to evaluate the effectiveness of their programs, their mechanisms, and other ways they go about doing their business, we might make recommendations in the area about how better data collection and evaluation could lead to better decisions in program delivery.

Mr. COSTA. Well, we will look forward to that report in July.

And Mr. Chairman, I have no further questions. Thank you very much.

The CHAIRMAN. Thank you, Mr. Costa.

Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman.

And I would like to follow along that same thought process if you would, Mr. Chairman. Basically what you are telling us is that the agencies are not collecting enough data to determine whether or not the programs that are being funded or the loans are inefficient or appropriate use of tax dollars, is that correct?

Mr. SHEAR. Yes, let me answer in two steps. And we make a distinction between program metrics that are collected under an annual basis in what we call evaluations of effectiveness. So I will use an analogy to counseling and training programs by SBA where SBA has three major counseling and training programs. They do have certain metrics on businesses served and certain metrics about just how many people and how many businesses are being trained and receive counseling. And that can be useful within itself. But then what they do is that they conduct periodic evaluations where they reach out to those who received counseling and training and they receive information from those businesses as far as how they valued that counseling and training, how it has helped them grow their businesses. And then it collects data on how well the businesses do because after all, one of the measures of success of how well the programs do is how well the businesses do after receiving the counseling and training. So we are looking for more of an evaluative approach by the agencies as part of managing their programs.

Mr. SCOTT. Wouldn't it make sense—I mean every employer out there that receives and SBA loan or SBA assistance, certainly the tax ID number of that employer is on the application with the SBA. Why couldn't you simply look at the number of jobs created and based on the payroll tax number that is already being provided?

Mr. SHEAR. With jobs created, you have brought up a very important point. Jobs created is one of the metrics that tends to be used for GPRA purposes. We haven't examined that avenue to collect data on jobs created. We certainly have looked at a number of Inspector General reports over time on how agencies do collect data on jobs created. Part of our issue with jobs created is it is hard to create a benchmark of what jobs would have been available by both that particular employer and other employers in the absence of the SBA assistance. So we are looking for an approach that looks a little bit more how well do the businesses do that get the loans?

So, for example, in 2007 we recommended SBA for its 7(a) Program. It was already collecting a lot of data on its businesses that get what are called 7(a) loan guarantees, that they should use that information to try to provide some evaluative information as far as that, the businesses that loans are being made to by lenders in the program of whether those businesses are actually succeeding. So you bring up a very important point we haven't quite looked at, but we do look at job metrics as being important to collect, but we are also looking for something that is more general in terms of what is the purpose of the program.

Mr. SCOTT. And Mr. Shear, I appreciate your comments. I think maybe that is where the breakdown if you will in an entrepreneur and small business owner who has only been in Congress for 12 to 13 months like myself is and where maybe people who have been in the Beltway a lot longer are in that the number one issue is jobs. Americans want to get back to work. And if the SBA is going to be there—and I do believe that the SBA has been a successful government program if you want to refer to it as that—but if the loan does not create additional payroll and additional jobs, then the funds probably should have gone somewhere else where they did create additional payroll and jobs.

And so I don't understand why it is so hard to get that metric of the payroll associated with the tax ID number that got the loan with the SBA backing, because the payroll is going to be reported according to the tax ID number and the loan is going to be reported according to the tax ID number. I don't understand why it is so difficult to look at this tax ID number there was a million dollars worth of payroll generated before the loan; 3 years after the loan, total annual payroll now is $2 million. That seems to me like it would be pretty simple and help us as the Members evaluate what the most efficient programs are with putting Americans back to work because that is our goal is to put them back to work.

Mr. SHEAR. I think you raise a very important point and even though we haven't looked at that specific question, I will certainly bring it up with SBA, have they ever explored this? but I know from another SBA program that is not included in this work, we have done a lot of work on their Disaster Loan Program, and we know that we have been involved a lot in recommending ways that SBA and IRS can work together in terms of verifying income and other information by sharing information for those who apply for disaster loans. So perhaps that might provide some type of a model for what you are suggesting.

Mr. SCOTT. Well, and you are not requiring the entrepreneur or the business owner to provide any additional documentation? You are not breaking it down to individual taxpayers, so you are still protecting their personal identity? You are taking a tax ID number that the SBA has and looking at the total growth in wages once the loan was delivered.

Mr. Chairman, I know I have gone over my time. Thank you, sir.

And thank you, sir, for your testimony.

And I yield back.

Mr. SHEAR. Thank you.

The CHAIRMAN. I have no further questions. I don't believe Mr. Scott does and nobody else is here so we just want to thank you for your testimony.

Mr. SHEAR. Thank you very much.

The CHAIRMAN. I have no closing statement to make. Mr. Costa has already had to go to another committee, and so again I thank the Members of the Committee and the witnesses for your testimony. I thank our excellent Republican and Democratic staffs for their good work that they always do and appreciate your putting this together.

Under the rules of the Committee, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member.

This hearing of the Subcommittee on Rural Development, Research, Biotechnology, and Foreign Agriculture is adjourned.

[Whereupon, at 11:15 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY HON. DALLAS P. TONSAGER, UNDER SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

During the March 21, 2012 hearing entitled, *Hearing To Identify Duplicative Federal Rural Development Programs*, requests for information were made to Hon. Dallas P. Tonsager. The following are their information submissions for the record.

Insert 1

Mr. TONSAGER. We did establish the Memorandum. We are doing joint trainings between our people that are involved in business funding and trying to learn from each other regarding their abilities in business lending. Our program, of course, goes to very large loans where SBA is somewhat restricted in size. We advocate with clients regarding use of the SBA loans so we have our staff trained in how the SBA loans work. And if it is better suited for them in some cases, then we would advocate that they would pursue an SBA loan. And we also work more closely with lenders so we would have a group of business and industry loan lenders, some 1,800 banks that like to use our program. We try and coordinate—especially when both SBA and the B&I Program is in the same financial institution.

Mr. SCOTT. Do you have the information on the number or the percentage of businesses that you are involved in the initial or the startup funding that are in business after 3 years?

Mr. TONSAGER. I am sorry. I don't have that with me today but we will certainly provide it to you.

Between 2002 and 2008, based on readily available data, RBS identified a total of 3,731 loan guarantees to businesses. Of these 3,731 loan guarantees, almost 99 percent of the businesses receiving the guaranteed loans were still in operation 3 years after the date of loan obligation.

RBS identified 203 startup businesses receiving a loan guarantee under either the B&I Guaranteed loan program or REAP. Of these 203 start-up businesses, 97percent were still in operation 3 years after the date of loan obligation. (Note: Not all of the guaranteed loan data identified the date a business was established. Thus, the result on startups represents a subset of all loan guarantees made to startups.)

RBS does not track date of establishment for its grant programs.

Insert 2

Mr. HULTGREN. Thank you, Mr. Chairman.

Thank you for being here today. A couple questions. I understand that Rural Housing Service has been trying to get some access to the same employment data that HUD uses to verify tenants' incomes. What benefit would this earned income verification data provide to RHS and I wonder what is preventing you from using it?

Mr. TONSAGER. I will have to ask my folks what the status of that proposal. I thought we were getting close if not had gotten to that point yet. It would help with the evaluation of loan applications and its time limits of getting the loan applications done. Having information available would help us make sure the portfolio performs well and that we are making loans to eligible applicants as well as making sure that they get repaid. And I am sorry. I don't know if any of my staff knows for sure. We will have to report back on the status of that.

RHS is requesting in the 2013 Budget the authority to be added to the list of agencies permitted to utilize the Department of Health and Human Services' National Directory of New Hires Database. In order to have access to this data, specific authority in law must be granted. HUD has had this authority for over 10 years. It is the primary income verification system used by HUD, its public housing authorities, and multi-family property owners and management agents. Utilization of this system has substantially reduced instances of improper subsidy payment errors. This access would provide RHS with the ability to obtain accurate income and employment information, helping it to better manage RHS housing programs by ensuring the agency is providing the appropriate amount of housing subsidy based on the applicant's income. RHS would use the income matching information to determine multi-family tenants' eligibility for rental assistance as well as the eligibility of single family direct loan borrowers' for payment assistance.

In 2010, the White House's Domestic Policy Council created the interagency Rental Policy Working Group with the Departments of Treasury, Agriculture, and Housing and Urban Development. As part of its coordinating efforts, the Rental Policy Working Group has engaged state, local, individual and private stakeholders to identify administrative changes that could increase overall programmatic efficiency and further enhance the ability of communities to create and preserve affordable housing.

Insert 3

> Mr. HULTGREN. . . .
>
> GAO and others have proposed consolidation of the Rural Housing Programs with HUD. I wonder, do you think the rural areas would see the same attention under HUD's management as they currently receive?
>
> Mr. TONSAGER. I believe that we provide real opportunities to remote rural citizens. Forgive me for using the term *unique* for rural America, but the people in rural America don't make as much money. And our particular program, I think the guarantee program especially is well suited to rural communities in that we don't have a particular down payment requirement. We have been very successful in repayment to the point where for the program cost, it doesn't cost the taxpayers any money. There is cost, of course, with our system of delivery but not with the fee that we are assessing. We don't have a cost and the performance of the program has been very good.
>
> So, the uniqueness of the programs for housing addresses the needs of rural people and how to get that delivery in the far corners of rural America becomes the challenge for perhaps HUD and others if it were to be combined.

The President's budget does not support consolidation of RHS programs with HUD. The Rural Housing Service is the only Federal program mandated to serve exclusively the housing needs of Americans in rural areas. Since the 1950s, RHS has recognized the unique economics—and poverty—of rural America and the need for programs to fill the housing gap. Over the past 62 years, RHS programs have assisted nearly 3.5 million families with direct loans, guarantees of bank loans, and grants for home purchase and repair. Yet the need still exists to improve housing quality and affordability in rural areas.

It is noted that the delivery methods of HUD and RHS programs are vastly different. RHS programs are provided to recipients (either individuals or approved lenders) through a network of more than 400 offices where RD staff with local knowledge and expertise work one-on-one with the borrower to learn and meet their individual housing needs, whether it be purchase, repair or rental.

HUD programs are generally provided through third parties—nonprofits or contractors. These third party providers may not have the same investment or expertise in these rural communities, are generally not as attuned to local needs, and could prove more expensive in delivering our housing programs to low income families who still need our assistance.

Insert 4

> Mr. HULTGREN. If it were combined, I mean is there any expectation or what is the expectation of the amount of savings as you combine the programs as far as salaries being saved, expenses for the agency? . . .

We have not completed any in-depth study comparing the HUD and USDA housing programs or the advantages and disadvantages, financial and otherwise, of any plan to consolidate these programs. It is unlikely that there would be big savings, given that USDA has a large field office presence to offer the direct loans, which HUD doesn't have and would presumably need to add. In addition, the Rural Development mission area has three services: RHS, RBS and RUS. Taking away some programs from one of the services does not remove the need for the infrastructure expenses for the remainder of RD that stays within USDA.

Insert 5

> Mr. HULTGREN. . . . And then I wondered if there is a savings, how USDA would seek to reallocate those resources if there was a consolidation or savings of administrative costs?
>
> Mr. TONSAGER. I have not seen any particular identification of what those savings might be. I would say for the guarantee program particularly the amount of resources is pretty modest. We are working with private institutions. The financers are doing the great bulk of the work. Much of our work is monitoring of those loans in that case. The direct program costs more because it is more of a hands-on approach with individual people and helping them to get good credit. So I am sorry; I just don't have the information.

We have not completed any in-depth study comparing the HUD and USDA housing programs nor the advantages and disadvantages, financial and otherwise, of any plan to consolidate these programs. But our initial thoughts on the issue are that the savings would be minimal at best.

SUBMITTED QUESTIONS

Response from Hon. Dallas P. Tonsager, Under Secretary for Rural Development, U.S. Department of Agriculture

Questions Submitted By Hon. Henry Cuellar, a Representative in Congress from Texas

Question 1. What effect have recent budget cuts had on Rural Development agency operations nationwide?

Answer. The recent budget reductions pose challenges, both in terms of delivering programs and managing our portfolio. Staff reductions, to a certain extent, challenge RD's ability to deliver some programs in a timely manner and the agency will have higher training costs as remaining staff take on new and different responsibilities. Rural Development's administrative resources are contracting, while its program portfolio is expanding, putting tremendous strain on the resources available to manage the portfolio. RD's administrative budget has decreased by $61 million since Fiscal Year (FY) 2010. Staff levels have fallen by 1,000 since 2007, with 500 of that total occurring this FY 2012. RD's portfolio exceeds $165 billion and continues to grow, and the appropriated program level for FY 2012 is $38.9 billion. Meanwhile, we make portfolio and risk management top priorities as we strive to ensure the integrity of RD programs.

To address these challenges, RD agencies are making adjustments and developing systematic approaches in their business management. For example, the Rural Business Service (RBS) is reorganizing its staff to best meet the demands of each program. At the state level, RBS is providing training across programs to the field support staff, including continued training of 17 new or acting Business Program Directors. RBS continues to work with our network of 47 State Offices and their Business Program Directors and field staff to ensure successful delivery of all our programs. RBS just recently completed training on the energy programs across the country. In addition, RD continues to work with all of our partners, including our network of over 1,700 community banks participating in the Business and Industry guaranteed loan program and the cooperative organizations associated with our cooperative programs, leveraging our available resources to deliver RD business programs successfully.

The Rural Housing Service (RHS) is exploring a number of ways to achieve savings and still meet the housing needs in rural America. RHS has developed a new business model for delivery of the Section 502 Single Family Housing Guaranteed Loan Program (SFHGLP). The centralized structure model allows states to successfully and consistently deliver the program with a core group of specialists, technicians, and assistants. States are able to focus their time and knowledge specifically on the SFHGLP and offer more efficient and timely loan review and approval, consistent loan decisions, and increased customer satisfaction.

Similarly, the Single Family Housing (SFH) Direct Loan Program is promulgating a rule to create a formal process for designating qualified loan application packagers as agency-certified. The proposed rule will streamline application processing of SFH direct loan applications, reduce the burden placed on the smaller RHS staff and ensure that the program is successfully delivered to eligible participants through certified packagers.

The Rural Utilities Service (RUS) has also expanded coordination of the broadband buildout under the Recovery Act to our State Offices in order to assist with program delivery. Rural Utilities Service is also working more closely with other Federal agencies to better coordinate delivery of similar programs and, where possible, use a regional approach to leverage economies of scale in infrastructure funding.

RD is also engaged in a number of strategies to ensure that taxpayer dollars are used in the most strategic way to make the biggest difference. For example, several RD programs are supporting regional and community economic strategies that leverage resources and broaden the scope of project activity. These efforts are often inclusive of communities hardest hit by economic downturns or persistent poverty conditions. RD has also been active in supporting the Stronger Economies Together (SET) initiative which supports the development of regional economic solutions. These initiatives encourage and engage direct community involvement as well as multi-county and multi-state collaboration. Promoting a more regional or collaborative deployment of resources allows RD to target or concentrate resources in a particular area, which can in turn bring economic relief to all communities within the project area.

Question 1a. What about specifically in Texas?

Answer. While the reduction in staff throughout Texas has resulted in some temporary delays in program delivery, RD has been working there to implement many of the initiatives described above as part of its national strategy for tackling the challenges associated with the recent budget cuts.

Allocations of RD program funds to states are based on formulas using decennial Census data (see answer to *Question 2.* below); therefore, the reduction impact in program levels on Texas is same, in terms of percentage of change, as the national changes noted above.

The following table shows the program dollar investments in Texas between FY 2009 and FY 2011:

Program	2009	2010	2011
Single Family Housing Direct	$34,100,489	$75,123,994	$59,942,101
Single Family Housing Guaranteed	$731,761,082	$892,012,446	$826,636,595
Rural Rental Housing	$749,799	$0	$287,128
Rental Assistance	$38,670,524	$40,038,544	$47,267,993
Community Facilities Direct	$8,529,137	$40,311,837	$58,928,708
Community Facilities Guaranteed	$10,802,500	$17,400,000	$5,605,000
Community Facilities Grants	$6,117,682	$6,493,968	$1,047,990
Water and Waste Disposal Direct	$56,068,030	$103,326,500	$44,382,000
Water and Waste Disposal Grants	$35,563,168	$23,389,623	$28,372,415
Business and Industry Guaranteed	$50,599,965	$134,259,920	$43,000,281
Rural Business Enterprise Grants	$3,042,310	$1,739,000	$1,402,000
Intermediary Relending Program	$1,500,000	$750,000	$998,000
Multi-family Housing Guaranteed	$8,636,900	$4,960,000	$1,500,000
Home Repair Loans and Grants	$3,364,569	$3,857,483	$3,554,827
Farm Labor Housing Program	$5,222,085	$3,000,000	$10,781,390
Electric	$262,066,000	$545,395,000	$376,602,000
Telecom	$11,185,641	$241,517,260	$26,285,759
Value-Added Program Grants	$0	$662,500	$0
Renewable Energy Loans and Grants	$413,243	$1,767,149	$19,460,104
Self Help Program	$293,000	$607,945	$619,445
Totals	$1,268,686,124	$2,136,613,168	$1,556,673,737

We anticipate that the FY 2012 budget and requested amounts for FY 2013 will be sufficient to fund qualified applications consistent with other states. Electric and Telecommunications funds are not allocated by state, so we cannot currently determine the impact program spending might have on Texas projects.

Question 1b. Has a shortage of operational or administrative costs limited the effectiveness and availability of programs to those wishing to apply?

Answer. For most RD programs, the shortage of operational and administrative costs has challenged delivery, but RD has worked to ensure the effectiveness and availability of our programs to applicants. There are three programs, however, that have been affected:

- The Rural Microentreprenuer Assistance Program (RMAP). Section 726 of the Consolidated and Further Continuing Appropriations Act of 2012 limited RD salaries and expenses from utilizing salary and expense appropriations to carry out the RMAP program. This has resulted in RBS being unable to accept any applications in FY 2012 for this program.
- Rural Energy for America Program (REAP). Section 726 of The Consolidated and Further Continuing Appropriations Act of 2012 limited RD salaries and expenses for delivering REAP such that RBS can only fund projects totaling $22 million out of the mandatory $70 million provided in the 2008 Farm Bill for the program. This reduction in available administrative funds will limit the number of projects funded.
- Bioenergy Program for Advanced Biofuels (9005). Section 726 of the Consolidated and Further Continuing Appropriations Act of 2012 limited RD salaries and expenses for delivering the 9005 program such that RBS can only can only make payments totaling $65 million out of the mandatory $105 million funding provided in the 2008 Farm Bill. This reduction will limit the support to advanced biofuel producers.

Question 2. How are state allocations of rural development determined?

Answer. **Rural Business Service**

State allocations are made on an annual basis and calculated as program level amounts, not by budget authority. State allocations are made for the following programs:

- Business and Industry Guaranteed Loans

- Rural Energy for America
- Rural Business Enterprise Grants
- Intermediary Relending Program

The same basic formula criteria, data source, and weight are used for each of these four programs in determining state allocations. For FY 2012, the 2000 Census data was used.

The basic formula takes a number of criteria that reflect the funding needs for a particular program and through a normalization and weighting process for each of the criteria calculates the basic state factor (SF). The criteria used in the basic formula are:

- State's percentage of national rural population
- State's percentage of national rural population with incomes below the poverty level
- State's percentage of national nonmetropolitan unemployment

Each of the three criteria is assigned a specific weight according to its relevance in determining need. The percentage representing each criterion is multiplied by the weight factor and summed to arrive at a state factor (SF). The SF cannot exceed 0.05.

SF = (State's percentage of national rural population $\times$ 0.5) + (State's percentage of national rural population with incomes below the poverty level $\times$ 0.25) + (State's percentage of national nonmetropolitan unemployment $\times$ 0.25)

- State's percentage of national nonmetropolitan unemployment

The amount allocated to a state for a program is calculated by multiplying the state's State Factor by the amount available for allocation for that program less the sum of the amount held in reserve by the National Office plus the total base and administrative allocation for that program:

SF $\times$ (Amount available for allocation $-$ (National Office Reserve + total base and administrative allocations))

Each program identifies a "base allocation." The "base allocation" is the minimum amount that will be allocated to the state. If the allocation formula results in an amount less than a program's base allocation, RBS will allocate that state the base allocation. For example, in FY 2012, the base allocation for the Business and Industry Guaranteed Loan program is $5 million. If the formula calculated an allocation of $3.5 million for State A, the Agency would allocate $5 million to State A. For FY 2012, the base allocations for the four programs are:

- Business and Industry Guaranteed Loans—$5 million
- Rural Energy for America—$50,000 for loan and grant allocations; $20,000 for grant allocations of in the amount of $20,000 or less
- Rural Business Enterprise Grants—$72,000
- Intermediary Relending Program—$150,000

Rural Housing Service

The allocations are need based per state. For instance, the criteria for the Section 502 Direct loan program include: State's percentage of the national number of rural occupied substandard units (25% weight); state's percentage of national rural population (10%); State's percentage of the national rural population in places of less than 2,500 population (15%); State's percentage of the national rural households between 50 and 80 percent of median income (30%); and, State's percentage of the national number of rural households below 50 percent of area median income (20%).

We use the decennial Census for our allocation formulas. The allocation formulas for Fiscal Year 2012 were based on the 2000 Census data. While the allocation formulas for the other SFH programs vary, all are based on the size and need and the decennial Census.

Multi-Family Housing loan and grant funds are not usually allocated by state. Multi-Family Housing publishes annual notices soliciting applications from the national office, for loans in its Section 515 direct and Section 538 guaranteed loan programs, and grants and loans in its Section 514/516 Farm Labor Housing and Preservation and Revitalization programs. Funding awards are made on a case-by-case basis, based on the applications' scores and feasibility of the transactions involving the loans or grants (as determined by Rural Housing's underwriting of the loan). Housing Preservation Grants are allocated to states based on a formula factor published by RHS.

Community Facilities (CF) Direct and Guaranteed loan funds are allocated to states based on a formula that contains the following three criteria and weights: (1) State's percentage of national rural population (50%), (2) State's percentage of national rural population with incomes below the poverty level (25%), and (3) State's percentage of national nonmetropolitan unemployment (25%). CF Grant funds are allocated to states based on a formula that contains the following two criteria and weights: (1) State's percentage of national rural population (50%), and (2) State's percentage of national rural population with incomes below the poverty level (50%). The National Office generally retains a reserve of 10 percent of the appropriated amounts for CF to fund high priority projects when a state has insufficient funds.

Rural Utilities Service

In RUS Water and Waste Programs, funds are allocated to states based on a formula derived by guidance in the statute and codified in our regulations. The formula is based upon the latest decennial Census data for rural population, rural poverty and rural unemployment. The weighting of the criteria is established in RUS 1780 regulation, which is 50 percent for rural population and 25 percent each for rural poverty and rural unemployment.

Electric and Telecommunications funds are not allocated by state.

Question 2a. Do these allocations take into account operational costs?

Answer. RD does not take into account operational costs when making state allocations.

Question 2b. Or are allocations need based, or based on population or land area?

Answer. Allocations are generally based on the basic parameters: rural population, poverty and unemployment. Thus, rural population is directly accounted for in the allocation process. To the extent "need" is reflected by a state's poverty and unemployment rates, then the allocation takes into account "need."

Land area is not included in the allocation process.

Question 3. Are agencies, such as yours, communicating with other agencies doing similar work in similar areas?

Answer. USDA works closely with other agencies such as SBA and HUD to better coordinate overall policy and leverage opportunities for our customers. In particular, the White House Rural Council builds on other interagency relationships to increase coordination and leveraging. Through collaboration, USDA Rural Development is able to utilize its unique field office structure, which allows the Federal Government to maintain a local presence in the rural communities we serve. Other Federal partners do not have a local presence in these communities that can assist in the development and growth of the community, and thus USDA can facilitate those agencies' ability to reach local communities directly.

Question 3a. If not, is there a reason for a lack of information sharing?

Answer. Not applicable.

Question 3b. If so, can you provide examples of these partnerships?

Answer. Examples are provided below.

- USDA and the Small Business Administration (SBA) are working together to bring private equity and venture capital investors together with start-up rural businesses, especially at the state and local level where they frequently collaborate to conduct outreach and training events. Through the White House Rural Council, SBA and RBS partnered to host a series of six roundtable discussions on increasing private investment capital for rural small businesses in FYs 2011–2012. This effort includes partners from the financial industry, Farm Credit Administration, and state agencies. The two agencies also established a working group to create consistent and streamlined application processes.

  USDA and SBA also meet regularly to discuss new partnership opportunities, including joint lending for projects. Each agency's unique lending parameters create leverage opportunities and the impact of this leveraging increases access to capital for rural businesses. For example, a rural business can use a Business and Industry (B&I) loan guarantee for the purchase of real estate and also use an SBA guarantee for working capital or equipment. The impact of this leveraging for rural businesses is increased access to capital.
- A formal Memorandum of Understanding (MOU) with the Housing and Urban Development (HUD) describes the cooperation between RHS and HUD on cross-checking disaster assistance recipients.
- The Federal Interagency Partnership for Colonias, farm workers and rural communities connects Federal, state, and local government agencies and community organizations, such as legal aid groups, to discuss and solve legal problems that impact Colonias and migrant farmworker communities. On June 12, 2012,

USDA, the U.S. Department of Housing and Urban Development (HUD), and the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) announced a joint "Border Community Capital Initiative" (Border Initiative), a collaboration designed to increase access to capital in the U.S./Mexico border region which includes some of the poorest communities in the country. The three agencies signed a Memorandum of Understanding that will offer up to $200,000 to nonprofit and/or tribal financial institutions serving *colonias* for direct investment and technical assistance focusing on affordable housing, small businesses, and community facilities.

- Single Family Housing Guaranteed Loan Program (SFHGLP) partners with the Department of Housing and Urban Development (HUD) in evaluating applications via an automated underwriting system. Automated underwriting systems are an efficient, consistent, objective and accurate method of mortgage underwriting compared with traditional manual methods. RHS's automated underwriting system is known as the Guaranteed Underwriting System (GUS) and uses a modified version of HUD's scorecard to measure an applicant's ability to repay the mortgage debt as agreed. Collaboration between Rural Development and HUD has led to recent changes in the mortgage scoring utilized by the Agency.
- RD collaboration with the Department of Homeland Security/Federal Emergency Management Agency and the Federal Communications Commission to improve access to emergency communication systems and disseminate critical information to rural communities. The Community Facilities Direct and Guaranteed Loan and Grant programs can support public safety licensees by funding necessary equipment and upgrades. These improvements will help these licensees in meeting the Federal Communications Commission's mandatory narrow banding deadline of January 1, 2013.
- MOU between USDA and Environmental Protection Agency (EPA) on improving sustainability of rural water and waste systems. Since the MOU has been in effect, both agencies have worked together and with rural stakeholders to: encourage partnering of funding across the agencies; develop sustainability assessment tools, promote the hiring of Veterans by rural water and waste systems (in partnership with the Veterans Association), conduct webinars to promote system partnerships in rural areas (two so far—Ohio and Kentucky), and conduct rural water and waste sustainability workshops. (March 13 in Michigan; May 9 in California, one other by the end of the FY 2012).
- USDA is a key member of the Interagency Infrastructure Task Force (ITF), chaired by EPA and including USDA, HUD, Indian Health Service and Department of Interior, that is working to improve access and sustainability in Native American and Alaskan Native Communities. The current focus of the task force is on sustainable tribal utilities. Recent activities include hosting a series of calls featuring presentation from Tribal Utilities on successful efforts and the unique challenges of providing and sustaining water and waste utilities in tribal communities.
- RD executed a MOU with the Department of Health and Human Services (HHS) to improve collaboration and to strengthen healthcare infrastructure in rural America. To help meet the health care needs of rural America, USDA RD and HHS's Office of the National Coordinator for Health Information Technology and Health Resources and Services Administration are partnering to leverage resources to increase the availability of capital for healthcare facilities and health information technology, with the goal of improving the accessibility and quality of medical services in rural communities.
- RD coordinates with the Department of Energy on a variety of smart grid, energy efficiency and renewable energy initiatives, and with the EPA on emissions regulations. RD has also been active in interagency policy development related to broadband deployment, public safety communications and critical infrastructure with the Commerce Department's National Telecommunications Information Administration.
- USDA is coordinating with other Federal and state agencies to improve the water and waste disposal infrastructure application process across funding agencies. To that end, USDA is chairing a working group that is seeking to standardize a key component of the application process (the Preliminary Engineering Report) with the goal of adoption by Federal and state funders. USDA is also leading a similar effort through the ITF that would be implemented by all Federal funders of tribal water and waste infrastructure.

Interaction continuously occurs at our 47 State Offices with groups such as state housing finance agencies, state regulators and support groups. Our most effective interaction with outside groups occurs at the local office level. Staff in each of 400+ offices is embedded in rural communities and are aware of the assistance available locally. They work closely with local governments, community action agencies, church and business groups, lenders and others to achieve the mission of our programs.

Question 4. Have you reviewed the GAO report how agencies working in rural water areas on the border are doing duplicative work (Rural Water Infrastructure—Improved Coordination and Funding Processes Could Enhance Federal Efforts to Meet Needs in the U.S.-Mexico Border Region) and are you implementing any of the recommendations the report recommends, or would need congressional authorization to move forward?

Answer. RD is proud of the assistance we have provided to the Colonias regions for development of water and waste disposal infrastructure projects. Since 2007, more than $130.4 million has been invested by Rural Development in water and waste infrastructure projects to serve Colonias areas, benefiting approximately 143,000 individuals.

On March 9, 2012, we proposed modifications to RUS regulations that would improve targeting of funds provided by Congress for the Colonias to those areas with the least access to water and waste infrastructure. The comment period closed on May 8, 2012, and a final regulation will follow later this summer.

We coordinate at the state and Federal levels with other funding agencies on Colonias projects and continue to strengthen our relationships to ensure that we are working together to better serve the Colonias. As part of our plan for improving delivery to the Colonias, we had planned to initiate and lead a comprehensive outreach effort which would include USDA's Federal, state and local partners and stakeholders.

Questions Submitted By Hon. Peter Welch, a Representative in Congress from Vermont

Question 1. The Value-Added Producer Grant Program, or VAPG, provides competitive grants to our nation's agricultural producers to establish value-added, and producer-owned, enterprises. Grant funds can be used for one of two purposes. First, grants are awarded for developing business plans and feasibility studies. In other words, the program works to ensure that the businesses our producers are creating will be viable and sustainable in the long-term, which is smart. Second, grants are awarded for working capital to operate these value-added businesses. In these cases, applicants must show they've done their homework and that they have the business plan and feasibility study in place.

Answer. Correct. That is how the Value-Added Grant Program is delivered.

Question 2. VAPG is a popular and unique program, because it helps farmers increase their share of the food dollar and improve farm incomes, and because it helps create jobs in farming communities. What's more, there's nothing else like it. It's the only competitive grants program for agricultural producers to add value to their products and thus to add value to our economy. Many of my colleagues on the committee have constituents that received grants earlier this year.

Answer. Yes. That is how the program works

Question 3. Can you speak to the uniqueness and success of VAPG in contributing to rural economic development and job creation?

Answer. The Value-Added Producer Grant (VAPG) program is unique in that it provides the funding that allows independent agricultural commodity producers, agricultural producer groups, farmer and rancher cooperatives, and majority controlled producer-based business ventures to participate in the economic returns found in the value-added markets. Grants assist awardees in conducting feasibility studies to develop business plans and strategies for creating marketing opportunities and to provide capital to establish alliances or business ventures that enable producers to better compete in domestic and international markets. In addition to promoting creative, innovative and resourceful businesses, VAPG funds facilitate greater participation in emerging and new markets for value-added products and allow producers to capture a larger share of the marketing margin—essentially converting them from commodity producers to value-added business entrepreneurs.

The VAPG program has had positive impacts for both rural economic development and agricultural producers in that it has provided for the resources needed to expand market share and encourage producers to invest in ideas that would lead to value-added enterprises. This investment has resulted in more of the marketing margin accruing to producers in both existing and new value-added businesses. Examples of projects to illustrate the success of VAPG are:

- **MOO-ville Creamery.** In 2005, MOO-Ville creamery in Nashville, MI, was in the process of installing a dairy processing plant, but needed help with funding the operations. It received a VAPG that provided critical working capital to allow it to purchase inventory, pay personnel expenses, provide training to employees and buy a lighted sign. The VAPG award allowed the operation to continue, and they now operate a retail store on property where they sell milk, ice cream and cheese made from milk from their dairy operation. It also sells to restaurants, coffee shops and retail stores.
- **San Miguel Produce.** Located in Oxnard, California, San Miguel Produce is an independent producer of organic and conventional cooking greens. In 2009, it received a $299,874 VAPG working capital grant for socially disadvantaged farmers and ranchers. With this grant, San Miguel Produce has been able to expand markets for their "Cut 'n Clean Green" products and increase revenues over 500 percent.
- **The Country Pumpkin.** The owner of the Country Pumpkin in Sutton, Nebraska, started raising pumpkins at the age of 13 as part of his SAE (Supervised Agricultural Experience) project for FFA. The pumpkins were sold off a trailer that was parked at the end of their driveway. Today the Country Pumpkin has grown to offer more than 50 varieties of pumpkins, squash, gourds, and ornamental corn including many heirloom varieties. A few years ago, the owner recognized the need to extend the September and October pumpkin market to something that could be sold year round. In 2009, the owner applied for an $86,150 VAPG planning grant to look into products that could be made from pumpkins. The feasibility study was completed by the Food Processing Center at the University of Nebraska and showed that there was a market for the pumpkin puree and identified several businesses that were interested in buying the fresh, locally grown pumpkin puree.
- **Champlain Orchards.** In 2009, Champlain Orchards in Shoreham, Vermont received a $146,959 VAPG working capital grant to expand value-added processing and marketing of apples, peaches, small fruit and vegetables grown on the farm. The young owners, who now operate the 100 year old family-owned farm, strive to preserve the best traditions of Vermont apple farming, while tapping the best of new farming advances. Expanding their processing and marketing will help increase sales of value-added products by $1 million over a three year period. In the early months after receiving the award, there was an increase in gross income of 19 percent and an increase in cider sales of 8 percent as a result of this VAPG.

Question 3a. Can you also speak the demand for this program to help inform strengthened funding for the program in the new farm bill?

Answer. Since the program was established in 2001, we have been able to make awards to about 33 percent of the producers applying to the program and to fund about 30 percent of the funds being sought. Specifically, since 2001, RD has received 5,256 applications seeking approximately $809 million and has been able to make 1,730 awards for over $241 million. Since 2009, Rural Development has received 1,063 applications requesting approximately $136.5 million. For this 3 year time period, RD has funded 495 projects totaling $62.7 million.

Since 2001, the VAPG program has assisted over 1,700 individual producers, cooperatives, and other rural entrepreneurs establish value-added agriculture businesses and increase their economic well being across rural America. While the demand for funding has historically exceeded supply, awards from this nationally competitive program have reached each of the 50 states and Puerto Rico during this same time period.

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