

Remarks by Rural Development Under Secretary Dallas Tonsager for the 2011 National Farmers Union Convention

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8:15 a.m.

Good Morning. It is great to see so many friends.

Acknowledge: Roger Johnson, NFU President

- Thanks Roger for serving on the biofuels panel at the 2011 Ag Outlook Forum in Arlington, VA a couple of weeks ago.

Thank you for the opportunity to spend time with you today.

Our agriculture economy has been the beacon for our nation's recovery. Production yields are up, exports are up, and we are finding more ways to utilize our resources to produce energy.

I have long believed that “all real wealth comes from the earth” – whether it is food, fiber, feed, or fuel – all of these wealth creation opportunities are made possible from what is provided us by Mother Earth. Of course there is a give and take here, between the land and each of us: our ability to realize wealth, however, can only exist if the Earth is respected. I believe we each have a deep sense of understanding to this principle.

American Agriculture and the men and women with the skills, technology and ability – can bring food to our table, clothes to our bodies, fuel to our country and feed to our animals. After all, we are America – And more importantly, our rural economy depends on your successes.



‘Rural America can and should do it all’.

Rebuilding and Revitalizing Rural America

A healthy American economy depends on a prosperous rural America. Rural America supplies much of our nation’s food and water and safeguards our environmental heritage. Its role in establishing our nation’s energy independence is growing every day. And our values are rooted in rural America.

But today, communities are struggling, and the challenges ahead are even greater. Government does not have all the answers but it can help create the right economic climate and provide infrastructure for rural communities to build towards a brighter future.

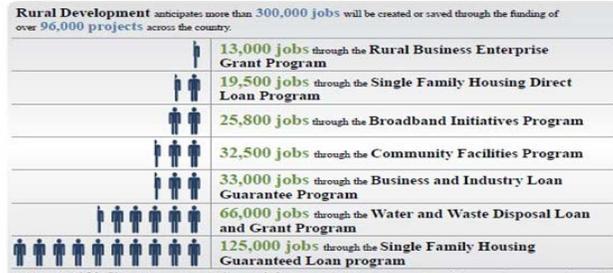
The Obama administration is committed to ensuring that American's rural communities are vibrant and thriving economically. We made an unprecedented commitment to this revitalization with the Recovery Act, and USDA is continuing to work towards this goal.



What these investments represent



Note: Numbers are approximate



Additionally, 380 direct temporary/term jobs to assist in the implementation of Recovery Act program demands.
 Note: Job estimates are approximate and represent the number of jobs created or saved directly as a result of ARRA funding and as derived from recipient reported data or program-based economic models.



I have to tell you, this isn't a story about what USDA has provided – it is really about everyday citizens and their community leaders – it is about the investments they made to improve their homes, communities and overall economic environment.

President Obama

President Obama spoke during the State of the Union 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.

The President laid out 5 pillars to “**Win the Future**”:

1. **Innovation:** Investing in creativity and imaginations of American people. Includes investing in innovation, R&D, clean energy.



2. **Education:** The importance of preparing our next generation of students.
3. **Rebuilding American Infrastructure:** Investment infrastructure is not just roads, runaways and railways.
4. **Government Reform:** Reforming our tax code, earmarks, process improvement and other efforts to make government work better.
5. **Deficit Responsibility:** Focus is on smart spending and investing in areas that will help the future.

Secretary Vilsack

These pillars provide the framework for our efforts at USDA: Secretary Vilsack has directed us to combine the successful strategies of today and the compelling opportunities of tomorrow through five basic areas of focus:

- **Broadband:** We have leveraged \$2.5 billion in Recovery Act funding to provide more than \$3 billion in loans and grants to construct 307 broadband projects in 46 states and one territory.
- **Renewable Energy:** Aggressively implementing the 2008 Farm Bill
 - Biorefinery Assistance Program (Published NOFA 3/11/11)
 - Repowering Assistance (Published NOFA 3/11/11)
 - Bioenergy Program for Advanced Biofuels (Published NOFA 3/11/11)
 - Rural Energy for America (Soon to publish new rules)
- **Local and Regional Food Systems:** Regional Innovation Initiatives (Great Regions)
- **Great Outdoors:** Promoting Outdoor Recreation (Creates jobs, conserves natural resources)
- **Environment:** Creating Ecosystem Markets (Water, Wetlands Preservation, carbon and habitat enhancements)



Rural Development

Rural Development is refocusing its efforts to continue to play a key role in carrying out the President and Secretary's vision:

Time to Refocus

- Stimulus is done
- We have a new Congress
- The President and the Secretary have provided great leadership and we have been given clear direction
- Job one is good government

How we approach our job

- The agency will need to be agile, lean and hungry
- Problem solving
- Able to take on any task

Analyzing your strengths and areas for improvement are a critical component to establishing a strong and sustainable strategy for economic and community development.

Project-Focused Approach

I am applying this philosophy to how we operate in Rural Development. We are approaching our business in a more project-oriented manner. As I said earlier, we are transforming our workforce to have greater agility to adapt and take on new challenges.

To accomplish the goal of creating thriving rural communities where people want to live and raise families, and where children have economic opportunities and a bright future, we have organized around a project approach. The project approach involves highly focused, discreet



tasks centered on the Secretary and President's rural revitalization efforts.

First Projects

1. Regional Development Project
2. Alternative Energy Project
3. Broadband and Building on Broadband Project
4. Regional Food System Project
5. Capital Markets Project
6. Constituency Project

One of the seven strategies that I believe is critical to building sustainable rural communities is **Regional Collaboration**: Smaller, more remote rural communities don't have to be stand-alone economic engines in an oasis, each looking only from within for sustainability.

Explore the opportunity to gain greater economic strength and longevity through collaboration with neighboring communities and regional economic hubs.

Many of you serve in leadership roles in your community, whether it is on a local cooperative board, bank board, school board or even as an elected official. As you build your long-term strategy to sustain your organization and community, look to how you can leverage your assets with those in other organizations and communities.

Rather than seeing a neighboring community as a Friday night competitor (football), we must look to how collaboration can allow for the development of regional strategies, and build a regional economic team.



By building off each other's strengths, rural communities have greater opportunity to grow their access to new credit and capital funding.

Our goal at USDA to work with interested communities to provide the leadership, education and training, technical support and incentives they need to build their regional economy.

Renewable Energy:

When we look toward rebuilding and revitalizing rural America, developing renewable energy from our natural resources will be key.

Biofuels:

The Renewable Fuel Standard mandates that America use 36 billion gallons of renewable fuels by 2022. Studies suggest that if we meet that goal with domestic production of biofuels, it would mean the creation of more than 800,000 new jobs across the nation.

Expanded biofuels production will mean enormous new opportunities for the farmers, ranchers, and forest land owners who will provide the agricultural products and byproducts that serve as feedstock for biofuels. If we meet our biofuels goals, American producers can expect to earn an additional \$13 billion each year.

In 2009, at President Obama's direction, USDA moved quickly to expedite Farm Bill provisions to help private businesses develop and produce biofuels. And in the past year USDA has:

- Provided loan guarantees and grants to help biorefineries expand and promote the commercialization of biofuels;
- Expedited funding to encourage production of next- generation biofuels;



- Offered guidance and support for advanced biofuel and biomass conversion facilities;
- Provided funding to support the efforts to raise and provide energy crops to conversion facilities;
- Helped existing biorefineries retrofit their facilities to utilize biomass instead of fossil fuels to help with their heat generation and power needs.

USDA's efforts are allowing greater production of ethanol related fuels, however, with this greater production is the need to develop distribution and marketing of the fuel to the American consumer.

As identified in USDA's June 23, 2010 USDA Biofuels Strategic Production Report and through other sources such as Clean Fuels Development Coalition's Ethanol Fact Book, ethanol production will soon exceed market demand.

The potential for over production will likely have a critical impact on the stability of the ethanol industry – both in future demand as well as capital lending for new production or expansion of 1st, 2nd, and 3rd generation ethanol ventures.

Automakers have made substantial gains in manufacturing and selling Flex Fuel Vehicles (FFV) in America with more than 8 million vehicles currently in operation. However the ethanol industry has not been able to reach many of those new customer markets.

Ethanol producers are nearing a production-to-market capacity (currently 87 percent). Increasing consumer access to E-85 or lesser blended ethanol fuels, particularly in regions of the country where significant FFVs are in operation will provide producers with additional markets and consumers with greater opportunity to participate in the national effort to reduce America's dependence on imported fuel sources.



So to help expand the consumer market, USDA is undertaking an aggressive effort to add an additional 10,000 flexible fuel pumps across the nation in the next five years. It is an aggressive goal. It will require a great deal of collaboration amongst Federal, state, local governments, and private industry. If we are going to bring energy independence to our nation, we must be aggressive.

And you play a critical role in building out the biofuels industry. Just as farmers were instrumental in building the corn ethanol industry, so too will the farmers be instrumental in developing second and third generation ethanol that will power America.

The opportunity to build new energy economies in rural America is upon us and it is exciting.

Broadband

There is no greater equalizer for rural America than having access to infrastructure for high-speed broadband services. If you live one of those communities that rely on dial-up or other slower forms of access, you know the limit on opportunities. We live in a global market place where commerce depends on transfer of data instantaneously. But commerce isn't the only factor: it is also about improving the quality of life. Access to educational or health care services is equally important to those who live in remote corners of our nation. Broadband is a critical component in our overall strategy for rural America.

Regional Food System Project

At a time when America is turning to rural America for 21st Century energy sources, they can also turn to rural America to see how food processors are doing their part to create more energy efficient and sustainable operations, and they can see how these sustainable operations are supporting our farmers and rural communities. It is truly a matter of economics. The more that you can produce and consume locally, the greater the opportunity to create local jobs and



capitalize on the revenues generated from the local or regional venture.

Many of Rural Development's 40 programs can support local and regional food efforts. Our focus will be on ensuring that your communities learn of these opportunities and working with you to develop local and regional food systems.

Capital Markets Project

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. 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 developing 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. So as we get under the hood, I encourage everyone to think creatively and share their tools to help our economic engine fire on all cylinders – not just for the next 100 miles, but the next 100,000 miles.

The Obama administration has invested unprecedented resources (approximately \$30 billion) in rural America in areas such as broadband, business ventures, renewable energy, and community water and wastewater infrastructure. While this public investment has been unprecedented, the future driver for debt and equity financing will be the private sector.



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.

While many forces have converged to create new opportunities – such as technology, the global market, the new energy economy, and local and regional demands - one critical component needs to be considered: wealth creation depends on long-term capital financing needed to build the infrastructure to support new or expanded rural ventures.

For example, in the area of biofuels, USDA estimates that it will require \$168 billion for the country to meet the RFS2 advanced biofuels goals in the process of building 527 biorefineries, most of which will be located in rural America and all of which will source feedstock from rural areas. Each biorefinery will require basic infrastructure for production, distribution and dispensing of the fuel. Building or improving roads, rails, access to high-speed Internet, and basic community infrastructure, all are a part of the expanded demand being created from building out the biofuels industry.

In the current budget environment, we will need to look at how we invest the scarce public resources to best leverage private dollars.

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. An aging rural population is 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.

Traditional aggregation of rural capital through such methods as cooperatives, have not been



able to maintain scale in a time of global competition. While such traditional methods should continue to be used, other tools should also be considered.

Rural America needs the opportunity to invest in its future. There are tremendous assets in rural America already. 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 perceive by many investors. Many preconceptions such as the lack of deal flow, poor proximity to traditional capital networks, and decreased exit opportunities are not the realities of 21st 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:

- 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 New Market Tax Credits and tax policy related to community endowments;
- Long-term capital needs;
- A simplified formation of ventures and improved financial tools to allocate risk; and
- Secondary markets for rural capital instruments.



Unless we can attract venture capital, equity and debt investments into rural America, we may lose one of the most promising opportunities for wealth creation presented in decades.

Collectively, we can begin to bridge the financial and investment gaps and open new markets for rural Americans to invest in their future.

Closing

Let me close this morning by re-affirming President Obama, Secretary Vilsack, and my commitment that we will do everything we can to help you rebuild and revitalize our rural economy.

There are great challenges before us, but there are also great opportunities to capture.

As we move forward, I would ask you to consider four thoughts:

- Solutions for long term community and economic sustainability will come from collaborative thinking and actions;
- Capturing more of the Great Wealth that comes from our labors and resources in rural America is possible;
- All Real Wealth comes from the Earth; and
- Rural America can and should do it all.

Thank you for your friendship and thank you for the opportunity to be with you this morning.