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RURAL DEVELOPMENT

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Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Chairman Pryor, Ranking Member Blunt and Members of the Subcommittee, thank you for the opportunity to present the President's 2014 Budget for the Department of Agriculture's (USDA) Rural Development mission area. I am accompanied this morning by Mr. Michael Young, USDA's Budget Officer.

President Obama believes that "strong rural communities are the key to a stronger America." USDA Rural Development, as the only Federal Department with the primary responsibility of serving rural areas, takes seriously our responsibility to support the continued revitalization of rural America and the Nation.

Since 2009, President Obama's commitment and this Committee's support have brought about significant investment in rural communities that has made them stronger and more vibrant. USDA Rural Development alone has directly invested or guaranteed more than $131 billion over the last four years in broadband, businesses, housing, safe water, community facilities and more that have benefited not only the communities our agency serves, but the overall economy.

As you know, rural America has unique challenges and assets. Rural communities are characterized by their isolation from population centers and product markets and benefit most from initiatives that integrate local institutions and businesses with State and Federal agencies that have intimate knowledge of local needs. To address these unique challenges, Congress has provided USDA with a variety of programs that comprehensively attend to the rural dynamic.

The presence of USDA field offices in every State helps us serve the specific needs of local communities. USDA Rural Development employees are able to identify a wide range of community and economic development resources for local elected officials, business owners, families, farmers and ranchers, schools, nonprofits, cooperatives and tribes. USDA Rural Development staff are located throughout the Nation and are members of the communities they serve so they possess expert knowledge of the economic challenges and opportunities that exist in their particular region.

USDA Rural Development assistance includes direct and guaranteed loans, grants, technical assistance, and other payments. We provide assistance to intermediaries that make loans or provide technical assistance to the ultimate beneficiaries. We require or encourage recipients, in several programs, to contribute their own resources or obtain third-party financing to support the total cost of projects, in which case these programs leverage USDA's support with private sector financing.

Through USDA Rural Development's infrastructure development programs, we make investments in rural utility systems that help improve and expand the rural electrical grid, provide clean drinking water to rural communities, and deliver increased Internet service to rural families and to businesses, allowing them to compete in the global economy. In 2012, we provided more than 8 million consumers with new or improved electric service, provided 2.5 million of our borrower's customers with new or improved water or wastewater service, and provided nearly 64,000 rural households, businesses and community institutions with new or better access to broadband Internet service.

Through USDA Rural Development's business and cooperative loan, grant, and technical assistance programs, the agency helped thousands of rural small business owners and agricultural producers improve their enterprises, including those related to renewable energy. Beyond direct assistance to these business owners and producers, financial support from USDA also creates lasting economic development opportunities in the rural communities where the projects are located. Business and cooperative funding created or saved over 52,000 rural jobs in 2012.

Not only have we supported small businesses, but we also support the social infrastructure that makes rural communities attractive to small business owners and their employees. USDA Rural Development's Community Facilities loan and grant program provided assistance to construct or improve 215 educational facilities, and supported 168 health care projects – part of more than 1,400 Community Facilities projects nationwide in 2012. Other key projects included support for local, rural emergency responders.

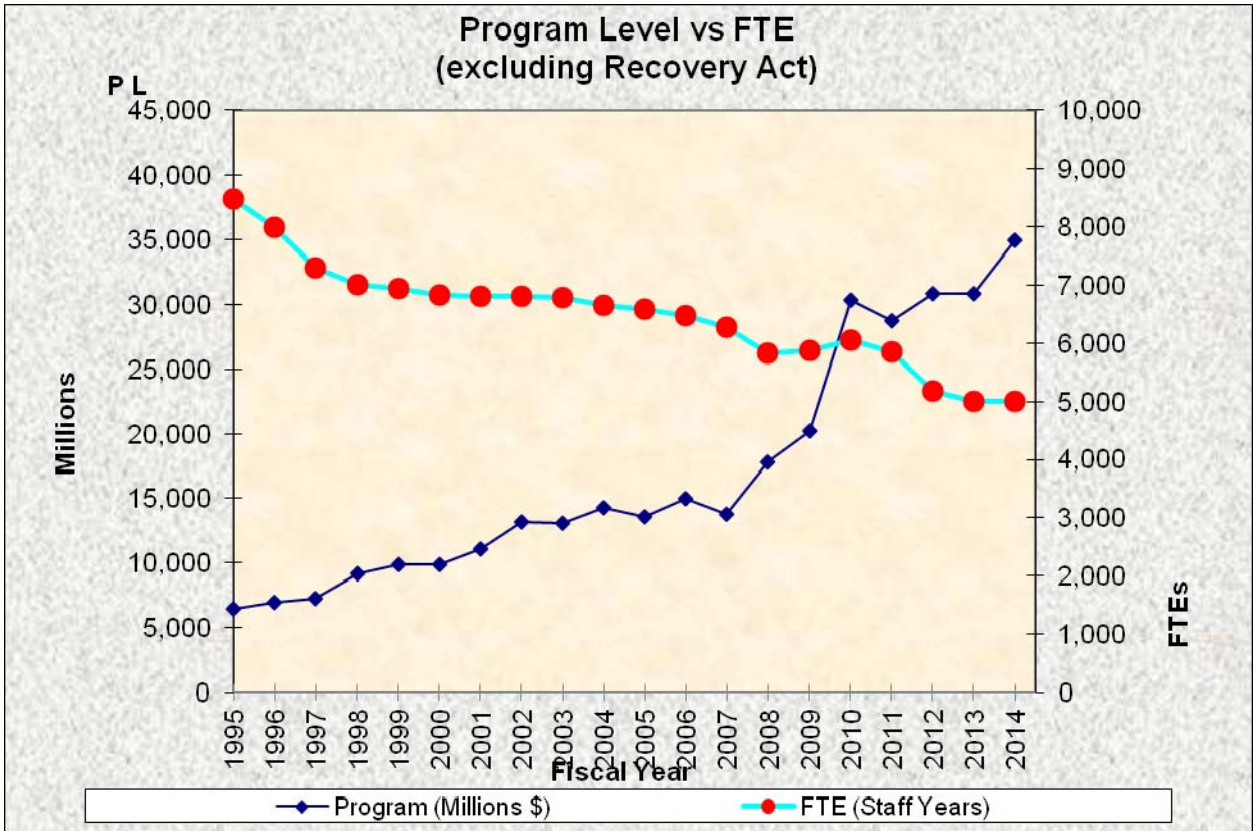
Finally, the USDA Rural Development housing program ensures that rural families have access to safe well-built, affordable homes. In 2012, more than 153,000 families with limited to moderate incomes purchased homes utilizing our housing programs. We also helped about 7,000 rural individuals or families repair their existing homes under our home repair loan and grant program. More than 400,000 low- and very-low income people were able to live in USDA-financed multi-family housing thanks to rental assistance.

At Rural Development we continue to recognize the responsibility we share to help shoulder the burden of deficit reduction and, as such, have pursued continual process improvements to ensure that our agency operates as a responsible steward of taxpayer dollars. Over the past ten years, Rural Development's portfolio has more than doubled and now stands at $183 billion.

The agency has also embraced multiple streamlining efforts to reduce operating costs. USDA Rural Development contributed to savings under the Secretary's *Blueprint for Stronger Service* by consolidating and reorganizing its field office structure, providing projected savings of $758,000 annually. These efforts are continuing and are expected to result in additional savings over the next few years. Rural Development achieved savings of $1.3 million with reductions in printing, supplies and promotional items. Furthermore, the agency anticipates savings from data center consolidation at our National Information Technology Center and using specific services that would cost less money. Those savings are cumulative and have not been broken down by individual agencies.

In terms of staff, since the beginning of fiscal year 2012, USDA Rural Development has decreased its workforce by 18 percent, totaling 1,079 people. Those reductions will save the

agency more than $95 million per year in staff costs moving forward, however, at a certain point we risk the integrity of the delivery of the programs and the servicing of a burgeoning portfolio. The chart below illustrates the agency-wide challenge of rapidly increasing program level funding and a steady decrease in staffing resources. This type of dynamic strains the agency's ability to responsibly deliver and service the programs provided for and funded by Congress.



Despite our best efforts to prepare for additional funding reductions through these prudent actions, we cannot prevent the negative impact of the March 1 sequestration or across-the-board reductions in every Rural Development program as outlined in the Consolidated and Further Continuing Appropriations Act of 2013. We will have to cut back on essential services. The reduced level of program funding will mean that rental assistance will not be available for more than 15,000 very low income rural residents, generally elderly, disabled, and single heads of households, who live in multi-family housing in rural areas. As you know, the Secretary has notified this Committee and your colleagues in the House of his intention to use interchange

authority to avoid furloughs and minimize the disruption caused by these cuts to rural communities.

We know that American taxpayers expect more, so we are continually looking for ways to improve, innovate and modernize. The Rural Housing Service (RHS) directed each State office to centralize the loan guarantee process for the Single Family Housing Guaranteed program. The purpose of the initiative is to maximize efficiencies that enable a reduction in staff time while still meeting audit requirements and providing states flexibility. Each state was instructed to centralize the guarantee process into one entry point, and then electronically distribute workflow to the appropriate workstation where the designated employee was located. The purpose was not to reassign employees to a central office location, but to deploy technology for a process improvement as a remedy for staff reductions. The result of the centralization initiative has been a success. All states have centralized their guarantee workflow process or are in the process of implementing it. Some states even implemented the same workflow for other Rural Development programs.

RHS hopes to go even further in 2014 with a proposal that will make USDA's guaranteed home loan program a direct endorsement program, which is consistent with Veterans Affairs and Housing and Urban Development's guaranteed home loan programs. This will make RHS more efficient and allow the Single Family Housing staff to focus on other unmet needs.

RHS is also in the process of instituting an automation project known as "Automated Loan Closing" or "ALC," that will eliminate the need for staff to process paper checks for guarantee fees. It will eliminate the double entry of data and automate the scanning of critical loan closing documents. It will also enable an e-signature feature which will eliminate the need for staff to print and sign a Loan Note Guarantee. The ALC project will begin deployment nationwide this summer.

The Rural Utilities Service (RUS) has also undertaken initiatives to improve performance and accountability measures. For example, inn FY 2010 we launched a process improvement project to address issues related to the Rural Alaska Village Grant Program. A Steering Committee composed of senior officials from both the national and state offices of USDA Rural Development, Alaska Department of Environmental Conservation, Alaska Native Tribal Health

Consortium, Indian Health Service, Environmental Protection Agency and the Denali Commission was formed and convened in Anchorage. In June 2011, the partners, signed a Memorandum of Understanding outlining a streamlined application process, new grant agreements, improved accountability measures and other critical documents. Today, we are seeing the results of those efforts with projects being built serving Alaskan villages, many for the first time. Based on these successes, we are in the process of codifying the streamlining of this program through a regulation that we plan to announce later this year.

RUS is also undergoing a business process review (BPR) in electric and telecom programs to consolidate and streamline program activities, both in the field and in the national office as a result of exponential increases in the portfolio size, coupled with diminishing staff resources. This activity includes increased use of technology, staff reorganization and retraining, and potential revision of program regulations to increase the efficiency and effectiveness of program delivery.

In Rural Business and Cooperative Service (RBS) we established a field structure, consisting of ten regions. The structure allows the National office to provide direction and oversight for all RBS programs nationally, with reliance on two Regional Coordinators (East and West), and ten RBS Team Leaders (State program directors) that provide guidance to the State RBS program directors in their regions. This regional structure improves agency efficiency and effectiveness, which is vital as RBS addresses reductions to budget and staffing levels.

With its regional structure, RBS is able to save on travel and training expenses by reducing the number of staff that attend training. Typically, Regional coordinators work with National office staff to train team leaders who then provide guidance and direction to the program directors in their region.

This approach also improves communication across the agency, resulting in greater consistency in program delivery. The regional structure provides a network for sharing institutional knowledge, best practices, and solutions to common challenges within a region.

RBS' regional structure also enables offices to address gaps in staffing by sharing human resources. For instance, a team leader can temporarily help with program delivery in a state if a program director retires or leaves the agency. This is especially important now, as RBS has lost a number of program directors over the last several years. Not only do team leaders help fill in where a program director position is vacant they also provide training and guidance to new program directors. Over the last few years this has been essential to the agency's success in supporting the many programs delivered by RBS, with fewer staff.

Under the budget proposal, we continue to seek efficiencies to better serve the American people. For example, the budget includes $55 million for a new economic development grant program designed to target small and emerging private businesses and cooperatives in rural areas with populations of 50,000 or less. This new program will award funding to grantees that meet or exceed minimum performance targets, and that agree to be tracked against those performance targets. This consolidation will utilize all existing authorities available under the Rural Business Opportunity Grant, Rural Business Enterprise Grant, Rural Microenterprise Assistance Grant, Rural Cooperative Development Grant, Small/Socially Disadvantaged Producer Grant and Rural Community Development Initiative Grant programs. Doing so will enable RBS to leverage resources to create greater wealth, improve quality of life, and sustain and grow the regional economy. The new program is also expected to improve the agency's current grant allocation and evaluation process.

The President's budget reflects his commitment to jobs, growth and opportunity for America. With a proposed budget authority of $2.3 billion and a proposed program level of $35 billion, the three agencies of Rural Development are fully engaged in efforts to increase opportunities and address the challenges unique to rural America. The budget provides $662 million in funding for salaries and expenses needed to carry out USDA Rural Development programs. This level of funding will support an estimated staff level of 5,000 in 2014 – many of whom are located in rural areas throughout the United States and Puerto Rico. In addition, the budget requests that $32 million of the total funding provided for salaries and expenses to be set aside for information technology investments for the Comprehensive Loan Program. Investing in modernizing this

system will ensure that all loan programs are serviced with up to date technology safeguarding the portfolio from cyber threats and upgrading the management capabilities for the agency.

I should note that our largest programs at Rural Development, the Electric, Telecommunications, Community Facilities Direct Loan, and the Single Family Housing Guarantee programs require no Federal funding and are all operating at a negative subsidy rate. The budget also supports $1.2 billion in Water and Waste Disposal direct loans at no Federal cost due to improved performance of the program. However, I note that as savings from programs have been realized due to program performance and low interest rates, funding for S&E has not kept pace. The S&E request needs to be fully funded in order to realize the full authorized loan levels in these most efficient programs. The execution of these programs, particularly in an extremely challenging economic environment, is a win for taxpayers, rural residents and communities working to enhance their quality of life and increase their economic opportunities.

Rural Development is known as an agency that can help build a community from the ground up. Today, we are assisting rural America prepare for the global challenges of the 21st century by looking not only within a community for defining strengths and opportunities, but to regions and strategic partners, where one community or program can complement and draw upon the resources of another to create jobs and strengthen economies.

We are resolutely pursuing President Obama's vision of an America that promotes the economic well-being of all Americans. In rural communities, we support entrepreneurs and innovators, individuals and families, the youth and the elderly. We support entire communities. We do so by financing housing for individuals, families and the elderly, building schools and emergency centers, connecting leading doctors to rural clinics and hospitals, and encouraging business startups and expansions. We know our investments will pay dividends for years to come.

I appreciate the opportunity to work with members of the Subcommittee to build a foundation for American competitiveness. The President has offered a responsible, balanced budget that continues to meet key priorities and includes targeted investments to support long-term job creation and renewed economic expansion. Moving forward will require hard work and sacrifice

from everyone, and Rural Development is committed to doing its part. I am confident that the agencies of Rural Development will successfully implement the programs needed for a thriving rural America.

I appreciate the opportunity to testify today before Members of the Subcommittee. This budget proposal supports our efforts and helps us fulfill the promise of rural communities. Thank you for your support of Rural Development programs. I am happy to answer your questions on the budget proposals at this time.