

2008 Explanatory Notes
Utilities Programs

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RURAL DEVELOPMENT UTILITIES PROGRAMS

Purpose Statement

Rural Development's Utilities Programs enhance the quality of life and improve economic opportunity in rural communities by providing the basic infrastructure of modern life. Electricity and telecommunications are essential services for individuals and businesses alike.

Adequate water and wastewater treatment capacity are significant quality of life, environmental and economic development issues. Tighter environmental standards and the importance of accommodating business growth in a rapidly diversifying rural economy add significantly to program demand.

Rural Electrification and Telecommunications Loans Program

Authorization and Program Descriptions

Rural Development delivers electric and telecommunications programs authorized by the Rural Electrification Act of 1936, as amended.

Electric Program

The electric program offers the following financing assistance: direct electric loans, treasury rate loans, municipal rate loans, guaranteed electric loans. The primary differences between the types of financial assistance are the qualifying criteria and the interest rate.

Direct electric loans (hardship rate loans) are used to finance electric distribution and sub-transmission facilities at the 5 percent hardship rate to qualified borrowers. These loans are made to applicants that meet rate disparity thresholds and whose consumers fall below average per capita household income thresholds. These loans may also be made if the program administrator determines that the borrower has suffered a severe unavoidable hardship, such as a natural disaster. In addition, to the extent of qualifying applications for the loans, Rural Development will provide this rate of financing to any applicant for a loan whose residential revenue exceeds 15 cents per kilowatt-hour sold.

Treasury rate loans are used to finance distribution and sub-transmission facilities of borrowers, including, under certain circumstances, the implementation of demand side management, energy conservation programs, and on-grid and off-grid renewable energy systems. The standard interest rate on direct Treasury rate loans will be established daily by the United States Treasury. Borrowers may select interest rate terms for each advance of funds. The minimum interest rate term is one year.

Municipal rate loans are used to finance distribution and sub-transmission facilities of both distribution and power supply borrowers, including, under certain circumstances, the implementation of demand side management, energy conservation programs, and on-grid and off-grid renewable energy systems. The interest rate is based on interest rates available in the municipal bond market for similar maturities. In most cases, borrowers are required to seek supplemental financing for 30 percent of their capital requirements under this type of financing. Borrowers may choose from several loan maturity alternatives with associated varying interest rates, which track investment securities and change quarterly.

Guaranteed loans are provided primarily through the Federal Financing Bank (FFB), National Rural Utilities Cooperative Finance Corporation (CFC), and the National Bank for Cooperatives (CoBank). The FFB is an agency within the United States Treasury, providing funding in the form of loans for various government lending programs, including the guaranteed loan program. FFB loans are guaranteed by Rural Development and are available to all electric borrowers. FFB interest rates are fixed to the prevailing cost of money to the United States Treasury, plus an administrative fee of one-eighth of 1 percent. Loans are executed by the borrower and FFB, CFC, or CoBank, as applicable, and with payment of principal and interest guaranteed by Rural Development's Utilities Program.

Telecommunications Program

Infrastructure loans are made to furnish and improve telecommunications services, including a wide array of telecommunication related services, in rural areas.

Hardship (direct loans) loans bear interest at a fixed rate of 5 percent per year. These loans are intended only for borrowers with extremely high investment costs in terms of per subscriber service. These borrowers also have a very low number of subscribers for each mile of telecommunications line constructed. This low subscriber “density” inherently increases the cost to serve the most sparsely populated rural areas. Because of the high cost of the investment needed, these borrowers cannot typically afford higher interest rate loans.

Direct loans (or Treasury rate loans) bear interest at the government’s cost of money (or the current Treasury rate). Thus, the interest charged varies with the Treasury rate. As Treasury rates increase, so does the cost to the borrower for these loans.

Guaranteed loans are provided to borrowers of a non-government lender or from the Federal Financing Bank (FFB). The interest rate charged on FFB loans is the Treasury rate plus an administrative fee of one-eighth of 1 percent. The terms of these loans may vary significantly and allow borrowers more flexibility in meeting their financing needs.

In terms of risk, all loans are based on extensive feasibility studies that determine a borrower’s ability to repay the loan and loans are monitored and secured through covenants in loan contracts and the borrower’s mortgage with Rural Development, which gives the government a first lien on all of the assets of the borrower.

Broadband loans were first authorized in the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) which established a new loan and loan guarantee program “Access to Broadband Telecommunications Services in Rural Areas.” This program is designed to provide funding for the cost of constructing, improving, and acquiring facilities and equipment for broadband service in rural communities of 20,000 inhabitants or less. Direct loans are made at the cost of money to the Treasury for the life of the facilities financed. Loans may be made at four percent to rural communities where broadband service does not currently exist. Loan guarantees bear an interest rate set by the private lender consistent with the current applicable market rate for a loan of comparable maturity and are guaranteed for no more than 80 percent of the principal amount.

Distance learning and telemedicine (DLT) loans and grants are authorized by 7 U.S.C. 950aaa. This program assists rural schools and learning centers gain access to improved educational resources, and assists rural hospitals and health care centers gain access to improved medical resources. Building on advanced telecommunications infrastructure, telemedicine projects are providing new and improved health care services and benefits to rural residents, many in medically underserved areas by linking to urban medical centers for clinical interactive video consultation, distance training of rural health care providers, and access to medical expertise and library resources. Distance learning projects provide funding for computers and Internet hookups in schools and libraries and promote confidence in, and understanding of, the world-wide-web and its benefits to students and young entrepreneurs. Loans, made at the Treasury rate of interest, and grants will encourage, improve, and make affordable the use of advanced telecommunications. This increased use will provide educational and health care benefits to people living in rural areas. Program results have demonstrated the dramatic benefits that can be achieved by investments made in educational interactive video, Internet, and other information networks.

Water and Waste Disposal Loans and Grants

Direct Water and Waste Disposal Loans - Section 306 CONACT & 7 U.S.C. 1926. Direct loans may be

made to develop water and wastewater systems, including solid waste disposal and storm drainage, in rural areas and in cities and towns with a population of 10,000 or less.

Guaranteed Water and Waste Disposal Loans - Section 306 CONACT & 7 U.S.C. 1926. Guaranteed loans may be made for the same purpose as direct loans. They are made and serviced by private lenders such as banks and savings and loan associations. The guarantee is 90 percent of the eligible loss incurred by the lender.

Water and Waste Disposal Grants - Section 306 CONACT & 7 U.S.C. 1926. Grants are available to reduce water and waste disposal costs to a reasonable level for users of the system. Grants may be made, in some instances, up to 75 percent of eligible project costs.

Water and Wastewater Revolving Funds - Section 306 CONACT & 7 U.S.C. 1926. Grants are available to private nonprofit organizations to provide loans to eligible entities for (1) predevelopment costs associated with proposed water and wastewater projects or with existing water and wastewater systems; and (2) short-term costs incurred for replacement equipment, small-scale extension services, or other small capital projects that are not part of the regular operations and maintenance activities of existing water and wastewater systems.

Emergency and Imminent Community Water Assistance Grants (ECWAG) - Section 306 (a) CONACT & 7 U.S.C. 1926. ECWAG is available to assist communities and rural areas (1) obtain adequate supplies of safe water if they have experienced an acute water shortage or a significant decline in the quantity or quality of water; (2) comply with the requirements of the Federal Water Pollution Control Act or the Safe Drinking Water Act; and (3) address imminent threats to water systems.

Water and Waste Facility Loans and Grants to alleviate health risks - Section 306(c) CONACT & 7 U.S.C. 1926. Section 306C loans and grants are available to low-income rural communities whose residents face significant health risks because they do not have access to water supply systems or waste disposal facilities. The grants are available to provide water or waste services to designated colonias in Arizona, California, New Mexico, and Texas. Grants may be made in conjunction with loans and up to 100 percent of the eligible project cost.

Household Water Well System Grants - Section 306 (e) CONACT & 7 U.S.C. 1926. Grants are available to private nonprofit organizations to provide loans to eligible individuals for the construction, refurbishing, and servicing of individual household water well systems in rural areas that are or will be owned by the eligible individuals.

Solid Waste Management Grants - Section 310 (b) CONACT & 7 U.S.C. 1932. Grants are made available to eligible organizations to address solid waste management issues and threats to water resources from solid waste in rural communities. Assistance may be provided to enhance operator skills in operations and maintenance, identify threats to water resources, reduce or eliminate pollution of water resources, improve planning and management of solid waste disposal facilities in rural areas, and reduce the solid waste stream.

OIG Reports

09601-004-TE FINAL – Broadband Loan and Grant Programs. No agreement date has been set but it is close to being finalized.

09601-001-CH FINAL – Utilities Program progress in implementing the Improper Payments Information Act of 2002. Agreement date was 09/29/2006 and is waiting to be closed out.

85099-01-HY Final Report – Homeland Security Issues At Rural Development. Request for final action was submitted to the Director, Planning and Accountability Division, Office of the Chief Financial Officer

(OCFO) in December 2005. The water program division has not received a response from the OCFO.

09601-001-CH Rural Utilities Service's Progress in Implementing the Improper Payments Information Act of 2002. The Utilities Program's Financial Management Division (FMD) is overseeing the responses of the water program's division to the OIG audit. The water program division responded to the audit and requested a management decision. In the spring 2006, FMD stated that a management decision had not been reached but must be reached within six months of the date of the final report. The water program's division submitted their latest response to FMD on August 18, 2006. The water program's division provided additional information and requested a management decision be reached on Recommendations No. 1 and 3. OIG stated they can reach management decision on recommendation 1 and 3. Management decision for recommendation 2 was reached on May 11, 2006. No further reporting to OIG is needed on this audit.

GAO Reports

320368 – Reviewing the Use and Effectiveness of U.S. Financial, Program, and Technical Assistance Under the Amended Compact of Free Association (P.L. 108-188) and Related Agreements.

360666 – Entrance: Impact of Coastal Barrier Resources Act (Departmental Audit – Rural Development has the lead).

360754 – Entrance: Freshwater Programs (Departmental Audit – Utilities Programs has the lead).

543159 – Exit: Funding of Public Broadcasting.

Geographic dispersion of offices and employees

Rural Development programs are administered by the three programs representing Rural Development: Housing and Community Facilities, Utilities, Business and Cooperative Development. Rural Development headquarters is located in Washington, D.C. As of September 30, 2006, there were 6,344 permanent full-time employees, including 617 in the headquarters office and 5,727 in field offices.

RURAL UTILITIES SERVICE

The estimates include appropriation language for this item as follows (new language underscored):

Rural Water and Waste Disposal Program Account (including transfer of balances)

For the costs and direct loans, loan guarantees, and grants for the rural utilities programs as authorized by 7 U.S.C. 1926, 1926a, 1926c, 1926d, and 1932 and described in sections 381E(d)(2), 306C(a)(2), and 306D of the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 note), \$502,779,000, to remain available until expended: *Provided*, That of the total amount appropriated in this account, not to exceed \$1,000,000 shall be available for the rural utilities program described in section 306E of such Act: *Provided further*, That not to exceed \$9,000,000 of the amounts appropriated in this account shall be for loans and grants to benefit Federally Recognized Native American Tribes, including grants for drinking water and waste disposal systems pursuant to section 306C of such Act: *Provided further*, That not to exceed \$10,000,000 of the amount appropriated in this account shall be for water and waste disposal systems to benefit the Colonias along the United States/Mexico border, including grants pursuant to section 306C of such Act: *Provided further*, That not to exceed \$16,215,000 of the amount appropriated in this account shall be for technical assistance grants for rural water and waste systems pursuant to section 306(a)(14) of such Act: *Provided further*, That not to exceed \$9,500,000 of the amount appropriated in this account shall be for contracting with qualified national organizations for a circuit rider program to provide technical assistance for rural water systems: *Provided further*, That not to exceed \$13,400,000 of the amounts appropriated in this account shall be available through June 30, 2008, for authorized empowerment zones and enterprise communities and communities designated by the Secretary of Agriculture as Rural Economic Area Partnership Zones for the rural utilities programs described in section 381E(d)(2) of such Act: *Provided further*, That sections 381E-H and 381N of such Act, are not applicable to funds made available under this heading: *Provided further*, That any prior year balances in the "Rural Development, Rural Community Advancement Program" account for programs authorized by 7 U.S.C. 1926, 1926a, 1926c, 1926d, and 1932 and described in sections 381E(d)(2), 306C(a)(2), and 306D of the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 note) shall be transferred and merged with this account: *Provided further*, That the Secretary shall transfer and merge with this account any other prior balances from the "Rural Development, Rural Community Advancement Program" account that the Secretary determines is appropriate to transfer.

The FY 2008 budget reflects a change in the presentation of funding for programs that were previously combined under the Rural Community Advancement Program (RCAP). RCAP, which was created by the 1996 Farm Bill, provided for a single budget request to be distributed among three funding streams – rural utilities programs (water and waste loans and grants), rural community programs (direct and guaranteed loans and grants), and rural business and cooperative development programs (primarily business and industry loan guarantees and rural business enterprise grants) with specific limitations on the transferability of funds both within and among these streams. Recent appropriations language, however, provided for the transferability of funds only within streams. The appropriations language of the FY 2008 budget provides for a separate request for each stream. This change presents the budget in a simpler, more direct manner while achieving the same purpose as recent appropriations.

RURAL UTILITIES SERVICE

Analysis of Change in AppropriationRURAL WATER AND WASTE DISPOSAL PROGRAM ACCOUNT

(On basis of loan level, subsidy, and grants)

	<u>Loan Level</u>	<u>Subsidy</u>	<u>Grants</u>
Estimate, 2007.....	\$796,790,577	\$71,890,342	\$422,152,924
Budget Estimate, 2008.....	1,155,239,000	153,394,000	349,385,000
Increase or Decrease in Appropriation.....	<u>358,448,423</u>	<u>81,503,658</u>	<u>-72,767,924</u>

PROJECT STATEMENT
(On basis of supportable loan levels and appropriated subsidies and grants)
(In thousands of dollars)

Item of Change	2006 Actual		2007 Estimated		Increase or Decrease		2008 Estimated	
	Program Level	Subsidy/BA	Program Level	Subsidy/BA	Program Level	Subsidy/BA	Program Level	Subsidy/BA
Rural Water and Waste Disposal Programs:								
Direct loans.....	1,008,140	69,662	721,790	71,890	-721,790 (1)	-71,890	1,080,239	153,394
Direct loans - emergency supplemental.....	0	0	0	0	0	0	0	0
Guaranteed loans a/.....	2,500	0	75,000	0	1,005,239	153,394	75,000	0
Grants.....	436,247	436,247	403,689	403,689	-403,689 (2)	-403,689	345,920	345,920
Grants - 2003/2004 hurricane em. suppl. b/.....	11,148	11,148	0	0	75,000	0	0	0
Grants - 2005 hurricane em. supplemental c/.....	15,099	15,099	0	0	345,920	345,920	0	0
Water well system grants.....	300	300	300	300	-300 (3)	-300	0	0
Water and wastewater revolving funds.....	495	495	495	495	-495 (4)	-495	0	0
Solid waste management grants.....	3,465	3,465	3,529	3,529	-3,529 (5)	-3,529	3,465	3,465
Emergency and imminent community water assistance grants.....	6,749	6,749	14,140	14,140	-10,675 (6)	-10,675	0	0
Emergency and imminent community water assistance grants - supplemental.....	0	0	0	0	0	0	0	0
Total Available or Estimate.....	1,484,144	543,167	1,218,943	494,043	285,681	8,736 (7)	1,504,624	502,779
Recovery of prior year obligations.....	-16,786	-20,037						
Unobligated balance available, start of year.....	-99,197	-31,538						
Unobligated balance expiring.....	72,500	0						
Unobligated balance available, end of year...	125,729	78,207						
Hurricane emergency supplemental c/.....	-45,000	-45,000						
Rescission d/.....	14,610	5,301						
Total Appropriation.....	1,536,000	530,100	1,218,943	494,043	285,681	8,736	1,504,624	502,779

NOTE: Amounts reflected above are budget projections of use of funds within the Rural Community Advancement Program or the Water and Waste Disposal Program Account. The justification of increases and decreases is based on the projected use of funds. Individual columns may not add down due to rounding.

a/ Negative subsidy rates of 0.90 percent were calculated for this program in FY 2006 and FY 2007, and 0.82 percent for FY 2008. Therefore, corresponding budget authority is not required to support the loan levels.

b/ Provided by the FY 2005 Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, P.L. 108-234, for the purpose of serving communities affected by tropical storms and hurricanes during calendar years 2003 and 2004.

c/ Provided by the FY 2006 Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and the Pandemic Influenza Act, 2006, P.L. 109-148, signed December 30, 2005, for the purpose of serving communities affected by hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006.

d/ The amounts are rescinded pursuant to Section 3801 of Division B, Title III, of P.L. 109-148.

PROJECT STATEMENT
(On basis of obligations under available funds)
(In thousands of dollars)

Item of Change	2006 Actual		2007 Estimated		Increase or Decrease		2008 Estimated	
	Program Level	Subsidy/BA	Program Level	Subsidy/BA	Program Level	Subsidy/BA	Program Level	Subsidy/BA
Rural Water and Waste Disposal Programs:								
Water and waste disposal:								
Direct loans.....	1,008,140	69,662	737,261	73,431	342,978	79,963	1,080,239	153,394
Guaranteed loans <u>a/</u>	2,500	0	75,000	0	0	0	75,000	0
Grants.....	436,247	436,247	450,263	450,263	-104,343	-104,343	345,920	345,920
Grants - 2003/2004 hurricane em. suppl. <u>b/</u>	11,148	11,148	0	0	0	0	0	0
Grants - 2005 hurricane em. supplemental <u>c/</u>	15,099	15,099	29,901	29,901	-29,901	-29,901	0	0
Water well system grants.....	300	300	300	300	-300	-300	0	0
Water and wastewater revolving funds.....	495	495	495	495	-495	-495	0	0
Solid waste management grants.....	3,465	3,465	3,530	3,530	-65	-65	3,465	3,465
Emergency and imminent community water assistance grants.....	6,749	6,749	14,140	14,140	-14,140	-14,140	0	0
Emergency and imminent community water assistance grants - supplemental.....	0	0	190	190	-190	-190	0	0
Total Available or Estimate.....	1,484,144	543,167	1,311,080	572,250	193,544	-69,471	1,504,624	502,779
Recovery of prior year obligations.....	-16,786	-20,037	0	0	0	0	0	0
Unobligated balance available, start of year.....	-99,197	-31,538	-92,137	-78,207	92,137	78,207	0	0
Unobligated balance expiring.....	72,500	0	0	0	0	0	0	0
Unobligated balance available, end of year.....	125,729	78,207	0	0	0	0	0	0
Hurricane emergency supplemental <u>c/</u>	-45,000	-45,000	0	0	0	0	0	0
Rescission <u>d/</u>	14,610	5,301	0	0	0	0	0	0
Total Appropriation.....	1,536,000	530,100	1,218,943	494,043	285,681	8,736	1,504,624	502,779

NOTE: Amounts reflected above are budget projections of use of funds within the Rural Community Advancement Program or the Water and Waste Disposal Program Account. The justification of increases and decreases is based on the projected use of funds. Individual columns may not add down due to rounding.

a/ Negative subsidy rates of 0.90 percent were calculated for this program in FY 2006 and FY 2007, and 0.82 percent for FY 2008. Therefore, corresponding budget authority is not required to support the loan levels.

b/ Provided by the FY 2005 Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, P.L. 108-234, for the purpose of serving communities affected by tropical storms and hurricanes during calendar years 2003 and 2004.

c/ Provided by the FY 2006 Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and the Pandemic Influenza Act, 2006, P.L. 109-148, signed December 30, 2005, for the purpose of serving communities affected by hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006.

d/ The amounts are rescinded pursuant to Section 3801 of Division B, Title III, of P.L. 109-148.

JUSTIFICATION OF INCREASES AND DECREASES

- (1) An increase of \$358,449,000 in direct water and waste disposal loans (\$721,790,000 available in 2007).

The program proposed a change in the rate structure for direct water and waste disposal loan programs in FY 2008 which allows the poverty and intermediate rates to float with the market rate. Also, the percent of loan level made at the poverty, intermediate, and market rate was revised based on actual data for each fiscal year for each of these rates. Because of the relatively low interest rates on loans, more projects should be feasible with less grant funds required and the overall program should be able to operate at a higher loan to grant ratio.

- (2) A decrease of \$57,769,000 in rural water and waste disposal grants (\$403,689,000 available in 2007).

The FY 2008 President's Budget of \$346 million will be sufficient to cover demand. State directors have the flexibility to better utilize limited funding by transferring up to 25 percent between loan and grant funds. This flexibility allows funds to be directed to meet state and local priorities. Also, because of the relatively low interest rates on loans, more projects should be feasible with less grant funds required and the overall program should be able to operate at a higher loan to grant ratio.

- (3) A decrease of \$300,000 in water well system grants (\$300,000 available in 2007).

The water well system grants program level is reduced because it is inconsistent with the objectives of the water and waste disposal loan and grant programs. The program provides funding to establish revolving loan funds for the purpose of financing privately-owned household water well systems, which are not required to meet primary and secondary standards established by the Safe Drinking Water Act. The water and waste disposal loan and grant program has an objective of financing facilities for drinking water that will be operated in accordance with the Safe Drinking Water Act.

- (4) A decrease of \$495,000 in water and wastewater revolving funds (\$495,000 available in 2007).

The water and wastewater revolving funds program level is reduced to reflect the implementation of grants for predevelopment costs within the water and waste disposal loan and grant programs. Loans for small capital improvements are already an eligible purpose under the water and waste disposal loan and grant program and the Environmental Protection Agency (EPA), State Revolving Fund Program.

- (5) A decrease of \$64,000 in solid waste management grants (\$3,530,000 available in 2007).

For the emergency solid waste management grants, the budget maintains flexibility to transfer funding among programs, in the Water and Waste Disposal Program Account. This flexibility allows funds to be directed to meet local priorities. If needed, funds can be transferred to support this program in FY 2008.

- (6) A decrease of \$14,140,000 in emergency and imminent community water assistance grants (\$14,140,000 available in 2007).

For the emergency and imminent community water assistance grants, the budget maintains flexibility to transfer funding among programs, in the Water and Waste Disposal Program Account. This flexibility allows funds to be directed to meet local priorities. If needed, funds can be transferred to support this program in FY 2008.

- (7) An increase of \$81,504,000 in loan subsidy the direct water and waste disposal loans (\$71,890,000 available in 2007).

The requested subsidy amount is necessary to support the estimated loan obligations associated with the requested FY 2008 loan levels for the total direct water and waste disposal loan program. The change is due to changes in the borrower rate in addition to the decision to allow the poverty and intermediate interest rate tiers to float with the market rate.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Rural Water and Waste Disposal Loan Program - Direct

	2006	2007	2008
Alabama	\$18,968,190	\$20,275,000	\$29,708,000
Alaska	613,000	6,049,000	8,863,000
Arizona	6,946,750	9,647,000	14,135,000
Arkansas	27,659,000	14,800,000	21,685,000
California	33,496,750	18,758,000	27,484,000
Colorado	1,325,000	8,204,000	12,021,000
Connecticut	6,716,500	5,492,000	8,047,000
Delaware	7,289,935	4,452,000	6,523,000
Florida	24,123,000	15,890,000	23,282,000
Georgia	36,346,000	23,133,000	33,894,000
Hawaii	-	4,826,000	7,071,000
Idaho	17,798,750	7,878,000	11,543,000
Illinois	32,332,000	15,420,000	22,593,000
Indiana	24,405,250	15,677,000	22,970,000
Iowa	31,664,900	11,958,000	17,521,000
Kansas	14,968,400	9,282,000	13,600,000
Kentucky	28,454,000	21,335,000	31,260,000
Louisiana	24,338,200	15,155,000	22,205,000
Maine	14,305,000	9,379,000	13,742,000
Maryland	13,580,782	7,923,000	11,609,000
Massachusetts	7,111,000	6,385,000	9,355,000
Michigan	50,891,000	21,272,000	31,168,000
Minnesota	17,005,000	13,430,000	19,678,000
Mississippi	20,865,105	18,891,000	27,679,000
Missouri	27,957,550	17,529,000	25,683,000
Montana	1,887,000	7,507,000	10,999,000
Nebraska	10,234,000	7,252,000	10,626,000
Nevada	8,078,000	4,838,000	7,089,000
New Hampshire	6,699,300	6,517,000	9,549,000
New Jersey	13,392,000	6,594,000	9,662,000
New Mexico	3,347,364	9,347,000	13,695,000
New York	20,512,700	20,258,000	29,682,000
North Carolina	69,277,000	27,343,000	40,063,000
North Dakota	5,978,700	5,657,000	8,289,000
Ohio	32,351,000	21,595,000	31,641,000
Oklahoma	23,769,000	13,930,000	20,410,000
Oregon	10,849,000	10,211,000	14,961,000
Pennsylvania	24,618,100	22,863,000	33,499,000
Rhode Island	1,809,000	3,853,000	5,645,000
South Carolina	24,571,000	16,971,000	24,866,000
South Dakota	18,848,700	6,534,000	9,574,000
Tennessee	43,438,800	20,420,000	29,919,000
Texas	88,383,900	27,361,000	40,089,000
Utah	9,554,900	5,907,000	8,655,000
Vermont	1,952,300	6,124,000	8,973,000
Virginia	24,982,760	17,417,000	25,519,000
Washington	10,411,000	12,752,000	18,684,000
West Virginia	27,786,050	13,450,000	19,707,000
Wisconsin	20,161,000	15,171,000	22,229,000
Wyoming	853,000	5,081,000	7,445,000
Puerto Rico	15,233,000	10,247,000	15,014,000
Virgin Islands	-	576,000	845,000
W. Pacific Areas	-	576,000	845,000
Undistributed	-	87,869,960	128,746,000
Total Avail./Est.	<u>\$1,008,139,636</u>	<u>\$737,261,960</u>	<u>\$1,080,239,000</u>

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Rural Water and Waste Disposal Loans - Guaranteed

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alabama	--	\$1,572,000	\$1,572,000
Alaska	--	951,000	951,000
Arizona	--	1,109,000	1,109,000
Arkansas	--	1,333,000	1,333,000
California	--	1,505,000	1,505,000
Colorado	--	1,045,000	1,045,000
Connecticut	--	927,000	927,000
Delaware	--	881,000	881,000
Florida	--	1,380,000	1,380,000
Georgia	--	1,696,000	1,696,000
Hawaii	--	897,000	897,000
Idaho	\$25,000	1,031,000	1,031,000
Illinois	--	1,360,000	1,360,000
Indiana	--	1,371,000	1,371,000
Iowa	--	1,209,000	1,209,000
Kansas	450,000	1,092,000	1,092,000
Kentucky	--	1,618,000	1,618,000
Louisiana	--	1,348,000	1,348,000
Maine	--	1,096,000	1,096,000
Maryland	--	1,033,000	1,033,000
Massachusetts	--	966,000	966,000
Michigan	--	1,615,000	1,615,000
Minnesota	--	1,273,000	1,273,000
Mississippi	--	1,515,000	1,515,000
Missouri	--	1,452,000	1,452,000
Montana	--	1,014,000	1,014,000
Nebraska	--	1,003,000	1,003,000
Nevada	2,025,000	898,000	898,000
New Hampshire	--	971,000	971,000
New Jersey	--	975,000	975,000
New Mexico	--	1,095,000	1,095,000
New York	--	1,571,000	1,571,000
North Carolina	--	1,880,000	1,880,000
North Dakota	--	934,000	934,000
Ohio	--	1,629,000	1,629,000
Oklahoma	--	1,295,000	1,295,000
Oregon	--	1,132,000	1,132,000
Pennsylvania	--	1,685,000	1,685,000
Rhode Island	--	855,000	855,000
South Carolina	--	1,420,000	1,420,000
South Dakota	--	972,000	972,000
Tennessee	--	1,578,000	1,578,000
Texas	--	1,903,000	1,903,000
Utah	--	945,000	945,000
Vermont	--	954,000	954,000
Virginia	--	1,447,000	1,447,000
Washington	--	1,243,000	1,243,000
West Virginia	--	1,274,000	1,274,000
Wisconsin	--	1,349,000	1,349,000
Wyoming	--	909,000	909,000
Puerto Rico	--	1,134,000	1,134,000
Virgin Island	--	830,000	830,000
W. Pacific Areas	--	830,000	830,000
Undistributed	--	10,000,000	10,000,000
Total Avail./Est.	<u>\$2,500,000</u>	<u>\$75,000,000</u>	<u>\$75,000,000</u>

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Rural Water and Waste Disposal Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alabama	\$10,115,600	\$9,869,000	\$7,591,000
Alaska	3,182,319	2,952,000	2,270,000
Arizona	8,935,619	4,716,000	3,627,000
Arkansas	11,938,000	7,208,000	5,544,000
California	13,114,000	9,133,000	7,025,000
Colorado	2,591,805	4,002,000	3,078,000
Connecticut	2,676,500	2,682,000	2,063,000
Delaware	3,450,981	2,177,000	1,674,000
Florida	7,726,120	7,738,000	5,952,000
Georgia	11,520,420	11,260,000	8,661,000
Hawaii	-	2,359,000	1,814,000
Idaho	6,140,750	3,843,000	2,956,000
Illinois	12,065,100	7,510,000	5,776,000
Indiana	7,606,834	7,635,000	5,873,000
Iowa	8,836,300	5,826,000	4,481,000
Kansas	5,897,552	4,526,000	3,481,000
Kentucky	10,981,960	10,385,000	7,988,000
Louisiana	7,866,055	7,381,000	5,677,000
Maine	9,456,705	4,573,000	3,517,000
Maryland	10,029,100	3,864,000	2,972,000
Massachusetts	3,502,000	3,117,000	2,397,000
Michigan	14,551,000	10,354,000	7,964,000
Minnesota	8,556,500	6,543,000	5,033,000
Mississippi	10,751,000	9,240,000	7,107,000
Missouri	8,340,975	8,534,000	6,564,000
Montana	3,105,000	3,664,000	2,818,000
Nebraska	5,585,900	3,539,000	2,722,000
Nevada	2,462,000	2,365,000	1,819,000
New Hampshire	5,784,446	3,181,000	2,446,000
New Jersey	4,890,000	3,218,000	2,475,000
New Mexico	15,291,871	4,557,000	3,505,000
New York	10,291,590	9,861,000	7,585,000
North Carolina	16,530,867	13,306,000	10,235,000
North Dakota	5,549,950	2,762,000	2,124,000
Ohio	10,997,000	10,512,000	8,086,000
Oklahoma	32,169,944	6,785,000	5,219,000
Oregon	5,223,000	4,978,000	3,829,000
Pennsylvania	11,041,140	11,128,000	8,560,000
Rhode Island	1,476,400	1,886,000	1,450,000
South Carolina	10,262,735	8,177,000	6,290,000
South Dakota	4,102,899	3,189,000	2,453,000
Tennessee	11,484,800	9,941,000	7,646,000
Texas	28,184,834	13,333,000	10,256,000
Utah	3,542,760	2,885,000	2,219,000
Vermont	3,496,000	2,990,000	2,300,000
Virginia	8,528,000	8,480,000	6,523,000
Washington	8,957,920	6,212,000	4,778,000
West Virginia	11,008,300	6,552,000	5,040,000
Wisconsin	8,578,222	7,389,000	5,683,000
Wyoming	2,881,300	2,482,000	1,909,000
Puerto Rico	4,987,000	4,995,000	3,842,000
Virgin Islands	-	831,000	639,000
W. Pacific Areas	-	478,000	367,000
Undistributed	-	133,160,557	102,017,000
Total Avail./Est.	<u>\$436,247,073</u>	<u>\$450,263,557</u>	<u>\$345,920,000</u>

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Rural Water and Waste Disposal Grants
2003/2004 Hurricanes for Natural Disaster

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Florida	\$1,932,628	--	--
Mississippi	1,952,500	--	--
New York	1,000,000	--	--
North Carolina	2,533,950	--	--
Pennsylvania	1,796,600	--	--
Texas	1,932,800	--	--
Total Avail./Est.	<u>\$11,148,478</u>	<u>--</u>	<u>--</u>

Rural Water and Waste Disposal Grants
2005 Hurricanes for Natural Disaster

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Louisiana	\$4,471,000	--	--
Texas	10,628,300	--	--
Total Avail./Est.	<u>\$15,099,300</u>	<u>\$29,900,700</u> ^{1/}	<u>--</u>

^{1/} Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Water and Waste Individually-Owned Water Well System Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Virginia	\$300,000	--	--
Total Avail./Est.	<u>\$300,000</u>	<u>\$300,000</u> ^{1/}	<u>--</u>

Water and Wastewater Revolving Fund Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Arkansas	\$495,000	--	--
Total Avail./Est.	<u>\$495,000</u>	<u>\$495,000</u> ^{1/}	<u>--</u>

^{1/} Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Solid Waste Management Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alaska	\$275,000	--	--
Arizona	180,000	--	--
Arkansas	128,000	--	--
California	80,000	--	--
Idaho	114,000	--	--
Illinois	30,000	--	--
Iowa	38,000	--	--
Kentucky	88,000	--	--
Louisiana	99,000	--	--
Maine	287,000	--	--
Massachusetts	179,000	--	--
Minnesota	100,000	--	--
New Hampshire	105,000	--	--
New York	105,000	--	--
North Carolina	281,000	--	--
Ohio	334,998	--	--
Oklahoma	82,000	--	--
Oregon	97,000	--	--
Tennessee	50,000	--	--
Texas	100,000	--	--
Utah	37,000	--	--
Vermont	485,000	--	--
West Virginia	160,000	--	--
Wisconsin	30,000	--	--
Total Avail./Est.	<u>\$3,464,998</u>	<u>\$3,529,968</u> <u>1/</u>	<u>\$3,465,000</u> <u>1/</u>

1/ Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Emergency and Imminent Community Water Assistance Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Idaho	\$375,000	--	--
Illinois	624,000	--	--
Iowa	500,000	--	--
Kansas	952,600	--	--
Louisiana	282,991	--	--
Michigan	150,000	--	--
Nebraska	403,000	--	--
Nevada	150,000	--	--
Oklahoma	498,600	--	--
South Dakota	667,270	--	--
Tennessee	150,000	--	--
Texas	500,000	--	--
Utah	1,000,000	--	--
West Virginia	496,000	--	--
Total Avail./Est.	<u>\$6,749,461</u>	<u>\$14,140,667</u> ^{1/}	<u>--</u>

Emergency and Imminent Community Water Assistance Grants
Hurricanes for Natural Disaster

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Avail./Est.	<u>--</u>	<u>\$189,988</u> ^{1/}	<u>--</u>

^{1/} Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE

RURAL WATER AND WASTE DISPOSAL PROGRAM ACCOUNT

Classification by Objects
2006 Actual and Estimates 2007 and 2008

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Other Objects:			
41 Grants, subsidies, and contributions.....	<u>\$543,166,760</u>	<u>\$572,249,969</u>	<u>\$502,779,000</u>
Total direct obligations.....	<u>543,166,760</u>	<u>572,249,969</u>	<u>502,779,000</u>

RURAL UTILITIES SERVICE

The estimates include appropriation language for this item as follows (new language underscored):

Rural Electrification and Telecommunications Loans Program Account (including transfer of funds)

Insured loans pursuant to the authority of section 305 of the Rural Electrification Act of 1936 (7 U.S.C. 935) shall be made as follows: 5 percent rural electrification loans, \$100,000,000; loans made pursuant to section 306 of that Act, rural electric, \$4,000,000,000; 5 percent rural telecommunications loans, \$145,000,000; cost of money rural telecommunications loans, \$250,000,000; and for loans made pursuant to section 306 of that Act, rural telecommunications loans, \$295,000,000.

For the cost, as defined in section 502 of the Congressional Budget Act of 1974, including the cost of modifying loans, of direct and guaranteed loans authorized by sections 305 and 306 of the Rural Electrification Act of 1936 (7 U.S.C. 935 and 936), as follows: cost of rural electric loans, \$120,000, and the cost of telecommunications loans, \$3,620,000: Provided, That notwithstanding section 305(d)(2) of the Rural Electrification Act of 1936, borrower interest rates may exceed 7 percent per year.

In addition, for administrative expenses necessary to carry out the direct and guaranteed loan programs, \$37,009,000 which shall be paid to the appropriation for "Rural Development, Salaries and Expenses".

RURAL UTILITIES SERVICE

Analysis of Change in AppropriationRURAL ELECTRIFICATION AND TELECOMMUNICATIONS PROGRAM ACCOUNT

(On basis of loan levels, subsidies, and administrative expenses)

	<u>Loan Level</u>	<u>Subsidy</u>	<u>Administrative Expenses</u>
Estimate 2007.....	\$5,377,205,000	\$4,219,000	\$39,101,000
Budget Estimate 2008.....	4,790,000,000	3,740,000	37,009,000
Decrease in Appropriations.....	<u>-587,205,000</u>	<u>-479,000</u>	<u>-2,092,000</u>

PROJECT STATEMENT

(On basis of appropriated/supportable loan levels, subsidies, and grants)
(In thousands of dollars)

Item of Change	2006 Actual		2007 Estimated		Increase or Decrease		2008 Estimated	
	Program Level	Subsidy/BA	Program Level	Subsidy/BA	Program Level	Subsidy/BA	Program Level	Subsidy/BA
Electric Loans:								
Direct, 5%.....	\$99,000	\$911	\$99,019	\$2,119	\$981 (1)	\$-1,999	\$100,000	\$120
Direct, Treasury Rate g/.....	990,000	99	990,000	0	-990,000 (2)	0	0	0
Direct, Municipal.....	100,764	5,088	99,006	1,495	-99,006 (3)	-1,495	0	0
Direct, FFB b/.....	2,700,000	0	3,000,000	0	1,000,000 (4)	0	4,000,000	0
Direct, FFB loan modification - 2005	0	0	0	0	0	0	0	0
Hurricanes Supplemental g/.....	0	908	0	0	0	0	0	0
Electric Underwriting Loans g/.....	1,500,000	0	500,000	0	-500,000 (5)	0	0	0
Guaranteed, Electric.....	0	0	0	0	0	0	0	0
Total Electric.....	5,389,764	7,006	4,688,025	3,614	-588,025	-3,494	4,100,000	120
Telecommunications Loans:								
Direct, 5% g/.....	145,000	0	143,513	531	1,487 (6)	-415	145,000	116
Direct, Treasury Rate.....	419,760	210	246,667	74	3,333 (7)	1,601	250,000	1,675
Direct, FFB g/.....	125,000	0	299,000	0	-4,000 (8)	1,829	295,000	1,829
Direct, FFB - 2005 Hurricanes Supplemental g/.....	0	0	0	0	0	0	0	0
Total Telecommunications.....	689,760	210	689,180	605	820	3,015	690,000	3,620
Total loans and subsidies.....	6,079,524	7,216	5,377,205	4,219	-587,205	-479 (9)	4,790,000	3,740
Total administrative expenses f/.....	0	38,396	0	39,101	0	-2,092 (10)	0	37,009
2005 Hurricanes Emer. Supplemental Appro. g/	-50,000	-8,000						
Unobligated balance available, start of year.....	0	0						
Unobligated balance expiring.....	50,000	0						
Unobligated balance available, end of year.....	0	7,092						
Rescission h/.....	16,258	452						
Total Appropriation.....	6,095,782	45,156						

Staff-years are reflected in the Salaries and Expenses Project Statement.

PROJECT STATEMENT

(On basis of available/supportable loan levels, subsidies, and grants)
(In thousands of dollars)

Item of Change	2006 Actual		2007 Estimated		Increase or Decrease		2008 Estimated	
	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA
Electric Loans:								
Direct, 5%.....	\$99,000	\$911	\$99,019	\$2,119	\$981	\$-1,999	\$100,000	\$120
Direct, Treasury Rate g/.....	990,000	99	990,000	0	-990,000	0	0	0
Direct, Municipal.....	100,764	5,088	99,006	1,495	-99,006	-1,495	0	0
Direct, FFB h/.....	2,700,000	0	3,000,000	0	1,000,000	0	4,000,000	0
Direct, FFB loan modification - 2005	0	0	0	0	0	0	0	0
Hurricanes Supplemental g/.....	0	908	0	7,092	0	-7,092	0	0
Electric Underwriting Loans g/.....	1,500,000	0	500,000	0	-500,000	0	0	0
Guaranteed, Electric.....	0	0	0	0	0	0	0	0
Total Electric.....	5,389,764	7,006	4,688,025	10,706	-588,025	-10,586	4,100,000	120
Telecommunications Loans:								
Direct, 5% d/.....	145,000	0	143,513	531	1,487	-415	145,000	116
Direct, Treasury Rate.....	419,760	210	246,667	74	3,333	1,601	250,000	1,675
Direct, FFB g/.....	125,000	0	299,000	0	-4,000	1,829	295,000	1,829
Direct, FFB - 2005 Hurricanes Supplemental g/.....	0	0	0	0	0	0	0	0
Total Telecommunications.....	689,760	210	689,180	605	820	3,015	690,000	3,620
Total loans and subsidies.....	6,079,524	7,216	5,377,205	11,311	-587,205	-7,571	4,790,000	3,740
Total administrative expenses f/.....	0	38,396	0	39,101	0	-2,092	0	37,009
2005 Hurricanes Emer. Supplemental g/	-50,000	-8,000	0	0	0	0	0	0
Unobligated balance available, start of year.....	0	0	0	-7,092	0	0	0	0
Unobligated balance expiring.....	50,000	0	0	0	0	0	0	0
Unobligated balance available, end of year.....	0	7,092	0	0	0	0	0	0
Rescission h/.....	16,258	452	0	0	0	0	0	0
Total Appropriation.....	6,095,782	45,156	5,377,205	43,320	-587,205	-9,663	4,790,000	40,749

Staff-years are reflected in the Salaries and Expenses Project Statement.

- a/ Zero subsidy rate was calculated in FY 2007. Therefore, corresponding budget authority is not required to support the program levels.
- b/ Negative subsidy rates of 0.48%, 1.19%, and 0.70% were calculated for FY 2006, FY 2007, and FY 2008, respectively. Therefore, corresponding budget authority is not required to support the program levels.
- c/ Negative subsidy rates of 1.26% and 0.44% were calculated for FY 2006 and FY 2007, respectively. Therefore, corresponding budget authority is not required to support program levels.
- d/ Negative subsidy rate of 1.80% was calculated for FY 2006. Therefore, corresponding budget authority is not required to support the program level.
- e/ Negative subsidy rates of 1.57% and 1.49% were calculated for FY 2006 and FY 2007, respectively. Therefore, corresponding budget authority is not required to support the program levels.
- f/ In FY 2006, funding of \$38,396,160 was appropriated and transferred to the Rural Development Salaries and Expenses account. In FY 2007, funding of \$39,101,000 is estimated and will be transferred to the Rural Development Salaries and Expenses account. In FY 2008, funding of \$37,009,000 is requested and shall be paid to the Rural Development Salaries and Expenses account.
- g/ Provided by the Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza Act, 2006, P.L. 109-148, signed December 30, 2005, to respond to damage caused by hurricanes that occurred during the 2005 calendar year.
- h/ The FY 2006 amounts are rescinded pursuant to Section 3801 of Division B, Title III, Chapter 8 of P.L. 109-148.

JUSTIFICATION OF INCREASES AND DECREASES

- (1) An increase of \$981,000 in direct 5% electric loan level (\$99,019,000 available in 2007).

This level of funding will meet the needs of borrowers qualifying for the hardship loan program.

- (2) A decrease of \$990,000,000 in direct Treasury rate electric loan level (\$990,000,000 available in FY 2007).

In an effort to increase program efficiency, the budget does not include funding for this program. The direct FFB program is being increased by \$1.0 billion to accommodate the needs of the distribution borrowers normally utilizing this program.

- (3) A decrease of \$99,006,000 in direct municipal rate electric loan level (\$99,006,000 available in FY 2007).

This program has outlived its usefulness due to the fact that many borrowers qualifying for this program choose funding from the direct FFB program rather than remain in the funding queue for long periods. The 30 year rate for municipal rate loans is approximately the same as the 30 year rate for direct loans from the Federal Financing Bank.

- (4) An increase of \$1,000,000,000 in direct FFB electric loan level (\$3,000,000,000 available in FY 2007).

The increase in funding will meet the demand for funds for distribution borrowers as well as the demand for new transmission, environmental upgrades, and improvements in existing generation plants.

- (5) A decrease of \$500,000,000 in direct electric underwriting loan level (\$500,000,000 available in FY 2007).

Program has reached the cap mandated by law.

- (6) An increase of \$1,487,000 in direct telecommunication loan level (\$143,514,000 available in FY 2007).

The increase restores the lending level to previously requested lending levels of \$145 million annually and is in line with program demand.

- (7) An increase of \$3,333,000 in direct Treasury rate telecommunication loan level (\$246,667,000 available in FY 2007).

The increase restores the lending level to previously requested lending levels of \$250 million annually and is in line with program demand.

- (8) A decrease of \$4,000,000 in direct FFB telecommunication loan level (\$299,000,000 available in FY 2007).

The program level of \$295 million reflects the historically requested lending levels of \$120 million in loan guarantees and \$175 million in lending authority to compensate for the elimination of Rural Telephone Bank funding.

- (9) A decrease of \$479,000 in loan subsidy for electric and telecommunications programs (\$4,219,000 available in 2007).

The requested subsidy amount is necessary to support the estimated loan obligations associated with the requested FY 2008 loan levels for the total electric and telecommunications direct loan programs. The decrease is due changes in the methodology in calculating the borrower rate for the municipal electric, FFB electric, as well as the annual technical assumption changes which included default curves for the FFB electric and telephone loans programs, and to the recovery rates for all programs.

- (10) A decrease of \$2,092,000 administrative expenses (\$39,101,000 available in 2007).

Justifications for administrative expenses in the amount of \$37,009,000 and the associated staff-years are reflected in the Rural Development Salaries and Expenses Project Statement.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Electric Loans - Direct 5% and Municipal

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Delaware	16,800,000	--	--
Iowa	3,500,000	--	--
Kansas	4,586,000	--	--
Minnesota	46,462,000	--	--
Mississippi	37,993,000	--	--
Missouri	5,356,000	--	--
New Mexico	7,818,000	--	--
North Carolina	21,811,000	--	--
North Dakota	14,257,000	--	--
Texas	16,651,356	--	--
Virginia	16,000,000	--	--
Wyoming	8,530,000	--	--
Total Avail./Est.	<u>\$199,764,356</u>	<u>\$198,025,310</u> ^{1/}	<u>\$100,000,000</u> ^{1/}

Modifications Costs for Electric Loans Hurricanes Natural Disaster

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Unavailable	<u>\$907,712</u>	--	--
Total Avail./Est.	<u>\$907,712</u> ^{2/}	--	--

^{1/} Cannot be distributed by geographic area in advance.

^{2/} Unavailable by State. However, modifications were approved for borrowers in Mississippi and Louisiana.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Electric Loans - Treasury Rate

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alabama	\$33,580,000	--	--
Arizona	3,836,000	--	--
Arkansas	26,558,000	--	--
Colorado	50,124,000	--	--
Florida	83,132,000	--	--
Georgia	27,841,000	--	--
Illinois	4,000,000	--	--
Indiana	28,700,000	--	--
Kentucky	32,230,000	--	--
Louisiana	5,897,000	--	--
Maryland	97,885,000	--	--
Minnesota	10,853,000	--	--
Mississippi	28,500,000	--	--
Missouri	74,788,000	--	--
Montana	6,088,000	--	--
New Mexico	38,019,000	--	--
North Carolina	116,676,000	--	--
Ohio	46,349,000	--	--
Oklahoma	10,960,000	--	--
Pennsylvania	40,500,000	--	--
South Carolina	140,801,000	--	--
Tennessee	14,500,000	--	--
Texas	29,883,000	--	--
Virginia	17,000,000	--	--
Washington	9,000,000	--	--
Wisconsin	12,300,000	--	--
Total Avail./Est.	<u>\$990,000,000</u>	<u>\$990,000,000</u> ^{1/}	<u>--</u>

^{1/} Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Electric Loans - FFB

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alabama	\$335,312,000	--	--
Arizona	49,575,000	--	--
Arkansas	71,762,000	--	--
California	11,000,000	--	--
Colorado	202,240,000	--	--
Florida	46,546,000	--	--
Georgia	92,084,000	--	--
Iowa	76,404,000	--	--
Kansas	10,760,000	--	--
Kentucky	481,388,000	--	--
Minnesota	303,799,000	--	--
Missouri	255,322,000	--	--
North Dakota	168,567,000	--	--
Ohio	145,447,000	--	--
Oklahoma	133,596,000	--	--
Rhode Island	600,000	--	--
South Carolina	8,595,000	--	--
Texas	279,618,000	--	--
Wyoming	27,385,000	--	--
Total Avail./Est.	<u>\$2,700,000,000</u>	<u>\$3,000,000,000</u> ^{1/}	<u>4,000,000,000</u> ^{1/}

Guaranteed Underwriting Loans

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Virginia	<u>\$1,500,000,000</u>	<u>\$500,000,000</u>	--
Total Avail./Est.	<u>\$1,500,000,000</u>	<u>\$500,000,000</u> ^{1/}	--

^{1/} Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Telephone Loans - Direct 5% and Treasury Rate

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alabama	\$2,505,000	-	-
Arkansas	51,949,000	-	-
California	15,622,000	-	-
Colorado	16,529,000	-	-
Iowa	8,390,000	-	-
Kansas	105,195,920	-	-
Missouri	42,960,000	-	-
Montana	28,125,000	-	-
New Mexico	73,295,000	-	-
North Carolina	10,596,000	-	-
North Dakota	33,595,000	-	-
Oklahoma	5,934,000	-	-
South Dakota	40,081,000	-	-
Tennessee	48,790,000	-	-
Texas	62,452,080	-	-
Washington	12,659,000	-	-
Wisconsin	6,082,000	-	-
Total Avail./Est.	<u>\$564,760,000</u>	<u>\$390,180,170</u> 1/	<u>\$395,000,000</u> 1/

Telephone Loans FFB

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alabama	\$28,162,000	-	-
Georgia	23,877,000	-	-
New York	2,351,000	-	-
North Carolina	3,500,000	-	-
South Carolina	35,516,000	-	-
South Dakota	28,120,000	-	-
Wisconsin	3,474,000	-	-
Total Avail./Est.	<u>125,000,000</u>	<u>\$299,000,000</u> 1/	<u>\$295,000,000</u> 1/

1/ Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE

RURAL ELECTRIFICATION AND TELECOMMUNICATIONS PROGRAM ACCOUNT

Classification by Objects
2006 Actual and Estimates 2007 and 2008

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Other Objects:			
25 Other purchases of goods and services from government accounts.....	\$38,396,160	\$39,101,000	\$37,009,000
41 Grants, subsidies, and contributions.....	7,215,992	11,311,288	3,740,000
Total direct obligations.....	<u>45,612,152</u>	<u>50,412,288</u>	<u>40,749,000</u>

RURAL TELEPHONE BANK

PROJECT STATEMENT

(On basis of appropriated/supportable loan level, subsidy, and administrative expenses)
(In thousands of dollars)

Item Change	2006 Actual		2007 Estimated		Increase or Decrease		2008 Estimated	
	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA
Rural Telephone Bank:								
Direct Loans	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total loans and subsidies.....	0	0	0	0	0	0	0	0
Total Administrative Expenses a/...	0	2,475	0	0	0	0	0	0
Total Available or Estimate.....	0	2,475	0	0	0	0	0	0
Rescission b/.....	0	25	0	0	0	0	0	0
Total Appropriation.....	0	2,500	0	0	0	0	0	0

Staff-years are reflected in the Salaries and Expenses Project Statement.

a/ In FY 2006, funding of \$2,475,000 was appropriated and transferred to the Rural Development Salaries and Expenses account.

b/ The FY 2006 amount is rescinded pursuant to Section 3801 of Division B, Title III, Chapter 8 of P.L. 109-148.

There is no activity for Rural Telephone Bank in FY 2007 and FY 2008 because the Bank is in the process of dissolution. The Rural Telephone Bank outstanding loans are included in the Rural Electrification and Telecommunications Program Account.

RURAL UTILITIES SERVICE

RURAL TELEPHONE BANK

Classification by Objects
2006 Actual and Estimated 2007 and 2008

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Other Objects:			
25 Other purchases of goods and services from government accounts.....	\$2,475,000	\$0	\$0
Total direct obligations.....	<u>2,475,000</u>	<u>0</u>	<u>0</u>

RURAL UTILITIES SERVICE

The estimates include appropriation language for this item as follows (new language underscores):

Distance Learning, Telemedicine and Broadband Program

For the principal amount of broadband telecommunication loans, \$300,000,000.

For grants for telemedicine and distance learning services in rural areas, as authorized by 7 U.S.C. 950aaa et seq., \$24,750,000, to remain available until expended.

For the cost of broadband loans, as authorized by 7 U.S.C. 901 et seq., \$6,450,000: Provided, That the cost of direct loans shall be as defined in section 502 of the Congressional Budget Act of 1974.

RURAL UTILITIES SERVICE

Analysis of Change in AppropriationDISTANCE LEARNING, TELEMEDICINE AND BROADBAND PROGRAM

(On basis of loan levels, subsidies, and grants)

	<u>Loan Level</u>	<u>Subsidy</u>	<u>Grants</u>
Estimate, 2007.....	\$503,535,000	\$10,826,000	\$33,660,000
Budget Estimate 2008.....	<u>300,000,000</u>	<u>6,450,000</u>	<u>24,750,000</u>
Decrease in Appropriations.....	<u><u>-203,535,000</u></u>	<u><u>-4,376,000</u></u>	<u><u>-8,910,000</u></u>

PROJECT STATEMENT
(On basis of appropriated/supportable loan levels, subsidies, and grants)
(In thousands of dollars)

Item of Change	2006 Actual		2007 Estimated		Increase or Decrease		2008 Estimated	
	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA
Discretionary:								
Distance learning and telemedicine:								
Direct loans	\$4,124	\$62	\$0	\$0	\$0	\$0	\$0	\$0
Grants	56,325	56,325	24,750	24,750	0	0	24,750	24,750
Public broadcasting systems grants	4,970	4,970	0	0	0	0	0	0
Broadband telecommunication:								
Direct 4% loans	0	0	0	0	0	0	0	0
Direct, Treasury rate loans	329,209	7,078	503,535	10,826	-203,535 (1)	-4,376 (3)	300,000	6,450
Guaranteed loans	0	0	0	0	0	0	0	0
Grants	8,910	8,910	8,910	8,910	-8,910 (2)	-8,910	0	0
Total Available or Estimate	403,538	77,345	537,195	44,486	-212,445	-13,286	324,750	31,200
Recovery of prior year obligations	-3,597	-3,597	0	0	0	0	0	0
Unobligated balance available, start of year	-529,080	-49,568	0	0	0	0	0	0
Rescission - 2005 hurricanes emer. suppl. a/	9,900	9,900	0	0	0	0	0	0
Transfer to the Working Capital Fund	113,546	2,441	0	0	0	0	0	0
Unobligated balance expiring	2,201	47	0	0	0	0	0	0
Unobligated balance available, end of year	561,852	13,056	0	0	0	0	0	0
Rescission b/	5,640	501	0	0	0	0	0	0
Total Appropriation, Discretionary	564,000	50,125	537,195	44,486	-212,445	-13,286	324,750	31,200
Mandatory:								
Transfer from CCC	0	-50,000	0	-10,000	0	10,000	0	0
Broadband telecommunication:								
Direct 4% loans	0	0	0	0	0	0	0	0
Direct, Treasury rate loans	0	0	0	0	0	0	0	0
Guaranteed loans	0	0	0	0	0	0	0	0
Total Available or Estimate	0	-50,000	0	-10,000	0	10,000	0	0
Unobligated balance available, start of year c/	-209,209	-38,210	-209,209	-88,210	209,209	88,210	0	0
Unobligated balance available, end of year	209,209	88,210	0	0	0	0	0	0
Rescission - Deficit Reduction Act of 2005	0	0	209,209	98,210	0	0	0	0
Rescission	0	0	0	0	0	0	0	0
Total Appropriation, Mandatory	0	0	0	0	209,209	98,210	0	0
Total Appropriation	564,000	50,125	537,195	44,486	-3,236	84,924	324,750	31,200
Staff-years are reflected in the Salaries and Expenses Project Statement.								

a/ The FY 2006 amount is rescinded pursuant to Division B, Title III, Chapter 1 of P.L. 109-148.

b/ The FY 2006 amount is rescinded pursuant to Section 3801 of Division B, Title III, Chapter 8 of P.L. 109-148.

c/ The authority to obligate funds previously made available under section 601(j)(1) of the Rural Electrification Act of 1936 for a fiscal year and unobligated as of October 1, 2006 was cancelled pursuant to section 1401 of the Deficit Reduction Act of 2005, P.L. 109-171, dated February 8, 2006.

PROJECT STATEMENT
(On basis of available/supportable loan levels, subsidies, and grants)
(In thousands of dollars)

Item of Change	2006 Actual		2007 Estimated		Increase or Decrease		2008 Estimated	
	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA	Program Level	Subsidy/ BA
Discretionary:								
Distance Learning and telemedicine:								
Direct loans	\$4,124	\$62	\$155,760	\$981	-\$155,760	-\$981	\$0	\$0
Grants	56,325	56,325	25,042	25,042	-292	-292	24,750	24,750
Public Broadcasting Systems Grants	4,970	4,970	0	0	0	0	0	0
Broadband telecommunication:								
Direct 4% Loans	0	0	0	0	0	0	0	0
Direct, Treasury Rate Loans	329,209	7,078	998,534	21,468	-698,534	-15,018	300,000	6,450
Guaranteed Loans	0	0	0	0	0	0	0	0
Grants	8,910	8,910	10,051	10,051	-10,051	-10,051	0	0
Total Available or Estimate.....	403,538	77,345	1,189,387	57,542	-864,637	-26,342	324,750	31,200
Recovery of prior year obligations	-3,597	-3,597	0	0	0	0	0	0
Unobligated balance available, start of year	-529,080	-49,568	-652,192	-13,056	652,192	13,056	0	0
Rescission - 2005 Hurricanes Emer. Suppl. g/	9,900	9,900	0	0	0	0	0	0
Transfer to the Working Capital Fund	113,546	2,441	0	0	0	0	0	0
Unobligated balance expiring	2,201	47	0	0	0	0	0	0
Unobligated balance available, end of year	561,852	13,056	0	0	0	0	0	0
Rescission b/	5,640	501	0	0	0	0	0	0
Total Appropriation, Discretionary	564,000	50,125	537,195	44,486	-212,445	-13,286	324,750	31,200
Mandatory:								
Transfer from CCC	0	-50,000	0	-10,000	0	10,000	0	0
Broadband telecommunication:								
Direct 4% Loans	0	0	0	0	0	0	0	0
Direct, Treasury Rate Loans	0	0	0	0	0	0	0	0
Guaranteed Loans	0	0	0	0	0	0	0	0
Unobligated balance available, start of year c/	-209,209	-38,210	-209,209	-88,210	209,209	88,210	0	0
Unobligated balance available, end of year	209,209	88,210	0	0	0	0	0	0
Rescission - Deficit Reduction Act of 2005	0	0	209,209	98,210	0	0	0	0
Rescission	0	0	0	0	0	0	0	0
Total Appropriation, Mandatory	0	0	0	0	209,209	98,210	0	0
Total Appropriation	564,000	50,125	537,195	44,486	-3,236	84,924	324,750	31,200
Staff-years are reflected in the Salaries and Expenses Project Statement.								

a/ The FY 2006 amount is rescinded pursuant to Division B, Title III, Chapter 1 of P.L. 109-148.

b/ The FY 2006 amount is rescinded pursuant to Section 3801 of Division B, Title III, Chapter 8 of P.L. 109-148.

c/ The authority to obligate funds previously made available under section 601(j)(1) of the Rural Electrification Act of 1936 for a fiscal year and unobligated as of October 1, 2006 was cancelled pursuant to section 1401 of the Deficit Reduction Act of 2005, P.L. 109-171, dated February 8, 2006.

JUSTIFICATION OF DECREASES

- (1) A decrease of \$203,535,000 in direct broadband Treasury rate loan level (\$503,535,000 available in 2007).

Available funding in recent years has significantly outpaced demand. Over \$38 million in unused budget authority (approximately \$1.5 billion in program level) has been rescinded and \$495 million in unused program level was carried forward to 2007.

- (2) A decrease of \$8,910,000 in broadband telecommunication grants (\$8,910,000 available in 2007).

Consistent with the previous budget requests, the budget is not requesting funds for this program. Building broadband infrastructure in rural America is expensive and requires extensive amounts of capital. A loan program is more suited to supporting this kind of activity.

- (3) A decrease of \$4,376,000 in loan subsidy for direct broadband Treasury rate loan program (\$10,826,000 available in 2007).

The requested subsidy amount is necessary to support the estimated loan obligations associated with the requested FY 2008 loan levels for the direct broadband Treasury rate loan program. The reduction in subsidy reflects annual technical assumption changes as well as a reduced loan level.

RURAL DEVELOPMENT
 GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
 2006 Actual and Estimated 2007 and 2008

Distance Learning and Telemedicine Loans

	<u>2006</u>	<u>2007</u>	<u>2008</u>
New Hampshire	<u>\$4,123,636</u>	<u>--</u>	<u>--</u>
Total Avail./Est.	<u><u>\$4,123,636</u></u>	<u><u>\$155,760,470</u></u> ^{1/}	<u><u>--</u></u>

^{1/} Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Distance Learning and Telemedicine Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alabama	\$789,942	-	-
Alaska	3,632,824	-	-
Arizona	909,202	-	-
Arkansas	1,902,158	-	-
California	266,064	-	-
Colorado	1,010,160	-	-
Georgia	987,337	-	-
Hawaii	819,742	-	-
Idaho	433,229	-	-
Illinois	532,478	-	-
Indiana	595,305	-	-
Iowa	198,000	-	-
Kansas	1,289,041	-	-
Kentucky	1,007,904	-	-
Louisiana	622,015	-	-
Maine	3,505,910	-	-
Michigan	2,690,331	-	-
Minnesota	1,520,099	-	-
Mississippi	1,660,411	-	-
Missouri	829,674	-	-
Montana	783,613	-	-
Nebraska	2,349,013	-	-
Nevada	974,872	-	-
New Hampshire	1,660,334	-	-
New Mexico	1,226,212	-	-
New York	3,373,233	-	-
North Carolina	310,141	-	-
North Dakota	462,617	-	-
Ohio	1,006,686	-	-
Oklahoma	3,092,268	-	-
Oregon	962,189	-	-
Pennsylvania	1,735,136	-	-
South Carolina	334,485	-	-
South Dakota	2,345,910	-	-
Tennessee	1,670,511	-	-
Texas	3,148,543	-	-
Vermont	73,000	-	-
Virginia	604,166	-	-
Washington	1,591,226	-	-
West Virginia	2,387,412	-	-
Wisconsin	536,892	-	-
Wyoming	494,748	-	-
Total Avail./Est.	<u>\$56,325,033</u>	<u>\$25,041,586 1/</u>	<u>\$24,750,000 1/</u>

1/ Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Public Broadcasting Systems Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alaska	\$1,966,075	--	--
Idaho	308,512	--	--
Kansas	110,525	--	--
Michigan	1,000,000	--	--
Nebraska	294,950	--	--
New Hampshire	172,827	--	--
New Mexico	629,898	--	--
Oregon	138,106	--	--
Wyoming	349,107	--	--
Total Avail./Est.	<u>\$4,970,000</u>	<u>--</u>	<u>--</u>

Broadband Telecommunications Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alaska	\$1,031,133	--	--
Idaho	162,941	--	--
Kentucky	944,795	--	--
Mississippi	471,831	--	--
New Mexico	3,310,370	--	--
Oklahoma	1,784,382	--	--
Virginia	675,208	--	--
Washington	529,340	--	--
Total Avail./Est.	<u>\$8,910,000</u>	<u>\$10,050,772</u> ^{1/}	<u>--</u>

^{1/} Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

Direct Broadband Telecommunications Loans - Treasury Rate

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Florida	\$14,479,000	--	--
Georgia	33,809,000	--	--
Illinois	127,798,000	--	--
Iowa	9,475,000	--	--
Kentucky	7,599,000	--	--
Michigan	5,752,000	--	--
Minnesota	4,641,000	--	--
Missouri	9,299,000	--	--
Nevada	23,538,000	--	--
New York	5,276,000	--	--
Ohio	6,167,000	--	--
South Dakota	3,382,000	--	--
Texas	11,828,000	--	--
Utah	66,166,000	--	--
Total Avail./Est.	<u>\$329,209,000</u>	<u>\$998,534,880</u> <u>1/</u>	<u>\$300,000,000</u> <u>1/</u>

1/ Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE

DISTANCE LEARNING, TELEMEDICINE AND BROADBAND PROGRAM

Classification by Objects
2006 Actual and Estimated 2007 and 2008

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Other Objects:			
41 Grants, subsidies, and contributions.....	<u>\$77,344,881</u>	<u>\$57,542,149</u>	<u>\$31,200,000</u>
Total direct obligations.....	<u>77,344,881</u>	<u>57,542,149</u>	<u>31,200,000</u>

RURAL UTILITIES SERVICE

HIGH COST ENERGY GRANTSPROJECT STATEMENT

(On basis of appropriation transfer)

(In thousands of dollars)

Item of Change	2006 Actual	2007 Estimated	Increase or Decrease	2008 Estimated
High cost energy grants	\$38,504	\$0	\$0	\$0
Total Available or Estimate.....	38,504	0	0	0
Transfer from Rural Community				
Advancement Program.....	0	0	0	0
Unobligated balance available, start of year....	-30,278	-17,514	17,514	0
Unobligated balance available, end of year....	17,514	0	0	0
Rescission of unobligated balance.....	0	17,514	-17,514	
Total Appropriation.....	25,740	0	0	0

Staff years are reflected in the Salaries and Expenses Project Statement.

PROJECT STATEMENT

(On basis of available funds)

(In thousands of dollars)

Item of Change	2006 Actual	2007 Estimated	Increase or Decrease	2008 Estimated
High cost energy grants.....	\$38,504	\$0	\$0	\$0
Total Available or Estimate.....	38,504	0	0	0
Transfer from Rural Community				
Advancement Program.....	0	0	0	0
Unobligated balance available, start of year....	-30,278	-17,514	17,514	0
Unobligated balance available, end of year....	17,514	0	0	0
Rescission of unobligated balance.....	0	17,514	-17,514	
Total Appropriation.....	25,740	0	0	0

Staff years are reflected in the Salaries and Expenses Project Statement.

RURAL UTILITIES SERVICE
 GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
 2006 Actual and Estimated 2007 and 2008

High Energy Cost Grants

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Alabama	\$855,760	--	--
Alaska	22,847,276	--	--
Arizona	2,157,800	--	--
Hawaii	450,000	--	--
Idaho	3,775,000	--	--
Nevada	2,382,000	--	--
New Mexico	2,561,625	--	--
Washington	3,474,177	--	--
Total Avail./Est.	<u>\$38,503,638</u>	<u>--</u>	<u>--</u>

RURAL UTILITIES SERVICE
HIGH ENERGY COST GRANTS

Classification by Objects
2006 Actual and Estimated 2007 and 2008

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Other Objects:			
41 Grants, subsidies, and contributions.....	\$38,503,638	0	\$0
Total direct obligations.....	<u>38,503,638</u>	<u>0</u>	<u>0</u>

RURAL DEVELOPMENT UTILITIES PROGRAM

STATUS OF PROGRAMS

Rural Electrification and Telecommunications Loans Program

Current Activities: The Rural Development utilities program provides electric and telecommunications financing through loan and loan guaranteed programs. The rural electric direct and loan guarantee programs provide financing for the operation of generating plants, electric transmission, and distribution lines or systems. The telecommunications loan program provides direct loans for construction, expansion, and operation of telecommunications lines and facilities or systems.

Specific areas being addressed currently include:

1. Financing projects to improve electric service in rural areas.
2. Financing projects to improve telecommunication service in rural areas.

Selected Examples of Recent Progress:

Electric Program

The electric program makes loans and loan guarantees to finance the construction of electric distribution, transmission and generation facilities, including system improvements and replacements required to furnish and improve electric service in rural areas, and for demand side management, energy conservation programs, and on-grid/off-grid renewable energy systems. Loans are made to corporations, States, territories, subdivisions and agencies such as municipalities, utility districts, cooperatives, nonprofits, limited-dividends, or mutual associations that provide retail electric service needs to rural areas or power supply needs of distribution borrowers in rural areas. The electric program services nearly 700 active electric borrowers in 46 States, plus the active territories of the Marshall Islands, Puerto Rico, and American Samoa.

In FY 2006, the electric program approved 117 loans and loan guarantees totaling nearly \$5.4 billion. Some of the loans and loan guarantees that were approved follow:

- \$99 million for 6 loans in the direct electric loan program
- \$990 million for 62 loans in the treasury rate loan program
- Over \$100 million for 13 loans in the municipal rate loan program
- \$2.7 billion for 36 loans in the guaranteed loan program

Distribution Projects: In 2006, 95 distribution loans were made totaling almost \$2.9 billion.

Generation and Transmission Projects: In 2006, 23 generation and transmission loans were made totaling over \$2.5 billion.

The \$5.4 billion in financing supported projects in 1,823 of the 2,500 non-metropolitan counties, including 333 counties classified as persistent poverty counties and 805 counties classified as out-migration counties. The financing contributed to the creation of over 123,965 jobs in rural areas.

PART Assessments

For the FY 2004 budget cycle, the electric programs' PART received a "Results Not Demonstrated" rating. A rePART was submitted to OMB in FY 2004 in which the electric program developed new performance measures, ambitious targets and inclusion in the USDA Strategic Plan. These changes resulted in the rating of "adequate".

Telecommunications Program

The telecommunications program makes direct loans for construction, expansion, and operation of telecommunications lines and facilities or systems. Rural Development continues to fund the deployment of advanced telecommunications facilities in rural America. This continued investment results in many financial and technical benefits for the borrowers. One result is the availability of new or improved service for the borrower's customers, the residents and businesses that they serve. In some cases, the financing provided by Rural Development reduces the operating and capital costs of the borrower, without a direct increase in the number of subscribers.

In FY 2006, the telecommunications program approved almost \$700 million in infrastructure program loans.

Through this funding, rural telecommunications providers will be able to deploy new or improved service to more than 297,027 rural subscribers.

One recent project receiving Rural Development loan financing provided telephone service in Robbs Creek Exchange, a previously unserved area in northeast lower Michigan. Allband Communications Cooperative will provide telephone and broadband services to its members and is the first and only telephone cooperative in the state of Michigan. The service area encompasses 177 square miles with approximately 300 potential customers. Service to the remaining potential customers will be offered in 2007. Allband is the first telephone company in the state of Michigan to be 100 percent fiber, including fiber to the home. All facilities excluding the central office building are buried underground. The network is state-of-the-art consisting of a passive optical network with a soft switch. In addition to traditional telephone services, Allband members will be able take advantage of high-speed Internet access.

PART Assessments

In FY 2004, the telecommunications loan program received a rating of "adequate." The telecommunications program continues to evaluate internal data sources and information received from borrowers to determine if the PART measures and targets are appropriate.

Distance Learning, Telemedicine and Broadband Program

Current Activities: The distance learning, telemedicine and broadband program provides loans and grants for the deployment of equipment utilized in providing distance learning and telemedicine services to rural schools, educational institutions and health care providers, in addition to financing advanced telecommunications networks capable of delivering broadband service to rural residents and businesses.

Specific areas being addressed currently include:

1. Financing projects to provide rural access to adequate medical and educational services.
2. Financing projects to provide rural access to high-speed internet services.

Selected Examples of Recent Progress: Recent accomplishments under this appropriation item are cited below by project:

Distance Learning and Telemedicine Program

The distance learning and telemedicine program provides 653 rural counties with telemedicine and distance learning services through loan and grant programs.

In FY 2006, the distance learning and telemedicine program approved almost \$31 million in distance learning and telemedicine loans and grants.

Through the outreach efforts under the President's Faith-Based and Community Initiatives, more than two dozen rural mental health centers will benefit from a \$475,000 grant to build a communications network to allow for assessment, supervision and family education to be provided over long distances. The award was made through the distance learning and telemedicine program to the Minnesota Association of Community Mental Health Programs (MACMHP), a non-profit organization. The 25 member centers contributed \$250,000 in matching funds to attract the grant from Rural Development. The project is one of the largest of its kind in the country and one of the first times USDA has awarded a large grant for rural mental health. The network will extend beyond the 25 member centers to 80 sites total. The project will help leverage the state's scattered mental health resources to benefit under served rural areas.

PART Assessments

In FY 2004, the distance learning and telemedicine program received a rating of "results not demonstrated" due primarily to the lack of annual and long-term performance goals. Annual and long-term performance measures, targets and baselines were developed in FY 2006 and approved by OMB.

Broadband Program

Along with the traditional telecommunications program, the broadband loan program's rural telecommunications providers will be able to deploy new or improved broadband service to more than 297,000 rural subscribers representing approximately 375 rural communities.

In FY 2006, the broadband program approved almost \$340 million in broadband program loans and grants.

The Town of Nickelsville took advantage of the broadband program to implement a fiber optic network. Town officials are hoping the new service will lead to new business prospects and economic development in their community. The project will enable the provision of broadband services, including affordable high-speed Internet access and digital television and telephone services, to households and businesses in the Town of Nickelsville and the surrounding areas. In addition, a new public Internet access site connected to the fiber optic network has been established at the Nickelsville Community Center. The availability of fast broadband helps to level the economic development playing field by allowing rural communities like Scott County to offer the same services as those in larger areas. The introduction of the fiber optic network is expected to draw small companies to rural areas like Nickelsville.

PART Assessments

An initial PART of the broadband loan program was completed in FY 2006. The program was rated "ineffective" primarily due to the inability of the program to meet its annual performance goals. The agency has requested a rePART of the broadband loan program in FY 2007.

Water and Waste Disposal Direct Loans and Grants

Current Activities: The water and environmental program has a leading role in providing rural communities with modern, affordable water and waste disposal services. The water program directs technical and financial program resources to rural communities with the greatest need. These communities may be poverty-stricken as a result of out-migration, natural disasters or economic stress. However, rural communities can sustain economic development and improve the quality of life for their residents with dependable water and waste services and infrastructure. By making direct or guaranteed loans and grants available for water and waste disposal projects, rural communities are able to invest in infrastructure; technology; and technical, financial and managerial skills development of rural residents.

Specific areas being addressed currently include:

- Building leveraging partnerships to expand resources going to rural areas,
- Directing resources to the neediest projects and communities,
- Working with local communities and other borrowers to ensure funds are invested wisely,
- Focusing on maintaining sustainable water systems in rural communities,
- Improving the loan to grant mix so that more loan dollars are used by systems that can afford maximum debt capacity, and
- Limiting grant funds to the most financially needy systems.

Selected Examples of Recent Progress: In FY 2006, Rural Development invested \$1.5 billion in direct and guaranteed loans and grants to help rural communities develop 1,207 water and waste disposal facilities. These facilities provided new or improved water and waste disposal services to 1,637,554 borrowers' subscribers (or customers). Funding activities included:

- \$1.4 billion in water program's direct loans and grants were made to develop 972 facilities.
- \$48 million assisted 110 projects in disadvantaged communities.
- \$33 million funded 43 projects in communities qualifying for emergency assistance.
- \$35 million funded 48 grants to technical assistance providers.
- \$7 million funded 9 projects in Empowerment Zones/Enterprise Communities/Rural Economic Area Partnership areas.
- \$964,000 in Colonias grants were made to 259 individuals and families for home improvements.
- \$2.5 million in guaranteed loans were made.
- \$15 million funded 10 projects for areas affected by hurricanes in 2005.
- \$300,000 funded individually-owned water well systems grants.
- \$495,000 funded water and wastewater revolving fund grants.
- \$481,000 funded 46 predevelopment planning grants to assist in preparing applications for water programs funds.

Other activities included:

- 53,000 technical assistance calls were completed by circuit riders.
- 31 projects were administered for partner organizations.

The water program successfully implemented several recommendations made in the FY 2003 PART and in response to OIG audits:

- An underwriting program was implemented in FY 2005 to assist in identifying applicants that have the resources and ability to use commercial credit as part of their financing packages. FY 2006 yielded the first full year of data, which showed 52.44 percent of assistance requested by applicants was referred to other commercial credit. The goal was six percent.
- The ratio of loan to grant funds obligated for FY 2006 was 74 percent loan and 26 percent grant under the water program. (The PART annual goal was 67 percent loan and 33 percent grant). Because grant funds were limited, the underwriting program that was implemented improved the water program's performance in determining a community's maximum debt capacity. The result was that the program reached more communities needing Federal assistance.

- The water program achieved 33.61 percent in leveraged funds for project development, exceeding its FY 2006 target of 29.0 percent. The water program focused on more cooperative arrangements and partnerships with other Federal and state agencies and other organizations to provide funding that reduced communities' and utilities' reliance on Rural Development grant funds. Leveraging combined with more Rural Development loan funds resulted in financial investments in more projects so that a greater number of borrowers' customers could be served. Through September 2006, Rural Development had leveraged over \$900 million from other sources with \$1.84 billion of Rural Development funds.

PART Assessments

The water program received an "effective" rating from OMB after submitting a re-PART in FY 2005. It has implemented four performance indicators for its annual measures. The annual measures for which data and reports were generated for FY 2006 were discussed in the previous section and listed by performance indicator below:

1. Number of program borrowers' customers receiving new or improved water or waste disposal service,
2. Loan/Grant Ratio,
3. Leveraged funds for project development, and
4. Referrals to commercial credit.

One long-term performance indicator has been established to focus strategically on reducing exposure to water related health and safety hazards by FY 2010. The goal, over a five-year period from 2006 to 2010, is to impact 25 percent of the rural population. With the need for communities to upgrade aging facilities, meet new quality standards, and increase the security of their operations, the demand for the program has greatly outpaced the yearly funding levels.

A second long-term performance indicator that focuses on maintaining sustainable rural water systems is still under development. The water program will track borrowers' financial ratios to assess the financial performance and viability of its water and wastewater borrowers. Data from annual financial performance reports and audits are being input into the community program application processing (CPAP) system for review and reporting purposes. The water program staff will analyze the data to establish performance benchmarks. Guidelines will be developed to enable the Rural Development staff to analyze the trends in borrowers' operations and financial management. The staff then may flag borrowers who are inexperienced or have the potential to develop financial difficulties and establish a corrective action plan to address sustainability of the utility system. As of September 2006, the Rural Development State offices had entered 5.62 percent of the annual report information into CPAP.

Rural Development

Summary of Budget and Performance Statement of Goals and Objectives

The agency has one strategic goal and one strategic objective that contribute to one of the Department's Strategic Goals and one of the Department's Strategic Objectives.

USDA Strategic Goal/Objective	Agency Strategic Goal	Agency Objectives	Programs that Contribute	Key Outcome
<p>USDA Strategic Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America</p> <p>USDA Strategic Objective 3.1 Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth</p> <p>USDA Strategic Objective 3.2 Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities</p>	<p>Goal 3. Improve the quality of life in Rural America</p>	<p>3.1 Enhance the ability of rural businesses to succeed by providing access to modern telecommunications</p> <p>3.2 Develop community infrastructure</p>	<p><u>Telecommunications Programs</u> Direct Telecommunications Loans Treasury Telecommunications Loans FFB Telecommunications Loans Distance Learning and Telemedicine Loans Distance Learning and Telemedicine Grants Broadband Internet Loans and Grants</p> <p><u>Electric Programs</u> Direct (Hardship) Electric Loans Municipal Rate Electric Loans Treasury Rate Electric Loans FFB Electric Guaranteed Loans Guaranteed Electric Loans</p> <p><u>Water and Environmental Programs</u> Direct Water and Waste Disposal Loans Guaranteed Water & Waste Disposal Loans Water and Waste Disposal Grants Solid Waste Management Grants Emergency & Imminent Community Water Assistance Grants</p>	<p>Provide access to modern telecommunications</p> <p>Develop community infrastructure</p>

Strategic Objective and Funding Matrix

Rural Development							
STRATEGIC OBJECTIVE 3.1: Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth							
STRATEGIC OBJECTIVE 3.2: Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities							
Strategic Objective and Funding Matrix							
(On basis of appropriation in thousands)							
	2006 Actual		2007 Estimated			2008 Estimated	
	Amount	Staff Years	Amount	Staff Years	Increase or Decrease	Amount	Staff Years
Strategic Objective 3.1							
Telecommunications Program	\$1,093,297	174	\$1,226,374	181	(\$211,624)	\$1,014,750	169
Total, Strategic Objective 3.1	\$1,093,297	174	\$1,226,374	181	(\$211,624)	\$1,014,750	169
Strategic Objective 3.2							
Rural Electric Programs	\$5,389,764	191	\$4,688,026	199	(\$588,024)	\$4,100,000	185
Water and Environmental Programs	\$1,484,144	568	\$1,218,940	591	\$285,681	\$1,504,621	552
Total, Strategic Objective 3.2	\$6,873,908	759	\$5,906,966	790	(\$302,343)	\$5,604,621	737
Total, Available	\$7,967,205	933	\$7,133,340	971	(\$513,967)	\$6,619,371	906

Selected Accomplishments Expected at the FY 2008 Proposed Resource Level:

In FY 2008 the telecommunications program expects to fund broadband infrastructure at similar levels to previous years. The percentage of rural households subscribing to broadband service will be constant at just over 100,000. In addition, the telecommunications program expects to improve the service for 125,000 subscribers receiving new or upgraded telecommunications service through its funding of telecommunications infrastructure. Rural electric programs expects a 4 percent annual increase in the electric generation capacity of its borrowers through its funding of new or upgraded facilities, and expects to see 2.5 percent of distribution and transmission lines upgraded. In FY 2008, water and environmental programs expects to fund water facilities which will enable 547,000 subscribers to receive new or improved service, and improve the programs loan/grant ration to 70/30.

Rural Development Utilities Programs

Summary of Budget and Performance
Key Performance Outcomes and Measures**Goal 3:****Key Outcome:** Improve the quality of life in Rural America by Developing Community Infrastructure**Key Performance Measures:**

- Measure #1: Number of telecommunication programs' borrowers' subscribers receiving new or improved service.
- Measure #2: Number of electric programs' borrowers' consumers receiving or upgraded electric service.
- Measure #3: Number of water programs' borrowers' subscribers (or customers) receiving new and/or improved water and/or improved waste disposal service.

Key Performance Targets:

Performance Measure #1	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Target	2008 Target
Telecommunications (includes Broadband)						
a. Number of program borrowers' subscribers receiving new or improved service	382,229	373,813	232,249	297,027	250,116	242,978
b. Program Dollars (in thousands)	\$707,705	\$1,286,371	\$1,256,476	\$1,027,879	\$1,201,626	\$990,000
Distance Learning						
a. Number of counties served by entities receiving distance learning and telemedicine funding	366	289	458	653	380	380
b. Program Dollars (in thousands)	\$54,224	\$56,945	\$86,477	\$65,419	\$24,750	\$24,750

Performance Measure #2	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Target	2008 Target
Hardship, Municipal Rate and Treasury Rate Loans						
a. Number of program borrowers' subscribers receiving new or improved service	1,868,842	3,765,669	2,098,989	2,420,212	2,000,000	125,000
b. Dollars (In Thousands)	\$1,371,638	\$2,066,803	\$1,219,115	\$1,189,764	\$1,188,026	\$100,000
FFB Electric Loans						
a. Number of program borrowers' subscribers receiving new or improved service	1,876,717	560,316	261,488	5,763,437	6,000,000	7,000,000
b. Program Dollars (In Thousands)	\$2,600,000	\$1,765,000	\$2,100,000	\$2,700,000	\$3,000,000	\$4,000,000
Performance Measure #3	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Target	2008 Target
Water and Environmental Programs						
a. Number of program borrowers' subscribers receiving new improved service from Agency's funded water facilities.	593,582	965,780	1,325,000	1,500,000	557,000	547,000
b. Program Dollars (in thousands)	\$1,400,000	\$1,500,000	\$1,500,000	\$1,484,144	\$1,218,940	\$1,504,621

UTILITIES PROGRAMS				
Full Cost by Strategic Goal				
Strategic Objective 3.1: Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities Facilities.				
PROGRAM	PROGRAM ITEMS	2006 AMOUNT (\$000)	2007 AMOUNT (\$000)	2008 AMOUNT (\$000)
Direct Telecommunications Loans, Treasury Telecommunications Loans, and FFB Telecommunications Loans				
	Program Level	\$689,760	\$689,179	\$690,000
	Budget Authority	210	605	3,620
	S&E	8,519	8,155	9,200
	Total Costs	8,729	8,760	12,820
	FTEs	83	87	81
	Performance measure:			
	Number of Customers			
	Target:	297,027	250,116	242,978
	Cost per Unit	0.03	0.04	0.05
Treasury Distance Learning Loans, Distance Learning and Telemedicine Grants, Public Broadcasting System Grants, and Broadband Telecommunication Loans and Grants				
	Program Level	\$403,538	\$537,195	\$324,750
	Budget Authority	77,344	44,486	31,200
	S&E	9,361	8,961	10,111
	Total Costs	86,705	53,447	41,311
	FTEs	91	94	88
	Performance measure:			
	Counties served			
	Target:	653	380	380
	Cost per Unit	132.78	140.65	108.71
Total for Strategic Objective 3.1				
	Program Level	\$1,093,298	\$1,226,374	\$1,014,750
	Budget Authority	77,554	45,091	34,820
	S&E	17,880	17,116	19,311
	Total Costs	95,434	62,207	54,131
	FTEs	174	181	169
	Performance measure:			
	Target:	N/A	N/A	N/A
	Cost per Unit	N/A	N/A	N/A

Full Cost by Strategic Goal

Strategic Objective 3.2: Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities

PROGRAM	PROGRAM ITEMS	2006 AMOUNT (\$000)	2007 AMOUNT (\$000)	2008 AMOUNT (\$000)
Direct Electric Loans, Treasury Electric Loans, Municipal Electric Loans, FFB Electric Loans, Guaranteed Electric Loans and Electric Underwriting Loans for Bonds and Notes				
	Program Level	\$5,389,764	\$4,688,024	\$4,100,000
	Budget Authority	6,098	3,614	120
	S&E	19,475	18,655	21,044
	Total Costs	25,573	22,269	21,164
	FTEs	191	199	185
	Performance measure:			
	Subscribers served			
	Target:	8,183,649	8,000,000	7,125,000
	Cost per Unit	0.00	0.00	0.00
High Energy Cost Grants				
	Program Level	\$38,504	\$0	\$0
	Budget Authority	38,504	0	0
	S&E	11	0	0
	Total Costs	38,515	0	0
	FTEs	0	0	0
	Performance measure:			
	Communities			
	Target:	0	0	0
	Cost per Unit	0	0	0
Direct Water & Waste Disposal Loans, Guaranteed Water & Waste Disposal Loans, Water & Disposal Grants, Solid Waste Management Grants				
	Program Level	\$1,469,045	\$1,218,943	\$1,504,624
	Budget Authority	528,068	494,043	502,779
	S&E	58,164	55,678	62,814
	Total Costs	601,235	549,721	565,593
	FTEs	568	591	552
	Performance measure: # of subscribers receiving new and/or improved water and/or waste disposal service			
	Target:	1,500,000	557,000	547,000
	Cost per Unit	1.05	0.99	1.03
FFB Electric Loans 2005 Hurricanes Modifications Emergency Supplemental				
	Program Level	\$0	\$0	\$0
	Budget Authority	908	0	0
	S&E	0	0	0
	Total Costs	908	0	0
	FTEs	0	0	0
	Performance measure: New/Upgraded Subscribers			
	Target:	0	0	0
	Cost per Unit	0	0	0

PROGRAM	PROGRAM ITEMS	2006 AMOUNT (\$000)	2007 AMOUNT (\$000)	2008 AMOUNT (\$000)
Water and Waste Disp. Grants 2005 Hurricanes Emergency Supplemental				
	Program Level	\$15,099	\$0	\$0
	Budget Authority	15,099	0	0
	S&E	0	0	0
	Total Costs	15,099	0	0
	FTEs	0	0	0
	Performance measure: New/ Upgraded Subscribers			
	Target:	0	0	0
	Cost per Unit	0	0	0
Total for Strategic Objective 3.2				
	Program Level	\$6,912,412	\$5,906,967	\$5,604,624
	Budget Authority	588,677	497,657	502,899
	S&E	77,650	74,333	83,858
	Total Costs	666,327	571,990	586,757
	FTEs	759	790	737
	Performance measure:			
	Target:	N/A	N/A	N/A
	Cost per Unit	N/A	N/A	N/A
Total for Strategic Objectives 3.1 and 3.2				
	Program Level	\$8,005,710	\$7,133,341	\$6,619,374
	Budget Authority	666,232	542,748	537,719
	S&E	95,531	91,449	103,169
	Total Costs	761,763	634,197	640,888
	FTEs	933	971	906
	Performance measure:			
	Target:	N/A	N/A	N/A
	Cost per Unit	N/A	N/A	N/A

** FY 06 targets are based on appropriation.

*** FY 07 data based on a Full Year CR.