


**Written Testimony Submitted by Stuart Lowry
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**United States Senate
Committee on Appropriations
Agriculture, Rural Development, Food and Drug Administration, and Related
Agencies**

**Hearing:
“A Review on Rural Development in 21st Century America”
Wednesday, October 21, 2015**



**National Rural Electric
Cooperative Association**

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Introduction

Thank you, Chairman Moran, Ranking Member Merkley, and members of this subcommittee for inviting me to testify today at your hearing on the Importance of Rural Development and, more specifically, on USDA's Rural Economic Development Loan and Grant (REDLG) program.

I am Stuart Lowry, president and CEO of Sunflower Electric Corporation in Hays, Kansas. Sunflower is a not-for-profit, wholesale electric generation and transmission utility, commonly known as a G&T. Based on the cooperative business model, Sunflower is owned and democratically governed by its member-owners, six distribution cooperatives serving more than 350,000 members in central and western Kansas. Sunflower and its Distribution Cooperative Members provide more than 800 jobs in communities located in the western half of Kansas.

I am also here today representing the National Rural Electric Cooperative Association (NRECA). NRECA is the service organization for more than 900 not-for-profit electric utilities serving over 42 million people in 47 states. NRECA's members include 67 G&T cooperatives that generate and transmit power to 66 of the 838 distribution cooperatives across the nation. Electric cooperative service territory makes up 75 percent of the nation's land mass. Kilowatt-hour sales by rural electric cooperatives account for approximately 11 percent of all electric energy sold in the United States. NRECA member cooperatives serve over 42 million Americans, including more than 8 million member owners and 11,839 jobs in the 12 states represented on this subcommittee.

I would like to thank the Chairman, Ranking Member, and the entire subcommittee on behalf of Sunflower and NRECA for their long-standing support of rural electric co-ops and their consumer-members. We are also grateful for Administrator McBride's leadership and service to cooperatives.

Electric Co-operatives and Rural Development

The development of electric co-ops is a perfect example of rural development. As many of you know, well into the 1900s, a lack of economic incentives left much of rural America literally "in the dark"—unserved by private power companies. This led to President Roosevelt's forming the Rural Electrification Administration, then known as the REA, in 1935 to establish programs that would lead to the electrification of rural America via electric cooperatives. Now restructured as the Rural Utilities Service to include other rural utilities—such as those represented on this panel—RUS continues to operate programs that benefit rural America under the umbrella of Rural Development at USDA. Combined, these programs have allowed electric co-ops to play a major role in strengthening small communities that are essential not only to the nation's economy, but also to the way of life valued by many.

Electric co-ops continue to take seriously the seventh cooperative principle: Concern for community. The economic development work in Rural America is not done and we appreciate the Subcommittee focusing its attention on this important topic.

In June, NRECA convened a Rural Summit here in Washington. The event gathered rural experts from the Administration in various federal departments, non-profit groups, academia, and other rural leaders to hold a positive conversation about how to tackle the toughest issues facing rural communities and main street economies. The next steps are to take the Summit on Rural America into regional discussions around the country and to populate a guidance group that can collect and share best practices and ideas and explore a number of themes.

One theme is harnessing the value of the multiple profiles and changing demographics of rural America. Another is growing interest in the assets in rural America and investing in the infrastructure and technology to connect rural America with the world. Participants also highlighted the need for new ways of doing business and developing educational opportunities and a workforce to conduct that business. Other panelists highlighted the quality of rural life and the need to address the public's perception of "rural." These regional gatherings are expected to focus on growth and diversification of the local economies, the expanded role for technology in the rural economy, and the need to focus on collaboration and communication.

Twenty-five years ago, NRECA was instrumental in forming the National Rural Economic Developers Association, an organization that provides education and networking for professionals who work to grow our rural communities. NREDA has been very active promoting and providing education for USDA programs, especially the Rural Economic Development Loan and Grant Program.

REDLG is one of the programs that co-ops have utilized to help enhance small-town America, and Kansas is just one of the many success stories. REDLG is a \$33 million loan and \$10 million grant program available to co-ops for economic development activities. The loan program provides zero interest loans to local utilities that serve as a pass through to small businesses for projects that create and generate new jobs and revenue. The grant program provides funds to local cooperatives that use the dollars to establish revolving loan programs for specific projects. Once the loan is repaid to the revolving loan fund, the cooperative continues to deploy the funds for additional rural development projects.

In 2015, the loan program directed \$32.5 million in loans to 29 coops that created 288 jobs and saved 436 more. These dollars enabled energy efficiency projects, purchased rail offloading equipment, ambulances, a library expansion and retirement communities. In addition, 27 grants went to 18 co-ops for \$7.1 million, which renovated schools and hospitals, financed fire equipment, built fire halls, purchased medical equipment, and updated 911 communications equipment. The grant program saved 151 jobs and added 112 more.

A specific example of the ways Kansas cooperatives have used this program includes Prairie Land Electric, headquartered in Norton, Kansas, and Western Cooperative

Electric, headquartered in WaKeeney, Kansas, using funds from their revolving loan funds for the Sheridan County Health Complex, located in Hoxie, Kansas (population 1,201). The funds are being used for hospital upgrades, including the addition of a CT scanner, so this small community can enjoy improved access to healthcare. Together the cooperatives loaned \$575,000 to the health complex for this project.

Recently, Twin Valley Electric Cooperative from Altamont, Kansas, was awarded a \$200,000 REDLG loan for RBK Manufacturing LLC in Coffeyville, Kansas (population 10,295). This successful manufacturer of aftermarket auto parts and equipment will purchase additional tooling equipment for expansion. The four additional jobs provided by this expansion are important in small communities like Coffeyville.

These are excellent examples of how the REDLG program continues to provide benefit to rural America. Kansas cooperatives are in good company with the many other electric cooperatives that have used this program to improve their community.

In Iowa, Corn Belt Power Cooperative and Butler County REC each loaned \$60,000 from their respective Revolving Loan Funds to assist Allison Family Dental. Dr. Travis Harbaugh had just graduated dental school and purchased the existing dental practice in Allison, Iowa (population 1,025) from a retiring dentist. The purchase allowed a dental practice to remain open in a rural community, retain three jobs, and create four more.

Sioux Valley Energy in South Dakota provided funding for the Lake Area Improvement Corporation to construct the Heartland Technology Center in the Hueners Technology Park. The technology park is in Madison, South Dakota, – (population 6,474). The Center has office space designed to meet the needs of businesses needing a high-tech setting and is located adjacent to nationally recognized Dakota State University to provide immediate access to some of the best qualified baccalaureate and masters graduates in computer science and information systems.

An expansion for Brownmed Inc., headquartered in Spirit Lake, Iowa, (population 4,952), allowed the company to more than double its existing manufacturing facility of 30,000 square feet by constructing an additional 51,000 square feet. The company manufactures more than 85 products for medical purposes, including the Seal Tight Cast, Plastalume finger splint and IMAK arthritis compression products. Total expansion costs were over \$3.6 million. Iowa Lakes Electric Cooperative received a \$1,000,000 Rural Economic Development Loan through USDA for the project, while loaning an additional \$250,000 from their REDLG revolving loan fund. Corn Belt Power loaned \$150,000 from their Intermediary Relending Program (IRP) Revolving Loan Fund toward the project as well. Brownmed employs 66 people, 50 of whom are in the Spirit Lake location. This is an excellent example of cooperatives using multiple USDA programs to create jobs in their communities.

Recently, the list of entities eligible for the program has expanded, which has placed more demand on the funds. The Administration requested a budget of \$60 million, and we would like to see the REDLG program funded as close to this recommendation as

possible. We support reducing the maximum loan level to \$1 million as this approach will allow more projects to be funded in rural areas— where a little funding can go a long way.

In recent years past, the REDLG program benefited from millions of dollars in unused funds carried over from previous years, dwindling dramatically from \$57.9M in FY15 to only \$8.2M in FY14. We appreciate the Subcommittee's efforts to make these funds available after the year in which they were appropriated. Unfortunately, given the high demand on the program, all funds have been used during the fiscal year. If in the future, any funds remain unused at the end of the year, we hope the Subcommittee will provide the opportunity to carry-over funds to the following year in support of the REDLG program.

Guaranteed Underwriter Program

One critical source of funding for the REDLG program is the fees paid by cooperative lenders under the Guaranteed Underwriter Program. The level of fees is currently at \$13 million.

We appreciate this subcommittee's work to increase the Guaranteed Underwriter Program to \$750 million in the FY16 bill. This increase supports electric cooperatives by helping cooperative lenders maintain a balanced portfolio to provide loans at attractive rates as well as increasing the level of fees paid to support the REDLG program.

Since 2005, the National Rural Utilities Cooperative Finance Corporation (Cooperative Finance Corporation) has accessed funding through the Guaranteed Underwriter Program and used the funds to help finance electric cooperatives' investment in rural utility infrastructure projects such as poles, wires and substations. As part of its long term commitment to the Guaranteed Underwriter Program, CFC also pays fees to help fund the REDLG program. Recently, another lender, CoBank has also utilized this program.

Energy Efficiency

RUS has recognized energy efficiency as an integral component of electric cooperatives' energy resources. Co-ops have long been leaders among utilities in the area of energy efficiency with 96% of co-ops already providing some energy efficiency program to its consumer-members.

Both the 2008 and 2014 Farm Bills included ways that RUS could help co-ops increase energy efficiency for the benefit of their consumers. The Energy Efficiency and Conservation Loan Program (EECLP) and the Rural Energy Savings Program (RESP) are designed to help co-ops promote energy efficiency and renewable energy to their consumers, saving energy while also saving consumers money on their energy bills. One such example is Midwest Energy Cooperative, located in Hays, Kansas, which was

among the first co-ops in the country to provide on-bill financing for energy efficiency improvements for their consumer-members.

These energy efficiency programs have a positive financial impact on communities because they create jobs in rural areas and increase economic activity due to savings resulting from energy efficiency improvements.

Much credit is owed to Ranking Member Merkley for his leadership on the Rural Energy Savings Program Act (RESPA), and we look forward to working with him and other members of this subcommittee on ways to make these programs most successful.

Concerns Going Forward

A robust regulatory agenda in recent years and subsequent increased bureaucracy have admittedly been burdensome. Electric co-ops are concerned about having to spend more time figuring out how to comply with new costly regulations and how to avoid passing those costs onto our consumer-owners, all of which leave less time and resources available for innovation and strengthening our existing services.

For example, in the Great Plains region where Sunflower serves, we are concerned about recent developments with the Endangered Species Act and the Lesser Prairie Chicken. While the courts are considering various appeals, we continue to study the cost implications of listing the bird as threatened or endangered. This is just one more example of how rural cooperatives—averaging 7.4 consumers per mile of line and collecting annual revenue of approximately \$15,000 per mile of line versus investor-owned utilities averaging 34 customers per mile of line and collecting \$75,500 per mile—must pass costs to our members. Rural cooperative members are older, less financially stable, and fewer in number and thus have limited ability to pay higher electric rates created by the increased regulatory burdens.

The RUS allows co-ops to finance future and improved electric distribution, transmission and generating systems. We are concerned that, as the result of overregulation, we will be required to spend more of these dollars on compliance costs. As such, it is important that RUS is adequately funded so that utilities can spend less time crunching numbers related to compliance costs for providing electricity and more time engaging in other activities and programs, such as REDLG, that contribute to an improved economy and a better quality of life for our members.

Sunflower, NRECA, and co-ops across the country greatly appreciate this subcommittee and the full committee's support for funding the RUS electric loan program at the \$6 billion level for FY16. Thank you for recognizing the value that the electric program and co-ops provide to approximately 42 million people every day.

We look forward to providing any information that would be helpful to the committee and improving the opportunities or addressing the challenges that face rural America. I thank you for inviting me to testify and look forward to any questions you may have.