AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

HEARING TO REVIEW RURAL DEVELOPMENT PROGRAMS OPERATED BY THE U.S. DEPARTMENT OF AGRICULTURE AND STATUS OF AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS FOR THESE PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT, BIOTECHNOLOGY, SPECIALTY CROPS, AND FOREIGN AGRICULTURE

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

JUNE 10, 2009

Serial No. 111–18



Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PRINTING OFFICE

52–649 PDF WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON AGRICULTURE

COLLIN C. PETERSON, Minnesota, *Chairman*

TIM HOLDEN, Pennsylvania, *Vice Chairman*
MIKE MCINTYRE, North Carolina
LEONARD L. BOSWELL, Iowa
JOE BACA, California
DENNIS A. CARDOZA, California
DAVID SCOTT, Georgia
JIM MARSHALL, Georgia
STEPHANIE HERSETH SANDLIN, South Dakota
HENRY CUELLAR, Texas
JIM COSTA, California
BRAD ELLSWORTH, Indiana
TIMOTHY J. WALZ, Minnesota
STEVE KAGEN, Wisconsin
KURT SCHRADER, Oregon
DEBORAH L. HALVORSON, Illinois
KATHLEEN A. DAHLKEMPER, Pennsylvania
ERIC J.J. MASSA, New York
BOBBY BRIGHT, Alabama
BETSY MARKEY, Colorado
FRANK KRATOVIL, JR., Maryland
MARK H. SCHAUER, Michigan
LARRY KISSELL, North Carolina
JOHN A. BOCCIERI, Ohio
SCOTT MURPHY, New York
EARL POMEROY, North Dakota
TRAVIS W. CHILDERS, Mississippi
WALT MINNICK, Idaho

FRANK D. LUCAS, Oklahoma, *Ranking Minority Member*
BOB GOODLATTE, Virginia
JERRY MORAN, Kansas
TIMOTHY V. JOHNSON, Illinois
SAM GRAVES, Missouri
MIKE ROGERS, Alabama
STEVE KING, Iowa
RANDY NEUGEBAUER, Texas
K. MICHAEL CONAWAY, Texas
JEFF FORTENBERRY, Nebraska
JEAN SCHMIDT, Ohio
ADRIAN SMITH, Nebraska
ROBERT E. LATTA, Ohio
DAVID P. ROE, Tennessee
BLAINE LUETKEMEYER, Missouri
GLENN THOMPSON, Pennsylvania
BILL CASSIDY, Louisiana
CYNTHIA M. LUMMIS, Wyoming

PROFESSIONAL STAFF

ROBERT L. LAREW, *Chief of Staff*
ANDREW W. BAKER, *Chief Counsel*
APRIL SLAYTON, *Communications Director*
NICOLE SCOTT, *Minority Staff Director*

SUBCOMMITTEE ON RURAL DEVELOPMENT, BIOTECHNOLOGY, SPECIALTY CROPS, AND FOREIGN AGRICULTURE

MIKE MCINTYRE, North Carolina, *Chairman*

BOBBY BRIGHT, Alabama
JIM MARSHALL, Georgia
HENRY CUELLAR, Texas
LARRY KISSELL, North Carolina
WALT MINNICK, Idaho

K. MICHAEL CONAWAY, Texas, *Ranking Minority Member*
DAVID P. ROE, Tennessee
GLENN THOMPSON, Pennsylvania
BILL CASSIDY, Louisiana

ALETA BOTTS, *Subcommittee Staff Director*

CONTENTS

Page

Conaway, Hon. K. Michael, a Representative in Congress from Texas, opening statement 5
McIntyre, Hon. Mike, a Representative in Congress from North Carolina, opening statement 1
Prepared statement 4
Peterson, Hon. Collin C., a Representative in Congress from Minnesota, prepared statement 6

WITNESSES

Tonsager, Hon. Dallas P., Under Secretary for Rural Development, U.S. Department of Agriculture, Washington, D.C. 7
Prepared statement 8
Fong, Hon. Phyllis K., Inspector General, Office of Inspector General, U.S. Department of Agriculture, Washington, D.C. 12
Prepared statement 13
Rivenbark, Hon. Franklin D., Commissioner, Pender County, North Carolina; Member, Agriculture and Rural Affairs Steering Committee, Rural Action Caucus Steering Committee, National Association of Counties (NACo); Past Vice Chairman, Rural Development Subcommittee, NACo, Burgaw, NC 27
Prepared statement 29
Martin, Debra, Director, Great Lakes Rural Community Assistance Partnership, WSOS Community Action Commission, Fremont, OH 36
Prepared statement 37
Supplementary material 62
Sanchez, Hon. Chandler, Governor, Pueblo of Acoma, Acoma, NM; on behalf of National Congress of American Indians 41
Prepared statement 42
Anderton, Doug, General Manager, Dade County Water and Sewer Authority; Vice President, National Rural Water Association; President, Georgia Rural Water Association, Trenton, GA 48
Prepared statement 49
Duck, Tom, Executive Director, Texas Rural Water Association, Austin, TX 51
Prepared statement 53

SUBMITTED MATERIAL

Hoelmer, David R., Senior Vice President and General Counsel, AgStar Financial Services, ACA, submitted letter 61
Submitted questions 65

HEARING TO REVIEW RURAL DEVELOPMENT PROGRAMS OPERATED BY THE U.S. DEPARTMENT OF AGRICULTURE AND STATUS OF AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS FOR THESE PROGRAMS

WEDNESDAY, JUNE 10, 2009

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

The Subcommittee met, pursuant to call, at 10:05 a.m., in Room 1300, Longworth House Office Building, Hon. Mike McIntyre [Chairman of the Subcommittee] presiding.

Members present: Representatives McIntyre, Cuellar, Kissell, Conaway, and Cassidy.

Staff present: Aleta Botts, Claiborn Crain, Tyler Jameson, John Konya, Scott Kuschmider, Rebekah Solem, Patricia Barr, Mike Dunlap, and Jamie Mitchell.

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

The CHAIRMAN. This hearing of the Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture to review Rural Development programs operated by the U.S. Department of Agriculture and the status of the American Recovery and Reinvestment Act funds for these programs and their review will now come to order.

My name is Mike McIntyre. As Chairman of the Subcommittee, I want to welcome each of you to be here with us this morning. Thank you for your patience and thank you for joining us.

We want to welcome everyone to review the rural development programs and the funding for these programs provided in the economic stimulus legislation that Congress passed earlier this year. Thank you for being here as we examine this topic. And I especially want to thank our witnesses, many of whom I have already spoken to just prior to the top of the hour. We appreciate your time and your efforts in coming today, and also the testimony you will soon be giving.

This is the first appearance of Mr. Tonsager before our Subcommittee in his new role as Under Secretary for Rural Development, and we look forward to working with him for the benefit of rural areas throughout our country. Thank you, particularly, for being with us today.

Back on the very first week of the 111th Congress, in this very room—before the Agriculture Committee had even fully organized—some of you were there that day—especially some of our staff folks—but some others from national organizations came. I wanted to make sure we had an economic roundtable, literally, at that table as we sat around and we talked about some of the concerns that we had, and whether or not rural areas would be included in the stimulus package. Unfortunately, there was not much attention given to rural areas.

That week was a critical week because, being the very first week the new Congress was in session and when the hot topic, nationally, was the economic stimulus package that was being proposed, we wanted to make sure that taxpaying citizens of rural areas of America were not left out.

Indeed, as we discussed further the infrastructure needs faced by rural communities and how rural areas were faring in the difficult economic environment, we realized more and more that there needs to be an emphasis on rural areas receiving assistance. That included not only the water and wastewater concerns but also rural broadband, and making sure we had essential help with regard to rural facilities.

Thankfully, in light of that hearing, also my good friend Jim Clyburn, who hails from the adjoining state, South Carolina, just south of where I live in North Carolina, and others, our voices were heard and rural areas were included in the final economic stimulus package, much more so than they would have been initially or otherwise.

So today we have come full circle now. The economic stimulus package has passed, of course, and we now have opportunity for implementation of some of the economic stimulus programs.

Once the bill became law in February, I had announced the Subcommittee would hold hearings to provide necessary oversight of USDA's expenditures of this historic level of funds provided for rural economic development. So this is the first of those hearings to look back now on where we are, and where we are going, with regard to the actual use of funds to make sure we are getting the best for our taxpayer dollars, the most bang for our buck, if you will. We want to make sure we hear about the progress of those programs via the stimulus package.

We also intend to hold a hearing in early July on another large part of that spending, and that will be particularly on rural broadband.

Those of us who believe that the heartbeat of America continues to beat loudest in the quietest of our rural areas, we are pleased to see the funds that we have allocated go to the needs of rural areas. The American Recovery and Reinvestment Act authorizes $4.36 billion in budget authority over 2 years for Rural Development Loan and Grant programs, supporting a total level of $24.37 billion. Five programs receive funds through this particular legisla-

tion: Rural Water and Water Disposal, Rural Housing and Community Facilities, Rural Businesses, and Rural Broadband.

Congress did not allocate those funds without serious consideration to the programs receiving the funds, and without serious questions as to whether the agencies involved would be able and ready to handle the task of investing these funds in our rural areas with sufficient oversight.

If the funds were left unspent or, even worse, if they were expended on uses which Congress did not intend, then any stimulus would be lost.

Time is critical. We realize that the taxpayers are really ready to see what bang for their buck that they are getting with the stimulus package. Now that we are almost halfway through this year, we want to make sure that we are going to see how the stream of those economic stimulus dollars are being spent. That accountability is the least we owe the taxpayers and, beyond that, we want to make sure they are being efficiently spent.

Many of the programs in question within our jurisdiction with rural development have been in existence for years. So we have the great advantage that in our plea to get money for rural development and help through the stimulus package, we have had personnel in place in many agencies, around the country, ready to provide that effective relief, work, and oversight.

Thus far, while a significant amount of funds have been obligated for rural water, rural housing, and rural community facilities, no funds have been obligated yet either under rural business, or rural broadband. As I mentioned a while ago, we will have a separate hearing on rural broadband due to the significant technical and unique issues related to that category. Right now, I would just say I am very interested in the publication of both the broadband funding notice and the broadband loan regulation that are currently pending, and we will eagerly await those as we look ahead to the end of this month and into our hearing in early July.

Ultimately, Congress and this Subcommittee need to ensure that rural development programs are run efficiently and effectively, and we want to make sure that as we request new dollars for rural areas in the future we can show that the existing dollars are being spent wisely and appropriately.

The funds provided in the stimulus legislation are not the only source of Federal rural investment. The regular appropriation for these programs also provides a significant infusion of funds, and we would like to hear how all of these funds are being tracked by the agencies charged with these programs, and any problems that may be arising as interested applicants pursue funding for these programs either through the stimulus, or through regular funding.

I know that each weekend that I am home, and that many of my colleagues I am sure as well have heard, people want to know: How do I access; how can I get help; who can I call so I don't go through just a bunch of bureaucratic entanglement? All of us here in Congress, also in the Executive Branch, and I know those representing organizations and rural communities that are also in attendance, or who may be watching or listening to this hearing, want to improve on what opportunities are available in rural areas and make

investments in the key infrastructure for the benefit of today's rural citizens for future generations.

We want to make sure that through the actions of the Federal Government that thousands of communities have benefited, will continue to benefit, and that they can benefit from new or refurbished safe water systems, rebuilt health care centers, or new libraries with upgraded technologies, and we want to make sure that these funds that have been provided in the stimulus are used wisely.

I encourage the witnesses today to use the 5 minutes provided for their statements to highlight the most important points in their testimony. Please do not read your testimony unless you can complete it within the 5 minutes, or unless you can read just the highlights and complete those within the 5 minutes.

Pursuant to Committee rules, testimony by witnesses along with questions and answers by Members of the witnesses will be stopped at 5 minutes. However, your complete written testimony will be submitted in its entirety in the record.

[The prepared statement of Mr. McIntyre follows:]

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

Good morning, and welcome to today's hearing to review rural development programs and funding for these programs provided in the economic stimulus legislation Congress passed earlier this year. I want to thank all of you for being here as we examine this important topic, and I want to especially thank our witnesses who will be testifying before us today. This is the first appearance of Mr. Tonsager before our Subcommittee in his new role as Under Secretary for Rural Development, and we look forward to working with him for the benefit of rural areas in this nation.

In January of this year, during the first week this Congress was in session, I joined several organizations working with rural communities to point out the significant infrastructure needs faced by these communities and how rural areas were faring in the current difficult economic environment. As a result, we were able to secure funds within the stimulus package to address some of the needs for rural water systems, rural broadband, and essential community facilities. I promised in March that we would be holding hearings on these programs to provide oversight over their operations and the expenditure of this historic level of funds provided for rural economic development. This is the first of those hearings and we intend to hold a hearing in July on another large part of that spending—rural broadband.

Those of us who believe the heart beat of America sometimes beats loudest in the quietest rural places were pleased to see these funds allocated to the needs of rural areas. The American Recovery and Reinvestment Act authorizes $4.36 billion in budget authority over 2 years for rural development loan and grant programs, supporting a total program level of $24.37 billion. Five programs received funds through this legislation: rural water and waste disposal, rural housing, rural community facilities, rural business, and rural broadband.

Congress did not allocate those funds without serious consideration of the programs receiving the funds and without serious questions as to whether the agencies involved were up to the task of investing these funds in our rural areas with sufficient oversight. After all, if the funds went unspent, or even worse, were expended on uses for which Congress did not intend, any "stimulus" would be lost. Fortunately, many of the programs in question have been in existence for many years, with personnel in place both nationally and in the states to help provide effective oversight.

Thus far, while a significant amount of funds have been obligated for rural water, rural housing, and rural community facilities, no funds have been obligated under either the rural business or rural broadband programs. As I mentioned, this Subcommittee will be holding a separate hearing on rural broadband due to the significant technical and unique issues related to this category of program. Right now, I would just say that I am very interested in the publication of both the broadband funding notice and the broadband loan regulation that are currently pending, and I look forward to the hearing we will be having on this program in early July.

Ultimately, Congress and this Subcommittee need to ensure that rural development programs are run efficiently and effectively for the benefit of the U.S. taxpayer and for the benefit of the rural areas they are designed to assist. We cannot in good conscience request new dollars for rural areas if existing dollars are not spent responsibly and tracked appropriately.

The funds provided in the stimulus legislation are not the only source of Federal rural investment. The regular appropriation for these programs also provided a significant infusion of funds. I am interested in hearing how all of these funds are being tracked by the agencies charged with these programs and any problems that may be arising as interested applicants pursue funding from these programs, either through the stimulus or regular annual funding streams.

I believe that all of us here—in Congress, from the Executive Branch, and representing organizations and rural communities—want to improve on what opportunities are available in rural areas and make investments in key infrastructure for the benefit of today's rural citizens and future generations. Through actions by the Federal Government, thousands of communities have benefited over the years from new or refurbished safe water systems, rebuilt healthcare centers, or new libraries with upgraded technologies. More recently hundreds of rural communities have benefited already from the funds provided in the stimulus. Nevertheless, if rural communities are going to continue to be helped by these programs, we should continue to examine ways to make them more relevant to communities' needs and make sure every dollar is spent toward making a rural community a better place for our rural citizens.

The CHAIRMAN. At this time I would like to recognize the Ranking Member of the Subcommittee, Representative Mike Conaway, for any opening comments that he may have.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. CONAWAY. Thank you, Mr. Chairman. I too am pleased that we have this opportunity to hear testimony today regarding the investment in rural America. I appreciate the time that each of our witnesses has put into preparing their remarks, and look forward to hearing their comments. I am especially excited to hear from Tom Duck with the Texas Rural Water Association and his ideas on Wastewater Program issues in Texas.

Rural America is one of the great economic machines of our economy, providing food, fiber, and fuel to the U.S. and the world. Our farmers, ranchers, and small businesses contribute to an agriculture industry which exports a fourth of its production and consistently maintains a trade surplus. Wise investment in education, infrastructure, and technology are important to a vibrant rural America.

This year, we are monitoring the implementation of the 2008 Farm Bill, which helped to refine and refocus our approach to rural development. This included an authorization for an additional $120 million to address a backlog in water and wastewater applications.

The farm bill also authorized funding for rural business opportunity grants, the rural Microentrepreneur Assistance Program, a rural collaborative business investment program, and a comprehensive rural broadband strategy.

This Subcommittee is also closely watching how funds for the stimulus bill are being disbursed. The stimulus was an imperfect approach to an economic policy with an unprecedented increase in the size and cost of government. However, now that it is in place, it is incumbent upon Congress to ensure that when the Administration spends over a trillion dollars authorized in the stimulus, it is directed to areas with the greatest impact possible.

I will be interested to see how rural Texas may benefit from the nearly $6 billion in broadband deployment, water and waste projects, community facilities, grants, loans and the rural business development programs.

What we hope to focus on this morning is how funds are being allocated through both the farm bill programs and the spending through the stimulus. We are taking a very close look at the coordination of projects, strategic infrastructure planning, and the distribution of funding obligations.

Proponents of the stimulus have made big promises, though little or no funding has been disbursed to USDA's Rural Development programs to date. Some questions that I hope would be answered today are what communities and counties will be disadvantaged if their needs are not counted in the backlog of projects; have communities been discouraged from applying for funds in the past due to associated costs and previous perceptions of funding shortages; and how our Fiscal Year 2009 appropriated funds and stimulus funds are being distributed across pending and new infrastructure applications.

Again, I want to thank each of our witnesses for being here, and look forward to their remarks. Now that the Chairman and I have proved that we are the two smartest people on the face of the Earth, let's hear from our witnesses instead.

The CHAIRMAN. I will defer to your judgment. Thank you, Mr. Conaway. The chair requests that other Members submit their opening statements for the record.

[The prepared statement of Mr. Peterson follows:]

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

Thank you, Chairman McIntyre for calling this hearing today. I also want to commend you for the work you have done this year on calling attention to the specific needs of rural America during the economic downturn.

Today's oversight hearing is an important one, and I would like to echo Chairman McIntyre's welcome to Mr. Tonsager to this Committee in his new role. Mr. Tonsager holds an important position as USDA administers the greatest number of Federal rural development programs and has the highest average of program funds that go directly to rural counties.

While there are a lot of moving parts to Rural Development, their mission remains focused on serving the areas of greatest need with the financial and technical resources that are available. It is our job to make sure that the mission is being fulfilled.

USDA's Rural Development programs are tasked with addressing the unique challenges of our country's less populous areas. Logistics, distance, lack of infrastructure and economic under-investment are significant challenges rural America faces, whether it is lack of health care and first responder services, promoting homeownership, increasing broadband deployment, or providing water and waste disposal systems. Rural Development programs are designed to fill in the gaps where needed, and spur vital economic development whenever possible.

Rural Development programs finance essential infrastructure that most urban and suburban residents take for granted. Reliable, affordable broadband Internet service, for example, is one of the most important needs facing rural America today. It is vital to job creation and retention, economic development, entrepreneurship, education, and medical technology.

I also want to welcome the Office of the Inspector General for appearing today. With the recent directive from the Administration to speed up stimulus funding, the IG's office has its hands full monitoring the use of these taxpayer dollars on top of its normal function of auditing and accounting for the proper use of appropriated funds.

Ever since I have been elected, I have had somebody out there in my district working full time on economic development. A lot of that work has been through rural development, and we have gotten a lot accomplished as a result of those programs. So I know firsthand the value that these programs provide and the potential return on investment that exists. Along those lines, I welcome the witnesses on today's second panel who will hopefully give this Committee some good insight on how RD funds can help make things work on the ground out in rural America.

I welcome today's witnesses and I look forward to their testimony. I yield back my time.

The CHAIRMAN. We will begin with our first panel, Mr. Dallas Tonsager, the Under Secretary for Rural Development; and Phyllis Fong, Office of Inspector General for the USDA. Thank you for coming and being with us today and giving me the pleasure of meeting you.

Mr. Tonsager, please begin.

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

Mr. TONSAGER. Mr. Chairman, Members of the Subcommittee, thank you for the invitation to testify on USDA Rural Development programs. This is the first time I have appeared before you, and I look forward to continuing this discussion in the future.

The onset of a new Administration is always an opportunity for reevaluation and change. Today is no exception. In this case, reevaluation and change are driven not just by a new Administration, but by a new farm bill and the Recovery Act as well.

Let me say at the beginning, however, that I have the highest regard for the vision and commitment of my predecessors and our 6,000 dedicated employees. USDA Rural Development is a going concern. We will be celebrating our 75th anniversary next year. There is a continuity in the work that we do.

I had the privilege of being a state director during the Clinton Administration. Eight years ago, two farm bills, and another Administration have intervened but, for me, this still feels like home.

That said, there are some things that we do intend to do differently. This is my fourth week, so I must speak of my goals rather than my accomplishments. Although I do want to take note of the almost $4.9 billion of Recovery Act dollars that we have obligated since April 1 for rural housing, community facilities, and water projects, that alone is a significant achievement, but looking ahead, I believe that we can and should do a better job of reaching out to underserved communities and devoting more energy and resources to the poorest of the poor.

I would hope when one maps our investments in 2 or 3 years from now there will be a greater focus on heavily rural, as opposed to near urban jurisdictions. Similarly, we can and should do a better job going forward of getting out of the office and providing greater support in the more remote areas.

I pledge to do a better job of providing my staff with the tools they need to become a more mobile 21st century workforce. I would hope that we could accelerate the remarkable progress that we have begun making on renewable energy. It is a critical priority.

Finally, I hope that we will be able to strengthen our programs that provide a critically important foundation for economic and

community development. The Value-Added Producer Grant Program, for example, is a very powerful but, in my view, underutilized tool. The farm and rural economies are interdependent. Value-added agriculture drives sustainable development both on and off the farm, and I anticipate a renewed emphasis on it in the years to come.

These are not new issues. I do not mean to suggest that Rural Development has been insensitive to these concerns. That would not be fair to our staff who have been engaged in these areas and who are passionate advocates for their programs, nor do I mean to suggest that we will be drawing lines in the sand. We serve all of rural America. But in terms of outreach and the allocation of scarce staff resources, I do anticipate there will be a shift in priorities.

My written testimony summarizes the status of our Recovery Act and major new farm bill programs. Let me make two brief points now to frame that discussion.

First, this year we face the challenge of concurrently managing a continuing resolution, the Omnibus Bill, the rollout of the new farm bill, the Recovery Act, and disaster funding. This has been a challenge. Most of that work was done before I arrived a few weeks ago. I know it wasn't easy, but it has been done.

The Recovery Act investments are flowing, most of the new farm bill Program NOFAs have been published, or will be shortly. The section 903 Biorefinery Assistance Program has already announced its first guarantee and another is soon expected.

This represents a substantial amount of work in a short time frame, and I want to acknowledge the efforts of the Rural Development staff who made it happen.

Second, the several tranches of funding represents opportunities as well as challenges. Recovery Act funding, for example, is time sensitive. If a project is eligible for Recovery Act or regular appropriations funding, we will have a systematic preference to use that time limited funding first. On the other hand, Recovery Act funding is also subject to numerous conditions, some statutory and some policy driven. Meritorious projects that fall outside the Recovery Act parameters will be funded through regular program dollars. This is a balancing act, and we will be prudent stewards of the funds you entrust to us.

The bottom line remains the same—economic recovery and improving economic opportunities and the quality of life in rural communities. It is an important job, and I look forward to working with you to get it done.

Thank you, Mr. Chairman.

[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.

Mr. Chairman, Members of the Subcommittee, thank you for your invitation to testify on USDA Rural Development's programs. This is the first time I have appeared before you, and I trust that it will be the beginning of an ongoing dialogue. I know that you share our commitment to increasing economic opportunity and improving the quality of life in rural America, and I look forward to many more opportunities to continue this discussion in the future.

USDA Rural Development next year will celebrate our 75th anniversary, dating back to the creation in 1935 of the Rural Electrification Administration and the Resettlement Administration, which later became the Farmers Home Administration.

Since that time, rural America has changed. So have our programs, our organizational structure, and even our name. We have adapted with the times. But rural America continues to face unique challenges, and we continue to stand ready to assist in meeting them.

The onset of a new Administration is always an opportunity for reevaluation and change. Today is no exception, and in this case reevaluation and change are driven not just by a new Administration, but by implementation of a new farm bill and the Recovery Act as well.

Let me emphasize at the outset, however, that I have the highest regard for the vision, energy, and commitment of both my predecessors and our approximately 6,000 dedicated employees. USDA Rural Development is a going concern. We have been "at this" for a long time. Even at a time of transition, it is important to recognize that there is a deep continuity in the work that we do. I had the privilege of serving as a Rural Development State Director during the Clinton Administration. Eight years, two farm bills, and another Administration have intervened, but for me, this still feels like coming home.

Nonetheless, there are some things that we intend to do differently. I have been on the job for 3 weeks, so I must put this in terms of goals rather than accomplishments—but I believe that we can and should do a better job of reaching out to underserved constituencies and devoting more energy and resources to the poorest of the poor.

I would hope, 2 or 3 years from now, that when one maps our investments, there will be less of a concentration in exurban areas and a greater presence in more rural jurisdictions.

Similarly I would hope, again 2 or 3 years from now, that we will see less clustering of investments in close proximity to our field offices, and that we will be doing a demonstrably better job of getting out of the office and providing technical support in more remote areas.

I would hope that we will not only sustain, but accelerate, the remarkable progress that we have begun to make in the deployment of renewable energy, and that we will have reinvigorated a number of our traditional programs that may not be new . . . that may not have been the focus of innovation, and change in the farm bill . . . but that continue to provide a critically important foundation for economic and community development in rural America.

The Value-Added Producer Grant program, for example, is a very powerful, highly flexible, but yet underutilized tool. I recognize that most rural Americans don't farm and that most rural income, including most farm family income, is earned off the farm. But I also know that the farm and rural economies are interdependent and that value-added agriculture drives sustainable development across the board in rural communities. The Value-Added program has proven itself over the years to be effective, cost-efficient, and productive. This is another area in which I anticipate that we will place a renewed emphasis in the years ahead. We serve all of rural America and we will work aggressively and on an equal opportunity basis with all comers.

But in terms of outreach, marketing, technical assistance, and the allocation of scarce staff resources, I do anticipate that there will be a shift in priorities. This will be a point of emphasis with our new state directors as they come aboard in the coming weeks, and I look forward to continuing discussions with you on these topics as we move ahead.

I will focus today on two urgent priorities: economic recovery, and implementation of the new farm bill. Economic recovery is the first order of business for the Obama Administration and USDA Rural Development is a full partner in that effort.

The American Recovery and Reinvestment Act of 2009 (ARRA) provided $4.36 billion in Budget Authority to Rural Development to support a projected Program Level of more than $28 billion. Loans, loan guarantees and grants will be awarded to build high speed broadband infrastructure, construct or improve rural water and waste disposal systems, finance homes for rural families, build critical community facilities, such as rural hospitals, community centers and public safety facilities, and to fund new rural business ventures. We have a full plate.

To support the goals of the Recovery Act, it is important that these funds be deployed rapidly. But it is equally important that they be spent smart, and right. We will take the time and invest the resources required to ensure that these objectives are met. ARRA is also being implemented with unprecedented transparency and accountability. I would direct your attention to the geo-spatial mapping tool on the USDA homepage; which will show the location of every ARRA investment nationwide. We will also in the near future be deploying an RD–ARRA "dashboard," another online tool that will provide a wealth of detailed program information in an accessible, easily searchable format. While these tools have been developed as part

of the ARRA initiative, they are clearly adaptable to Rural Development's other programs as well, and that application is already under discussion for the future.

With the exception of the ARRA broadband program and ARRA Business and Industry, all USDA Recovery Act funds are being administered through our regular program channels, subject to the additional ARRA statutory provisions related to prevailing wage standards, Buy American requirements, and recipient reporting requirements. Our more than 450 state and area service centers are fully engaged, providing us with an unmatched ability for outreach and to provide technical support.

We are also working to ensure that funds are available to rural communities that need them the most. In doing so, we are considering factors such as unemployment, outmigration, rural population, income level, areas of persistent poverty, lack of service, aging infrastructure and health issues. While we are just getting started, ARRA is already making a tangible difference in rural communities:

USDA Rural Development—ARRA Accomplishments to Date: As of June 3, 2009

Program Area	Funding Received (Program Level)	Total Project $ Announced	Total Project $ Obligated
Broadband	$9.1 billion	$0	$0
B&I Guaranteed	TBD	$0	$0
Community Facilities	$1.197 billion	$57.75 million	$13.34 million
RBEG	$19 million	$0	$0
SFH Direct	$967 million		$134.6 million
SFH Guaranteed	$10.250 billion		$4.3 billion
Water and Waste	$3.7 billion	$758 million	$451 million

The numbers don't tell the full story. The ARRA funds obligated through the end of last month translate into over 37,000 new homes financed in rural communities across all 50 states. They include 252 water and waste disposal infrastructure projects in 34 states that will improve the quality of life for more than 424,375 residents. They include 279 essential community facilities projects—for health care, public safety, educational and cultural facilities—that will help communities in 39 states.

And that's just the beginning. ARRA was signed into law on February 17, less than 4 months ago, and it required a substantial amount of work to implement. Funds are just beginning to flow. We have already obligated more than $539 million, and we have established even more aggressive goals for the next 100 days.

- The Rural Business Enterprise Grant Program (RBEG) has not yet obligated any ARRA funds, but 191 applications from the first application window were in hand as of May 18. We anticipate awarding $19.4 million in RBEG grants by Labor Day. These funds will support a variety of activities including adult distance learning programs, job retraining programs, and business incubators to provide support and guidance to new rural small businesses. We anticipate publication of a ARRA Rural Business Enterprise Grant NOFA this summer.
- We also anticipate publication of the ARRA broadband NOFA by early summer. I understand that the Subcommittee expects to hold another hearing later this summer on the broadband program. I look forward to discussing this in detail with you at that time.
- The Single Family Housing Program is on track to provide an additional $1.4 billion in new guarantees for rural home loans between now and Labor Day, enough to support 50,000 residential mortgage loans to rural residents.
- We expect to provide an additional $120 million for 1,900 new direct housing loans to low and moderate income families.
- These investments will bring the total by Labor Day to more than $5.7 billion in guaranteed home loans and $250 million in direct housing loans since ARRA began.
- Finally, the Rural Development Water and Waste Program will provide an additional $585 million in new loans and grants by Labor Day to construct and upgrade approximately 200 water and waste systems in rural America. With these new applications, we will reach the $1 billion mark for total ARRA funding of water and waste programs by Labor Day, and approximately 150 projects funded under ARRA will be into construction.

Implementation of ARRA has entailed a very heavy additional burden on a very talented and dedicated USDA Rural Development staff. We are not in the business

of block granting large lump sums to states, municipalities, and other governmental entities. We are a direct lending agency; we lend to individuals, rural small businesses, and nonprofits; and our portfolio largely consists of relatively small loans and loan guarantees. The increased workflow is very substantial, and I am very proud of the way in which our people have risen to the challenge.

We face different but no less important challenges with regard to the new farm bill. In 2002, the farm bill contained for the first time an Energy Title and a rural broadband program. These initiatives reflected the fundamental structural changes and new opportunities emerging in rural America. It is not surprising that Congress revisited both of these issues in 2008, and we recognize that broadband and renewable energy are key priorities going forward.

As with the ARRA broadband initiative, I will withhold detailed comment on the farm bill broadband program until our next meeting. I know that this is of great interest to you, and I look forward to discussing it in detail.

With regard to renewable energy, the 2008 Farm Bill strengthened and expanded an already robust Rural Development program area. Since 2002, Rural Development has emerged as a leader in the deployment of renewable energy. We have assisted agricultural producers and rural small businesses in improving the energy efficiency of their operations and in investing in ethanol, biodiesel, wind, solar photovoltaics, solar thermal, digester anaerobic and geothermal energy production. We are excited by the opportunity to build upon this record of success.

Renewable energy and energy efficiency are urgent national security, economic security, and environmental imperatives. They are a priority for the President, and for Rural Development. America needs to diversify our energy supply. We need clean, sustainable, alternative energy to reduce our dependence on oil. We urgently need to support, and indeed to lead, a strong international effort to reduce greenhouse gas emissions. And we cannot afford to miss the historic opportunity for valued-added agriculture and sustainable rural economic development offered by renewable energy.

I am pleased to report today that Rural Development has now completed the initial rollout of our new farm bill energy programs, with the sole exception of the Section 9009 Rural Energy Self Sufficiency Initiative for which no funding is available.

Section 9003: Biorefinery Assistance Program.

The Section 9003: Biorefinery Assistance Program provides loan guarantees for the development, construction and retrofitting of viable commercial-scale biorefineries producing advanced biofuels. The Fiscal Year 2009 NOFA was published November 20, 2008. Two application windows were announced. The first closed on December 31, 2008.

From Round 1, the first award was made in January, 2009, for an $80 million loan guarantee for the production of cellulosic ethanol. A second application is currently under review. This is an application for a $25 million loan guarantee to retrofit a biodiesel refinery to produce second generation biofuel. A decision is imminent.

The Round 2 application window closed April 30, 2009 of the 12 applications received, only five were determined to be complete applications. Of these five applications two are currently under review. These involve second generation biofuel technologies to produce cellulosic ethanol, biodiesel, and methane gas and electricity. Awards for the second round are projected for September 15, 2009.

Section 9004: Repowering Assistance.

The Section 9004: Repowering Assistance Program provides for payments to biorefineries (that were in existence at the time the 2008 Farm Bill was passed) to replace fossil fuels used to produce heat or operate biorefineries with renewable biomass. The NOFA was signed this Monday, June 8, and has been submitted for publication in the *Federal Register.* We anticipate publication within the next several days.

Section 9005: Bioenergy Program for Advanced Biofuels.

The Section 9005: Bioenergy Program for Advanced Biofuels provides for payments to eligible agricultural producers to support and ensure an expanding production of advanced biofuels. A Notice of Contract Proposal (NOCA) was signed this Monday, June 8, and has been submitted for publication in the *Federal Register.* We anticipate publication within the next several days.

Section 9007: Rural Energy for America Program.

The Section 9007: Rural Energy for America Program expands and renames the program formerly called the Renewable Energy Systems and Energy Efficiency Improvements Program (formerly Section 9006). Since the enactment of the first-ever

Energy Title in a farm bill in 2002, this program has provided grants and loan guarantees to agricultural producers and rural small businesses for more than 2,140 energy efficiency and renewable energy projects ranging from biofuels to wind, solar, geothermal, methane gas recovery, and other hybrid projects. While not limited to biofuels, the Section 9007 Program is nonetheless available on a competitive basis to biofuels producers (agriculture producers and rural small businesses).

Four percent of Section 9007 funding is reserved for Energy Audits and technical assistance. A Notice of Solicitation of Applications (NOSA) for the Energy Audit and technical assistance funding was published March 11,2009 with an application deadline of June 9, 2009. This is a competitive grant program and we are now beginning to review and score applications. We anticipate announcing awards by August 1, 2009.

The remainder of Section 9007 funding will be awarded on a competitive basis and will finance feasibility studies along with investments in energy efficiency and renewable energy production. The NOFA was published on May 26, 2009.

Two non-energy related farm bill programs have also elicited a high level of public interest. The Section 6022 Rural Microentrepreneur Assistance Program is an exciting opportunity to target technical assistance and financial support on very small rural businesses, many of them home-based. We anticipate publication of an interim rule later this fiscal year.

And last but not least, the Fiscal Year 2009 NOFA for the Value-Added Producer Grant program, initially published on May 6, 2009, has been withdrawn in order to address concerns raised by this Subcommittee. We will republish a revised NOFA at the earliest possible date. To ensure that potential recipients have the greatest opportunity to apply, we also intend to extend the application period to 3 months, which will push the award date into October. As I indicated at the beginning of my testimony, value-added agriculture is a personal priority for me, and I look forward to working with this Subcommittee to ensure that we maximize the potential of this highly effective program.

In closing, let me again thank this Subcommittee and the Congress for the generous support you have provided over the years to USDA Rural Development. We administer a plethora of programs, but in the end, our mission is simple. We are here to serve rural America, to create economic opportunity, and to improve the quality of life in rural communities. I am both honored and humbled by the opportunity to return to Rural Development as the Under Secretary, and I regard it as a privilege and an opportunity to work with you on behalf of the 60 million Americans who call rural America home. Thank you.

The CHAIRMAN. Thank you very much. That was very well done, and we will look forward to discussing some of those matters with you further, in just a moment, with questions from the Members.

For now, I would like Inspector General Fong to proceed.

STATEMENT OF HON. PHYLLIS K. FONG, INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Ms. FONG. Good morning, Mr. Chairman. Thank you, Ranking Member Conaway, and other Members of the Subcommittee for inviting me here this morning. We are very pleased to be able to testify about the oversight work we are doing on our Recovery Act funds at USDA.

As you have noted, RD has significant responsibilities in this area with the tremendous portfolio and large number of dollars to be put out in programs. So, we have, in the IG's office, put together an oversight plan and program to take a look at all of these dollars as they are planned to be spent and obligated.

So this morning I want to just take a few minutes to highlight three key points for you in terms of the work that we are doing.

First of all, in the IG's office we are taking a proactive approach to working with RD and with other USDA agencies to ensure, to the greatest extent possible, that agencies have good procedures in place to award funds to eligible recipients. We want to prevent

fraud, waste, and mismanagement before it occurs rather than coming in at the end and finding it after the funds have already been spent.

Of course, if we do identify instances of fraud or other improper activities, we will take steps to address those instances with the appropriate authorities. But we are emphasizing very much in our work the proactive approach.

Second, we recognize the importance of timely reporting to both RD and to Congressional Committees so that you can carry out your oversight responsibilities. In order to do this, we have started a program of issuing quick audit reports whereby we notify agency managers of potential problems as soon as we find them, so that they can consider taking immediate corrective actions where appropriate.

We have recently issued four of these quick reports concerning different aspects of the Single-Family Housing Guaranteed Loan Program in order to address concerns that substandard loan applications could be submitted to RD for approval.

I am happy to report that RD has responded very positively to our recommendations. They have outlined to us a number of significant actions that they will take to address the issues that we have identified. These issues are discussed in detail in my full statement.

The main point that I want to make here is that we are trying to work very constructively and cooperatively with RD to identify these issues up front, and we are very pleased with the way these discussions are going.

My final point is that we in the IG Office have planned audit coverage of every USDA and RD program that is receiving Recovery Act funds. In the RD program, we currently have six audits in process, and they relate to loans and grants for single-family housing, water and waste disposal systems, community facilities, and rural business ventures. We expect to initiate three more audits related to the housing programs before the end of this fiscal year. In general, our approach will be to look at internal controls up front, to test recipient eligibility, to determine whether funds are being used for authorized purposes, to look at the tracking and reporting of the use of funds, and ultimately to go in and take a look at program effectiveness and whether program measures are being met.

As we complete our reports we will be providing them to the Committee pursuant to our usual procedures, as well as internally within the Department.

This concludes my testimony. I am very happy to be here to testify, and look forward to addressing your questions.

[The prepared statement of Ms. Fong follows:]

PREPARED STATEMENT OF HON. PHYLLIS K. FONG, INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Good morning, Chairman McIntyre, Ranking Member Conaway, and Members of the Subcommittee. Thank you for inviting me to testify about our work at the U.S. Department of Agriculture (USDA) Office of Inspector General (OIG) regarding oversight of the American Recovery and Reinvestment Act of 2009 (Recovery Act) [1] funds

[1] H.R. 1, Public Law 111–5, February 17, 2009.

provided to USDA's Rural Development programs. USDA OIG is directly responsible for continuous oversight of USDA's vast programs and operations; in Fiscal Year 2008, the Department had expenditures of approximately $95 billion and approximately 90,000 employees. USDA alone received $28 billion in Recovery Act funding for a broad array of Department programs and operations, ranging from rural development programs, nutrition assistance, and watershed activities, to wildfire management and broadband activities. Nine separate USDA programs or accounts received at least $300 million in supplemental funding.

I will begin my testimony with an overview of our plan to conduct oversight of USDA Recovery Act activities and report our results. I will then summarize the results of several specific audits we have completed relating to Rural Development's Recovery Act programs as well as work that is in process and planned.

I. USDA OIG's Oversight Plan for USDA's Recovery Act Activities

We have developed a number of actions to enable OIG to provide timely and effective oversight of USDA's Recovery Act expenditures. In addition to the efforts described below, we conducted immediate outreach to the Department—including meetings with the top officials of the relevant USDA agencies—to advise them of OIG's plans and to solicit their input on where our efforts would be most effective. We are providing them with information on oversight "best practices" as they come to our attention. For example, we provided USDA agencies with a recently issued guide to grant oversight and best practices for combating grant fraud and with information related to a fraud scheme pertaining to Recovery Act funds.

Summarized below are the major elements of our oversight plan, organized by audit and investigative activity.

A. Recovery Act Oversight at USDA: Audits

We are focusing on key elements such as whether USDA agency officials have established proper internal control procedures and compliance operations, as well as reviewing whether participants in Recovery Act-related programs meet eligibility requirements. OIG's audit work will be conducted in multiple phases based on USDA's Recovery Act activities and expenditures.

Phase 1:

(1) In recent years, OIG has made audit recommendations on virtually every USDA program that will receive Recovery Act funding. We assessed the extent to which USDA agencies implemented our recommendations to determine whether program weaknesses have been corrected. In cases where OIG's recommendations were not fully implemented, we worked with agency officials to identify the corrective action necessary to ensure effective controls on USDA's Recovery Act expenditures. (The results of this work for Rural Development are described in subsequent sections of this testimony.)

(2) We expanded the scope of audits that were already in process or planned for USDA programs receiving Recovery Act funds. Among them are reviews of the Farm Service Agency's oversight of farm loans; Rural Development programs for single family housing, business and industry loans, and water and waste disposal programs; the Forest Service's wildland firefighting program; and the Food and Nutrition Service's Supplemental Nutrition Assistance Program (SNAP).

(3) We are expediting the completion and release of several audits related to Recovery Act-funded programs, including Rural Development's broadband program and the rehabilitation of flood control dams by the Natural Resource Conservation Service. (The results of our work for broadband are described in subsequent sections of this testimony.)

Phase 2:

(1) We are designing new audits to specifically review various aspects of the programs receiving Recovery Act funding.

(2) We are reviewing each USDA agency's Recovery Program Plan and then will develop targeted oversight initiatives.

(3) Our newly formed Data Analysis and Data Mining group will begin its Recovery Act-related oversight by analyzing data pertaining to Rural Development's Single Family Housing Direct Loan Program.

Phase 3:

We will evaluate the determinations USDA agencies make about the effectiveness of their Recovery Act activities by analyzing their performance measures with respect to outcomes.

B. Recovery Act Oversight at USDA: Investigations

Our Recovery Act investigative efforts will emphasize preventing and identifying fraud, initiating timely investigations when potential criminal activity occurs, and responding to whistleblower reprisal complaints from non-Federal employees. OIG will work with U.S. Attorneys and States Attorney General Offices to prosecute violators and seek asset forfeiture when appropriate.

Phase 1:

(1) OIG agents are increasing the fraud awareness briefings they conduct for agency personnel and will be distributing information to program stakeholders on our investigative capabilities and the avenues available for citizens to report Recovery Act-related fraud.

(2) Our National Computer Forensic Division will be assisting in fraud identification related to USDA's Recovery Act programs, such as matching our audit data mining results against external databases.

(3) We are actively participating on national and regional task forces such as the Contract and Procurement Fraud Task Forces and the Mortgage Fraud Task Forces. These organizations increase OIG's ability to identify fraud and partner with other Federal/state investigators and prosecutors.

(4) OIG is continuing close liaison with USDA agencies to identify fraudulent activities and coordinate with their compliance and investigations units for joint investigations, as appropriate.

(5) We will use OIG's Hotline as a source of information on potential criminal activity affecting USDA's recovery activities. Each month, our Hotline staff receives approximately 275 contacts and performs an initial assessment of the complaints and allegations to determine the level of OIG investigative inquiry that is warranted. OIG is separately tracking complaints regarding Recovery Act funding and related whistleblower reprisal complaints.

Phase 2:

(1) After assessing the results of the initiatives described above (and information revealed by our Recovery Act-related audit work), we will open criminal investigations, as appropriate.

(2) We will work to ensure that entities involved in criminal or serious misconduct are held accountable via criminal and/or civil prosecution, asset forfeiture, agency fines, and administrative sanctions (suspension/debarments, *etc.*).

C. Reporting OIG's Recovery Act Activities and Results

We recognize the importance of timely reporting by IGs about Recovery Act-related activities. Fulfilling our reporting obligations under the Recovery Act will assist agency heads and Congressional oversight committees in carrying out their responsibilities. We will therefore alert USDA officials to program integrity and efficiency problems as quickly as possible to expedite corrective actions. We will incorporate the Recovery Act's new requirements regarding whistleblower reprisal complaints into our semi-annual reports to Congress. As provided by Office of Management and Budget (OMB) guidance, OIG is separately reporting our use of Recovery Act monies and other funds for Recovery Act-related activities in our reports and "*Recovery.gov*" submissions.

We have instituted a new process to timely issue audit reports related to Recovery Act funds. As we perform our audits, if we identify an issue that could/should be addressed quickly by program officials to prevent fraud, waste, or mismanagement, we will produce a report recommending immediate action. These quick turn-around reports can then be rolled up into consolidated reports. (Examples of these reports are detailed in subsequent sections of this testimony.)

II. Recovery Act-Related Audit and Investigative Work for Rural Development

Rural Development has significant responsibilities related to the Recovery Act. The agency has been charged with administering $4.36 billion in recovery funds, that when implemented will deliver more than $20 billion in loans and grants to improve economic opportunity and the quality of life in rural America. Loans and grants will be awarded to build high-speed broadband infrastructure; construct or improve rural water and waste disposal systems; finance homes for rural families; build critical community facilities, such as rural hospitals, community centers, and public safety facilities; and fund new rural business ventures.

A. Broadband

In March 2009, we released our report [2] on the broadband loan and loan guarantee program. This work was initiated at the request of Congress to determine if the Rural Utilities Service (RUS) had made sufficient corrective actions in response to our September 2005 report [3] and to answer specific questions posed by the House and Senate Committees on Appropriations.

We found that RUS had not fully implemented corrective action in response to our September 2005 audit report. RUS had written a proposed change to the regulation which would have addressed some of our recommendations; however, they did not implement the rule, choosing to wait for passage of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) to ensure that their proposed rule met the new requirements. During the period prior to enactment of the 2008 Farm Bill, RUS continued to make loans to providers in areas with preexisting service, sometimes in close proximity to large urban areas.

In its response to our report, the agency agreed to take corrective actions. However, we remain concerned with the current direction of the broadband program, particularly as it receives greater funding under the Recovery Act. As structured, RUS' broadband program may not meet the Recovery Act's objective of awarding funds to projects that provide service to the greatest number of rural residents who do not have access to broadband service.

Given our concerns, we are coordinating with both the Government Accountability Office (GAO) and the Department of Commerce (DOC) OIG. In March and April 2009, GAO initiated two audits on RUS' broadband program. DOC–OIG is currently conducting audit work to oversee the $4.7 billion that the National Telecommunications and Information Administration has been awarded to deploy broadband using Recovery Act funds.

B. Prior Audit Recommendations

In April 2009, we reported on our initial Recovery Act oversight project, which was to review audit recommendations that could impact internal controls over Recovery Act activities for each agency.[4] We identified recommendations where Rural Development had not implemented the agreed-upon corrective actions within the mandatory 1 year timeframe. We then determined which of these recommendations, if left unresolved or not mitigated, would introduce a significant risk of inefficient or improper use of Recovery Act funding. For Rural Development, we identified 17 audit recommendations that met these criteria involving approximately $10 billion of Recovery Act funds.

In response to our report, Rural Development itemized the actions it was taking to address the risks associated with the unimplemented recommendations related to the business and industry guaranteed loan program, the single family housing direct loan program, and the broadband grant and loan program. For example, the agency explained that corrective action for eight of the 11 recommendations related to the business and industry guaranteed loan program is affected by the publication of the new guaranteed loan regulation. The agency also responded that, until the new regulation is published, it has taken the steps necessary to minimize the risk of loss to the program, including annual training to state offices and lenders, monitoring to ensure compliance, and periodic notices to provide instruction and clarification.

For the five recommendations related to the broadband grant and loan programs, Rural Development states that it is implementing the evaluations, oversight, and monitoring systems and procedures required for Recovery Act programs under OMB guidance. Rural Development has said it plans to have these systems and procedures in place before Recovery Act funds are obligated.

C. Single Family Housing Guaranteed Loan Program

The Rural Housing Service is responsible for distributing Recovery Act funds through the Single Family Housing Guaranteed Loan Program. As of June 3, 2009, Rural Development had obligated over $4.3 billion to guarantee over 36,000 loans. Our role, as mandated by the Recovery Act, is to oversee agency activities and to ensure funds are expended in a manner that minimizes the risk of improper use. As of May 22, 2009, we have issued four reports related to our oversight activities

---

[2] Rural Utilities Service's Broadband Loan and Loan Guarantee Program, Audit Report No. 09601–8–Te, issued March 31, 2009.

[3] Rural Utilities Service's Broadband Grant and Loan Programs, Audit Report No. 09601–4–Te, issued September 30, 2005.

[4] Existing Risk to Rural Development's Economic Recovery Program, Audit Report No. 85703–1–HQ, issued April 3, 2009.

of rural housing. These reports address: (1) internal control weaknesses related to the agency's Guaranteed Underwriting System (GUS); (2) waivers of the agency's debt ratio policy for borrowers participating in the program; (3) lenders' use of independent mortgage brokers ("brokers") to originate loans that are guaranteed by Rural Development; and (4) procedures used by agency field staff when reviewing and approving applications for loan guarantees. These issues will be compiled into a final report at the conclusion of our audit. During this initial phase, we did not perform testing to verify lender compliance with agency policies and procedures. As a result, we have no conclusions on the overall extent of abuse that is, or may be, occurring in the program. Our concern is that substandard loan applications could be submitted to and approved by Rural Development.

(1) **GUS Internal Control Weakness**

In January 2007, Rural Development implemented GUS, an automated underwriting system, to streamline the process used by lenders to submit loan guarantee applications. According to agency national officials, approximately 40 percent of all applications for loan guarantees involving Recovery Act funds have been processed through GUS, compared to a historical average of 25 percent. The internal control weakness we identified relates to the documentation requirements for lenders who submit loan guarantee applications through GUS. We found lenders do not submit documentation that supports the eligibility of borrowers for applications accepted by GUS. For example, while lenders are required to maintain supporting documents, they do not provide evidence such as employer earning statements that supports borrower income to agency officials. This type of evidence is provided when applications are manually processed by agency officials. Thus, lenders are able to enter inaccurate borrower information into GUS with minimal risk of detection by agency officials prior to approving a loan guarantee.

In response to our recommendations, Rural Development implemented additional controls for processing single family guaranteed housing loans with Recovery Act funds. For example, effective May 18, 2009, Rural Development suspended the use of Recovery Act loan funds for new conditional commitment requests so it could revise GUS quality control processes currently in place. The agency developed additional quality control standards by incorporating a preloan closing review of five percent of GUS submissions for each GUS-approved lender. The agency also plans to increase compliance testing conducted after loan closing with a focus on GUS loan origination quality. Reviews will concentrate on the participating lenders that originate a high volume of GUS loans or that may have certain GUS loan performance metrics.

(2) **Waiver of Debt Ratios**

During our review, we noted that agency policy regarding the waiver of debt ratio requirements was unclear and not being administered by field staff as expected by national officials. Agency policy states that lenders are to submit a request for waivers to debt ratio requirements in writing to Rural Development and include documentation of the appropriate compensating factors for support of sound underwriting judgment. Based on this policy, agency national officials expected field staff to obtain evidence of the compensating factors, such as bank statements for instances where the compensating factor was a large savings account. However, in the field, we observed that Rural Development staff approved lender request for waivers based only on the request and a description of the compensating factor. For example, the agency's guidelines state that the ratio of total debt to income should not exceed 41 percent; however, we identified a case where this ratio was over 60 percent. Our concern is that lenders may create or exaggerate compensating factors to justify approving a loan for a substandard borrower.

In response to our recommendations, Rural Development has stated that it will issue additional quality control procedures for its field offices. For example, manually underwritten loans with debt ratios above certain thresholds will be required to be reviewed by the loan approval official's immediate supervisor. Written supervisory concurrence will be required to be retained and/or imaged. Supporting documentation of the compensating factors will be required to be retained as part of the permanent record.

(3) **Lenders' Use of Brokers**

The agency relies on lenders' underwriting processes to scrutinize loan applications originated by brokers. Rural Development guidance states that a lender may use agents (*i.e.,* brokers) in carrying out its responsibilities. However, lenders are fully responsible for the actions of their agents. We are concerned that

some lenders will not adequately evaluate broker-originated loans before submitting them to Rural Development officials. Our concern is based on two factors that, in our view, increase the risk that lenders will submit substandard loans to Rural Development. The two factors are (1) the compensation method for brokers and (2) the industry practice by which originating lenders typically sell loans to other lenders after loan closing. Brokers are compensated for each originated loan. (Specific compensation depends on the brokers' contracts with the originating lenders and state regulations.) Thus, there is an incentive to submit as many loan applications as possible to originating lenders to increase the brokers' income. The agency relies on lenders to review information on applications during the underwriting process to prevent such abuse. However, those reviews may not always be effective because it is a common industry practice for originating lenders to sell the loans they make to other lenders for servicing. Therefore, some originating lenders may be less willing to dedicate resources to scrutinize loans that will be sold to other lenders. In addition, the agency generally does not deny loss claims made by servicing lenders or seek recourse against originating lenders.

In response to our recommendations, Rural Development has stated that it will increase its compliance testing with a focus on loan origination quality for loans originated by brokers. Reviews will concentrate on participating lenders that originate a high volume of loans initiated by brokers.

(4) **Procedures for Reviewing and Approving Applications**

During our visits to four agency field offices, we observed that agency loan specialists routinely performed all functions in the loan guarantee process with no supervisory review prior to issuance of the guarantee. These functions included the review of loan guarantee applications for completeness and borrower eligibility, the approval of the application for guarantee, and the input of applications into the agency's system of records (GUS) where the obligation of funds will occur. The agency does not require a segregation of duties or supervisory (or second party) review prior to issuance of the loan guarantee. This creates a situation where agency loan specialists and other field staff could fail to detect lender errors or collude with lending officials to guarantee substandard loans. Of greatest concern to us is that agency field staff may not detect lender errors and mistakes because of the significant loan volume associated with the distribution of Recovery Act funds. In less than 2 months of distributing Recovery Act funds, the agency has already exceeded the typical number of guarantees in a year. We are aware that some area offices have too few employees to adequately separate duties. For instance, one of the four offices we visited had three employees, only one of which was a loan specialist. It would be difficult to adequately separate duties in that office. However, the other three offices had five employees, four of which were loan specialists. Therefore, it would be more feasible to separate duties in those circumstances.

Rural Development did not agree with our recommendation that the agency implement segregation of duties in offices where it was feasible based on staffing levels to ensure the accuracy of all applications *versus* just a sample. Instead, the agency proposed additional quality control procedures to ensure a second party review is taking place on a selection of loans approved by Rural Development officials. The agency explained that this review will be performed by designated agency employees and better ensure loans originated were adequately reviewed for eligibility. OIG will continue to assess this issue as we further examine this program.

D. Work in Process and Planned

As of June 2, 2009, OIG had six Rural Development Recovery Act audits in process related to guaranteed and direct single family housing, water and waste disposal loans and grants, community facility loans and grants, business enterprise grants, and business and industry guaranteed loans. We expect to initiate as many as three additional assignments related to housing before the end of this fiscal year. Our audit plan for Fiscal Year 2010 will be developed this summer and put in place by October 2009. It is likely that the Fiscal Year 2010 plan will include audits of Rural Development programs to determine if funding recipients complied with program requirements and to evaluate agency determinations about the effectiveness of Recovery Act activities.

This concludes my testimony. I want to thank Chairman McIntyre, Ranking Member Conaway, and Members of the Subcommittee for the opportunity to present testimony on behalf of OIG. I would be pleased to address your questions.

The CHAIRMAN. Thank you both for your efficiency and for highlighting the most important parts of your testimony, and thank you for your written testimony, which is also very helpful and has some great detail I am sure Members may want to ask about.

The chair would like to remind Members they will be recognized for questioning in order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized in order of arrival. I appreciate the Members' understanding, pursuant to our regular procedures.

Also, if any Members had opening statements that they wanted to submit for the record, we will be glad to accept those and to print those in full.

With regard to questions, Secretary Tonsager, Rural Development makes loans and grants in rural areas, of course, but what impact do you see the downturn in the economy having on rural economy and rural businesses? To your knowledge, has RD seen an increase in late payments or delinquencies on loans? And, if so, how do you address those issues in the current economic climate with these programs?

Mr. TONSAGER. I think the downturn has had a significant impact on rural areas. The studies I have seen suggest that there has been a higher percentage of unemployment in rural areas than there was in urban areas occurring because of the downturn. I do not have data on the exact performance of the programs at this point, but my belief is that we have not yet seen a significant increase in the number of delinquencies occurring. We will have to get back to you on that.

The CHAIRMAN. Is there a particular point person, for those who are listening or watching today or that may later ask the question, if they are finding they are having a difficulty with late payment or potential delinquency, that in order to avoid further problems that they should contact in your agency?

Mr. TONSAGER. We have different processes, depending on the programs. We have a servicing center that deals with single-family housing programs in St. Louis. So there is a process associated with that. The other programs, I believe, are dealt with out of local offices.

But, again, forgive me, 4 weeks on the job, I don't have as good a knowledge as I maybe should at this point.

The CHAIRMAN. If you would after your testimony today, perhaps the best person for a community that may be experiencing a problem, or a business, to contact is their local or regional Rural Development Director or State Rural Development Director. You can have someone from your office confirm that for the record. Or if there is a central clearinghouse phone number that your agency may have, or may want to establish, so that anyone can call an 800 number or a central number, that might also be helpful so that we can maximize assistance to the taxpayer.

Also, I understand that the Business and Industry Loan Program is, of course, seeing increased demand, given the tight credit market. Have there been any discussions regarding whether some current business and industry limits should be relaxed? In other words, I know there has been some questions about the maximum

level of guarantee or the timing of the loan with regard to the start of construction on a project.

Mr. TONSAGER. Yes. We are examining some issues relative to the Business and Industry Loan Guarantee Program. We believe there may be some adjustments, and we hope to make those within our regulatory authorities. We are not prepared to step out and announce what changes might occur. But we are looking very close because we think the circumstances have changed at this moment in our economy, and we have to evaluate the risk we can take with the program against the good we can do in assisting more communities.

The CHAIRMAN. Thank you, sir.

Ms. Fong, the Office of the Inspector General has recently formed a Data Analysis and Data Mining Group. Can you tell us how you have provided the key technical expertise and resources that are required for such work?

Ms. FONG. We have, as you pointed out, formed that group very recently. We happen to have on staff a number of very experienced statisticians who are already in our Audit Division in a number of our locations. We also hired some additional staff to supplement that expertise, and we now have a small unit of highly qualified, highly technical expert people to start running these kinds of work for us.

The CHAIRMAN. Mr. Conaway, I now recognize you for questions.

Mr. CONAWAY. Thank you, Mr. Chairman. I also want to thank the witnesses for your precision in your answers. Mr. Tonsager, welcome. Tonsager?

Mr. TONSAGER. Tonsager.

Mr. CONAWAY. Right, I will work on that. Dallas is easier.

Mr. TONSAGER. Okay, Dallas works.

Mr. CONAWAY. You mentioned in your testimony you hope that the focus will be on rural broadband as opposed to preexisting services. A recent IG audit said that hadn't been the case. Who is in charge of making sure your hope is fulfilled?

Mr. TONSAGER. Well, of course we must coordinate our efforts with the NTIA and the resources they have been given by you all from Congress for the Broadband Program. So we have been working closely with them, and the White House has been engaged in the discussions regarding rural broadband issues.

So clearly it is my intention, my assertion with people that we must try to serve the more challenging rural areas of the U.S. I am late to this process. Much of the work has been done already regarding the NOFA that will come out, hopefully, very soon.

Mr. CONAWAY. So based on what you understand so far, you think it is headed in that direction or is it going down the path of least resistance, which is to continue to serve the biggest communities?

Mr. TONSAGER. I have not been fully briefed on the NOFA.

Mr. CONAWAY. Okay. Looking through both testimonies, the bias so far has been toward clearing out the backlog. Can you help me understand, is the backlog rank ordered in terms of the date of application, or are they rank ordered in the order of importance or biggest impact or bang for the buck. Which one is it?

Mr. TONSAGER. It is ranked, I believe, by the criteria associated with the grant application. I do not believe it is rank ordered by date. Is it, Jim? Oh, it is first in, first out.

Mr. CONAWAY. So why does that make sense?

Mr. TONSAGER. I don't have a good response for you, sir. I know there is an identified backlog associated with what was given to us to meet, and so we are trying to move our way through that backlog as quickly as we can.

Mr. CONAWAY. Okay. I guess in terms of—it is hard to use the word "scarce" in resources when you are talking about the stimulus bill, because that seems to have a wealth of money out there, and a wealth of money leads to wasted money. And so focusing whatever resources we have on that, on the most important first, seems to me a better plan than simply who showed up asking first *versus* something else. So that is very troubling.

Ms. Fong, welcome. Thank you very much. I am a CPA by background, and so your audits are keen. Why the sudden full-court press on auditing all things rural? Is that just a recent focus that you guys have? Why just all of a sudden?

Ms. FONG. Let me just back up a step and just mention that with respect to Recovery Act programs, that is such an important initiative involving huge amounts of dollars that we, as an IG office, felt that that was one of the highest priorities for us to look at. And so we have developed a plan to look at every program within USDA that receives recovery dollars. RD, of course, received a large amount. So did the Forest Service, so did the Food and Nutrition Service. And so we are looking at all of those programs as well.

Mr. CONAWAY. In your experience and background, if an entity, whatever it has, has weak, poor, or nonexistent internal controls in the way they operate and shepherd dollars, and that is the position that is already there, in your experience, if you double, triple, quadruple their funding stream is there some sort of a self-curative process that means the weaknesses from the internal controls get cured?

Ms. FONG. I am not sure if there is a cause and effect there. I think——

Mr. CONAWAY. Would spending more money help them spend it wiser?

Ms. FONG. Not necessarily. I think our view would be that if the program has strong internal controls, it will operate well regardless of the amount of money going through the program. If it does not have strong internal controls, then if you put more money into it there will be more opportunity for poor expenditures. And so we would always want to strengthen internal controls.

Mr. CONAWAY. You audited one of the groups from 2005. You had some preexisting audit recommendations that were basically ignored by the entity and then they began to say well, we are going to wait until 2008. I will find your testimony here specifically. We are going to wait until 2008 before we fix that.

Is that the normal way that the Agriculture Department works? You guys go audit and see these errors or mistakes or weaknesses in internal controls, and they can just ignore them, at somebody's peril, I suspect?

Ms. FONG. I think there you are getting to the very crux of the relationship between our office and the Department. As you know, from an auditor's standpoint it is our responsibility to make recommendations to correct issues that we see. We don't have the authority to make the changes ourselves. And so we do our best to persuade program managers, and we do our best to work with them to develop the best solution to the issues. In fact, we are continually working with the agencies within USDA.

Mr. CONAWAY. I yield back. We have another round.

The CHAIRMAN. Thank you, Mr. Conaway.

Mr. Kissell, my colleague from North Carolina.

Mr. KISSELL. Thank you, Mr. Chairman, and thank you, panelists, for being here today.

Mr. Tonsager, just for everybody's information, we had a chance to talk some yesterday in my office, and I appreciate you coming by there. We talked about the role of biofuels, ethanol in rural development, and you mentioned to me that you had recently been to a world conference on biofuels in Brazil. If you would expound just a little bit on what your view is of the role of biofuels in rural America, and, especially, the ideas that you found in Brazil in terms of biofuels and the impacts on land usage in Brazil.

Mr. TONSAGER. Thank you, sir. I think that biofuels are a huge economic opportunity for rural America, and we are very aggressively going to look for every way we can help to enhance the economic opportunities for the creation of a cellulosic biofuels industry, as well as the preservation of corn-based biofuels industry.

I found that in Brazil they have done a remarkable job. Their sugarcane-based industry is growing significantly. They have found ways to cogenerate electrical power from bio-gas from the process associated with that. They are aggressively moving forward with their industry and reaching out to the rest of the world with their industry. So, it was an excellent experience, and I hope we can learn lessons from them on how they have moved forward in their industry and apply them here as well. I hope we can—we are competitors, of course, with Brazil, but hopefully we can be partners in many ways as well.

Mr. KISSELL. We talked specifically about land usage in Brazil and what effects on the rain forests, which is a concern expressed by some, of biofuels and growing these products. What did the Brazilians say in terms of their land use in making up the acreage that produces the biofuels?

Mr. TONSAGER. What they told me is that less than one percent of their land mass is associated with the creation of feedstocks for biofuels. So they would make the argument that they are not significantly impacting because of biofuels, specifically, on the rain forests.

Mr. KISSELL. Thank you, sir.

Switching to broadband for just a second, we are looking at phrases that say *rural* and *unserved*, and—how can we define *rural?* How are you defining *rural* in terms of providing these services? How are you defining *unserved* in terms of who will be getting the first wave, so to speak, of the opportunity to have this investment?

Mr. TONSAGER. I wish I could specifically speak to that. We are going to see a NOFA published soon. In my opinion—and, again, I really can't go into the discussion about how I see it at this point because of the pending NOFA that will be published. I would hope—it would be my intent as I run this agency that we go to the more challenging areas of the country to provide the best service we can in those areas. I think I am reluctant to define specifically for you my understanding of the rural or underserved areas.

The CHAIRMAN. If the gentleman will yield just a moment, I will give you your time back.

I know I mentioned at the outset we will have a hearing separately on rural broadband, and I respect the fact you are waiting for the rules to come out. But the definitions that Mr. Kissell has asked about I trust you would be able to provide after they were published at the end of the month.

Mr. TONSAGER. Sure.

The CHAIRMAN. We would want to make sure and follow up. And in respect to Mr. Kissell's question, if you would plan to provide that within 10 days after they are published because that will be a key definition that will also help our Committee go forward, our Subcommittee, when we do have that hearing, to know what definition you have given to what he asked on rural and unserved; underserved as well.

Thank you. Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman. I believe that goes to a lot of the questions about how these services will be provided and will we really be getting to the rural areas, as we know them, in providing that service, or will it be more continuing of the serving the same areas and not getting to these areas that we need to draw attention to.

The last question being, it was an indication that this money may be coming out in like three waves, with the first wave being available in June, towards the unserved areas. I am just wondering, when will the money really start to become available?

Mr. TONSAGER. Well, we of course have to wait for the publication of the NOFA, and then we will move as quickly as we can. I do not know the deadlines or the time frames at this point.

Mr. KISSELL. And as soon as we do, then we can make them available to us so we can start letting the people know that it is available.

Mr. TONSAGER. We will be most anxious to let it be known broadly as possible to make sure that everyone has an opportunity.

Mr. KISSELL. Thank you, sir. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Kissell. Mr. Under Secretary, if in particular, in response to Mr. Kissell's question as a follow-up, when you make that broadly known, if you would particularly be sure to contact the Members of this Subcommittee, because I know we are going to have an intense interest in it since we will be having a hearing on it in July. We want to make sure we don't overlook it, because we know the end of June some time will be lost here because of the natural inclination for us to spend time in our districts during the work period over the 4th of July. So we will be having the hearing the week we get back. So as soon as that is available, if you would provide it to our offices in particular, in

addition to how you may generally disseminate that information, we would greatly appreciate it. Thank you so much.

Mr. Cassidy.

Mr. CASSIDY. I am going to say Mr. Under Secretary, I know why you told the Texan to say Dallas.

I have a couple of questions. The stimulus money is subject to Davis-Bacon, regular program funding is not. Some of these applications have been developed, price-structured under the regular program funding, and yet because of Davis-Bacon we are going to have higher costs associated with this stimulus funding.

So I guess several questions for my community that put these packages together; first, do they have to resubmit under the different cost structure. Second, this is going to ask them to come up with additional dollars, and these are rural communities often with a poor tax base. And so is there any accounting for any possibility of waiving the Davis-Bacon under the stimulus package funding if they cannot come up with the extra dollars required to meet the Davis-Bacon requirement?

So I guess the first question, do they have to resubmit? Second, what happens if they have to come up with additional dollars? Third, is there a way that they can choose what funding source they apply to, because it is going to be cheaper to go through regular funding if the money is there than it would be through stimulus?

Mr. TONSAGER. Of course, they could make the applications in the categories they would wish to pursue. The funding sources for the stimulus package are significant. I understand the issues associated with Davis-Bacon, as I have come into the office and been briefed regarding that and what it means.

We are still waiting for some guidance relative to Davis-Bacon and the Buy America provisions. At this point I would say yes, that is correct. That was what was given to us by Congress as direction to apply Davis-Bacon for the stimulus funds.

Mr. CASSIDY. So, as it turns out, the extra money that will be required as matching on the part of the community, you acknowledge that will have to take place. Frankly, it is just a fact of life and I am not trying to put words in your mouth. I am trying to, if you will, make my communities back home understand the game.

Mr. TONSAGER. My deputy has been helpful with me in suggesting that we look at the grant loan combination on an affordability basis, which has always been true of the water and sewer programs. So our goal is to make the program affordable for our communities. So we would attempt to balance the loan/grant combination under the new cost structure just as we would have previously. So there is some offset, I believe, to it.

Mr. CASSIDY. Okay. Second, although you haven't published the rules, I am very interested in the Rural Microentrepreneur Assistance Program. It seems like that would be a good program. So knowing you haven't published the rules, but nonetheless can you at least give a bearing by which folks interested in this program can kind of start setting their course as they await the final Rural Development rule?

Mr. TONSAGER. I am a fan of the program. I have not been engaged in a dialogue on the program yet. I apologize for my lack of knowledge in several program areas at this point.

Mr. CASSIDY. That is okay. I understand. Last, I guess because I am almost out of time, the stimulus is trying to move money into communities. There are formulae through which it can be given through state formulae, but also through direct application. Will all funding be allocated by state formulae or, if not, how will USDA be allocating the stimulus funding among the states?

Mr. TONSAGER. I believe we focused on the backlog for funding that was existing in the national office. Typically, we of course do a formula approach with the regular program money. I am unsure whether there was any allocations to states of the stimulus money. My belief is it just applied to the existing applications.

Mr. CASSIDY. Thank you. I yield back.

The CHAIRMAN. Thank you, Mr. Cassidy.

As a follow-up to Mr. Cassidy's question, and because it did emanate through this Subcommittee in the House, as well as our similar Subcommittee in the Senate, the Rural Entrepreneur Business and the Microenterprise Assistance Program, we are very excited about when they were put in last year's farm bill. So as soon as you have the parameters for that in the rules, would you please let us, as a Committee, also know?

We would encourage you to do that with great accuracy but also with great haste, because as we go around, I know in our district and from hearing conversations with my other colleagues in their districts, that program is indeed one that had great bipartisan support. It would be of great assistance to the fastest growing segment of small business, which are microenterprises, those that employ less than ten people. So we are highly interested in the Business Entrepreneur and Microenterprise Assistance Program. Please advise us as soon as you are able to have that ready. We urge that to be done with all due haste, as I mentioned, and we thank you for your attention to that.

I want to thank our panel. Because of your promptness, we are going to take just a few moments to see if any other Members of the panel have questions. I know the Ranking Member, Mr. Conaway, does.

I will recognize you for your remaining questions.

Mr. CONAWAY. Thank you, Mr. Chairman. We may want to just pose the questions and then ask the witnesses to either respond quickly or get back to us. One has to do with transparency. If we have 2008 money, we have 2009 money, and we have stimulus money, that we all want to know where it went, we all want to know who is getting it and those kinds of things. I need a commitment from you, Dallas, that you are going to put together some sort of a system that reconciles all the various databases and that we in fact will be able to know where all the money is, where it has gone, and which categories and those kind of things. So, that we don't lose ourselves in this plethora of data and then miss the big picture or the little picture. Your efforts, and Ms. Fong as well, to make sure that the world is able to see, good or bad, where this money went, is going to be important.

I am also concerned that the FIFO method on backlogs clearly disadvantages new emerging issues that may in fact be more important than something that has been on the backlog for a long time and may not be as important.

So some way that you take a fresh look at that process that says for the stimulus money, just funding stuff that had been asked for for a long time, automatically, *versus* something that has newly emerged, make sure we understand how that works.

Ms. Fong, if you go through your report, particularly the housing area, it reads like a litany of the things that went wrong in the broader housing market where you have detached collection of loans from the folks making the loans. And your report shows extensive weaknesses in internal control throughout the system. A commitment from you that this will be a quick turnaround to look at what the agencies have done. I know you can't force them to do anything, but you can shine some pretty bright lights on them should they not do that. And, also, some sense of what the collection has been, or delinquencies I guess is a better phrase, has been in the housing areas, particularly as we move through this area because of bad loan applications, misinformation on applications, waiving the standards on debt-to-equity ratios and income-to-debt ratios. All of that is exactly what happened in the broader housing market across this country, and we don't really want to facilitate that going further wrong if it is not already wrong in rural America.

Finally, with respect to your data mining efforts, I would call to your attention Tarleton State and the data mining work they do with RMA, the Risk Management Agency, and the other things as maybe a partner, perhaps, in that arena because I do think that can be very helpful.

So, Mr. Tonsager—Dallas—if you could make sure that we get a pretty clear picture from a transparency standpoint where this money is going by community, by county, all those kind of things, and then help me understand why a FIFO method works best in this arena for these vast amounts of money that is being spent with respect to these stimulus dollars.

So I look forward to hearing back from you and have some conversations. Ms. Fong, if you need any help, I will be glad to pitch in.

I yield back.

The CHAIRMAN. Thank you, Mr. Conaway. Any other panel Members have additional questions? If not, we thank you very much for your time today to both of you. I wish you well and Godspeed, and thank you for your commitment to our nation and your public service. God bless you.

We invite our next panel to come on up to the table and let's get ready. We want to get your testimony in before we get summoned to vote. We want to respect your time. So please come forward immediately and assume your positions at the table.

Welcome to our second panel and to your staff and other friends that may be here to support you in your testimony.

We have Mr. F.D. Rivenbark, Commissioner from Pender County, from Willard, North Carolina, on behalf of the National Association of Counties; Debra Martin, Director of the Great Lakes Rural

Community Assistance Partnership, from Fremont, Ohio; Chandler Sanchez, Governor of the Pueblo of Acoma, Acoma, New Mexico, on behalf of the National Congress of American Indians; Doug Anderton, General Manager of the Dade County Water and Sewer Authority, Trenton, Georgia, on behalf of the National Rural Water Association; Tommy Duck, Executive Director of the Texas Rural Water Association of Austin, Texas, and I believe Mr. Conaway would like to provide an introduction of the witness from Texas.

Mr. Conaway, I welcome the introduction of your special guest from Texas.

Mr. CONAWAY. Well, I just want to add my thanks to Tommy for coming up here and pitching in on these important issues, and we look forward to having your comments and your wisdom on how we should proceed.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I am especially pleased to present our first presenter starting off the panel. F.D. Rivenbark serves as a County Commissioner in Pender County, North Carolina, which is in the Seventh Congressional District that I am blessed with the opportunity to represent. Mr. Rivenbark represents the National Association of Counties here today, which was one of the groups in this room back in the first week of January when we had that discussion, I mentioned earlier, to make sure rural areas were not left out of the stimulus package.

Mr. Rivenbark brings his service as a County Commissioner for over 30 years; his experience teaching vocational agriculture, serving as a principal in the Pender County School System, and over 30 years of service in the U.S. Army and Army Reserves. And also as a Member of the Armed Services Committee, I want to thank you in particular for your service to our country in that capacity, Mr. Rivenbark.

Commissioner Rivenbark grew up on a Pender County farm located in the Horsebranch community just north of Burgaw and, from what I understand, has a perfect attendance record over the last decade at Burgaw Baptist Church.

Mr. Rivenbark, we welcome you. We recognize your church, community, and national service that you have given, and here today in particular your service as a County Commissioner and on behalf of the National Association of Counties. I enjoyed being in your county, in Pender County just last week, and am thrilled that you have come to be with us here in Washington today.

Mr. Rivenbark, you may proceed.

STATEMENT OF HON. FRANKLIN D. RIVENBARK, COMMISSIONER, PENDER COUNTY, NORTH CAROLINA; MEMBER, AGRICULTURE AND RURAL AFFAIRS STEERING COMMITTEE, RURAL ACTION CAUCUS STEERING COMMITTEE, NATIONAL ASSOCIATION OF COUNTIES (NACo); PAST VICE CHAIRMAN, RURAL DEVELOPMENT SUBCOMMITTEE, NACo, BURGAW, NC

Mr. RIVENBARK. Thank you, Chairman McIntyre, Ranking Member Conaway, and Members of the Committee, for the opportunity to testify on behalf of the National Association of Counties on the status of rural development programs operated by USDA and the

status of the American Recovery and Reinvestment Act funds for these programs.

More importantly, I want to thank you, Mr. Chairman, for your leadership and ensuring that USDA Rural Development funding was included in the Recovery Act.

My name is Franklin D. Rivenbark. I am a County Commissioner in Pender County, North Carolina, and I currently serve in several leadership roles with the National Association of Counties. In my testimony, Mr. Chairman, I want to express NACo's overwhelming support for the programs and mission of USDA Rural Development and offer some constructive feedback.

USDA's regularly appropriated funding and Recovery Act funding is making a significant difference across rural America during the economic crisis, and in my county it has been critical to the continuation of vital infrastructure projects. I want to commend the Administration and especially Secretary Vilsack and Under Secretary Tonsager for their deep commitment to rural development and leadership of the implementation process.

This morning, I would like to make three key points, which are described in much greater detail in my written statement. First, the Recovery Act is making a significant difference in my county and in rural communities across the country. However, challenges exist for rural counties in their request to obtain Recovery Act funds and implement new reporting requirements. USDA Rural Development is acting extremely quickly to award projects, and the Administration has been open and transparent during its rulemaking processes.

In my county, the construction of the Pender County Water Treatment Plant Project and Pender Emergency Medical Services Facility and Emergency Operations Center were in jeopardy at the beginning of this year, but will now continue, due to USDA Rural Development funding provided in the Recovery Act.

Despite the good work of USDA, the overall size of the Recovery Act and speed of implementation has left many rural counties struggling to navigate the maze of funding opportunities and move forward on implementation, while many Federal rules and regulations are still in the process of being created.

USDA Rural Development staff is widely recognized for excellent customer service. NACo suggests that staff be trained to work with rural counties, especially our most distressed counties, to strengthen the linkages that exist between USDA Rural Development and other Federal and state programs, and to help them navigate the new transparency and reporting requirements.

Second, infrastructure development remains one of the most significant roadblocks to economic development and competitiveness in small towns and rural America. USDA Rural Development is effective at helping communities overcome these roadblocks, but needs to receive additional resources in the coming fiscal years to meet these infrastructure needs.

NACo supports Congress's and the Administration's growing support for rural broadband deployment and rural renewable energy development. However, the successful expansion of these two opportunities for rural America is dependent upon a simultaneous expansion of support for basic rural infrastructure.

County governments provide and maintain basic public infrastructure services, especially costly water and sewer systems that are essential building blocks for economic and community development. Therefore, local and state funding for infrastructure needs cannot meet demand for the foreseeable future. This fact, combined with the aging infrastructure in rural America, means that USDA Rural Development's Water and Environmental Programs and Community Facilities Program will need enhanced funding, especially grant funding, if rural America is going to be able to meet the infrastructure needs that are necessary for economic development.

Third, USDA Rural Development's traditional and newly authorized programs are an essential ingredient for rural communities as they seek to enhance their basic infrastructure, as well as employ techniques to promote entrepreneurs and businesses. However, these traditional programs should be bolstered by new and more aggressive incentives to promote and award flexibly funded regional approaches to rural development.

The newly authorized Rural Collaborative Investment Program is one model that would provide much-needed incentives and resources for the enrichment of rural development strategies on a regional and local basis, as well as flexible program dollars to implement regional and local projects and priority initiatives.

In my county, local flexibility and incentives for regional collaboration would allow us to work better regionally to develop a water system that can better meet our expected future demand.

I have clarified these three points in depth in my written testimony.

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

[The prepared statement of Mr. Rivenbark follows:]

PREPARED STATEMENT OF HON. FRANKLIN D. RIVENBARK, COMMISSIONER, PENDER COUNTY, NORTH CAROLINA; MEMBER, AGRICULTURE AND RURAL AFFAIRS STEERING COMMITTEE, RURAL ACTION CAUCUS STEERING COMMITTEE, NATIONAL ASSOCIATION OF COUNTIES (NACO); PAST VICE CHAIRMAN, RURAL DEVELOPMENT SUBCOMMITTEE, NACO, BURGAW, NC

Thank you, Chairman McIntyre, Ranking Member Conaway and Members of the Subcommittee for the opportunity to testify today on the status of rural development programs operated by USDA and the status of American Recovery and Reinvestment Act funds for these programs. Most importantly, I want to thank you Mr. Chairman for your leadership in ensuring that USDA Rural Development funding was included in the Recovery Act. The roundtable you held during the Recovery Act debate was instrumental in educating Members of Congress and their staff about the vital role USDA Rural Development programs could play in our nation's recovery efforts.

My name is Franklin D. Rivenbark. I am a County Commissioner in Pender County, North Carolina and I currently serve in several leadership roles with the National Association of Counties (NACo). Pender County is located in the Chairman's Congressional district in the far southeast corner of the state and is the sixth fastest growing county in North Carolina with a population of around 50,000 people. I also serve on NACo's Rural Action Caucus Steering Committee, Agriculture and Rural Affairs Steering Committee and am a Past Vice Chair of NACo's Rural Development Subcommittee.

My goal today in covering this important topic is to give you some concrete examples from my county and to represent the National Association of Counties. USDA's regularly appropriated funding and Recovery Act funding is making a significant difference across rural America during the economic crisis and in my county it has been critical to the continuation of vital infrastructure projects. I want to commend the Administration especially Secretary Vilsack and Under Secretary Tonsager for their deep commitment to rural development and steady leadership of the implementation process. NACo is pleased that USDA leadership is implementing their commitment to make rural development a key focus of the agency.

About the National Association of Counties

Established in 1935, the National Association of Counties (NACo) is the only national organization representing county governments in Washington, D.C. Over 2,000 of the 3,068 counties in the United States are members of NACo, representing over 80 percent of the nation's population. NACo provides an extensive line of services including legislative, research, technical and public affairs assistance, as well as enterprise services to its members.

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

In my testimony, Mr. Chairman, I want to express NACo's overwhelming support for the programs and mission of USDA Rural Development and offer constructive feedback about the agency's programs and its implementation of the Recovery Act. NACo and its partners in The Campaign for a Renewed Rural Development fought for recognition of the need to bolster this agency in order to revitalize rural America during the farm bill and stimulus debates. The Campaign is a collaboration of twenty-eight national organizations with a strong interest in the sustainability and prosperity of small town and rural America and is chaired by NACo Past President Colleen Landkamer. The inclusion of significant resources for USDA Rural Development projects in the Recovery Act is an important commitment that we urge the Administration and Congress to continue through strong appropriations and the development of an even stronger Rural Development Title in the next farm bill.

NACo especially supports increased grant resources for rural infrastructure improvements, renewable and alternative energy development, business and entrepreneurial development, broadband deployment and community facility enhancements. In addition, NACo strongly support the goals and concept of the Rural Collaborative Investment Program (RCIP), an innovative and forward-thinking rural development program authorized in the 2008 Farm Bill but not yet funded or implemented.

This morning, I would like to make three key points.

- **The Recovery Act is making a significant difference in my county and in rural communities across the country. However, many challenges exist for rural counties in their quest to obtain Recovery Act funds and implement new reporting requirements.** USDA Rural Development is acting extremely quickly to award projects and the Administration has been open and transparent with NACo during its rulemaking processes. However, rural counties are struggling to navigate the maze of funding opportunities provided throughout Recovery Act and move forward on implementation while many Federal rules and regulations are still in the process of being created.
- **Infrastructure development remains one of the most significant roadblocks to economic development and competitiveness in small town and rural America. USDA Rural Development is effective at helping communities overcome these roadblocks, but needs to receive additional resources in the coming fiscal years to meet these infrastructure needs.** NACo supports Congress and the Administration's growing support for rural broadband deployment and rural renewable energy development. However, the successful expansion of these two opportunities for rural America is dependent upon a simultaneous expansion of support for rural infrastructure. Entrepreneurs, small business leaders and private sector industries drive our nation's innovation, competitiveness and job growth. These individuals and entities also rely, expect and demand that public entities such as county governments provide and maintain basic public infrastructure services, especially costly water

and sewer systems, that are essential building blocks for economic and community development.

Historically, the bleakest fiscal periods for state and local governments, when most capital projects are put on hold, is the first 2 years of an economic recovery. Therefore, local and state funding for infrastructure needs cannot meet demand for the foreseeable future. This fact combined with the aging infrastructure in rural America means that USDA Rural Development's Water and Environmental Programs and Community Facilities Program will need enhanced funding; especially grant funding, if rural America is going to be able to meet the infrastructure needs that are necessary for economic development.

- **USDA Rural Development's traditional and newly authorized programs are an essential ingredient for rural communities as they seek to enhance their basic infrastructure, as well as employ techniques to promote entrepreneurs and businesses. However, these traditional programs should be bolstered by new and more aggressive incentives to promote and reward flexibly funded regional approaches to rural development.** This reflects the reality of today's marketplace where rural counties and communities are not only competing statewide and nationally, but more likely, internationally. The newly authorized Rural Collaborative Investment Program (RCIP) is one model that would provide much needed incentives and resources for the enrichment of rural development strategies on a regional and local basis, as well as flexible program dollars to implement regional and local projects and priority initiatives.

First, Mr. Chairman, the Recovery Act is making a significant difference in my county and in rural communities across the country. However, many challenges exist for rural counties in their quest to obtain Recovery Act funds and implement new reporting requirements. USDA Rural Development is acting extremely quickly to award the backlog of projects, especially in rural housing, community facilities and water and wastewater disposal. It is still very early to comment on implementation of USDA programs as we are still in a beginning phase of the process, especially in regards to broadband deployment. NACo looks forward to working with the Administration to ensure that counties play a key role in helping to ensure full broadband coverage in both unserved and underserved areas and understands the need to be patient as this critical funding provision is implemented.

Despite, being in the early stages of implementation, I can provide several positive examples from my county and offer some thoughts about challenges rural counties are facing in general. The Pender County Water Treatment Plant Project is a perfect example of the benefits of the Recovery Act. The project was challenged at the beginning of this year due in part to the economic downturn making it nearly impossible to raise additional revenue through the private sector. The county received $16.5 million in USDA direct loans and a $1 million grant in 2008. The total project cost is estimated at $25 million and it is anticipated that Recovery Act funding or regularly appropriated funding that has been freed up by the Recovery Act will be available to fill the gap and allow the project to continue. This will create jobs in the county and help us continue to attract new businesses by having a plant with the capacity to be updated to meet future demand. The project will serve Rocky Point Water and Sewer District and Topsail and Scotts Hill Water and Sewer District. This funding is coupled with funding in 2008 for the Town of Atkinson which received a loan of $432,000 and grant of $490,000 for a new water system. The Town of Burgaw also received a loan of $5 million in 2008 for improvements to their wastewater system.

In addition, Pender EMS, a nonprofit, will receive $2 million in community facilities funding, mostly in the form of a direct loan and a small grant to construct a new emergency medical services facility and emergency operations center in the Town of Burgaw. The center is a joint venture with the county that was supposed to begin construction on January 1, 2009, but was put on hold due to the freezing up of the private credit market. The $2 million in USDA funding will keep the project on track. The funding may or may not come from the agency's Recovery Act funds, but it is clear that without the Recovery Act, regular appropriations would not have been available to keep the project on track. Although, not funded through the Recovery Act, USDA's Rural Housing Programs have also been instrumental in helping our community through the downturn, especially the annual funding that our county housing department receives to provide rental assistance to eight low income families, including seniors.

The number of success stories such as this are growing, however, many rural counties are struggling to navigate the numerous Recovery Act funding opportuni-

ties and move forward on implementation while rules and regulations are still being created. I've outlined the feedback NACo is receiving from its members and some suggested remedies to help counties cope with these challenges.

Staff Capacity and Persistent Poverty Counties—USDA Rural Development staff at the local, state and national level are well respected across rural America. My staff in Pender County and I both agree that USDA Rural Development staff are the best to work with of any Federal or state agency. They bend over backwards to make projects work and deeply care about the rural communities they serve. Yet, the agency is only one piece of the maze of programs and opportunities which rural counties are striving to understand. Unfortunately, many rural counties do not have the capacity to effectively compete for Federal grants and loans. NACo expects July and August to be the peak of open grant announcements. We urge USDA to train its field staff to assist rural communities with making the connections to programs and resources that are present not only at USDA, but also through other Federal and state agencies. Often other programs complement and match USDA programs, but are not easily accessible or well know to small communities.

This Subcommittee should also ensure that USDA does significant outreach to our nation's 398 persistent poverty counties and other rural counties that have not traditionally been successful applying for or receiving USDA Rural Development funding. The Recovery Act requires that at least ten percent of USDA Rural Development funding (excluding the broadband program) be allocated for assistance in persistent poverty counties. The spirit of this provision will not be met by simply funding just enough projects to reach the ten percent threshold. Instead, NACo believes that USDA should engage in targeted outreach to these communities to ensure that those communities most in need are aware of their opportunities and afforded all possible help in successfully applying for funding that they are eligible to obtain.

Administrative Costs—NACo accepts the Recovery Act's emphasis on enhanced transparency, tracking of project success and oversight. However, this enhanced focus on transparency and oversight creates significantly more costs for state and local governments to implement Recovery Act projects.

The White House Office of Management and Budget issued guidance on May 11, 2009 allowing 0.5 percent of Recovery Act funds to be applied to program administration, in accordance with rules and procedures outlined in the guidance. While the guidance refers to states, White House officials have advised NACo that this also applies to local governments. NACo has requested that this inclusion of local governments be provided in writing so that Federal agencies uniformly allow local government administrative costs.

Guidance—The Administration has been open and transparent throughout the Recovery Act implementation process. As diligent as they have been in working to implement the law, OMB's delay in releasing guidance on calculating job creation and retention is very concerning for counties. Many grant applications require these calculations and thus counties have been forced to plan their projects, apply for funding and even begin implementation without all of the key guidance documents at their disposal. The rules for reporting, estimating job creation and retention and deciphering allowable administrative costs are being written as we go along.

Counties want to ensure that they quickly implement projects that meet the final guidelines that will eventually be published. Therefore, we urge the Administration to continue to keep in mind that local governments are under the pressure of speedy implementation without all of the facts for what comes next. The Administration should accept the good faith efforts of counties and allow them ample time to come into compliance as rules and regulations are written throughout the process. NACo especially urges reporting guidance to be released as soon as possible. The law requires reporting guidance to be released 45 days before the first reporting deadline of October 10. The 45 day window is not enough time. Counties will need this guidance released much earlier to ensure adequate time to comply.

Buy American—Many counties located near our nation's international borders have expressed concern with the implementation of the Recovery Act's Buy American provisions. NACo asks that all Federal agencies use the flexibility of OMB's April 23, 2009, interim guidance to grant waivers based on nonavailability, unreasonable cost, and inconsistency with the public interest. These waivers should be granted as quickly as possible to ensure that counties that rely on foreign suppliers are not adversely impacted by extended waiver request review periods.

Legislative Solution to Regulatory Uncertainty—NACo supports H.R. 1282, which is sponsored by Representative Edolphus Towns, and passed the U.S. House of Representatives on May 20. We urge the Senate to quickly pass the companion legislation, S. 1064, sponsored by Senator Joseph Lieberman. The Enhanced Oversight of State and Local Economic Recovery Act amends the American Recovery and Reinvestment Act of 2009 to require Federal agencies receiving funds under such Act,

subject to guidance from the Director of the Office of Management and Budget (OMB), to reasonably adjust applicable limits on administrative expenditures for Federal awards to help award recipients defray costs of data collection, auditing, contract and grant planning and management, and investigations of waste, fraud, and abuse required under such Act.

It authorizes state and local governments receiving funds to set aside up to 0.5% of such funds, in addition to any funds already allocated to administrative expenditures, to conduct planning and oversight to prevent and detect waste, fraud, and abuse. County governments are on the front lines of implementing the Recovery Act and this clear set aside for administrative costs will help ensure more effective implementation at the local level.

The Act also authorizes the Administrator of the General Services Administration (GSA) to provide for the use by state and local governments of GSA Federal supply schedules for goods or services and requires the OMB Director to issue guidance to ensure accurate and consistent reporting of "jobs created" and "jobs retained" as those terms are used in such Act. The first provision will allow county governments to obtain lower rates for goods and services and the second provision will provide certainty on reporting requirement in regards to jobs created and jobs retained.

Second, Mr. Chairman, infrastructure development remains one of the most significant roadblocks to economic development and competitiveness in small town and rural America. USDA Rural Development is effective at helping communities overcome these roadblocks, but needs to receive additional resources in the coming fiscal years to meet these infrastructure needs. NACo strongly supports Congress and the Administration's growing support for rural broadband deployment and rural renewable energy development. However, the successful expansion of these two opportunities for rural America is dependent upon a simultaneous expansion of support for basic rural infrastructure. The Recovery Act funds the backlog of basic infrastructure projects and is a critical down payment on this need. Yet, the backlog will quickly fill up again if regularly appropriated infrastructure funding is not enhanced. Entrepreneurs, small business leaders and private sector industries drive our nation's innovation, competitiveness and job growth. These individuals and entities also rely, expect and demand that public entities such as county governments provide and maintain basic public infrastructure services, especially costly water and sewer systems, that are essential building blocks for economic and community development.

Historically, the bleakest fiscal periods for state and local governments, when capital infrastructure projects are put on hold, is the first 2 years of an economic recovery. Therefore, local and state funding for infrastructure will not meet demand for the foreseeable future. This fact combined with the aging infrastructure in rural America means that USDA Rural Development's Water and Environmental Programs and Community Facilities program will need enhanced funding; especially grant funding, if rural America is going to be able to meet the infrastructure needs that are necessary for economic development.

Local governments own and maintain 75 percent of public roads, 50 percent of bridges and 90 percent of public transit systems. More than 98 percent of the nation's investment in water infrastructure has been made at the local level and virtually all public schools are owned and operated by local governments. We are not asking to be dependent on the Federal Government. I share these stats to let you know that local governments stand ready to be a key partner in economic recovery and are willing to pay our fair share for infrastructure needs. The stark reality is that we will not be able to afford these investments during the downturn and the first several years of the recovery without an enhanced Federal partnership.

While USDA Rural Development is an essential partner for our rural counties and communities, we have been alarmed that its infrastructure, housing, broadband and community facilities portfolios were increasingly focused on direct loan and loan guarantee programs over the past decade. The maintenance of grant levels for key infrastructure programs in the President's FY 2010 Budget is a good first step because it reversed the trend of cuts. However, there remains a need to bolster these grant programs from years of cuts in order to help with seed capital and gap financing for our local projects. In Pender County and in communities across North Carolina and the nation we are eager to reverse the trend away from grants. Our persistently distressed communities and all communities recovering from a disaster need a higher portion of grant funding for our projects to be economically feasible.

This need for adequate grant funding applies to rural counties and communities struggling to establish new water, sewer, broadband and community services, as well as countless counties and communities faced with the daunting task of replacing infrastructure that is often approaching 50 to 100 years old. For distressed and underserved rural counties and communities, especially the smaller and more rural

areas, the trend of increased reliance on Federal direct loan and loan guarantee programs puts costly infrastructure improvement projects out of reach. As a result, a good portion of our nation's rural counties and communities will continue be in economic distress, long after a recovery has reached the rest of the nation.

According to a 2009 report by the American Society of Civil Engineers, the nation's infrastructure remains in serious need of improvements and increased Federal investment. The conditions of the country's roads, drinking water systems, public transit, wastewater disposal, hazardous waste disposal and navigable waterways have worsened since the society's first report card in 2001. The improvement costs are now calculated at $2.2 trillion over the next 5 years. While state and local governments, industry and nonprofit organizations are making major contributions to our public infrastructure enhancement efforts, this immense job will never be completed without the aggressive leadership, participation and resources of the Federal Government.

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

As the Committee works to evaluate the existing portfolio of USDA Rural Development programs, we also encourage you to help make the application process for new and existing programs more user-friendly and streamlined. While technical assistance providers such as our partners at the regional development organizations have developed the experience and expertise required to navigate the extensive USDA program portfolio and application process, it can still be a very burdensome and time consuming endeavor. This is especially important considering that over 33,000 of the nation's 39,000 units of local government have populations below 3,000 and 11,500 employ no full-time professional employees, according to U.S. Census Bureau data. Therefore, NACo supports USDA Rural Development's stated goal of putting together a community development component in rural development specifically geared toward smaller communities that don't have sufficient capacity. One way to assist localities with limited resources will be to increase USDA field staff's knowledge about community development—and to provide direct training and assistance to communities.

Third, Mr. Chairman, USDA Rural Development's traditional and newly authorized programs are an essential ingredient for rural communities as they seek to enhance their basic infrastructure, as well as employ techniques to promote entrepreneurs and businesses. However, these traditional programs should be bolstered by new and more aggressive incentives to promote and reward flexibly funded regional approaches to rural development. This reflects the reality of today's marketplace where rural counties and communities are not only competing statewide and nationally, but more likely, internationally. The newly authorized Rural Collaborative Investment Program (RCIP) is one model that would provide much needed incentives and resources for the development of rural development strategies on a regional and local basis, as well as flexible program dollars to implement regional and local projects and priority initiatives.

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

Current Federal policies are working to simply sustain rural America rather than help rural regions and counties pursue new economic and community growth opportunities. Meanwhile, urban areas often have direct control and access to Federal resources for community, human and physical infrastructure improvements that are

essential building blocks for local development and job growth. NACo is a strong advocate for Federal community and economic development support for our urban counties and regions, yet we also firmly believe that rural counties and communities should have more robust Federal support for their rural development needs.

New program tools are needed that are more flexible and broad to meet the individual and specific needs of our rural regions and counties, rather than forcing our rural leaders to fit and refigure their projects into the existing set of categorical USDA Rural Development programs. For example, Pender County, a rapidly growing county, could benefit if USDA allowed the county to expand its current water treatment plant project to meet the demands that we know will occur over the next 5 to 10 years, but instead we are only allowed to design a facility to meet current needs. Thus, almost immediately upon completing the project, the county will be required to incur additional costs related to planning, environmental assessments, engineering and design, and so forth for a plant expansion. In this instance and many others, local flexibility in planning for projects would allow for more fiscally responsible and effective use of resources at the local, state and national level.

In addition, USDA should enact performance measurements and implement needs assessments for all programs. USDA, stakeholders, Congress and the public at large will benefit from more rigorous evaluation tools to assess the effectiveness of programs. Providing a needs assessment for all programs will help Congress appropriately fund all programs.

NACo believes the weakness of the current programs is their stand alone nature. We seek to move rural development beyond just categorical programs to a stronger commitment to regional rural development strategies and programs designed by local leaders. We must allow effective USDA Rural Development programs to be placed within a planning process that gives rural county and community leaders flexibility, resources and incentives to leverage their local assets and use Federal and state resources for their top local priorities.

Study after study by Federal agencies and universities have concluded that additional funding for strategic planning, capacity building and technical assistance programs is one of the most pressing needs facing rural governments and communities. This stems from the fact that most rural local governments simply do not have the financial resources to hire professional economic development practitioners. And, presently there are few Federal programs designed specifically for their needs—unlike urban areas that receive millions of dollars in direct funding from HUD and Department of Transportation. Programs such as RCIP offer a great opportunity to build upon the existing regional and local institutions throughout rural America, while also fostering new approaches to developing comprehensive regional strategies, new multi-sector partnerships and new program flexibility to address the unique needs and potential of each region.

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

Even more importantly, RCIP would offer fully flexible implementation grants for regional and local projects that are identified and prioritized in a region's comprehensive rural development strategy. On a national competitive basis, counties, nonprofit organizations, educational institutions and other eligible organizations would be eligible to apply for project implementation resources that address a broad range of community and economic development needs, including renewable energy, broadband deployment, value-added agricultural development, infrastructure improvements, entrepreneurship, business development finance and community facility improvements. RCIP investments would not replace the existing USDA Rural Development portfolio, but instead would complement and leverage existing public, private and philanthropic resources. We urge the Subcommittee to work with their colleagues on the Appropriations Committee to fully fund the RCIP program and work to ensure that existing USDA Rural Development programs are as flexible as possible to accommodate innovative local and regional planning efforts.

In conclusion, I would like to reiterate the three key points. First, the Recovery Act is making a significant difference in my county and in rural communities across the country. However, many challenges exist for rural counties in their quest to obtain Recovery Act funds and implement new reporting requirements. Second, infrastructure development remains one of the most significant roadblocks to economic development and competitiveness in small town and rural America. USDA Rural Development is effective at helping communities overcome these roadblocks, but

needs to receive additional resources in the coming fiscal years to meet these infrastructure needs. Third, USDA Rural Development's traditional and newly authorized programs are an essential ingredient for rural communities as they seek to enhance their basic infrastructure, as well as employ techniques to promote entrepreneurs and businesses. However, these traditional programs should be bolstered by new and more aggressive incentives to promote and reward flexibly funded regional approaches to rural development.

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

The CHAIRMAN. Thank you, Commissioner Rivenbark.

Ms. Debra Martin.

STATEMENT OF DEBRA MARTIN, DIRECTOR, GREAT LAKES RURAL COMMUNITY ASSISTANCE PARTNERSHIP, WSOS COMMUNITY ACTION COMMISSION, FREMONT, OH

Ms. MARTIN. Good morning. I would like to thank you, Chairman McIntyre, Ranking Member Conaway, and Members of the Subcommittee, for the opportunity to be here to talk about Rural Development programs.

I am the Director of the Great Lakes Rural Community Assistance Program, which is one of the six regional RCAPs across the country. RCAP is a nationwide program that helps small communities meet their water, wastewater, and other community development needs. We provide training and technical assistance to build the capacity and sustainability of small systems, and to assist them with the development of their infrastructure projects.

Through the course of our work, we deal with Rural Development programs and staff on a daily basis. Since our primary focus is on infrastructure, we are quite familiar with the water and waste disposal programs. However, as you are well aware, the needs in rural communities go well beyond infrastructure, and so in an effort to provide comprehensive services, we have dealt with a number of other programs as well.

Rural Development programs are critically important to small communities. They provide small communities the opportunity to develop projects that protect public health, the environment, and assist with the future development of the community.

In the interest of time, I am going to talk mostly about the Water and Waste Disposal Programs today, although I have included some information about other programs in my written testimony.

The infrastructure needs in small communities in this country are absolutely staggering. According to the most recent needs surveys conducted by EPA, small systems will need $34 billion for drinking water and $69 billion for wastewater over the next 20 years. For very small communities, developing an infrastructure is a major challenge. It is absolutely impossible for them to achieve the economies of scale that are found in larger systems and, because of that, rural residents pay on average about three to four times more for these services than people in urban areas.

In our work it is not unusual to see small, impoverished community residents paying over $100 a month for water and sewer services. In addition, there are literally hundreds of small communities in my region alone that are unsewered and are currently under EPA mandates to develop sewer systems.

When you are looking at a $4 million capital cost for a sewer system, with a hundred households, which is the case in many of these areas, you don't have to be a mathematical genius to know that the math just doesn't work on those, and it is quite an economic struggle for them to try to develop these systems. This is why Rural Development funding is so critical.

For many, many years, Rural Development has served as the lender of last resort for these rural areas.

The SRF programs that are available through EPA are good programs for larger systems, but the longer terms and the grant funding that is available through Rural Development make them an absolutely critical source for these smaller areas.

Another challenge the small communities face specifically with regard to the Economic Recovery Act is that they are the least likely to have shovel-ready projects, and that is because of the significant costs that go into developing a project to the point that it is shovel-ready. And so that is a challenge going forward. There is a time limit on the funds, and yet bringing small communities to the point that their projects are actually shovel-ready is a difficulty.

In addition, over the past several years, outside of the Economic Recovery Act funding, Rural Development has seen its funding decrease steadily over the past several years. Water waste disposal programs from 2003 through 2008 were reduced by 25 percent, the Community Facilities Program funding was reduced by 28 percent, and housing programs by 33 percent.

In addition to that, the grant funds that are appropriated to the programs have declined significantly over the years. In 2003, the average percentage of grant funding that was allocated was about 39 percent, and it is about 26 percent today. Without the grant portion of the funding, it is nearly impossible for the smallest systems to be able to develop their projects.

And we realize that in terms of budget authority the loan dollars can be stretched further and allow them to serve more projects; however, at some point if that trend continues, then the program will cease to be a viable option for the communities that it was intended to serve.

Another issue or challenge that we see is that the administrative portion of Rural Development funding that pays for staffing, and so forth, for Rural Development has been reduced over the years, and this is particularly a challenge with the Economic Recovery Act funding adding to the number of projects that need to be served.

And I will just stop right there since I am out of time, and I thank you again for the opportunity to talk about the programs and welcome your questions.

[The prepared statement of Ms. Martin follows:]

PREPARED STATEMENT OF DEBRA MARTIN, DIRECTOR, GREAT LAKES RURAL COMMUNITY ASSISTANCE PARTNERSHIP, WSOS COMMUNITY ACTION COMMISSION, FREMONT, OH

Thank you, Chairman McIntyre and Ranking Member Conaway, for the opportunity to address the Committee. The role of the Federal Government's USDA Rural Development programs in rural America is critical, and we applaud the Committee's efforts to ensure that these programs are working as intended and having a positive impact, particularly in today's economically challenging times.

My name is Debra Martin, and I am the Director of the Great Lakes Rural Community Assistance Program (RCAP), based in Ohio and serving the States of Illinois, Indiana, Kentucky, Michigan, Ohio, West Virginia, and Wisconsin. The Great Lakes RCAP is part of the national RCAP network, whose regional service providers help small, typically low-income, rural communities address water, wastewater, and other community development needs. The RCAP network provides training and technical assistance to build the capacity and sustainability of small systems, and to assist small communities with the development of needed water and wastewater facilities. The RCAP network serves over 800 communities every year through funding provided by USDA's Technical Assistance and Training Grant Program under its Water and Waste Disposal Program.

Working with rural communities nationwide, we deal with Rural Development programs and staff on a daily basis. Our primary focus is on infrastructure, so we are intimately familiar with the Water and Waste Disposal program. However, needs in rural communities go well beyond infrastructure, and in an effort to provide more comprehensive programming, our organizations have made extensive use of other Rural Development programs such as Community Facilities, housing programs, the Rural Community Development Initiative program, the Intermediary Relending Program, and others.

The infrastructure needs alone in this country are staggering. The most recent needs surveys by EPA estimate the funding needs in small systems and rural areas at $34 billion for drinking water and nearly $69 billion for wastewater over the next 20 years.

Small systems nationwide comprise approximately 83% of all public drinking water systems and 70% of public wastewater facilities, though they account for a much smaller share of the total population served. Small communities face unique challenges in developing, upgrading, and operating their water and wastewater facilities. For example, small utilities must spread their capital and operating costs among fewer customers—including large commercial, industrial, and institutional users—making it impossible to achieve economies of scale found in larger systems.

Customers in small systems pay, on average, three to four times more than their urban counterparts for water and wastewater services, according to EPA data. To cite one example, the Appalachian community of Corning, Ohio, with a population of 593 and a median income of $27,868, recently developed a new sewer system. Despite utilizing RCAP assistance to obtain every available source of Federal and state grant funding, village residents are paying $65 per month for their sewer service. Coupled with a $45 per month average water bill, community residents are paying nearly 5% of their income for these utilities. The situation in Corning is hardly unique. In fact, it mirrors what is happening in small communities all over the country.

RCAP is committed to educating local officials about the importance of maintaining infrastructure investments, encouraging local responsibility, and ensuring that residents are paying their fair share for these services. RCAP offers training to utility boards and managers on topics such as financial management, budgeting, asset management and rate-setting. However, there is a point at which the cost of projects is simply not affordable to rural residents. Assistance from the Federal Government is vital to small communities in developing needed infrastructure. Without Federal grants and subsidized long-term loan funds, the vast majority of projects in rural America, many of which are only marginally affordable even with these funds, are simply not feasible.

The current credit crisis puts small communities at a more pronounced disadvantage. With credit tightening and state and local government revenues shrinking, infrastructure funding is more competitive. Some state agencies have had difficulty marketing and selling bonds used to capitalize various state funding programs, even those that carry AAA ratings. In such an environment, it can be very difficult for small communities to compete with larger cities, particularly when they are far less likely to have shovel-ready projects.

For many years, USDA Rural Development has served as the "lender of last resort" for rural communities. The USDA's Water and Waste Disposal Loan and Grant Program is one of the few infrastructure programs available exclusively for small communities. Rural Development is also the lead Federal agency for improving housing, community facilities, and providing economic opportunity in rural areas. Rural Development programs must be adequately funded if small communities are going to have the opportunity to develop projects that are critical to public health, the environment, and their future development.

Issues and Challenges in Current Rural Development Programming

In recent years, Rural Development has seen funding for its programs steadily decrease. Since 2003, funding has been reduced by 25% for water and sewer, 28% for rural community facilities, and 33% for rural housing loans and grants (excluding funds made available recently through the ARRA).

In addition, grant funding for water and sewer projects, as a percentage of the overall allocation, declined from 39% in 2003 to 26% as of 2006. As previously noted, grant funds are critical to help defray the enormous costs of infrastructure development. If the trend of reducing the grant-to-loan ratio continues, the program will cease to be a viable option for most small communities, especially those serving low-income populations.

The ARRA funding is critical to meet current needs. However, it presents many challenges, both to communities utilizing the programs and to the agency, in expending the funds in a timely manner.

Rural Development's administrative budget has stagnated in recent years, so the agency has fewer field staff to process loan and grant applications, a particular problem in handling the time-sensitive ARRA funding. From 2007–2008, Ohio's Rural Development office experienced a 73% increase in demand for its housing programs, and a 170% increase in its business programs.

Moreover, the ARRA imposes additional requirements that add to the cost of projects for communities and the administrative time required to track and report on those provisions.

The challenges for small communities in meeting the compressed timelines imposed by ARRA are great. There are numerous time-consuming and labor-intensive steps to the application process, which typically can take communities 2 years or more to complete. An engineering report and an environmental review are required before the agency begins processing an application. These reports can cost $30,000–$50,000—a substantial portion of their annual budget. Since there is no guarantee that funding will be available, many communities are reluctant to take this risk. In addition, completing an environmental report at this stage slows the process considerably; it typically takes 3–6 months to complete a review.

There are many more tasks to be completed before funds can be obligated. Once obligation occurs, several additional time-consuming steps must be completed before construction can begin, such as submission of user agreements and plans for connection of customers, securing rights-of-way and easements, completion of engineering design and a review by Rural Development, securing required permits, development of an annual budget.

The RCAP program and the technical assistance it provides serve as a bridge between the agency and communities. RCAP staff have a detailed working knowledge of Rural Development goals, processes, and priorities and can help meet them while serving the needs of small communities. For instance, last week the RCAP program in Ohio, in conjunction with Rural Development, conducted a workshop to reach out to communities and make them aware of additional funding available through the agency and how to access it. This workshop was attended by over 100 people. RCAP assists not only with the applications and every phase of the project development process, but also provides training and technical assistance to projects after construction is complete, helping small systems understand how to properly manage and operate the system in a financially sustainable manner.

Examples of additional issues with Rural Development programs that need to be corrected in order to maximize their effectiveness include the following:

- The IRS ruling that communities cannot utilize tax-exempt bonds when securing loan guarantees under the Water and Waste Disposal and Community Facilities programs. This negates the favorable interest rate they receive through the program and renders the program ineffective.
- Intermediary Relending Program (IRP) funding, which makes loans to nonprofits that re-lend the funds to local businesses, has declined in recent years, despite the program's proven record of job creation and significant leveraging without a single default.
- The Rural Business Opportunity Grant (RBOG) is funded at such a low level outside its earmarked funds that it wastes the resources of agency staff and the communities that complete the 100+ page application, since 99% of applications go unfunded. This program should either be funded at a higher level or discontinued.
- The Value-Added Producer Grant and the Rural Energy for America Program are available to farmers, but applications are only accepted once per year, generally during the busy spring planting season. Program funding should be an-

nounced early in the fiscal year so that producers could work on the application during the winter months. The timing of annual appropriations is typically blamed for the delay.

Recommendations To Assist Rural America and Improve RD Programs

Solving the problems facing rural communities requires a multi-pronged approach that includes adequate funding, along with steps to ensure that grant funding is available only to the *most needy* communities, that there is sufficient technical assistance available to ensure that the funds are distributed where they are most needed, and that alternative approaches are considered. Specifically, RCAP offers the following recommendations:

(1) Annual appropriations for Rural Development programs need to increase. While it may be unrealistic to expect programs to be funded at ARRA levels, programs should have funding restored to the highest feasible levels. (This includes the IRP and RBOG programs mentioned above.)

(2) Improve the grant-to-loan ratio in the Water and Waste Disposal Program. The farm bill authorized lower interest rates, which will help make projects more affordable for communities. However, the additional loan subsidy further reduces available grant funding, and many low-income communities simply cannot develop feasible projects without grants.

(3) Eliminate the "similar systems rule" in the Water and Waste Disposal Program. Rural Development awards grant funding to systems to subsidize user rates to a "reasonable" level. This generally is based on user rates as a percentage of median household income. However, the similar systems rule is essentially a loophole that allows consideration of the rates paid by systems in the same geographic area, regardless of income. This permits some systems to receive grant funding and maintain rates that are too low, when a low-interest loan would have been affordable. Establishing rates as a percentage of median income is equitable and should be the **sole** means of determining grant funding.

(4) Strengthen provisions that require communities to consider regionalization/collaboration. Too often, these options are given a cursory examination and dismissed because of a lack of support by the community. In order to maximize limited resources, communities need to realistically examine whether operating their own facilities is cost effective. Many Rural Development offices have not forced communities to consider these alternatives because they are not politically popular. Therefore, such a requirement should be part of the law. While there may be legitimate reasons for communities not to choose regionalization, the burden of proof should be on the community.

(5) Increase technical assistance funding that will allow RCAP and other providers to keep pace with growing demand. Currently, in Ohio and other Great Lakes RCAP states, there is far more demand for assistance, particularly with new sewer projects, than can be met with existing technical assistance funding. These projects tend to be very time and labor-intensive, as they are typically the smallest and, hence, the most difficult to fund, communities.

In addition to technical assistance for water and wastewater, a broader technical assistance program to help rural communities access funds for community facilities, community planning, and economic development should be created. During the course of our water and wastewater work, we are frequently approached by rural communities to provide these other services because they lack full-time staff or expertise to access funds that might be available to them. In the last 2 years, we have received over 60 requests for such assistance in the Great Lakes region.

(6) Delay the environmental assessment requirement until after the initial application is submitted. As long as the assessment is completed prior to the start of construction, it will meet the requirements of the National Environmental Policy Act. This would allow the assessment to be completed simultaneously with other requirements—including final engineering design—and would speed the processing of applications.

(7) Provide a legislative remedy to the IRS ruling on loan guarantees.

(8) Make programs directed to farmers available at appropriate times of the year, or consider moving to a year-round application period.

We thank the Committee for considering our testimony on these issues and thank you for your commitment to meeting the needs of rural America's communities.

DEBRA MARTIN, *Director,*
Great Lakes RCAP,

WSOS Community Action Commission,
Fremont, OH.

The CHAIRMAN. Thank you very much. I am sure there will be an opportunity through questions and available additional testimony if you would like to provide that in writing.

I will now call Governor Sanchez.

STATEMENT OF HON. CHANDLER SANCHEZ, GOVERNOR, PUEBLO OF ACOMA, ACOMA, NM; ON BEHALF OF NATIONAL CONGRESS OF AMERICAN INDIANS

Governor SANCHEZ. Chairman McIntyre, Ranking Member Conaway and Members of the Committee, my name is Chandler Sanchez, and I am the Governor of Pueblo of Acoma. On behalf of Pueblo of Acoma and the National Congress of American Indians, the oldest and largest national organization representing tribal governments, thank you for providing Indian Country with this opportunity to testify.

Indian Country is America's most rural population, 60 percent of Native Americans live in rural America compared to the national average of 30 percent. Tragically nine out of ten poorest counties in America contain Indian reservations. Our infrastructure deficiencies are Third World-like. For example, 30 percent of Natives do not have basic telephone access, and 90 to 95 percent do not have high-speed Internet service. Thirteen percent of us don't have access to clean water, and 14 percent of us don't have electricity. Sixty-five percent of our roads are dirt and gravel. And while the U.S. unemployment rate has risen to nine percent, many of our communities struggle with an unemployment rate as high as 90 percent.

Although we are the most rural, we are dramatically underserved by the USDA. For example, we lack access to water at the rate of 20 times greater than anyone else. And yet of the 250 economic stimulus water projects announced by the USDA, we could only find one that was clearly tribal. While USDA does have great tribal liaisons, and many are very dedicated employees, there continues to be a major impediment blocking Indian Country access to USDA's programs.

In preparation of this testimonial, NCAI asked tribal leaders how USDA applications were going. The most common answers we received were that they had never heard of the program, or that they didn't have the resources to apply.

We recommend first that USDA conduct full government-to-government consultation with Indian Nations to facilitate implementations of the Recovery Act; ten percent set-aside for persistent poverty counties. No such consultation has yet taken place.

Second, that there should be a more substantial set-aside for Indian Country in rural water and water disposal programs, and that the programs predominantly provide grants for poorer communities. Over 13 percent of tribal homes lack basic access to safe drinking water and/or basic sanitation compared to the nationwide average of one percent.

Lack of inadequate and safe water is not only a health hazard, but also a major barrier to economic development. For example, the Cheyenne River Sioux Tribe has imposed a ban on new construc-

tion because of an inadequate water system that is at a 99 percent capacity. A new water intake system would cost approximately $80 million. Last year Congress appropriated $60 million for all tribes in rural water accounts, with a USDA cap of no more than $1 million per tribe.

Third, we recommend that the Community Facilities Program should have a trouble—specific set-asides appropriate to the needs in Indian Country, and that the program should permanently provide grants for poorer communities. My own tribe applied for this last year for a community facility loan/grant package for the construction of $14 million community center and wellness facility. This center, which is 100 percent shovel-ready, would serve our reservation and the entire surrounding rural community, a total of 10,000 people.

USDA worked with us closely; however, we were stunned when we received a draft loan/grant letter that provided for $14 million in loan and loan guarantees and absolutely no money in the form of a grant. USDA's officials have explained that the Community Facilities Program does not have sufficient grant funding, and that we need to come to Congress. So here I am.

Let me close with a list of some of the other recommendations that we have detailed information on each of them in my written testimonial. Congress and the USDA should fund the Administration's request for USDA's tribal office and evaluate the current office for an Assistant Secretary for Tribal Affairs; establish an Indian Country office in Rural Development; provide Indian reservations with the same access to USDA as given to every community in America; create tribal set-asides in all Rural Development programs proportionate to the needs; ensure that the grants rather than loans are actually available for the poorest counties and communities; better tailor the application process for tribal governments; distribute some funds based on need formulae rather than competitive grants.

And finally, while we recognize it isn't the focus of today's hearing, we hope Indian Country is invited back to talk about many concerns we have about telecom and the USDA.

Thank you so much for having me here to speak today. The tribes at NCAI look forward to working closely with the Committee on these issues. Thank you.

[The prepared statement of Governor Sanchez follows:]

PREPARED STATEMENT OF HON. CHANDLER SANCHEZ, GOVERNOR, PUEBLO OF ACOMA, ACOMA, NM; ON BEHALF OF NATIONAL CONGRESS OF AMERICAN INDIANS

Chairman McIntyre, Ranking Member Conaway, and the Members of the Committee, thank you for having me here today. My name is Chandler Sanchez and I am the Governor of the Pueblo of Acoma. On behalf of the Pueblo of Acoma and the National Congress of American Indians (NCAI), the oldest and largest national organization representing tribal governments, I am delighted to be here. Thank you so much for ensuring that a Native voice was heard today.

As you know, the USDA in general and the Rural Development Office specifically is extremely important to Native people, yet we continue to be dramatically underserved. Indian Country is America's *most rural* population. While only 30% of America lives in rural areas, nearly 60% of Natives still live in rural America. And we are probably the rural population most in need of rural development. Nine of the ten poorest counties in America are not in the South or in West Virginia, they are counties with Indian reservations. And while only 1% or less of the general U.S. population doesn't have access to a phone, or to electricity, or to clean water—30%

of Natives do not have basic telephone access, 14% of us still don't have electricity, and over 13% of us don't even have access to clean water. And while the U.S. is concerned with the unemployment rate rising to 9%, many of our communities have been struggling with 90% unemployment. There is perhaps no area more desperately in need of the USDA Rural Development services than Indian Country.

Despite this desperate need, Indian Country is not getting served well by the USDA. For example, of the 250 economic stimulus water projects just announced by the USDA, I could only find one that was Tribal. Yet we lack access to water at a rate 20 times greater than anyone else.

It is not news that the USDA is bureaucratic and inflexible. But there are a number of systemic issues built into the USDA requirements structure that perpetuate this problem in Indian Country. I will go into more detail, but one example is the USDA and Congressional preference for loans over grants. We understand and respect this from a business point of view, but many of our communities have no resources for loans, and no way of getting resources to pay back loans until we have basic infrastructure in place. It's a vicious cycle. Another example is the USDA's preference for "incumbents" in their funding. If the current companies, the incumbents, were serving Indian Country well, we wouldn't have this dramatic lack of service.

I don't mean to infer the USDA has done nothing. They have a very good tribal liaison in the Rural Development office that is working very hard, a number of very dedicated state employees, and they have done some calls and webinars for Indian Country on the economic stimulus, both with NCAI and with the White House. However, there continue to be major systemic impediments, and the overall USDA effort has been insufficient. I think most telling is that in preparation for this testimony, we sent out a notice throughout Indian Country asking for stories on how these programs were working. Unfortunately, rather than being given a list of how the applications were going and how any funds were being spent, the most common answer we received was that they had either never heard of the programs or they didn't have the resources to apply. Something is inherently broken when the resources are not getting to those who need them most.

The Need for USDA Rural Development in Indian Country

This Committee, perhaps better than any other, understands the importance of the USDA and its rural development programs for Indian people. While only 30% of America lives in rural areas, nearly 60% of Natives still live in rural America. And not only are our areas just rural, they are often very remote and isolated. For example, most of the villages in Alaska still have no road access at all and all travel is only available a few months of the year by plane. Throughout all of Indian Country, 65% of our roads are dirt and gravel, treacherous throughout the year and impassable during bad weather.

Not only can we not travel well, we cannot communicate well, with 30% of us not having basic telephone service and 90–95% of us not having high speed Internet access. Last year NCAI took a delegation to Indian Country, and the while there the White House staff were very surprised to find that even their high tech international phones would not get a signal in Indian Country. Without the basic skeletal infrastructure of roads, water, and communications in place, economic development continues to elude us. Despite the well known successes of a few of our Tribes located in more populated settings, nationally we continue to have a poverty rate twice that of the rest of America (25%).

The Poorest Counties in America Are Indian Country. A census statistic, in which we take no pride, is that nine of the ten *poorest* Counties in the U.S. are Native American reservations and communities, six of them alone are in North and South Dakota. By and large these are rural and often isolated counties, which are in desperate need of a better relationship with USDA and Rural Development.

	County	Tribe/Reservation
1	Buffalo County, South Dakota	Crow Creek
2	Shannon County, South Dakota	Pine Ridge
3	Starr County, Texas	——
4	Ziebach County, South Dakota	Cheyenne River
5	Todd County, South Dakota	Pine Ridge
6	Sioux County, North Dakota	Standing Rock
7	Corson County, South Dakota	Standing Rock
8	Wade Hampton, Alaska	Several Native Villages/92% Native
9	Maverick County, Texas	Kickapoo Traditional Tribe of Texas
10	Apache County, Arizona	Navajo and White Mountain Apache

USDA Rural Development and Indian Country

ARRA and "Persistent Poverty Counties"

The Recovery Act provides a 10% set-aside to persistent poverty counties for the billions of dollars provided to USDA Rural Development programs for water and infrastructure, business and investment, community facilities, and rural housing. To date however we do not know how USDA intends to reach out to these another persistent poverty counties, especially since, as was just discussed, nine of ten of the poorest are actually Tribal counties and it is the Tribes, not the County government, that provide most of the services. To the best of our knowledge, the USDA has not reached out to consult with the Tribal governments themselves within these counties or to discuss and plan implementation of this provision.

"Persistent Poverty County" Recommendation:

- NCAI and the Tribes would be pleased to be invited to be part of the solution. We very much look forward to hearing from USDA on approaches being considered and any progress that may have already been made in the dispensation of funding to persistent poverty counties and the Tribes within those counties.

Rural Water and Waste Disposal

13% of Tribal Homes No Water Access. Currently over 13% of tribal homes lack basic access to safe drinking water and/or basic sanitation (living conditions often associated only with the developing world). The statistic for the rest of America is less than one percent nationwide, 0.6%. With the proportion of Native people lacking access to safe drinking water at over 20 times the national average, one would think that the proportion of Federal funding would at least approximate this dramatic difference. However, just using the USDA's own press announcements regarding over 250 water projects water and waste water projects funded under ARRA (April 28 and May 28), we counted only one of which we could identify as Tribal, or 0.4% of the projects recently funded.

Alaskan Example. In rural Alaska residents of many Alaska Native Villages must still use external "honey-buckets" and then have their waste transported by all-terrain vehicles to untreated sewage lagoons nearby. To compound this problem, many of these lagoons often overflow (as according to a 2003 Government Accountability Office report, 184 out of 213 Alaskan villages are subject to flooding, melting permafrost, and erosion due to warming temperatures),[i] leading to a variety of additional health issues.

South Dakota Example. The water need for economic development is so great in our Nations it is almost overwhelming to discuss. For example, in South Dakota, the Cheyenne River Sioux Tribe's, economic development has been completely halted due to lack of water. The antiquated water system is at 99% capacity, and there is a complete ban on new construction. While the housing need is enormous, there is absolutely no housing available, and 750 requested homes wait in the queue to be built. This bars economic development, as the Tribe cannot hire new employees or teachers, or attract any new business, as there is nowhere for them to live or build. The lack of water and housing is also a public safety issue. Unfortunately Indian Country has some of the highest rates of violence against women, but there is no housing for our women and children to move into, if they need to get out of their home environment into safety.

The new water intake system for Cheyenne River will cost approximately $80 million. Last year Congress appropriated $16 million for *all* tribes in the rural water account, with a USDA cap of no more than $1 million per tribe. Clearly this rate of Congressional and USDA investment will never pull Indian Country out of its third world water conditions.

Water Recommendations:

- **Increase Set-Aside Authorization.** This is not just an appropriations issue, this is an authorization issue. We need this Committee to commit to a more substantial set-aside for Indian Country in the Water account. If our need is 20 times that of the general population, a 20% or more set-aside in the rural water account for this area is necessary and humane until this dramatic gap begins to close.
  - We recognize that the Alaska water account has had Federal implementation issues over the last few years and we look forward to that being worked out, and that program finally being effectively distributed within Alaska.

[i] United States General Accountability Office, "Alaska Native Villages, Most Are Affected by Flooding and Erosion but Few Qualify for Federal Assistance," GAO–04–142 (December 2003).

- **Focus on Grants Rather Than Loans.** Additionally, this account needs to be available predominantly in grant funds to these poorer communities. If these Tribes had the resources to build out with loans, they would have already done so. While the USDA policy is that up to 75% of the project cost can be provided in loans, in reality that caps at around 25%. This ratio needs to be addressed for these poorest counties and areas. The problems with the loan issue are compounded by the fact that many of these Tribes have treaty right access to these waters, and many of the water access issues were caused by the Federal Government itself, including the national damming projects.
- **Interagency Coordination on Indian Water Projects.** Several agencies such as the USDA, Indian Health Service, Environmental Protection Agency and Housing and Urban Development, provide some aspect of water infrastructure funding for Indian Country. However, each agency has different engineering standards, reporting requirements, and grant cycles among other things that make it extremely difficult for Tribes to be able to access these resources. One good example of cooperation is the USDA–IHS Memorandum of Understanding (MOU) to designate a lead agency to manage all of the major aspects of a project, such as project management, funding, and engineering standards. That MOU resulted in MOAs between IHS and USDA in the States of Washington and Mississippi. Such interagency cooperation on Indian water projects should be replicated across more of the programs and the agencies, and in state to create efficiencies that result in water infrastructure in rural America, including Indian Country.

Rural Community Facilities

The Rural Community Facilities program is one which Tribes are very excited about, as with much of rural America, our needs for essential community facilities such as fire houses, ambulance services, tribal court buildings, *etc.* are great. For example, our education buildings alone are, on average, at least 60 years old; while, 40 years is the average for non-Indian schools.

In particular, we are grateful for the Tribal college facilities program under this account for our land-grant institutions. The Tribal Colleges are a one of the biggest facilitators for educational and economic growth in our communities. However, there are no set asides in this program for tribal governments and Indian Country. Additionally, as with the water program the loan amounts available are dramatically greater than grant amounts. Many of our communities, especially those in the most impoverished areas, are not able to adequately participate in a loan program.

My own tribe, the Pueblo of Acoma, applied this year for a Rural Development loan/grant package for the construction of a $14 million community center and wellness facility. This center, which is 100% shovel-ready, would not only serve our reservation, with a population of about 4,000, but also surrounding communities with an additional rural population of 6,000. It would house a gymnasium and other wellness facilities to help us address diabetes and other community health issues.

The state USDA office has worked with us closely and we have great respect for these Federal employees. They care about Indian Country. However, we were stunned when we received from them a draft community facilities loan/grant letter that provided for $14 million in loan and loan guarantees and absolutely **no money** in the form of a grant. We were told that as a matter of policy USDA does not provide significant grant funding for community facilities.

With all of the economic stimulus funding that has been made available for shovel-ready projects, it is hard to believe that USDA could not come up with any grant funds. We thought that we might see something like 30–40% of the project funded by grants—not zero percent. It is clear to us that USDA Rural Development is not mobilized to get out ARRA funds where they are most needed, as was intended by the Congress.

Since then, USDA officials have said that they might be able to provide $200,000 in the form of a grant. But this is still barely more than 1% of the total cost. This facility is important to our community. Acoma is willing to borrow many millions towards construction of this facility, but we need USDA grant support. This is just one of many examples where many of the resources are not getting down to those communities that need it most.

Rural Community Facilities Recommendation:

- **Create a Set-Aside Authorization.** Unlike many of the other USDA programs, there is no Tribal specific set-aside in the Rural Facilities program. A set-aside proportionate to the need would dramatically help with the extensive facilities needs in Indian Country.

- **Focus on Grants Rather Than Loans.** Additionally, this account needs to be available predominantly in grant funds to these poorer communities. If these Tribes had the resources to build out with loans, they would have already done so. While the USDA policy is that up to 75% of the project cost can be provided in loans, in reality that caps at around 25%. This ratio needs to be addressed for these poorest counties and areas.

Rural Business

Unfortunately, we are unable to adequately address the Rural Business program in this testimony as we could only identify one Tribe that was in the process of applying for these economic stimulus funds.

Rural Business Recommendation:

- While we are hopeful there are a number more individual Native and Tribal governments participating, we believe there needs to be much more education and outreach to our communities about these programs.

Telecommunications

We recognize telecommunications is not the focus on this particular hearing, so we will not go in to much depth, but with only 5–8% high speed Internet penetration rate, and 32% of our population still with no telephone service at all, we are hopeful that a witness from Indian Country will be called to testify at any future telecom specific hearings. Quickly I just want to mention one area of concern and offer some additional concrete recommendations. First, the current non-Tribal providers being funded by USDA are *not* serving Indian Country well. If they were, we would not have such access issues. But USDA's system is set up to perpetuate this lack of access, by favoring current providers or "incumbents." We advocate for preference for Tribal providers, regardless of whether there is another provider nearby in the service area.

Telecom Recommendations:

- Create a Tribal Spectrum Loan Program with FCC for Tribes to purchase spectrum and develop spectrum services in Tribal communities.
- Ensure all authorizations and appropriations are designed to be reflective of the disproportionate lack of access in Indian Country.
- Ensure the USDA is properly implementing the "Substantially Underserved Trust Area" (SUTA) discretionary program Congress created in the farm bill.
  - Ensure the USDA is reaching out to Tribal governments to encourage them to serve as their own providers.
  - Ensure USDA is using the discretion granted under the program to waive nonduplication restrictions and matching funds requirements, and to give the highest funding priority to designated projects in SUTAs.
- Change broadband authorization to not continue to prioritize non-Tribally owned incumbent providers when the service area includes Tribal lands.
- Create a telecom set-aside for Tribal areas consistent with the level they are under-serviced compared to the rest of the U.S.
- Use criteria for funding projects and service in rural and Tribal areas and assessment of funding achievement which measures "increased connection" to public infrastructure and public access points.
- Authorize and provide grants and loans to conduct telecommunications engineering and financial feasibility studies.

Additional Recommendations

Improve Outreach and Consultation

- **Establish Indian Country Office in USDA Rural Development.** The USDA state structure does not work particularly well for Indian Country. It does not take into account the broader national deficiency for Natives. The Rural Development does have an Indian liaison, Ted Buelow, and he is terrific. But he is one person for over 560 Tribes, the areas with the very greatest need it is an impossible task for just one person. USDA Rural Development should have a completely staffed Indian office at Headquarters reporting directly to the Under Secretary, with at least one tribal liaison for each major office within Rural Development.
- **Fund the Administration's Request for USDA Department-wide Office of Tribal Liaison.** While today we are just focusing on Rural Development, all of USDA has a dramatic impact in Indian Country. For example, agriculture is the second largest industry in Indian Country, many tribes depend on an array

of additional USDA programs, such as in telecommunications, electricity generation, extension programs, and FDPIR. In addition, many of our most sacred lands and places are located on U.S. Forest Service land. We are disappointed that the new Administration let go of our Tribal liaison. But we are hopeful that they intend to fill that position again very quickly, and expand that office as they requested $1 million to fund a Tribal Governmental office for USDA. We respectfully ask that the Committee not only support the Appropriations Committee in funding this request, but also permanently authorize this office.

- **Provide Indian Reservations with the Same USDA Access Given Every County in America.** *Congress mandates and funds research and extension services in every county in the nation except on Indian reservations.* The Extension Indian Reservation Program (EIRP) must be expanded to provide access, education and training to Tribes, including Alaska Native Villages, and Tribal colleges. This program provides the only Federal source of funding to cover the cost of placing extension agents on Indian reservations. Only 27 reservations have EIRP programs, which is only 5% of all Tribes. The new farm bill directs extension agents to be placed in areas "where there has been a need demonstrated." I hope we have sufficiently demonstrated "need" today and respectfully request the Committee to ask the USDA about the progress on EIRP expansion.
- Encourage USDA To Implement its New Tribal Consultation Policy. Perhaps more than any other agency, significant progress needs to be made in USDA's understanding of the nation to nation relationship that exists between Tribes and the Federal Government. Rather than viewing the Federal Government as a partner, especially regarding decisions that directly affect Tribes, the USDA has largely treated Tribes as either an afterthought or an impediment. USDA had established an agency directive that closely follows the Executive Order on Collaboration and Consultation with Indian Tribal Governments (E.O. 13175), but we do not yet believe it has been implemented. We look forward to working with USDA to educate and advise USDA decision makers and staff to ensure that tribal consultation is understood, appreciated, and implemented. We look forward to forming a much needed *partnership*.

Directly Address the Disproportionate Need

- **Create Tribal Set-Asides Proportionate to the Need.** As discussed throughout the testimony, in many areas Tribal lands have a clearly disproportionate need for many of the USDA's Rural Development programs. Yet none of these programs allocates funds proportionate to that need, and only a handful of these programs have set-asides for Tribes. Set asides in dozens of other Federal programs range anywhere from 3–20%, depending upon the need, and many agencies have Tribal-only programs in areas in which the need is so disproportionately great.
- **Grants Rather than Loans for the Poorest Counties and Communities.** For many of our communities, there are no viable loan repayment options. While technically USDA can fund up 75% of the project cost with grants, practically speaking no one really receives much more than 25%. This ratio needs to be addressed for these poorest counties and areas.

Remove Barriers to Access

- **Better Tailor Application Process for Governments.** Many Tribes whom I spoke to in preparation for this testimony outlined the difficulty they had with the USDA in the application process regarding Tribal financials. The USDA application process is not designed to take into account the complexities of a Tribal government and its financials; they often require too much onerous irrelevant information. We strongly recommend USDA reach out to other agencies, like IHS and Bureau of Indian Affairs who more regularly provide grants to Tribal governments, to design a less intrusive and more effective application process.
- **Distribute Some Funds Based on Need Formulas Rather Than Competitive Grants.** It is well known within Indian Country that our communities most in need do not often have the grant writing capabilities to effectively vie for competitive grant programs. So while communities may have the greatest need, it is precisely this reason that they are often unable to allocate any free resources to effective grant writing. We encourage Congress and the USDA to look into more formula based programs where funds are distributed to areas with the greatest rural development need.
- **Better Interagency Coordination on Indian Projects.** Several agencies such as the Indian Health Service, Environmental Protection Agency and Hous-

ing and Urban Development, provide some aspect of funding for Indian Country that they share with USDA. However, each agency has different standards, reporting requirements, and grant cycles among other things that make it extremely difficult for Tribes to be able to access these resources.

The CHAIRMAN. Thank you. Thank you very much for your testimony.

Mr. Anderton.

STATEMENT OF DOUG ANDERTON, GENERAL MANAGER, DADE COUNTY WATER AND SEWER AUTHORITY; VICE PRESIDENT, NATIONAL RURAL WATER ASSOCIATION; PRESIDENT, GEORGIA RURAL WATER ASSOCIATION, TRENTON, GA

Mr. ANDERTON. Thank you, Chairman McIntyre and Ranking Member Conaway, for inviting me to testify today. It is a great honor to be asked to represent the small, low- and moderate-income communities across the nation who depend on rural water to provide the most basic of needs. As the Vice President of the National Rural Water Association, and the sitting President of the Georgia Rural Water Association, I hear daily from rural communities in need of assistance. Water is the essential ingredient of life, and the work of this Committee and its counterpart in the United States Senate, along with the USDA, to restore and improve the public health, environmental and sustainability of these small communities—in other words, to level the playing field with our urban counterparts—is essential so individual small communities can prosper in this global competitive environment.

I speak to you on behalf of the National Rural Water Association, and NRWA is a nonprofit federation of state rural water associations who represent the nation's largest utility membership. Our mission is to provide support services for our state associations, who have more than 26,696 water and wastewater system members.

I have come here today to discuss the American Recovery and Reinvestment Act and its impact thus far. I would like to first thank the Chairman and Ranking Member and other Members of this Committee for their foresight with this legislation, and would be remiss if I did not mention that it was Chairman McIntyre who held a briefing in January to ensure rural America was not left behind.

With billions in rural water projects waiting for funding through the USDA Rural Utilities Service's Water and Wastewater Grant Program, the need for these communities was apparent. As you know, this Committee and your Senate counterparts provided Rural Utilities Service with $135 million to address the backlog of projects in the Water and Wastewater Loan Program during the consideration of the 2008 Farm Bill. Using this allocation, RUS was able to distribute money directly to the rural communities within 90 days. USDA was also able to target these funds to low- and moderate-income rural communities.

Compared to other Federal assistance, this program speaks directly to the needs of rural America. These rural communities often have extreme difficulties in competing with their urban counterparts for funding with other Federal and state agencies that may

lack an understanding of the unique circumstances rural residents face.

It was for these reasons that funding of $1.38 billion in budget authority, enough for $3.78 billion in program level, was included in this bill. This represents the largest single infusion in the USDA Water and Wastewater Program's history, enough funds to completely eliminate the backlog of existing projects and address those new project applications which communities have been waiting to submit.

The amount of the ARRA funding released by the Department of Agriculture to small and rural water systems has increased over the past months with announcements of $132 million and $635 million. This has somewhat trailed the level of funding distributed by the EPA-State Revolving Loan Fund, where most of the money is already allocated on projects. We anticipate that USDA spending rate will increase over the next several months to meet the number of applications received.

There are several factors which may be contributing to this slower distribution. The first is the current lack of guidance from the Department on the Buy American and the Davis-Bacon provisions in the bill. While other departments have issued guidance on these provisions to allow communities to tailor applications and develop proposals, the USDA has yet to do so.

A second concern is the fact that ARRA did not provide the Secretary any flexibility or waiver authority in administering these funds to local communities. We have heard numerous situations where a small community is not eligible because they slightly exceed the population or median income limit, or needed to have a higher grant-to-loan ratio for affordability purposes.

The ability to use grant dollars for very low-income communities is critical as well. Previous legislation for disaster and stimulus purposes provided the Secretary with limited authority to assist these communities that otherwise meet the Congressional intent for assistance. We would ask that the Committee explore and provide the Secretary this authority.

Mr. Chairman and Members of the Committee, we believe, at National Rural Water, that Rural Development has the field structure and the proven experience to handle this huge task. And we at National Rural Water Authority are willing to assist in any way that we can.

I sincerely thank you for the work that you have done on behalf of rural America. Your efforts are appreciated. And I look forward to any questions you may have for me. Thank you.

[The prepared statement of Mr. Anderton follows:]

PREPARED STATEMENT OF DOUG ANDERTON, GENERAL MANAGER, DADE COUNTY WATER AND SEWER AUTHORITY; VICE PRESIDENT, NATIONAL RURAL WATER ASSOCIATION; PRESIDENT, GEORGIA RURAL WATER ASSOCIATION, TRENTON, GA

I would first like to thank Chairman McIntyre and Ranking Member Conaway for inviting me to testify today. It is a great honor to be asked to represent small, low and moderate income communities across this nation who depend on rural water systems to provide the most basic of needs. As the Vice President of the National Rural Water Association and sitting President of the Georgia Rural Water Association, I hear daily from rural communities in need of assistance, whether it is to design or construct a new system, repair an existing system or respond to a pending emergency, we are always there. Some of these communities would not be in exist-

ence without the USDA programs we discuss today. Water is the essential ingredient to life, and the work of this Committee and its counterpart in the United States Senate, along with that of USDA to restore and improve the public health, environment and sustainability of these small communities, or in other words, to level the playing field with our urban counterparts so individualism small communities can prosper in this globally competitive environment. Many lack the capacity or resource base to make these changes without the direct assistance of these programs.

I speak to you today on behalf of the National Rural Water Association (NRWA). The NRWA is a nonprofit federation of State Rural Water Associations which represent the nation's largest utility membership. Our mission is to provide support services to our state associations who have more than 26,696 water and wastewater systems as members.

Member state associations are supported by their water and wastewater utility membership and offer a variety of state specific programs, services, and member benefits. Additionally, each state association provides training programs and on-site assistance in areas of operation, maintenance, finance, and governance. Whether a rural system needs help developing a new rate schedule, setting up proper testing methods, maintaining or upgrading their operator license, or even understanding those ever-changing and complex governmental regulations, state rural water associations and NRWA are the first and best source for assistance to these systems.

NRWA's support for a clean and healthy environment is second to none. Our state associations have historically trained over 40,000 water and wastewater system personnel a year for over 2 decades and provided over 60,000 on-site technical assistance visits a year. Over 2,600 ground water protection plans have been adopted by local communities, and another 2,300 are in the process of being adopted. NRWA and its state associations are on the front lines everyday ensuring water is safe and available each time someone in rural America turns on the tap.

I've come here today to discuss the recently passed American Reinvestment and Recovery Act (ARRA) and its impact thus far. I would first like to thank the Chairman, Ranking Member and the other Members of the Committee for their foresight with this legislation. I would be remiss if I did not mention that is was the Chairman of this Committee that held a briefing on January 9 of this year to make sure Rural America wasn't left behind and with this historic appropriation level, enough to fund the entire backlog, of water and wastewater requests—you have achieved that goal. On behalf of the thousands of rural communities throughout this nation, I want to personally thank you.

As Congress reviewed the current needs of communities nationwide for the development of a stimulus measure earlier this year, rural areas became a central point of discussion. With billions in rural water projects waiting for funding through the USDA Rural Utility Services' (RUS) Water and Wastewater Grant and Loan Program, the need in these communities was apparent. While Congress had attempted to address these needs in both annual appropriations and supplemental farm bill funding, the need had far exceeded the available funds. To this end, NRWA supported the inclusion of funds to address this need in the ARRA, and pointed to the success the Department of Agriculture had at delivering these funds in a swift manner in the past. Unlike other programs where funds are divided amongst the states then given to local and state governments to distribute, the USDA Water and Wastewater Grant and Loan program directly funds projects and has been able to distribute these funds in a manner unmatched by other Federal agencies.

The primary issue that confronts us today is how we can assist USDA in getting the funding out the door of the Department, and into the hands of the communities who so desperately need it. We also need to continue to help these communities not only access these funds, but help to ensure that these funds are used efficiently to protect the community and government's investment. These investments are important to job creation and economic recovery in many of the nation's smallest and hardest hits communities.

As you know, this Committee and your Senate counterparts provided the Rural Utilities Service with $135 million to address the backlog of projects in the Water and Wastewater loan program during consideration of the 2008 Farm Bill. Using this allocation, RUS was able to distribute the money directly to rural communities within 90 days. This distribution of funds was unique in its efficiency. In getting the funding out the door in a timely fashion through projects which were already in the pipeline, the Department did an outstanding job. However, historically additional funding means additional applications. Communities learn of the opportunity for additional funding and the number of applications increase, further increasing the backlog.

USDA was also able to target these funds to low and moderate-income rural communities under 10,000 in population which are not able to obtain affordable commercial credit. Compared to other Federal assistance, this program speaks directly to the needs of rural America. These rural communities often have extreme difficulty in competing with their urban counterparts for funding in other Federal and state agencies that may lack an understanding of the unique circumstances rural residents face.

The need for additional funding and the outstanding track record of distribution of funds, made the RUS Water and Wastewater Grant and Loan Program a prime candidate for funding under the ARRA. It was for these reasons that funding of $1.38 billion in budget authority, enough for $3.778 billion in program level was included in the bill. This represented the largest single infusion in the USDA Water and Wastewater Program's history, enough funds to completely eliminate the backlog of existing projects and address those new project applications which communities had been waiting to submit.

The amount of ARRA funding released by the Department of Agriculture to small and rural water systems has increased over the past months with announcements of $132 million and $635 million. This has somewhat trailed the level of funding distributed by the Environmental Protection Agency-State Revolving Loan Fund (SRF), where most of the money is already allocated to projects. We anticipate that the USDA spending rate will increase over the several months to meet the number of applications received.

There are several factors which may be contributing to this slower distribution. The first is the current lack of guidance from the Department on the Buy American and Davis-Bacon provisions in the bill. While other Departments have issued guidance on these provisions to allow communities to tailor applications and develop proposals, USDA has yet to do so. For example, in April the EPA released guidance outlining the procedures to comply with the Buy American provisions, their interpretation, and documentation which would be needed. This direction greatly assisted communities in working towards project starts and receiving their funding.

A second concern is the fact that the ARRA didn't provide the Secretary any flexibility or waiver authority in administering these funds to local communities. We have heard numerous situations where a small community is not eligible because the slightly exceeded the population or median income limit or needed to have a high grant to loan ratio for affordability purposes. For example, the state of Arkansas has a very low median income level which must be met by a community in order to qualify for funding under this program. Conversely, an identical town in Missouri, located just across the border, would actually qualify for funding with a median income level that is much higher, thus putting the Arkansas community at an extreme disadvantage. The ability to use grant dollars for the very low income communities is critical as well. The credit elsewhere clause has also slowed down the process. Previous legislation for disaster and stimulus purposes provided the Secretary with very limited authority to assist these communities that otherwise meet the Congressional intent for assistance. USDA has also always used any waiver authority very conservatively. We would like to ask the Committee to explore providing the Secretary this authority.

Mr. Chairman and Members of the Committee, I sincerely thank you again for the work you have done on behalf of rural America and for taking the time to not just throw funding at an issue, but truly work to solve the problem. Your efforts are appreciated and I look forward to any questions you may have for me.

The CHAIRMAN. Thank you, sir. Thank you for your kind words as well.

Mr. Tommy Duck.

Mr. DUCK. Good morning.

The CHAIRMAN. Good to have you.

STATEMENT OF TOM DUCK, EXECUTIVE DIRECTOR, TEXAS RURAL WATER ASSOCIATION, AUSTIN, TX

Mr. DUCK. Chairman McIntyre, Ranking Member Conaway and Members of the Subcommittee, for the record my name is Tom Duck, and I am the Executive Director of Texas Rural Water Association. TRWA is a statewide trade association. We are based in Austin, Texas. We represent over 751 water utilities in our state who supply water to some 2½ million customers, primarily in rural

communities. Our association helps water and wastewater systems supply Texans with safe and affordable water and wastewater service.

TRWA also provides other services, including a very valuable Technical Assistance Program that I am proud to say is funded by a grant from the USDA. It is called our Circuit Rider Program. We also provide assistance to water utilities in the form of operator certification training as well as board member training. It is very critical that you have those components in place if you are going to be an effective water utility provider.

As you know, Rural Utilities Service's Water and Waste Program began in the 1960s and has been a critical component to Rural Development ever since. Today RUS has a $9.9 billion portfolio, with over 17,000 loans nationwide. According to USDA, they estimate that for every $1 billion that is spent in the Water and Wastewater Program, it produces 23,000 jobs. These are green jobs, such as building or improving a wastewater or water treatment plant, building water storage, or laying distribution or collection lines that bring water to people, or clean up wastewater and improve the environment and public health. Currently in Texas there are roughly 70 projects totaling just over $200 million that are currently pending in the application process.

I want to salute this Committee for their hard work in addressing the water infrastructure needs nationwide, as well as in our state, and providing funding in the stimulus package. This should do away with the backlog of applications. However, for the funding to be effective, it first has to reach the communities which are in desperate need of getting these funds, and that is kind of at the heart of my concern today.

Historically, the USDA in Texas has done an excellent job in distributing these funds when it has become available from Congress. For example, in 2002, when additional funding was provided by this Committee in the farm bill, the funding was distributed in 90 days. The speed by which the Department acted is to be commended. While I realize that the current stimulus package imposed additional requirements at an unprecedented program level, I would hope the Department could move forward with the same haste. This speed has not been apparent at this point in the process.

It should be noted while our urban counterparts in the state have received guidance on how the stimulus applications should address issues that were addressed earlier, as the Buy American provision and Davis-Bacon labor requirements, we have not heard similar direction from RUS. This silence has raised questions for many of our rural constituents. Some type of guidance is needed from the Department. It is desperately needed.

As you know, the RUS Water and Waste Program targets low- and moderate-income people in areas with population of less than 10,000 people that are not able to obtain commercial credit elsewhere. That being said, communities who cannot meet those thresholds have similar infrastructure needs and are unable to apply.

Our circuit riders, through our Technical Assistance Program, often visit rural communities, which, due to a slightly higher popu-

lation or their proximity to an urban area where income is higher, are disqualified from participating in the regular RUS programs. It would seem allowing those communities to apply, then granting the Secretary of Agriculture or his designee the ability to review these on a case-by-case basis, could be very beneficial. The spirit of this program, started in the 1960s, is to assist rural communities in need. A population of slightly over 10,000 should not exclude a rural community from participating if the Department feels there is need.

The last two areas I have mentioned for improvement are the limited grant authority in the program and the environmental requirements.

The limited grant authority poses a significant problem for many low-income areas in our state, such as the Colonias, that may require waiting years for significant grant funds before they are available. Raising the amount of grant available to these communities would significantly improve low-income families getting water and waste services more quickly.

The second issue is environmental reviews and compliance issues for the use of the funds. Often the environmental review process takes longer for a project than the engineering or construction phase. For this funding to be a true stimulus, the funding should be distributed quickly and used by these communities in a timely and efficient manner.

In conclusion, thank you for giving me the opportunity to appear before this Committee today. It is an honor to be here, and I will stand for any questions that you might have.

[The prepared statement of Mr. Duck follows:]

PREPARED STATEMENT OF TOM DUCK, EXECUTIVE DIRECTOR, TEXAS RURAL WATER ASSOCIATION, AUSTIN, TX

Thank you, Chairman McIntyre and Ranking Member Conaway, for inviting me to discuss Rural Texas' need for water and wastewater and the impact of the American Recovery and Reinvestment Act (ARRA) funding. I appreciate the opportunity and am glad to see two Texans, Rep, Cuellar and Rep. Conaway, continuing the tradition of great Members on the Committee in the footsteps of former Reps. Stenholm and Combest. Today I will discuss how this substantial investment in Rural Texas has brought hope that the USDA Rural Utility Service Water and Waste Disposal Loan and Grant Program can produce jobs and use products made in the U.S. while outlining a couple of concerns which have arisen with the funding to this point.

I speak to you today on behalf of the Texas Rural Water Association (TRWA) and our members. The TRWA is a statewide nonprofit educational and trade association dedicated to the improvement of water quality and supply. Founded in 1969, TRWA represents a full spectrum of the drinking water community including: Nonprofit Water Supply and Sewer Service Corporations, Special Utility Districts, Municipal Utility Districts, WCIDs, Small Municipal Utilities and Privately-Owned Water Utilities. Membership includes more than 700 water utilities in Texas who supply water to some 2.5 million people.

Our mission at TRWA is to help water and wastewater systems supply Texans with safe and affordable water and wastewater services by providing technical assistance, educational and informational programs, publications, member support services, and representation of our members in the legislative and regulatory processes. TRWA conducts comprehensive technical training programs for water and wastewater operators, managers and board members. Participants in TRWA conferences and workshops can earn credits for water operator certification renewal, and TRWA's newest program, Operator Certification, provides training to industry personnel in pursuit of obtaining or renewing water and wastewater operator certification in Texas. TRWA also employs field representatives who provide water and wastewater training and on-site technical assistance to rural communities throughout the state. When a rural utility seeks assistance, one of these experts is dis-

patched, free of charge, to help resolve the problem. Field representatives are trained to provide advice on such items as preventative maintenance, leak detection, water audits, rate analysis, budgeting, personnel policies, and complete system overviews.

While spending the last 23 years working for the Texas Rural Water Association (TRWA) I have seen the need for water and wastewater funding increase continually. While some feel that this funding may be better spent in other areas, I challenge them to take the time to ride with our circuit riders and see firsthand the aging and crumbling water infrastructure in our rural communities and walk away without changing their minds. Worse yet are those areas which have never had running water and continue to suffer substandard service and living conditions for lack of funding for infrastructure. In Texas we have personnel in the field everyday addressing these issues whether in the Colonias of the South and West Texas or the aging systems of the eastern part of the state.

The only program in the Federal Government that can address the needs of these small, low-income rural communities for water and wastewater infrastructure is the RUS Water and Wastewater Grant and Loan Program. As you know, the Rural Utility Services' Water and Waste Program began in the 1960's and has a $9.9 billion portfolio with over 17,866 loans. The USDA estimates that for every $1 billion that is spent in the Water and Waste Program produces 23,000 jobs. These are green jobs such as building or improving a wastewater or water treatment plant, building water storage, or laying distribution or collection lines that bring water to people or clean up wastewater and improve the environment and public health. The majority of products for these improvements are made in the U.S. In my state there are roughly 70 projects totaling just over $200 million in funding currently in the application process. Another point I would like to make is the successful repayments which this program can claim. The Office of Management and Budget rates the RUS Water and Waste Disposal Program as one of the highest rated loan programs in the Federal Government. The loan delinquency rate is 0.53%. In other words, 99.47% of those receiving loans are current on their payments—higher than any government program. I think this speaks directly to the character of Rural Water Systems and that of Rural America in general. We pay our bills and expect others to as well. When rural communities came to Congress looking for funding for this program, it was not for a hand-out, but a hand-up.

I salute this Committee for their hard work in addressing this need and providing funding that should do away with the backlog for my state. The funding provided should not only cover those applications currently in the system, but also address the increase we know will come from communities waiting to apply. However, for the funding to be effective, it first has to reach the communities which so desperately need it, and getting it there is where I find my concerns.

The USDA in Texas has done an excellent job in the past with direction from the Washington office in distributing funding when it has become available. For example, in 2002 when additional funding was provided by this Committee in the farm bill, the funding was distributed in 90 days. The speed with which the Department acted was to be commended. While I realize that here are additional requirements and an unprecedented program level, I would hope the Department could move with that same haste. This speed has not been apparent at this point in the process. While our urban counterparts in the state have received guidance on how applications should address issues such as the "Buy American" provision and Davis-Bacon labor requirements for funding sources more focused to them, we have not heard similar direction from RUS. This silence has not only raised questions for applications which are being held to file until guidance is received, but has left communities with pending applications scrambling to see what additional information or compliance is needed. Some type of guidance from the Department is desperately needed. RUS has possibly the best employees and record of service in the Federal Government as is seen by their past performance. I hope this record can be built upon by quick action on the task this Committee has charged them to complete.

As mentioned before, the Water and Waste Program targets low and moderate income people in areas with population lower than 10,000 people that are not able to obtain commercial credit elsewhere. That being said, communities who cannot meet those thresholds have similar needs and are unable to apply. Our circuit riders often visit rural communities, which due to a slightly higher population or their proximity to an urban area where income is higher, are disqualified from participating in the RUS programs. It would seem allowing these communities to apply then granting the Secretary of Agriculture or his designee the ability to review these applications on a case-by-case basis would be very beneficial. The spirit of the program is assistance to communities in need in rural areas, and a population of slight-

ly over 10,000 should not exclude a rural community from participating if the Department feels there is a need.

The last two areas I would mention for improvement is the limited grant authority in the program and environmental requirements. The limited grant authority poses a significant problem for many low-income areas that may require waiting years before significant grant funds are available. Raising the amount of grant available to their communities would significant improve low-income families getting water more quickly. The second issue is that frequently the environmental reviews and compliance issues for the use of funds. Often the environmental review process takes longer for a project than the engineering or construction. For this funding to be a true stimulus, the funding should be distributed quickly and used by these communities, and both of these factors slow that process.

In conclusion I would like to again thank the Committee for their time and the invitation to speak to you today. Thank you on behalf of those Texans who benefit from the assistance you continue to provide. By standing up for these priorities and ensuring they are treated as equals with their urban counterparts, you make a difference in their daily lives.

The CHAIRMAN. Thank you very much for your heartfelt comments.

We are closing in quickly on time to get ready to go to vote, so we will try to run through these questions and hopefully can conclude before the call for votes.

Mr. Rivenbark, you mentioned the excellent relationship you have with the USDA Rural Development staff. We know there is a limited number of staff, and that many times rural communities do not feel that they have sufficient access to the expertise they may need to help them navigate through the process.

Can you tell us how you would suggest that USDA Rural Development can do a better job helping these communities who are in the need of most assistance? In other words, what would you recommend to help improve USDA outreach, given the circumstances?

Mr. RIVENBARK. As an example, we frequently hire local engineers to help us move forward with our projects as we are working to develop the water and sewer plants that I referred to. Having that outside engineer was crucial; that county does not have an engineer on staff. And I would say that flexibility in all of it is important to us.

The CHAIRMAN. Can you tell us, you mention in your testimony about the need for greater performance measurements in needs assessments for Rural Development programs. Tell us how rural communities can do a better job of measuring performance, and how rural programs can do a better job of determining which of those projects are worthy of Federal investment.

Mr. RIVENBARK. Well, developing criteria to evaluate the project's success, develop criteria to evaluate needs in areas that are not being served sufficiently by USDA. They should make all the information available to the public so that future funding decisions are made with this information available.

The CHAIRMAN. If I may, Governor Sanchez, thank you for your very important remarks. I know the Under Secretary stayed for a while and was present as you were testifying. I know he had another commitment. He had to leave shortly after you finished testifying. But I have instructed staff, and I want to make sure before you leave today, and some of the Rural Development staff is still here, that this problem you have of them not responding to you or your offer to be part of the solution—let us let you all hook up today and find out who it is you need to talk with. Let them know

how they can get back in touch with you so that this concern you have of the tribes not being part of the solution, or not being allowed to give input, can be resolved. The last thing we want to have is poor contact or communication problems. At minimum we can provide that, I hope, today before you leave.

Governor SANCHEZ. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Thank you for your testimony.

Also I want to make sure that the Colonias that you mentioned, Mr. Duck, you are talking about are down near McAdenville and across the border from Reynosa, Mexico?

Mr. DUCK. Yes, sir.

The CHAIRMAN. Both of my sons, my wife, and my father have been down there and worked in those Colonias, and we thank you for your commitment and concern for that area. I know my colleagues from Texas may have further comments about that in a moment.

In the interest of time now, I will call on Mr. Conaway, our Ranking Member, for any further questions.

Mr. CONAWAY. Thank you for coming to testify.

If you talk to anybody about the issue of the FIFO funding on this, has that impacted—or does it impact new emerging issues that might be suitable for funding under any of this broad array of money that is being provided? Does it give you any concern; should I be concerned about that; should we be concerned about it?

And then under—kind of specifically under the Buy American Program, counties along both the northern border and southern border have long-standing supply contracts in place that may not fit the Buy American requirement that comes with the strings attached to it. Can you, Tommy or Mr. Rivenbark, either one, speak to those issues?

Mr. RIVENBARK. The Buy American part is important, but there are times when it interferes with navigating the paperwork, and if something can be done to help eliminate that.

Mr. CONAWAY. Eliminate the paperwork or—I am not sure what you are making reference to.

Mr. RIVENBARK. I think sometimes the paperwork is a little stringent. Not eliminating the paperwork, though.

Mr. CONAWAY. Okay. Mr. Duck?

Mr. DUCK. Yes. We support, obviously, Buy American. And I think that the issue that rural communities have is they are very patriotic, very supportive, obviously, of Buy American, but there needs to be some guidance from the USDA. I think that what we are suggesting is in order to expedite these processes, let us clarify some of the issues. There has been lack of guidance, and that is really——

Mr. CONAWAY. What guidance would you——

Mr. DUCK. Let me give you an example. The EPA programs that a lot of our urban communities get through the stimulus package through the SRF, through the State Revolving Fund, there are very clear guidance documents on Buy American, and very clear documents on the Davis-Bacon requirements, and how you process that paperwork and those applications. That is what I think is needed in the rural communities.

The rural communities, you have an operator who is also the manager, maybe the meter reader, and does everything. So they don't have time to read the *Federal Register*. They don't have time to do some of the things that maybe our urban counterparts might do. So if you could streamline the package, the application package, explain the terminology and what is going on, why it is important, why we need this, and how you get to the end product.

Mr. CONAWAY. So far that has not been done?

Mr. DUCK. No, sir.

Mr. CONAWAY. Is there any kind of coordinator, ombudsman that USDA should provide that would allow the broad array of issues such as water, wastewater, broadband facilities, whatever it might be, that these small communities who don't have the resources that you just made reference to could call a one-stop shopping kind of thing at USDA, to at least start the process, help them navigate? Do they have that? Would that be helpful?

Mr. DUCK. It would be very helpful. I am not aware if that exists.

Mr. CONAWAY. Okay. One of the things we are hearing back home is just frustration of not knowing who to call, when to call. And they start with Tinker, to Evers, to Chance, and it is almost as if that is done intentionally so that only the really serious people make their way through it. But we will try to pass on that idea to our new Under Secretary, because I do think he understands. He has been in your role, similar roles, and he understands the frustration.

I yield back, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman, and thank you, panel, for being here today and sharing with us. Mr. Rivenbark, especially to you as a fellow North Carolinian from up in Montgomery County saying hello down to yourself in Willard, North Carolina, it is good to have you here today.

Mr. Chairman, I really don't have any questions. I think that their concerns that they expressed today are a summary of what I am hearing when I go in the district, what I am hearing from rural America, the infrastructure needs.

I have two communities in my area, a district that they talk about sewage running in the ditches, where children come in and have to wipe their feet to get the sewage off before they go in their house; houses that are being vacated because they don't have sewage facilities. And it is not just one or two communities, it is just a repeated pattern in all of our counties. So, the communication has been talked about, the need to inform. These are things we need to work on and just constantly look for ways to help rural America.

So thank you, Mr. Chairman.

Thank you all for being here.

The CHAIRMAN. Thank you, Mr. Kissell.

Mr. Cassidy.

Mr. CASSIDY. Ms. Martin, as you were speaking, I am saying, wow, this woman has wisdom. It just seems like when I go to my rural areas, they have the poorest tax base, and they are supposed to have an engineering crew on retainer who has everything

worked out, so when you say you have to submit in 30 days, boom, they have it. It seems like a conspiracy of the man to hold down the rural area.

Now, that said, I am trying to think of the solutions, because each of you seem to sing from the same songbook. That is why it has been so good for me, because it wasn't just my imagination.

When I used to do my taxes before my wife took it over, I used to use TurboTax. There was kind of an on-line way where I could plug in my numbers, and if there was a question, I hit the little question mark, and, boom, it took me. Would that be practical? Could you say to rural communities, here is your version of TurboTax, and it is a little skimmed down because you don't itemize, and maybe the big urban areas do, but we will cut you a little slack on some of details, *et cetera, et cetera.* Would that work?

Ms. MARTIN. That is a great idea. I am not sure whether the programs could be simplified to that level, and frankly, in a lot of rural communities, we deal with the smallest and most rural communities, don't have computers in terms of their offices.

I think that certainly would be a possibility, but in our experience being out there providing technical assistance, what we typically find, and particularly in the smallest communities, there are no full-time staff people. And so when you have part-time people who are doing this in addition to their regular job, and their families and all of the other commitments that they have, what we find is they just need a lot of hand holding, they need someone to sort of walk them through the process. Frequently what we find is that they are overwhelmed, frankly. If you hand them a guidance document that is 40 or 50 pages long, it is fairly overwhelming. And so we tend to take them through the process step by step. We start with, "These are the things that you need to do in the next 30 days. When they have gotten through that, now in the next 30 days, you need to do this piece." They find it a little less overwhelming that way.

Mr. CASSIDY. It seems like death by paperwork.

What is the possibility that—Mr. McIntyre, that we could get some sort of working group where you guys and maybe some of these people could actually develop something like this? We clearly need tools to lower the cost of developing these applications on the part of the folks who are relatively unskilled; fair statement?

Ms. MARTIN. Yes.

Mr. CASSIDY. So my question is how do we develop those tools? I am asking you and any of you, because you are the ones in the field, to give us insight on this.

Ms. MARTIN. We would welcome being a part of any group that wants to look at how to simplify the process. I mean, the process is complex, as is any project development process. And there are things that are part of the process that can't be avoided. It is just inherent in the nature of developing a project.

With that being said, there are certainly ways that the process might be simplified. One of the things that we recently did is we developed a publication written to, what we think is a simple, understandable level on how to develop a project, what are the pitfalls, what are the things you need to avoid and those kinds of things. So, anything like that that can help simplify the process

would be wonderful, and we would certainly welcome being a part of that.

Mr. CASSIDY. I have a minute left. Do any of you have a comment?

Mr. Rivenbark.

Mr. RIVENBARK. In listening to the conversation, I think that the IT people at the lowest level at our county would be ideal to involve in trying to create something as you suggest.

Mr. CASSIDY. I think the solution should come from you all if the problem has come from above, so to speak. Things roll downhill.

Anyone else?

Mr. ANDERTON. I might add that the National Rural Water Association has been in partnership with the USDA for almost 30 years now in providing on-the-ground technical support and assistance to the very communities that have been mentioned here. And we stand ready through our circuit riders and technical people to assist USDA in any way that we can and working face to face and leading these people through the application process.

Mr. CASSIDY. I yield back. Thank you.

The CHAIRMAN. Thank you very much. An excellent idea, Mr. Cassidy, and we would encourage each of you to go back, and if you had a wish list of ten ways to improve access to Rural Development programs and funding, we would like you to submit that to our Committee, especially within the next 10 calendar days while the record of today's hearing remains open, that would be a great homework assignment. It would be a great assignment to help us as we look forward in a most serious matter of how to improve.

We have a new Under Secretary. You heard him say in his own testimony he is getting acquainted with his job and wants to learn more about ways in which to make things more efficient. So let us do it, let him know, because you have a fresh start, and there is no reason not to take advantage of that fresh start in the most positive way, especially with American taxpayer dollars to be used in the most expeditious and efficient way.

Mr. Cuellar was here, but I believe he stepped out.

Is there any general question that our panel would like to ask of our witnesses here today? If not, I would like to thank all of you for your attendance today. We have done well on our timing. Thank you for coming to this hearing.

Under the rules of the Committee, the record of today's hearing will remain open for 10 additional calendar days to receive additional material and any supplementary written responses, which we now especially requested from the witnesses, to any question posed or requested by the Members or the Chairman.

This hearing of the Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture is now adjourned. May God bless you, and may you travel safely. Thank you.

[Whereupon, at 11:40 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED LETTER FROM DAVID R. HOELMER, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, AGSTAR FINANCIAL SERVICES, ACA

June 18, 2009

Hon. MIKE MCINTYRE,
Chairman;

Hon. K. MICHAEL CONAWAY,
Ranking Minority Member;

Members;

Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture,
Committee on Agriculture,
Washington, D.C.

Dear Chairman McIntyre, Ranking Minority Member Conaway and Members of the Subcommittee:

My name is David Hoelmer and I am Senior Vice President and General Counsel of AgStar Financial Services, ACA headquartered in Mankato, Minnesota. AgStar is a Farm Credit System institution which was given the mission by Congress to provide credit to agriculture and rural areas. AgStar has and continues to provide credit to agricultural producers, agribusinesses, rural residents, and rural communities in general.

Rural America is facing a serious slowdown in economic investment activity. However, there is no shortage of feasible business plans and green technologies looking for capital. A number of healthcare, bio-based and renewable energy projects critical to the vitality and survival of rural communities are in need of debt and equity investments.

Unfortunately, many lenders are facing serious capital constraints. Also, few lenders are willing to take risks in new technology, start-up businesses, and construction of facilities. Yet these are the projects that will likely create the most job opportunities across these communities. Rural businesses, essential community organizations (especially aging healthcare related facilities) and bio-based businesses are facing serious challenges in finding equity to invest in their projects. Although significant increases in funds will flow to USDA Rural Development, few will find access to these funds without rule changes that address access to equity and loan guarantees. This is an historic challenge which can not be viewed through a traditional regulatory lens.

AgStar applauds the Biorefinery Assistance Program included in the 2008 Farm Bill which provides loan guarantees through USDA for the development, construction and retrofitting of commercial scale biorefineries as was mentioned by Under Secretary Dallas Tonsager in his testimony before the Subcommittee on June 10, 2009. However, few biorefineries were able to take advantage of these guarantee funds.

We propose the following modifications to USDA programs to enhance and expand the use of USDA Rural Development stimulus funds to provide more immediate and broader impact to rural America:

(1) Loan guarantees for construction on all eligible community facility, business and industry, and biorefinery facilities,

(2) Loan guarantees for refinancing all eligible community facility, business and industry, and biorefinery facilities,

(3) Loan guarantees for eligible community facility, business and industry, and biorefinery rural loans financed within the last 24 months, and

(4) Loan guarantees for annual operating lines of credit for community facility, business and industry, and biorefinery operations.

The benefits of these proposed rule changes are significant. These changes would reduce risk for lenders, increase the number of projects that could be financed, free up capital for lenders upon approval of the loan guarantees, (resulting in an Asset Relief Program, without the Trouble), reduce interest rates and fees for clients, and subsequently, reduce necessary equity requirements to obtain financing. **Most importantly, these proposed rule changes would result in a substantial increase in job creation across Rural America**.

Numerous green jobs could result from these projects. Without a rule change in accessing loan guarantees, many, if not most of these projects, will, however, be unrealistic. Lenders will be unwilling to finance startup technologies and projects that face higher risks in an uncertain market. Lenders are looking for lower risk ven-

tures which provide more certainty. Assuming these projects are feasible and there is an identified market demand, the proposed loan guarantee rule changes would significantly improve the prospects and timelines for all of these projects. Many of these project timelines could be improved by 12–24 months in many cases.

AgStar appreciates your support of these recommendations and requests adoption of the proposed USDA Rural Development rule changes.

Sincerely,



DAVID R. HOELMER,
Sr. VP and General Counsel,
AgStar Financial Services, ACA.

SUPPLMENTAL MATERIAL SUBMITTED BY RURAL COMMUNITY ASSISTANCE PARTNERSHIP

The RCAP network appreciates the invitation to submit additional recommendations for improving Rural Development programs. USDA Rural Development makes critical investments in rural America, and we applaud the Committee's efforts to ensure that these programs achieve maximum effectiveness, particularly in today's economically challenging times.

The national RCAP network's six regional service providers help small, typically low-income, rural communities address water, wastewater, and other community development needs. We provide training and technical assistance to build the capacity and sustainability of small systems and to assist with the development of needed facilities. The RCAP network serves 800 communities each year through funding provided by Rural Development's Technical Assistance and Training Grant Program under its Water and Waste Disposal Program. However, in an effort to provide more comprehensive assistance, our organizations have made extensive use of programs such as Community Facilities, housing programs, the Rural Community Development Initiative, the Intermediary Relending Program, and others.

RCAP offers the following recommendations to improve access to rural development programs and provide information on these programs to communities.

1. Improve consistency in program implementation across the country.

While Rural Development programs operate under the same set of regulations in each state, there are often variances in how those regulations are interpreted, and hence, how programs are implemented. For example, the first test for grant eligibility and the most favorable loan terms for the water and waste disposal program is the median household income of the area. Some states allow income surveys to be conducted by third parties if the community believes that the census data is no longer reflective of conditions in the community, while others allow no surveys, and still others allow surveys only under specific circumstances with prior permission of the state office. In the same vein, states have different ways of determining affordability thresholds for water and sewer systems. Most states utilize a specific percentage of median household income (which seems to vary by state), while others have set dollar thresholds that a community must meet regardless of how low their median income might be. In yet another example, some states will contribute the maximum grant funds allowable by law to particularly needy projects, while other states will rarely, if ever, allocate more grant funds to any one particular project than the loan/grant ratio received by the state. These inconsistencies make the program more difficult to market and use in some states that have more stringent requirements than are necessary in the regulations governing the program. To the extent possible, the process should be standardized and staff should be retrained where necessary.

2. Require utility board training for borrowers.

Rural Development should require its small community system owners (town councils, utility boards) to receive training as one of the conditions of receiving funding. Too often, these officials come into their jobs with no training and no knowledge of protecting their investment. Consequently, they often think of their jobs as being nothing more than holding down utility rates, even at the expense of not having adequate funds to maintain their system. Many technical assistance providers, including RCAP, offer training to these officials that helps to educate them about their responsibilities as system owners, and we are seeing positive results from this training. If we are to have any hope of stemming the tide of massive funds necessary for infrastructure replacement, we must teach responsible system ownership.

3. With particular regard to ARRA funding, delay environmental assessments until after initial application.

Currently, a community must complete both a preliminary engineering report and an environmental assessment before USDA begins processing an application. These reports can be expensive—often a significant portion of a small utility's annual budget. Since there is no guarantee that funding will be available, many communities are reluctant to take this risk. In addition, preparing an environmental report at this stage slows the process considerably, as it typically takes several months to complete. In some instances, the report may need to be redone at the time of final engineering design. A number of years ago, only a cursory environmental review was required at time of initial application. Returning to this timeline would save communities significant upfront costs. As long as the assessment is completed prior project bidding and construction, the requirements of the National Environmental Policy Act are satisfied. This would allow the assessment to be completed simultaneously with other requirements, and would speed the processing of applications. In addition, since the environmental review would be completed after Rural Development's initial review of the project, the community would have greater assurance that the project could be funded before incurring this expense.

4. Post guidance on RUS website for specific provisions related to ARRA funding.

There are certain provisions related to ARRA funding that are not typically required for communities that seek Rural Development funding, such as Davis-Bacon wage requirements, Buy American provisions, and others. The national RUS office should develop guidance for small communities and their engineers on meeting these requirements and have it prominently posted on their website, as well as publicizing it through their state and local offices. To the extent that it is possible to develop a standard bid package that would incorporate these provisions, this would help small systems tremendously in dealing with the new requirements.

5. Restore Rural Development Program Funding Levels

In recent years, Rural Development program funding has declined significantly. Since 2003, funding has been reduced by 25% for water and sewer, 28% for rural community facilities, and 33% for rural housing (excluding ARRA funds). The Rural Business Opportunity Grant Program is funded at such a low level that 99% of the 100+ page applications submitted go unfunded, a waste of the resources of the communities preparing them and agency staff reviewing them.

Rural water infrastructure investment needs alone in this country are staggering. The most recent needs surveys by EPA estimate that small systems and rural areas will require $34 billion for drinking water and $69 billion for wastewater over the next 20 years. Increasing Rural Development funding *at least* to previous levels is critical to meeting this need.

6. Increase the grant-to-loan ratio for the Water and Waste Disposal Program

Grant funding for water and sewer projects, as a percentage of the overall allocation, declined from 39% in 2003 to 26% in 2006. Grant funds are critical to defray the enormous costs of infrastructure development, especially in the smallest low-income communities. These utilities lack economies of scale found in larger systems, so their customers pay, on average, up to four times more than their urban counterparts, according to the EPA. It is not uncommon for rural residents to pay 5% of their income for these utilities after a major project is completed. Therefore, the trend toward reducing the grant-to-loan ratio renders the program non-viable for many of the communities it was designed to serve.

7. Increase the Salaries and Administration Budget

Rural Development's administrative budget has stagnated in recent years, so the agency has fewer staff to process funding applications, which have increased dramatically. For example, from 2007–2008, Ohio's Rural Development office experienced a 73% increase in demand for its housing programs, and a 170% increase in its business programs. Moreover, the farm bill, ARRA, and regular appropriations will result in thousands of new loans in the agency's portfolio in a short time period. Area and state offices will be busier than ever collecting year-end reports and helping address problem areas.

8. Increase Technical Assistance Funding

The Rural Development Water and Waste Disposal application process is time and labor intensive and requires a great deal of paperwork. Even once an application is approved, a community must finish a nine-page list of requirements known

as the USDA–RUS Loan Letter of Conditions Provisions before funds are obligated and construction begins. Many small communities have only part-time or volunteer staff and are ill-equipped to address these requirements, so they need assistance to navigate the process. As previously noted, Rural Development does not have the staff to complete this work and, instead, relies heavily on nonprofit technical assistance providers. However, funding for technical assistance has not increased in recent years (excluding short-term ARRA funding). As a result, hundreds of communities around the country go unserved each year.

In addition, technical assistance funding should be provided to help communities access Rural Business and Cooperative Service Programs, because of similar complexities of those programs. During the course of our water and wastewater work, we are frequently asked by rural communities to provide these other services, because they lack full-time staff or expertise to access funds that might be available to them.

9. Focus Grant Funds on the Neediest Systems

Rural Development awards its limited grant funding to systems to subsidize user rates to a "reasonable" level. Generally, this is based on user rates as a percentage of median household income, but can take into account additional factors. Establishing rates as a percentage of median household income is equitable and should be the primary—if not the sole—means of determining grant funding.

10. Require Communities to Seriously Consider Regionalization

Too often, options that involve regionalization or collaboration are given a cursory examination and dismissed because of a lack of support by the community. In order to maximize limited resources, communities need to realistically examine whether operating their own facilities is cost effective. Rural Development offices have not forced communities to consider these alternatives because they are not politically popular. Therefore, such a requirement should be part of the law. While there may be legitimate reasons not to choose regionalization, the burden of proof should be on the community.

11. Require State Offices to Coordinate Funding With Other Agencies

Rural Development's Water and Waste Disposal Program does not operate in a vacuum. Infrastructure financing is also available through State Revolving Fund programs, the Economic Development Administration, and, to varying degrees, through state Community Development Block Grant Programs and state-funded programs. A system that coordinates these funding sources to maximize the impact and effectiveness of each is highly desirable. In a majority of the states, agencies communicate on some level to compare projects. Formalizing these networks to simplify application procedures and coordinate funding would remove significant administrative and financial burdens for small communities, by limiting the number of applications and environmental reviews prepared, and the time delays that come from awaiting funding decisions from various agencies.

12. Provide a Legislative Remedy to the IRS Ruling on Loan Guarantees

The IRS has ruled that communities cannot utilize tax-exempt bonds when securing loan guarantees under the Water and Waste Disposal and Community Facilities programs, because it is considered "double dipping." However, this negates the favorable interest rate communities receive under the programs and renders them ineffective. As a result, the loan guarantee programs are generally under-subscribed. If Congress continues to advance loan guarantees as a financing option, it should eliminate this barrier to their use.

13. Adjust Application Schedules for Some Programs

The Value Added Producer Grant Program and the Rural Energy for America Program are important resources available to farmers, but applications are only accepted once per year, generally during the busy spring planting season. (The timing of annual appropriations is typically blamed for the situation.) Program funding should be announced early in the fiscal year so that producers could prepare applications during the winter months.

SUBMITTED QUESTIONS

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

Questions Submitted By Hon. Mike McIntyre, a Representative in Congress from North Carolina

Question 1. Rural Development (RD) makes loans and grants in rural areas. What impact do you see the downturn in the economy having on rural communities and rural businesses? Has RD seen an increase in late payments and delinquencies on loans? How do you address these issues within the programs? Who should communities or entities at risk for delinquency contact to assist them?

Answer. Rural America has experienced a number of effects from the current recession: a loss of rural jobs, higher unemployment, a decrease in some areas in local tax revenues, lower demand for many rural products, lower farm income, and lower commodity and land prices. These effects vary greatly from one community to another. USDA Rural Development administers more than 40 programs, and these also have been affected by the recession with the impacts varying widely by program.

In the aggregate, however, the Rural Development loan portfolio has performed remarkably well in a difficult economic environment. This is a tribute to the agency's high underwriting standards and the professionalism and diligence of our program staff.

1. RD Loan Portfolio
(Rural Business, Rural Housing and Rural Utilities)
Guaranteed and Direct Loans
Delinquency Summary

	Principal Balance	Delinquent Principal Balance		% Principal Delinquent	
FY Ending Sept	($Millions)	30 Days	> 1 Year	30 Days	> 1 Year
FY 2008	$106,474.8	$5,787.4	$1,024.4	5.44%	0.96%
FY 2009 Q1	$109,745.9	$6,664.6	$1,081.5	6.07%	0.99%
Jan-09	$110,755.3	$6,747.7	$1,097.8	6.09%	0.99%
Feb-09	$111,312.1	$6,010.3	$1,103.3	5.40%	0.99%
Mar-09	$112,951.8	$6,003.8	$1,128.9	5.32%	1.00%
Apr-09	$114,096.0	$6,361.0	$1,140.0	5.58%	1.00%

The aggregate figures mask significant differences. The Rural Development Utilities Programs have not experienced a material change in delinquencies, with an aggregate delinquency rate (% of principal delinquent for more than 1 year) of just 0.14 percent. The 1 year delinquency rate for the Business and Industry Guaranteed Loan program, 5.36 percent at the close of Fiscal Year (FY) 2008, improved to 5.25 percent by April 30, 2009, although we anticipate a recession-driven increase by the close of FY 2009. The 1 year delinquency rate for the Single Family Housing Direct Loan program increased from 3.29 percent at the end of FY 2008 to 3.45 percent as of April 30, 2009; for the SFH Guaranteed Loan program, the increase was 0.47 to 0.53 percent. The corresponding increases for the Multi-Family Housing program and the Community Facilities program were 0.70 percent to 0.75 percent and 1.64 percent to 1.92 percent respectively.

For the Rural Development portfolio as a whole, the delinquency rate increased from 0.96 percent to 1.00 percent in that same time period. Delinquency trends are monitored closely by all program areas, and we attempt to engage troubled borrowers and develop appropriate counseling and loss prevention strategies. We encourage borrowers who anticipate difficulty in repayment to contact their loan officer or Rural Development State Office to initiate remedial action as early as possible.

Question 2. What is the timeline and plan for implementation of the Rural Microentrepreneur Assistance Program authorized and funded in the 2008 Food Conservation and Energy Act?

Answer. Rural Development (RD) plans to proceed with publication of a proposed rule with a final rule to follow. The final rule will be published in sufficient time for funding to be awarded in FY 2010.

Question 3. Governor Sanchez's testimony cites a lack of outreach from USDA Rural Development to Native and persistent poverty counties. Do you plan to reach out to these specific communities? If so, how?

Answer. In the remaining months of Fiscal Year 2009, USDA Rural Development plans to conduct a two-pronged outreach strategy focused on rural American Indian and Alaska Native (AI/AN) customers. The plan includes a series of six (6) regionally focused webinars, followed by six (6) regional application fairs. This combined effort will not only raise awareness of the programmatic resources available to AI/AN customers through USDA Rural Development but will also provide forums to begin the application process under the appropriate programs.

These future events will augment past efforts that included participation on a White House Office of Intergovernmental Affairs ARRA Teleconference (April 7, 2009), conducting a USDA Rural Development ARRA specific Webinar for the National Congress of American Indians (April 30, 2009) and hosting breakout sessions covering USDA Rural Development's programs, including ARRA resources, at the Department of Health and Human Services' Administration on Aging National Title VI Training and Technical Assistance Forum (Rockville, MD—April 28, 2009) and the National American Indian Housing Convention (New Orleans, LA, May 13, 2009).

With regard to persistent poverty areas, as required in the Recovery Act, Rural Development allocated 10% of available loan and grant dollars in the Housing, Community Facilities, Business and Industry and the Water and Waste Disposal Programs for assistance in persistent poverty counties as defined in the Act. In our Single-Family Housing Direct Program, our state offices have also been instructed that 40% of the allocated funds be made available to very-low income applicants. In addition, Rural Development State Offices are conducting outreach to areas in need of funding, including persistent poverty counties.

Questions Submitted By Hon. K. Michael Conaway, a Representative in Congress from Texas

Question 1. When responding to how funding is allocated among eligible projects under the Stimulus, you said it was based on first-in, first-out (FIFO) and that projects were approved solely on the basis of when applications were submitted. Can you please explain in greater detail how this arbitrary approach in any way prioritizes communities most in need of funding?

Answer. Rural Development programs are designed to ensure that funds are awarded to applicants with the greatest need. Most of our Recovery Act funds are being implemented through existing programs, which have regulations regarding review and ranking of requests for funding. In general, applications are selected for processing on a first-come, first served basis, unless funding is limited. As part of the review process, applications are awarded priority points based on a number of factors. Although there are program-specific criteria, the highest number of priority points are typically assigned to the smallest, most needy communities and applicants. When funds are limited, these points are used to rank applications to be used to determine which applications are to be funded.

In addition, Section 3 of the Recovery Act requires agencies to expend the funds made available as quickly as possible consistent with prudent management. As a result, readiness to proceed does factor into our selections for funding. In many program areas, such as Single Family Housing, Community Facilities and Water and Waste, Disposal, backlogs of applications seeking funding exist. These projects have been reviewed and scored and are more likely to be ready to proceed to implementation quickly.

General Priority Point Criteria

Business and Industry Guaranteed Loans—Priority points are assigned to applications based on population, long-term population decline, persistent poverty levels, types of jobs that will be created, underserved/underrepresented areas and groups, impact of natural disasters, loan features, and the impact and offerings of the business proposed.

Community Facilities—Priority points are assigned to applications based on population, income levels, health and public safety priorities and other factors at the discretion of the state director, such as unforeseen exigencies or emergencies.

The Rural Business Enterprise Grant Program—Priority points are assigned to applications based on population, unemployment, income levels, underserved/underrepresented areas and groups, outmigration areas, persistent poverty areas, applicant experience, evidence of small business development, leveraging of other funds and other criteria.

Single Family Housing Direct Loan Applications—Priority points are not assigned to Single Family Housing Direct applications, however, funds are allocated to the states in accordance with the allocation formula found in Rural Development Instruction 1940–l. Typically applications are selected for processing on a first come—

first served basis. Recovery Act funds have initially been utilized to help clean up the large backlog of applications that existed. States have also been instructed that 40% of the allocated funds be made available to very-low income applicants.

Water and Waste—Priority points are assigned to applications based on population, health priorities, income levels and whether an applicant is a pubic body or Indian Tribe. Points are also assigned to application that will merge ownership, management, and operation of smaller facilities providing for more efficient management and economical service; enlarge, extend, or otherwise modify existing facilities to provide service to additional rural areas; or serve an area that has an unreliable quality or supply of drinking water.

Broadband Program—Broadband Program—Implementation of the Broadband Initiatives Program (BIP) under the Recovery Act will necessitate a competitive grant, loan, and loan/grant combination process. This process is still under development, and will include application rating and ranking criteria.

Question 2. USDA has emphasized their dedication to transparency in administering funds, yet many sources of information as to where funding is actually supposed to go do not add up. Could you provide to the Committee a list of funding by state, town, and project of all the Stimulus funding across all Federal agencies?

Answer. President Obama is committed to implementing the Recovery Act with an unprecedented level of transparency and accountability. This is frankly a work in progress; the reporting protocols and web-based public access tools continue to evolve. I have appended* a detailed state/town/project list of all USDA Rural Development Recovery Act investments. Similar data is available on request from other agencies. In addition, detailed project information in various formats is available on *www.USASpending.gov, www.Recovery.gov,* and on other Federal agency websites. I would especially direct your attention to the geospatial mapping tool found on the USDA website at *http://www.usda.gov/recovery/map/*. These tools will continue to be improved in the months ahead.

Question Submitted By Hon. Bill Cassidy, a Representative in Congress from Louisiana

Question. The Davis-Bacon provisions will increase costs for rural communities and require them to commit a greater local match for a Rural Development loan. You suggested that in order to mitigate this cost increase, a different mix of grants and loans could be provided to the local community. Please elaborate on what adjustments would be made to alleviate the cost increases caused by the Davis-Bacon requirements. Also, how would these adjustments affect the availability of grant and loan funding to other communities, as well as the total number of projects that could be funded by Rural Development programs?

Answer. The Rural Development programs impacted by the application of Davis-Bacon Requirements are typically needs-based programs where loans and grants are offered based on an applicant's ability to assume and repay debt. Our Community Facilities and Water and Waste Disposal Programs are two such programs. Agency funding offers will be adjusted in consideration of increased project costs associated with implementation of the Davis-Bacon provision of the Recovery Act. Whether the additional funding is provided will be loan or grant will be based upon the applicant's eligibility and financial situation.

We do anticipate that implementing Davis-Bacon will likely result in higher project costs for construction funded through the Recovery Act. Early estimates are that impacted projects could experience costs that are 10–20% higher than under our existing programs. This will impact the number of projects that we will ultimately be able to fund.

Rural Development has significant responsibilities related to the Recovery Act. The Agency has been charged with deploying $4.36 billion in recovery funds, that when implemented will deliver more than $20 billion in loans and grants to improve economic opportunity and the quality of life in rural America. Rural Development intends to fund a significant number of loans and grants across all of its programs, including an estimated 9600 essential community facilities, approximately 8,000 direct home loans and 90,000 home loan guarantees, hundreds of new rural businesses, and 1,400 new or improved rural water and waste systems.

---

*The document entitled, *USDA Rural Development Consolidated ARRA Obligations (as of June 17, 2009),* has been retained in Committee files.

Response from Hon. Phyllis K. Fong, Inspector General, Office of Inspector General, U.S. Department of Agriculture

Questions Submitted By Hon. Mike McIntyre, a Representative in Congress from North Carolina

Question 1. The Office of the Inspector General was provided with $22.5 million in the Recovery Act for oversight and audit. How is this funding broken down by mission area? Are you able to increase staffing numbers to the required level given that this is just one-time funding?

Answer. The monies received by the Office of Inspector General (OIG) for oversight work related to the American Recovery and Reinvestment Act of 2009 (Recovery Act) were not broken down by mission area, although the Appropriations Committees advised that $7.5 million of the amount was for oversight of Forest Service Recovery Act programs. We nevertheless plan to perform audit work in each USDA program and activity that received Recovery Act funding through the 33 audits planned for this year or in subsequent fiscal years. This work will be performed internally or through contractors except for audit work related to Rural Development's Broadband Program. Given the release of our current report in March 2009, we are coordinating with the Government Accountability Office since it is taking the lead in this area related to Recovery Act funding. As of June 19, 2009, two audit reports and seven flash reports (quick-turnaround reviews that identify issues that should be addressed by USDA program officials before Recovery Act funds are expended) have been issued and 23 audits are in process (see *Attachment 1*). Reports are posted on our website *www.usda.gov/oig*. To date, OIG's investigative work has focused on conducting fraud awareness briefings in the various agencies of USDA receiving Recovery Act funding, dissemination of oversight best practices, and performing reviews of several procurement actions referred to OIG by the Recovery Accountability and Transparency Board.

We believe we are able to increase staffing to levels needed for us to do the additional oversight work required of OIG. We have been able to manage the process by hiring at the lower grades (leaving the natural attrition that occurs at the higher levels to offset future staffing levels), using contractors where possible to supplement our workforce, and using temporary hiring authorities (like hiring retired annuitants).

Question 2. Are the staff that you are hiring now experienced enough to evaluate the often complex projects (including broadband deployment) that will be funded through the stimulus?

Answer. On the Audit side of our operations, we are hiring primarily entry-level auditors. In addition, we are hiring several experienced senior audit managers that recently retired from our agency. Both managers have years of experience in auditing the programs and operations of USDA. These managers will assist teams in developing the scope and approach to various audit assignments resulting from the Recovery Act. The audit work we will perform as a result of the Recovery Act will include basic data collection and analysis to evaluate such issues as whether participants are eligible for the programs and whether they comply with program requirements. The entry-level auditors will be used to perform these tasks and assist our more experienced auditors who will be leading the overall audit. Over time, these entry-level auditors will receive structured and on-the-job training that will allow them to progress to the journeyman level. This career progression for a staff auditor generally encompasses a 4 year period, at which time the auditors we are currently bringing on board should be ready to replace the staff we will lose to attrition and retirements.

On the Investigations side, we are currently in the process of hiring criminal investigators. The majority of these positions are GS–9, entry-level. Once hired, the investigators must successfully graduate from the Basic Criminal Investigator Training Program at the Federal Law Enforcement Training Center, in Glynco, Georgia; and attend a 3 week Inspector General Basic Training Course at the IG Academy. Once these have been successfully completed, the newly hired criminal investigators will be fully authorized to conduct investigations relating to the programs and operations of the U.S. Department of Agriculture, including executing arrest and search warrants, and carrying firearms. These newly trained criminal investigators will initially be assigned to work with a senior level criminal investigator, who will mentor and train them in conducting investigations of USDA programs. As they gain experience and complete additional training courses, they will conduct investigations independently.

Attachment 1

USDA–OIG Assignments Funded Under ARRA for FY 2009

(current as of June 10, 2009)

American Recovery and Reinvestment Act of 2009 (P.L. 111–5)

Agency Acro	Assign__Nbr	Form 1 Plan Page Nbr	Title
			Completed
FS	**08703–1–HQ**	09HQ006	Existing Risk to Forest Service's Economic Recovery Program (*Issued 04/03/09*)
RD	**85703–1–HQ**	09HQ006	Existing Risk to Rural Development's Economic Recovery Program (*Issued 04/03/09*)
			Ongoing
FSA	**03703–1–Ch**	09CH018	Controls over Aquaculture Grant Recovery Act Funds (Phase I) *Flash Report: 03703–1–Ch(1) (Issued 05/08/09)* *Flash Report: 03703–1–Ch(2) (Issued 06/03/09, response pending)*
FSA	**03703–1–Te**	09TE024	ARRA—Direct Farm Operating Loans—Phase I
RHS	**04703–1–Ch**	09CH022	Controls Over Eligibility Determinations for Single-Family Housing Guaranteed Loan Stimulus Funds (Phase I) *Flash Report: 04703–1–Ch(1) (Issued 05/11/09)* *Flash Report: 04703–1–Ch(2) (Issued 05/14/09)* *Flash Report: 04703–1–Ch(3) (Issued 05/22/09)* *Flash Report: 04703–1–Ch(4) (Issued 05/22/09)* *Flash Report: 04703–1–Ch(5) (Issued 06/10/09, response pending)*
FAS	**07703–1–HQ**	09HQ006	ARRA Trade Adjustment Assistance for Farmers (TAAF) Program—Monitoring Implementation
RHS	**04703–1–Hy**	09HY021	Controls Over Eligibility Determinations for Rural Community Facilities Program Direct Loan and Grants Stimulus Funds (Phase I)
RHS	**04703–1–KC**	09KC033	Single-Family Housing Direct Loans Stimulus Controls
FS	**08703–1–At**	09AT027	Forest Service's Use of ARRA Funds for Hazardous Fuels Reduction
FS	**08703–1–Hy**	09HY013	(ARRA) Oversight and Control of Forest Service Activities
FS	**08703–1–SF**	09SF023	Administration of Biomass Grants Funded Under ARRA, Phase I
FS	**08703–2–SF**	09SF025	FS Capital Improvement and Maintenance (Phase 1)
RUS	**09601–1–At**	09AT002	RUS Controls Over Water and Waste Disposal Loan and Grant Programs
NRCS	**10703–1–KC**	09KC037	Emergency Watershed Protection Program Floodplain Easements
NRCS	**10703–2–KC**	09KC036	Watershed Protection and Flood Prevention Operations Program
OCFO	**11703–1–HQ**	09HQ006	ARRA Reporting Oversight
FNS	**27099–71–Hy**	09HY004	Summary of Nationwide Electronic Benefits Transfer (EBT) System Operations
FNS	**27703–1–At**	09AT021	The Emergency Food Assistance Program (TEFAP)
FNS	**27703–1–Hy**	09HY020	ARRA—FNS Management Oversight of the Supplemental Nutrition Assistance Program (SNAP)
FNS	**27703–1–KC**	09KC035	Supplemental Nutrition Assistance Program Increased Benefits From Stimulus Funds
FNS	**27703–2–At**	09AT015	Recovery Act Impacts on SNAP—Phase One
FNS	**27703–2–Hy**	09HY001	State Fraud Detection Efforts for SNAP
RBS	**34703–1–KC**	09KC032	Rural Business Enterprise Grants

Attachment 1—Continued

USDA–OIG Assignments Funded Under ARRA for FY 2009

(current as of June 10, 2009)

American Recovery and Reinvestment Act of 2009 (P.L. 111–5)			
Agency Acro	Assign__Nbr	Form 1 Plan Page Nbr	Title
RBS	**34703–1–Te**	09TE025	ARRA—Rural Business and Industry Guaranteed Loan Program
MULTI	**50703–1–HQ**	09HQ006	ARRA Contract Oversight and Activities
		Planned	
FNS		09FM025	ARRA Spending for WIC Management Information System
FNS		09CH014	Vendor Monitoring in the WIC Program
FS		09SF024	Wildland Fire Management
FSA		09FM026	ARRA Spending for FSA IT Issues
FSA		09KC003	Supplemental Agricultural Disaster Assistance Programs and ARRA Transition Assistance
RHS		09CH021	Controls Over Eligibility Determinations for Single-Family Housing Guaranteed Loan Stimulus Funds (Phase II)
RHS		09HY022	Controls Over Eligibility Determinations for Rural Community Facilities Program Direct Loan and Grants Stimulus Funds (Phase II)
RHS		09KC034	Single Family Housing Administrative Expenses for Stimulus Spending
	33 stimulus assignments planned 23 initiated 12 completed		

Response from Doug Anderton, General Manager, Dade County Water and Sewer Authority; Vice President, National Rural Water Association; President, Georgia Rural Water Association

Questions Submitted By Hon. Mike McIntyre, a Representative in Congress from North Carolina

Question 1. Please provide additional recommendations you would make to improve access to rural development programs and provide information on these programs to communities.

Answer. The current water and waste disposal grant and loan program operated by the Rural Utilities Service has a great long successful history of providing critical infrastructure assistance to meet one of the most basic needs in rural America—providing safe and affordable water and waste water assistance to low and moderate-income communities. Rural Development also has the unique advantage over other Federal agencies by having a diverse field structure with community development expertise scattered throughout small town rural America.

Without this assistance, many of these communities could not survive or compete in this global economy. With the economic downturn, many of these small communities are also faced with the additional burden of reduced tax revenues that impact their ability of providing critical services on a larger scale that their urban counterparts.

- Recommendations

In order to assist Rural Development to increase their ability to help these communities in need, we would like to recommend that this Committee explore the option of providing the Secretary of Agriculture limited waiver authority for these programs. This authority has been granted to the Secretary in previous disaster related bills and the Department has been very conservative in its use. This Committee could also require a written notification prior to the Department issuing a waiver to continue to conduct the proper oversight and ensure the waiver is consistent with the Congressional intent.

This authority, while small in scope, would provide large direct benefits to communities in need. For example, a community which has a population of ten thousand two hundred people does not qualify for assistance when a community of nine thousand nine hundred would, regardless of the need. At this point, the community over ten thousand would be unable to even apply for assistance. It would seem that allowing this community to apply while giving the Secretary the authority to review these applications on a case-by-case basis would be beneficial. Not only would a waiver of this type be beneficial to address issues related to population, but for income and matching requirements as well. Many small, rural, lower-income communities, including the Colonias and some federally-recognized Native American Tribes, cannot assume the mandatory 25 percent loan or matching requirement for the total development costs as currently required by law. This requirement hits those with the lowest of incomes the hardest as they are the ones unable to debt service or provide matching funds at any significant level.

There is no silver bullet which will guarantee access to the RUS programs by all rural communities, and that was not the purpose of the program. However, giving the RUS the flexibility to work with some of those communities which fall slightly out of their current reach, but within the original intent of Congress for the program, would be extremely beneficial.

Question 2. How are rural water systems able to take advantage of economies of scale to spread out fixed costs and better serve rural citizens in small systems? Are you able to merge systems to keep them economically viable? How do communities collaborate on systems?

Answer. Small and rural water systems are able to take advantage of economies of scale to improve service, expand service, and realize economic efficiency. This is currently happening and the trend is accelerating due to growth, financial assistance, and increased regulatory burden. The main forms that of greater economies of scale include: physical consolidation or regionalization of water supply distinction and/or treatment systems, management/governance consolidation (which may not required physical interconnection of service), interconnection with retail suppliers with available supply and treatment facilities, and satellite management of small communities too far apart to regionalize, *etc.*

Regionalization or consolidation can work (and is working) in some situations, but only for the portion of small systems and only when the systems are in close proximity and the economics make sense. Rural Water is the lead proponent of consolidation when it makes sense (when it results in better service for the consumer) and we have consolidated numerous communities in all the states. Consolidation and re-

gionalization that is in the consumers' best interest will happen naturally at the local level. Federal policy that favors consolidation over the locally preferred solution is a step in the wrong direction for consumers.

The trend toward consolidation/regionalization in the country's water supply is empirically reflected in the decrease in the number of community water systems (CWS). According to EPA, in 1993 there were 57,561 community water systems in the U.S. That number has decreased to 51,988 in 2008. Additionally, there are 8,860 community water systems which purchase some, or all, of the water from neighboring water supplies.

Currently, USDA encourages multi-system and regional approaches when ranking applications for funding by favoring projects that will merge ownership, management and operation of smaller facilities for more efficient management and economical service.

In Kentucky, in the last 30 years, the number of public water systems has decreased by 70% in the state—from 1,700 public water systems to 400 today. The key ingredient in Kentucky trend was state financial aide and local support.

Kentucky Rural Water Association has assisted most of these communities (their members) through the process to ensure the consolidation will be workable and beneficial to all the communities in the mix. In the rare cases where the government pressured apprehensive communities to consolidate, the new consolidated system still has problems long into the future.

Rural Water has led or assisted in more communities consolidating their water supplies than any program, policy or organization. Again, when communities believe consolidation will benefit then, they eagerly agree. However, if communities are coerced to consolidate, one can almost guarantee future controversy.

Response from Tom Duck, Executive Director, Texas Rural Water Association

Questions Submitted By Hon. Mike McIntyre, a Representative in Congress from North Carolina

Question 1. Please provide additional recommendations you would make to improve access to rural development programs and provide information on these programs to communities.

Answer. I think that providing additional grant funding would be a key to improvement. In working with the lowest income communities, they sometimes find it hard to access the program because they have no way of raising the funding to pay for the loan portion of projects funded by USDA.

As I mentioned in my testimony, allowing the Secretary to waive any or all requirements on communities as long as they fall under the Congressional intent of the program would be beneficial as well. Communities are barely ineligible for funding for a handful of reasons and do not qualify for funding.

Improving the environmental review process is also of the utmost importance in improving access to these funds. Many projects spend more time on this work than they do on the actual planning and construction.

Question 2. Do your rural water systems serve any Native American Tribes? What particular challenges do you find in these rural water systems with how the Federal program is designed?

Answer. Texas Rural Water does provide assistance to rural water systems which serve Native American Tribes throughout the State of Texas. These communities have very specialized needs and tend to be extremely low income. These communities have an extremely difficult time in meeting the matching funding requirements of the program. With low tax bases and high poverty, there is no way for these communities to service debt. These communities need specialized technical assistance and I would suggest the establishment of a program of circuit riders specially trained in issues related to these communities as one way to increase outreach and ensure greater participation by and assistance to these underserved areas.

Question 3. Do Colonias and other resource limited communities have the ability to apply for the Water and Waste Disposal programs? Does TRWA or NRWA provide technical assistance to communities in putting together applications or in managing their systems?

Answer. Colonias and other resource limited communities often fall into many of the same categories as Native American Tribes. While many are eligible, they either don't know of the programs, or an unable to participate. Few truly understand the conditions present in these communities. Most of these communities not only lack running water, but wastewater systems as well. Many utilize cesspools and septic systems which are very susceptible to flooding and overflow. Colonias often are so remote and inaccessible that merging with other systems in not an option. Another

difficult issue is related to the actual location of the Colonias in Texas. They are located very close to the Rio Grande River. The Colonias are often constructed in the floodplains of the river and this contributes to the flooding of the systems that are present. These communities lack a tax base able to sustain any loan so many go without accessing the USDA programs due to the limit on grant funds available. That being said, USDA Rural Development has done a good job of getting out and working in these communities. While the limitations and poverty are important factors, culture is a major factor as well. In the Colonias of Texas and the rest of the border region, organizations must be a trusted part of the communities to have success. Texas Rural Water has great relationships in these communities and has built a trust in the border region second to none. We currently operate both Water and Wastewater circuit riders in the Colonias and would like to see a program specifically dedicated to this work. The issues we face in these communities are common throughout the border and a program specifically tailored to those needs would be beneficial.

TRWA, through NRWA, provides technical assistance to these communities in both managing these systems and developing applications for assistance. Many of these communities lack the very basics needed to operate water systems and apply for funding. A fax machine or computer is considered a luxury when many communities don't have water or electricity. However, circuit riders assist these communities in every aspect of system operation as well as the process for applying for Federal funds.

Response from Hon. Franklin D. Rivenbark, Commissioner, Pender County, North Carolina; Member, Agriculture and Rural Affairs Steering Committee, Rural Action Caucus Steering Committee, National Association of Counties (NACo); Past Vice Chairman, Rural Development Subcommittee, NACo

Questions Submitted By Hon. Mike McIntyre, a Representative in Congress from North Carolina

Question 1. Given the competition for Federal funds, would you suggest that funds be devoted to traditional infrastructure development in rural areas or to local and regional planning initiatives such as the new Rural Collaborative Investment Program?

Answer. Both types of funding are critical. Basic infrastructure is fundamental to rural development. However, only funding basic infrastructure is not sufficient to help communities thrive and get past impediments to rural development. Programs such as RCIP, incentivize regional planning and fund local strategies, including traditional infrastructure. In my community, we really could use local flexibility to allow our water and wastewater planning to accommodate new businesses. We would also benefit from a program like RCIP that would fund our innovative local priorities, including water infrastructure that will meet future demands and other projects that don't fit in the regular USDA boxes and rules. We support both basic infrastructure and any program or model that puts the prioritization of local and regional priorities first, above making communities apply for whatever particular "rural development" funding stream is available at the time. RCIP is one excellent model, but NACo is open to other suggestions.

Question 2. You mentioned that rural counties are struggling to navigate the maze of funding opportunities. Has information provided by the department been sufficient for communities interested in these funds? What have been the greatest obstacles to communities interested in applying for these funds?

Answer. USDA Rural Development staff members at the local, state and national level are well respected across rural America. My staff in Pender County and I both agree that USDA Rural Development staff are the best to work with of any Federal or state agency. They bend over backwards to make projects work and deeply care about the rural communities they serve. So yes the department has communicated sufficiently with my county, but many counties, especially our nation's persistently poor counties are in need of greater outreach by the agency.

The greatest obstacle to communities applying for USDA Rural Development funding is the lack of local staff capacity in our nation's most rural communities. These communities need greater outreach and technical assistance. USDA is only one piece of the maze of programs and opportunities which rural counties are striving to understand. Therefore, many rural counties do not have the capacity to effectively compete for Federal grants and loans. We urge USDA to train its field staff to assist rural communities with making the connections to programs and resources that are present not only at USDA, but also through other Federal and state agen-

cies. Often other programs complement and match USDA programs, but are not easily accessible or well know to small communities.

Question 3. Please provide additional recommendations you would make to improve access to rural development programs and provide information on these programs to communities.

Answer. USDA should undertake significant outreach to our nation's 398 persistent poverty counties and other rural counties that have not traditionally been successful applying for or receiving USDA Rural Development funding. The Recovery Act requires that at least ten percent of USDA Rural Development funding (excluding the broadband program) be allocated for assistance in persistent poverty counties. The spirit of this provision will not be met by simply funding just enough projects to reach the ten percent threshold. Instead, NACo believes that USDA should engage in targeted outreach to these communities to ensure that those communities most in need are aware of their opportunities and afforded all possible help in successfully applying for funding that they are eligible to obtain.

The agency can also improve access by including rural county leaders in their outreach and planning efforts. The new state directors should work very closely with the state associations of counties to learn the best ways to communicate with and receive feedback from county leaders in their state.

USDA should also map and identify those communities that are not receiving rural development funding and reach out to those communities. They should also help connect these communities with technical assistance providers that can help them effectively identify needs and apply for funding.

Response from Hon. Chandler Sanchez, Governor, Pueblo of Acoma, New Mexico; on Behalf of National Congress of American Indians

Questions Submitted By Hon. Mike McIntyre, a Representative in Congress from North Carolina

Overall Response

The National Congress of American Indians wishes to thank the Subcommittee for the opportunity to provide advice on improving the implementation of the persistent poverty counties provision of the Recovery Act, and other recommendations to improve tribal access to rural development programs.

One overarching theme in NCAI's response to these questions is relationship building between USDA and tribes through a proactive departmental outreach to tribal leaders, agencies, communities and individuals that result in sustained dialogue, collaboration and programmatic implementation. The difference is in the timing. The recommendations relating to *Question 1*—the implementation of the persistent poverty counties provision of the Recovery Act—are based upon a short time frame that acknowledges that they are feasibly implemented only through existing departmental and tribal resources. Recommendations relating to *Question 2* look further into the future and envision structural changes within USDA that would enhance USDA-tribal partnerships across the full range of Rural Development programs. A second overarching theme relates to building the tribal capacity to implementation of USDA Rural Development programs. Specific recommendations on how to implement these themes across the relevant programs are provided.

Question 1. What would be your advice to the department as to the approach it should take to implement the provisions requiring a set-aside for persistent poverty counties?

Answer.

1. Develop an administrative or statutory fix that allows Sec. 105 to be applied on a reservation-by-reservation basis for qualifying tribes.

Sec. 105 of the Recovery Act states that at least ten percent of the amounts appropriated to the 'Rural Housing Service, Rural Community Facilities Program Account', ($130,000,000) the 'Rural Business-Cooperative Service, Rural Business Program Account', ($150,000,000) and the "Rural Utilities Service, Rural Water and Waste Disposal Program Account ($1,380,000,000) shall be allocated for assistance in the form of loans and grants to persistent poverty counties." Overall, $166,000,000 is set-aside under the Recovery Act to assist persistent poverty counties.

Many Indian tribes are in, or contain persistent poverty counties. According to the 2000 Census, eight of the ten poorest counties in America (based on per capita income). Unemployment among Native people has consistently been twice the national average. According to the 2000 Census, the unemployment rate on tribal reservations was 22 percent—comparable to the national unemployment rate of 25 percent during the Great Depression. The poorest counties in which tribal land are con-

tained in whole or part are listed by overall national rank below and briefly described in a manner to demonstrate some of the inherently challenges in implementing the persistent poverty counties provision on a county wide *versus* reservation wide basis.

- (1) Buffalo County, South Dakota is predominantly part of the Crow Creek Indian Reservation. The Reservation itself is in all or part of four counties. (Population: 2,032 Per Capita Income: $5,213)
- (2) Shannon County, South Dakota is entirely within the Pine Ridge Reservation. The reservation itself spans across four counties. (Population: 12,466 Per Capita Income: $6,286)
- (4) Ziebach County, South Dakota lies almost entirely within the Cheyenne River Indian Reservation, which itself is in all or part of five other counties. The balance of the county lies within the Standing Rock Indian Reservation, which is in all or part of four counties. (Population 2,519: Per Capita Income: $7,463)
- (5) Todd County South Dakota lies entirely within the Rosebud Indian Reservation. The reservation lies in whole in or part, in four counties. (Population: 9,050 Per Capita Income: $7,714)
- (6) Sioux County, North Dakota lies entirely within the Standing Rock Indian Reservation and forms the northernmost 30 percent of the reservation. The balance of the reservation is in South Dakota. (Population: 4,044 Per Capita Income: $7,731)
- (7) Corson County, South Dakota lies entirely within the Standing Rock Indian Reservation. (Population: 4,181 Per Capita Income: $8,615)
- (8) Wade Hampton Census Area in Alaska is part of the unorganized borough. As of the 2000 census, the population is 92.53% is Native American. (Population: 7,028 Per Capita Income: $8,717)
- (10) Apache County contains parts of the Navajo Indian Reservation, the Fort Apache Indian Reservation, and Petrified Forest National Park. (Population: 69,423 Per Capita Income: $8,986)

Many of these counties are only a part of a reservation. Some counties contain two or more reservations. Most tribes above are in more than one county, and in is in two states. There is perhaps only one tribe in United States—the Menominee Tribe in Wisconsin—where the reservation's boundaries are conterminous with county boundaries. However, Tribal governments, and not county governments, are the predominant governing entities on reservations and their members.

Thus, reservation areas that experience persistent poverty but are only part of a county, might not qualify for Sec. 105 funding based on a county-by-county implementation, if the economic circumstances in the non-reservation area of the county are not similar. A reservation that fully contains a persistent poverty county, likely experiences this condition reservation wide, yet Sec. 105 funding might not extend throughout the reservation. These scenarios demonstrate the difficulties and paradoxes in implementing Sec. 105 on a county by county basis for tribes that experience persistent poverty. If the primary intent of this provision is to address persistent poverty on a governmental level, then the provision should account for the inherent practicality of working on reservation by reservation basis with the tribal government. A legislative and/or administrative fix must be developed to allow USDA to work on a tribe-by-tribe basis, with the tribal government as the central point of contact, to implement Sec. 105. The section should be renamed and operated either *de facto* or *de jure* as a set aside for Persistent Poverty Counties *and Indian Tribes.*

2. Building and supporting the foundation for implementation

The applicable rural programs of Sec. 105—Community Facilities, Business Programs, and Water and Waste Disposal—are designed to put buildings, businesses, and water infrastructure into place. However, the foundation for successful programmatic implementation is built upon sufficient organizational infrastructure, human capital, and strategic planning. USDA's Economic Research Service recommends improvements in "the competitiveness of rural firms by enhancing the core skills of both management and labor. Competitiveness in today's market increasingly depends on the ability to obtain and use information, technology, and new management techniques."[1] This foundation is often lacking in areas of per-

[1] *http://www.ers.usda.gov/publications/aib710/aib710co.htm.*

sistent poverty, and therefore requires as much if not more support before, or as the funds from these programs are distributed.

a. Sustained USDA outreach, collaboration, and consultation with Indian tribes

Fundamentally, this requires a commitment from the highest levels of USDA to the state offices, to reach out and dialogue with tribal governments and Federal partners on a regular basis and throughout the organizational levels, to design strategic plans on a reservation by reservation basis that address capacity and ensure proper implementation of the programs. USDA should ensure that its directive on tribal consultation—DR 1350–001—is followed in the offices within states that have Indian nations within their boundaries.

b. Programmatic Support to Build the Foundations

Programs and funds that can support the development of these foundations—whether found in the three programs or elsewhere—should be a necessary complement to the implementation of these programs. For example, the Rural Business Enterprise Grant (RBEG) program provides grants to fund technical assistance needs and to establish and fund revolving loan programs. Federal programs to empower rural communities and tribes and design strategic plans such as USDA's Empowerment Zones and Enterprise Communities (EZEC) should be revitalized. Three tribes working together—the Menominee Indian Tribe, Sokaogon Mole Lake Chippewa Community and Lac du Flambeau Chippewa Community—through its joint enterprise, the Northwoods NiiJii Enterprise Community, have demonstrated the success of the EZEC program.

Similarly, operation and maintenance of buildings, water infrastructure and waste disposal facilities are critical to the sustainability and cost-effectiveness of this physical infrastructure. Some tribes experience the premature decline and inoperability of such facilities for lack of sufficient training, funding and staff. Turnover of operators of drinking water facilities in some tribal areas is high because tribal governments simply lack the funds to provide adequate salaries. With this turnover also goes the investment and knowledge in training and expertise to manage the systems. In the area of water infrastructure, USDA can work closely with its partner Federal agencies EPA and the Indian Health Service, to ensure sustained operation and maintenance of such facilities.

c. Lower loan: grant ratios

Recovery Act funding for the three programs in Sec. 105 is in the form of loans and grants. State Directors have the discretion to determine how funding is allocated, resulting in a great variance in how Indian tribes are treated. If a state director prefers to issue loans instead of grants to an applicant, it could be a make or break decision. For a tribe in a persistently poverty county, this often means "break." This dynamic is one reason why available USDA funding to tribes to build water infrastructure, perennially often goes unspent, despite the fact that over 13% of tribal homes lack fundamental access to safe drinking water and basic sanitation—a percentage well over 20 times the national average. Therefore, we request that that loans: grants ratio of funds provided to persistent poverty counties and tribes be lower than the ratio provided to other eligible applicants.

3. Specific Programmatic Recommendations

a. Business Development and Community Facilities

Two economic development opportunities may exist for many reservations of persistent poverty—traditional foods and renewable energy—that can be supported by Sec. 105 funding. These opportunities can and should be combined with other USDA and Federal programs. The need for strategic planning between USDA and the tribe, as mentioned above, is critical to tailoring the program on a reservation specific basis.

For example, using a hypothetical tribe in the Great Plains (as many of the poorest counties in the nation are part of or wholly on tribal reservations in South Dakota), Sec. 105 funding for business development and community facilities can be used to implement Sec. 4211 of the 2008 Farm Bill. That section allows for the purchase of bison meat from Native American bison producers and producer-owned cooperatives of bison ranchers; and establishes a "Traditional and Locally Grown Food Fund" that allows the purchase of foods designated "traditional" or locally grown, and supports the procurement of the foods by Native American farmers and ranchers up to 50% where practicable. Sec. 105 funding can support the economic develop-

ment of Native American bison producers and help build the facilities necessary for their operations.

Similarly, many of these tribes have significant wind energy potential, and many of their homes and building can benefit from energy efficiency measures. Tribes in the Great Plains are in an area that some view as "the Saudi Arabia of Wind." Sec. 105 business development and community facilities funding can help these tribes develop renewable energy enterprises and small businesses for weatherization in partnership with USDA, DOE, DOI and HUD and others, and in anticipation of even more support in future clean energy legislation.

b. Water infrastructure and waste disposal facilities

An interagency group (which includes USDA) was established in 2007 with the goal of reducing by 50% the number of tribal homes lacking fundamental access to safe drinking water and basic sanitation has identified many barriers and solutions to the reality that over 13% of tribal homes experience these conditions. As mentioned above, USDA funding for water infrastructure on tribal lands is not fully accessed, in part because it offered in the form of loans. A greater percentage of Sec. 105 funding for water infrastructure funding should be provided to qualifying tribes in the form of grants.

Second, multi-agency efforts to build a water infrastructure project on a reservation somewhat predictably, is often laden with numerous and often overlapping and contradictory administrative requirements. Designation of a lead Federal agency that consolidates all aspects of the project—including design, funding and construction—is an effective common-sense solution. USDA state offices in Oregon and Mississippi have already implemented that solution which should replicated across all other USDA state offices addressing water infrastructure issues on tribal lands. These state offices have signed and implemented MOUs with their IHS regional office counterparts to designate a lead agency for each water infrastructure project. This model can also be replicated with EPA and IHS in the distribution of Sec. 105 funding for waste disposal facilities.

Question 2. Please provide additional recommendations you would make to improve access to rural development programs and provide information on these programs to communities.

Answer.

1. USDA commitment to staffing and training on tribal issues

Tribal access to rural development programs can be improved by increasing the number of USDA employees dedicated to tribal issues. At present, USDA has designed one FTE at the headquarters office to advise the Secretary on tribal policy across the full panoply of USDA programs. USDA Rural Development has one Native American liaison. Tribal governments are becoming increasingly aware of the great diversity and value of RD programs, including housing, business and investment, water infrastructure, renewable energy, electrification, and community facilities. But without sufficient staffing, department knowledge of tribal issues, consultation with tribal governments, and tribal involvement in RD programs, can suffer.

The staffing issue and agency outreach to tribes can also be illustrated by way of comparison to other Federal agencies with missions that are not tribally specific. EPA has the equivalent of over 180 FTEs dedicated to tribal environmental issues, including a headquarters office of approximately 15 FTEs, and regional tribal offices in each EPA region that has tribes. HUD has an Office of Native American Programs (ONAP) at headquarters with 22 FTEs, and five ONAP offices in their regions. Both agencies have regular dialogues with tribal leaders and representatives. We recommend that the USDA headquarters office and Rural Development establish and staff tribal offices, that USDA encourage the state directors with tribes in their states, to dedicate staffing to tribal issues, and that tribal advisory groups be established to dialogue on a regular basis with the department.

All departmental personnel with programs that impact tribal governments and communities should have training on tribal issues. The previous Administration developed a Federal "Working Effectively with Tribal Governments" training that has yet to be fully implemented, but can be accessed with minimal effort. As mentioned above, these staff should also be educated in the USDA directive on tribal consultation (DR–1350–001).

2. Extending Extension Programs to Indian Reservations

Tribal awareness of rural development programs can also be bolstered by a steady USDA presence on tribal lands. This can be done relatively cheaply via USDA's extension programs. Extension programs also support activities in agriculture, leadership development, natural resources, family and consumer science, and community

and economic development. Clearly this is an avenue through which USDA can be a meaningful presence for so many tribal members living on reservations. For example, when one thinks of rural America, one of USDA's Extension Programs—the 4–H program comes to mind. The 4–H logo programs emblematic of America's rural identity, and for good reason. It has been funded by USDA's extension programs since 1914, and currently over 97% of America's counties comprising over 3,100 extension offices have robust extension programs.

Though Congress mandates research and extension services in every county in the nation, this reality does not extend to Indian Country. The Federally Recognized Tribal Extension Program (FRTEP) currently consists of 30 extension agents on Indian reservations. Less than 4% of tribal members living on their reservations have access to these programs. Current funding is $3 million. NCAI and our coalition allies ask initially for a mere $10m annually for FRTEP, to create up to 85 new offices, as a first step towards more significant and sustained funding for FRTEP into the future.

3. Addressing Poverty through Telecommunications

USDA's Economic Research Service finds that one way of addressing persistent poverty is "to improve the connections between rural and urban areas by improving infrastructure and the dissemination of information and the ability to use it. Advanced telecommunications, for example, while not a panacea, afford rural communities more economic opportunities by providing them with better access to information, markets, and services such as business and technical assistance, medical care, and educational opportunities."[2]

A GAO report in 2006 finds that 32.1% of tribal homes lack telephone service.[3] The national effort to expand broadband across the country, including Recovery Act funding of $2.5 billion in competitive grants and loans through USDA's Rural Utilities Service, can go a long way in addressing this situation. This Federal support in the Recovery Act, along with support for distance learning and telemedicine, speak directly to USDA's ERS's recommendation, and will help implement the solutions identified in the GAO report, and in turn improving economic opportunities for tribes experiencing persistent poverty.

For more information, please contact Jose Aguto, Policy Advisor, National Congress of American Indians.

○

[2] *http://www.ers.usda.gov/publications/aib710/aib710co.htm.*
[3] http://www.gao.gov/new.items/d06513t.pdf.