

## Remarks by Rural Development Under Secretary Dallas Tonsager for the 24<sup>th</sup> Ethanol Conference of the American Coalition for Ethanol (ACE)

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Thank you.

I am honored to accept the ACE 2011 Merle Anderson Award. There has been no greater advocate for ethanol and rural America than Merle Anderson. To be considered by the Coalition to have met the standards of excellence he established, makes me very proud.

It's good to be with you today and to follow-up on the conversation we had when many of you were in Washington in March of this year. Ethanol is under attack. Its adversary is primarily the budget restraints we face as a nation, but it also is those who have intentionally sought to convince the public that ethanol is economically, socially, and environmentally bad for America. We have long fought the food vs. fuel debate, but we are not winning this war. That doesn't mean we give up. It means that we have to intensify our efforts to educate the public about why ethanol is important to our rural economy and the independence of America.

I don't need to tell you that when we look at what economic driver is best positioned to support our rural economy, it is ethanol and other forms of rural energy. The correlation between the economic health of our agricultural communities in rural areas and the build-out of the energy industry is symbiotic. It doesn't matter if you are talking first, second or third generation ethanol, solar, anaerobic digesters, wind or other energy; all provide new opportunities for creating greater rural wealth.

Healthy towns mean that farmers and ranchers can access supplies and workers locally.

The development of renewable energy will be a critical component of our efforts to rebuild and revitalize rural America. This nation needs an energy supply, and if we can produce it right here at home, the jobs

and industries of the 21<sup>st</sup> century will be centered on clean, renewable energy.

USDA is leading the national effort to create and expand renewable energy in rural areas. Since the enactment of the 2008 Farm Bill, the renewable energy programs authorized under the Energy Title have invested over \$460 million in biorefineries and renewable energy and energy efficiency systems through mandatory funding for grants, loan guarantees, and assistance payments.

Through 2010, over 6,100 awards were made, saving/generating close to 28 billion kWh of energy or supporting approximately 2.3 million households for a year. Contributing to the Renewable Fuels Standard, USDA, in the past, has invested over \$162 million dollars in existing ethanol projects.

Last year alone, USDA has helped nearly 2,500 rural small businesses, farmers and ranchers to make their businesses and farm operations more energy efficient, or install renewable energy systems. This not only increased America's independence from foreign sources of energy with a projected 2.9 billion in kWh savings, but also helped the business owners; farmers and ranchers increase their profits due to the energy-related enhancements to their property.

### **Rural Energy for America Program (REAP)**

USDA's flagship and one of the longest running renewable energy program that I oversee is the Rural Energy for America Program also referred to as REAP. Initially authorized under the 2002 Farm Bill, the program was reauthorized and expanded in the 2008 Farm Bill. REAP provides grants and loan guarantees for renewable energy and energy efficiency to support a multitude of methods to support the energy sector in rural America.

The President's Budget for Fiscal Year (FY) 2012 requested \$37 million to support a program level of \$45 million in 2012 in addition to the \$165 million in mandatory program level funding to support an overall level of program activity of \$210 million.

In FY 2011 USDA has \$75 million in mandatory and discretionary funding to support a program level of

\$113 million in funds which will be awarded to many of the over 3,000 applications that were received. In FY 2010, the program provided nearly 2,500 grants and loan guarantees totaling \$159 million in support for energy audit projects, and energy efficiency and renewable energy projects that ranged from biofuels to wind, solar, geothermal, anaerobic digesters, hydroelectric, and biomass projects.

Four categories of program assistance are available through the REAP:

- 1) Renewable Energy Systems/Energy Efficiency Improvement Grants;
- 2) Energy Audit and Renewable Energy Development Assistance Grants;
- 3) Feasibility Study Grants; and
- 4) Guaranteed Loans.

REAP supports a wide range of small businesses and technologies ranging from wind turbines, to methane digesters, to geothermal systems.

### **Recent REAP Announcements**

Just last week, I joined the President and the Secretary on their tour of the Midwest, where we highlighted the efforts underway to reduce our country's dependence on foreign oil, which will increase the economic competitiveness of rural America and promote job creation. Secretary Vilsack, while on President Obama's rural economic bus tour in the Midwest, announced REAP grants for more than 900 agricultural producers and rural small businesses across the country to implement renewable energy and energy efficiency measures in their operations.

### **Flex Fuel Infrastructure Project**

We must not only increase the production capacity for ethanol, but also support the build out of the infrastructure needed to bring the product to the consumer. That is why we added this year Flexible Fuel Pumps as an eligible purpose for funding. Dispensers, tanks, components and labor are eligible project costs.

The recent REAP funding announcement included 55 flex fuel projects. Installing these pumps helps

businesses, residents and motorists create jobs, spur economic activity in renewable energy, and give motorists the option to increase the ethanol blend in their cars up to 85%.

### **Billion Ton Study**

This month, the U.S. Department of Energy released the 2011 U.S. Billion- Ton Update: Biomass Supply for a Bioenergy and Bioproducts Industry – detailing U.S. biomass feedstock potential nationwide. The report was produced in collaboration with the Energy Department's Oak Ridge and Idaho National Laboratories, the U.S. Department of Agriculture, The University of Tennessee, and other university and industry representatives. It examines the nation's capacity to produce a billion dry tons of biomass resources annually for energy uses without impacting other vital U.S. farm and forest products, such as food, feed, and fiber crops. The study provides industry, policymakers, and the agricultural community with county-level data and includes analyses of current U.S. feedstock capacity and the potential for growth in crops and agricultural products for clean energy applications. The biomass resources identified in the report could be used to produce clean, renewable biofuels, biopower, or bioproducts. The report found that the US could produce a billion dry tons of biomass for the energy industry each year, without impacting on other farm and forestry products including food, feed and fiber crops.

### **Title III Biofuel MOU Announced With USDA, DOE, DON**

Furthermore, last week on President Obama's rural tour, he also announced that the U.S. Departments of Agriculture, Energy and Navy will invest up to \$510 million during the next three years in partnership with the private sector to produce advanced drop-in aviation and marine biofuels to power military and commercial transportation. This initiative responds to a directive from President Obama issued in March as part of his *Blueprint for A Secure Energy Future*, the Administration's framework for reducing dependence on foreign oil. The biofuels initiative is being steered by the White House Biofuels Interagency Work Group and Rural Council, both of which are enabling greater cross-agency collaboration to strengthen rural America. By building a national biofuels industry, we are creating construction jobs, refinery jobs and economic opportunity in rural communities throughout the country. And every gallon of biofuel consumed near where it is

produced cuts transportation costs and, for the military, improves energy security.

### **Capital Markets**

The White House Rural Council Report that was released last week focused on the importance of job creation and economic security for rural America. On the President's Rural Economic Tour across the Midwest, he emphasized the critical role that rural America plays in ensuring the strength of our economy, the affordability of our food, the independence of our energy supply, and the vibrancy of our small communities.

So as we rebuild and revitalize rural America, we are focused on expanding financial and venture capital investments. Investments that allow more of the wealth created in rural America stay in rural America.

*Great wealth is often recognized but seldom captured in rural America. Opening up long-term capital markets is a critical component for rural Americans to capture more of the wealth they create.*

The challenge for Rural Development is to continue to assist rural America access capital needed for it to prosper. During the peak of the economic crisis we saw the impacts of shutting off the supply of credit to businesses and homeowners, it has a devastating effect on economic vitality.

USDA Rural Development played a significant role in bridging that capital access gap, but we have to look toward the long-term credit needs of rural America and develop our strategies based on that analysis. Credit access and leveraging of resources will be critical to the development of sustainable local and regional economies. *Our goal should be to create a long term movement.*

While it is an inherent characteristic of all of us to focus on our most immediate need, we too, must focus on creating long-term solutions. We do this by thinking creatively and sharing our economic and community development tools. We have to adjust our approach to ensure sustainable economic development for generations to come.

I have been working with Secretary Vilsack on this critical area. I have also been engaged in dialogue with industry leaders in the financial and investment communities, along with community-based organizations to better understand the challenges they face and how we collectively can prepare rural America for long-term economic prosperity.

As we examine this question, we need to pay special attention to how people who live in rural America have the chance to own their future. We have an aging rural population readying itself to transfer privately held wealth to the next generation, who too often have left rural communities for better jobs and the quality of life in metropolitan areas.

Cooperatives serve as a traditional model for aggregation of rural capital. Their capacity to bring together small investors for the purposes of buying and selling on a greater economy of scale is important. But we need to supplement their efforts with other rural investment and financing tools.

Rural America needs the opportunity to invest in its future. There are tremendous assets in rural America already as I am sure there are in each of your countries. The challenge is to find or create the community endowments or focused investment vehicles to leverage these assets toward investments in the future of the rural communities.

I would add that the rate of return on rural investments is far greater than perceived by many investors. Many preconceptions such as the lack of sufficient rate of inflow of capital, poor proximity to traditional capital networks, and decreased exit opportunities are not the realities of 21<sup>st</sup> Century investment opportunities in rural America.

We must be more aggressive in addressing these misconceptions and building collaborative private-public investment and financing structures to expand the economic opportunities in rural areas.

Specific areas of consideration include:

- Debt financing in both the private and public sectors;
- Equity financing, both in traditional corporate and cooperative vehicles, as well as in venture capital;
- Specific tax policy such as tax credit incentives to spur economic activity in distressed communities;
- Long-term capital needs;
- A simplified formation of ventures and improved financial tools to allocate risk; and
- Secondary markets for rural capital instruments.

Credit access and leveraging of resources will be critical to developing sustainable local and regional economies.

We are enduring difficult economic times, but we are a strong nation. Rural America will be especially important as we rebuild our nation's economy.

The President has said and continues to say, we must *win the future by out-innovating, out-educating and out-building the rest of the world*. And that process begins in rural America.

President Obama spoke of the big challenges we face, and to fix them, it will require a lot of hard work and sacrifice from everyone. If we approach these challenges with that mind-set, we can lay the foundation for American competitiveness for years to come.

We appreciate and celebrate your work. Thank you again for this award, and I look forward to continue to work beside you as we build our nation's renewable energy industry.