

2009 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.

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.

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 Internet-based educational services 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 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.

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.

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, 2007, there were 6,058 permanent full-time employees, including 592 in the headquarters office and 5,466 in field offices.

OIG Reports

09601-004-TE FINAL – Broadband Loan and Grant Programs. The OIG audit’s primary focus centered on the two major areas of concern:

1. Reconsideration of the definition of “rural” and which communities should be considered eligible for financing; and
2. Providing financing in areas where there was already some level of broadband service being provided to at least part of the applicant’s proposed service territory.

Through the rulemaking process, we intend to address these main concerns. The agency’s proposed rule (amending the broadband program regulations) seeks to clarify the definition of rural by omitting urban and suburban areas, target funding to rural areas with little or no broadband access, and limit funding in areas where a significant share of the market is served by incumbent providers.

The agency has been successful in reaching Management Decision with the OIG on all but one of the audit’s recommendations. The only open issue relates to two borrowers from the pilot program whose loans are currently being restructured. It is expected that the agency will reach Management Decision on that recommendation at the conclusion of the workout period this year.

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 Programs Division received a response from the OCFO dated June 1, 2006, accepting final action on recommendations 2, 3 and 4. All recommendations in this audit are closed.

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. On August 8, 2007, the water programs division submitted procedures for Management Control Review and State Internal Review as a final action to a recommendation for internal controls.

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. Program staff had no issues with the comments in the report.

RURAL UTILITIES SERVICE

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

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

1 For the cost of direct loans, loan guarantees, and grants for the rural water, waste water, waste
 2 disposal, and solid waste management programs authorized by sections 306, 306A, 306C, 306D,
 3 and 310B and described in sections 306C(a)(2), 306D, and 381E(d)(2) of the Consolidated Farm
 4 and Rural Development Act, [~~\$562,565,000~~]\$269,007,000, to remain available until expended[, of
 5 which not to exceed \$500,000 shall be available for the rural utilities program described in section
 6 306(a)(2)(B) of such Act, and of which not to exceed \$1,000,000 shall be available for the rural
 utilities program described in section 306E of such Act]: *Provided*, That [~~\$65,000,000~~]\$10,000,000
 of the amount appropriated under this heading shall be for loans and grants including water and
 waste disposal systems grants authorized by 306C(a)(2)(B) and 306D of the Consolidated Farm
 and Rural Development Act and for Federally-recognized Native [~~Americans~~]American
Tribes authorized by 306C(a)(1): *Provided further*, That the Secretary shall allocate the funds
 described in the previous proviso in a manner consistent with the historical allocation for such
 populations under these authorities: *Provided further*, That not to exceed [~~\$18,500,000~~]\$10,000,000
 of the amount appropriated under this heading shall be for technical assistance grants for rural
 water and waste systems pursuant to section 306(a)(14) of such Act[, unless the Secretary makes a
 determination of extreme need, of which \$5,600,000 shall be made available for a grant to a
 qualified non-profit multi-state regional technical assistance organization, with experience in
 working with small communities on water and waste water problems, the principal purpose of such
 grant shall be to assist rural communities with populations of 3,300 or less, in improving the
 planning, financing, development, operation, and management of water and waste water systems,
 and of which not less than \$800,000 shall be for a qualified national Native American organization
 to provide technical assistance for rural water systems for tribal communities]: *Provided further*,
 That not to exceed [~~\$13,750,000~~]\$13,000,000 of the amount appropriated under this heading 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
 [~~\$12,700,000~~]\$6,000,000 of the amount appropriated under this heading shall be available
 through June 30, [~~2008~~]2009, 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
 \$20,000,000 of the amount appropriated under this heading shall be transferred to, and merged
 with, the Rural Utilities Service, High Energy Cost Grants Account to provide grants authorized
 under section 19 of the Rural Electrification Act of 1936 (7 U.S.C. 918a): *Provided further*, That
 any prior year balances for high cost energy grants authorized by section 19 of the Rural
 Electrification Act of 1936 (7 U.S.C. 901(19)) shall be transferred to and merged with the Rural
 Utilities Service, High Energy Costs Grants Account:]*Provided further*, That section 381E-H and
 381N of the Consolidated Farm and Rural Development Act are not applicable to the funds made
 available under this heading: *Provided further*, That any prior balances in the Rural Development,
 Rural Community Advancement Program account programs authorized by sections 306, 306A,
 306C, 306D, and 310B and described in sections 306C(a)(2), 306D, and 381E(d)(2) of such Act be
 transferred and merged with this account and any other prior balances from the Rural Development,
 Rural Community Advancement Program account that the Secretary determines is appropriate to
 transfer.

The first change eliminates the set-aside for water well system grants and water and wastewater revolving fund under the rural utilities service program.

The second change changes the language to include loans and grants.

The third change changes the title of the program from Native Americans to Native American Tribes.

The fourth change eliminates the set-aside for the Rural Community Assistance Programs grant since the grant has been funded since FY 2002. It also eliminates the set-asides for Native American for the technical assistance grants.

The fifth change modifies the expiration date of set-aside funds for empowerment zones and enterprise communities from June 30, 2008, to June 30, 2009.

The sixth change eliminates the High Energy Cost grants since the program has been funded in previous years and unobligated funds are available for this purpose.

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> |
|--|----------------------|--------------------|---------------------|
| Appropriations Act, 2008..... | \$1,104,368,576 | \$70,100,000 | \$492,465,000 |
| Budget Estimate, 2009..... | <u>1,379,217,506</u> | <u>49,169,000</u> | <u>219,838,000</u> |
| Increase or decrease in Appropriations..... | <u>274,848,930</u> | <u>-20,931,000</u> | <u>-272,627,000</u> |
| Adjustments in 2008: | | | |
| Appropriations Act, 2008..... | 1,104,368,576 | 70,100,000 | 492,465,000 |
| Rescission under P.L. 110-161 a/..... | <u>-7,205,580</u> | <u>-490,700</u> | <u>-3,447,255</u> |
| Adjusted base for 2008..... | 1,097,162,996 | 69,609,300 | 489,017,745 |
| Budget Estimate, 2009..... | <u>1,379,217,506</u> | <u>49,169,000</u> | <u>219,838,000</u> |
| Increase or decrease over adjusted 2008..... | <u>282,054,510</u> | <u>-20,440,300</u> | <u>-269,179,745</u> |

a/ The amount is rescinded pursuant to Section 752 of Division A, Title VII of P.L. 110-161.

PROJECT STATEMENT

(On basis of supportable loan levels and appropriated subsidies and grants)

(In thousands of dollars)

| Item of Change | 2007 Actual | | 2008 Estimated | | Increase or Decrease | | 2009 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..... | \$1,097,035 | \$109,265 | \$1,022,162 | \$69,609 | \$282,055 (1) | -\$20,440 (6) | \$1,304,217 | \$49,169 |
| Guaranteed loans <u>a/</u> | 28,003 | 0 | 75,000 | 0 | 0 | 0 | 75,000 | 0 |
| Grants..... | 442,966 | 442,966 | 464,228 | 464,228 | -247,855 (2) | -247,855 | 216,373 | 216,373 |
| Grants - 2003/2004 hurricane em. supp. <u>b/</u> | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Grants - 2005 hurricane em. Supp. <u>c/</u> | 13,010 | 13,010 | 0 | 0 | 0 | 0 | 0 | 0 |
| Water well system grants..... | 990 | 990 | 993 | 993 | -993 (3) | -993 | 0 | 0 |
| Water and wastewater revolving funds..... | 495 | 495 | 497 | 497 | -497 (4) | -497 | 0 | 0 |
| Solid waste management grants..... | 3,499 | 3,499 | 3,441 | 3,441 | 24 (5) | 24 | 3,465 | 3,465 |
| Emergency and imminent community water assistance grants..... | 6,959 | 6,959 | 0 | 0 | 0 | 0 | 0 | 0 |
| Emergency and imminent community water assistance grants - supplemental..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| High energy costs grants <u>c/</u> | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Available or Estimate..... | 1,592,957 | 577,184 | 1,566,320 | 538,767 | 32,735 | -269,760 | 1,599,055 | 269,007 |
| Transfer to high energy cost grants <u>c/</u> | 0 | 0 | 19,860 | 19,860 | -19,860 | -19,860 | 0 | 0 |
| Recovery of prior year obligations..... | -104,483 | -20,126 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, start of year..... | -102,577 | -88,647 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance expiring..... | 46,997 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, end of year..... | 87,939 | 86,025 | 0 | 0 | 0 | 0 | 0 | 0 |
| Secretary's Interchange transfer..... | 558 | 558 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rescission <u>d/</u> | 0 | 0 | 10,653 | 3,938 | -10,653 | -3,938 | 0 | 0 |
| Total Appropriation..... | 1,521,390 | 554,994 | 1,596,833 | 562,565 | 2,222 | -293,558 | 1,599,055 | 269,007 |

NOTE: Amounts reflected above are budget projections of use of funds within 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 due to rounding.

a/ Negative subsidy rates of 0.90 percent were calculated for this program in FY 2007, and negative subsidy rate of 0.82 percent for FY 2008 and FY 2009. Therefore, corresponding budget authority is not required to support the loan levels.

b/ Provided by the Emergency Supplemental Appropriations for Hurricanes Disasters Assistance Act of 2005, P.L. 108-324, signed October 13, 2004, for the purpose of serving communities affected by hurricanes and tropical storms in calendar year 2003 or 2004.

c/ Provided by the Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and the Pandemic Influenza Act, 2006,

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

| Item of Change | 2007 Actual | | 2008 Estimated | | Increase or Decrease | | 2009 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..... | \$1,097,035 | \$109,265 | \$1,025,271 | \$69,821 | \$278,946 | -\$20,652 | \$1,304,217 | \$49,169 |
| Guaranteed loans <u>a/</u> | 28,003 | 0 | 75,000 | 0 | 0 | 0 | 75,000 | 0 |
| Grants..... | 442,966 | 442,966 | 532,954 | 532,954 | -316,581 | -316,581 | 216,373 | 216,373 |
| Grants - 2003/2004 hurricane em. supp. <u>b/</u> | 0 | 0 | 6 | 6 | -6 | -6 | 0 | 0 |
| Grants - 2005 hurricane em. supp. <u>c/</u> | 13,010 | 13,010 | 16,891 | 16,891 | -16,891 | -16,891 | 0 | 0 |
| Water well system grants..... | 990 | 990 | 993 | 993 | -993 | -993 | 0 | 0 |
| Water and wastewater revolving funds..... | 495 | 495 | 497 | 497 | -497 | -497 | 0 | 0 |
| Solid waste management grants..... | 3,499 | 3,499 | 3,441 | 3,441 | 24 | 24 | 3,465 | 3,465 |
| Emergency and imminent community water assistance grants..... | 6,959 | 6,959 | 0 | 0 | 0 | 0 | 0 | 0 |
| Emergency and imminent community water assistance grants - supplemental..... | 0 | 0 | 190 | 190 | -190 | -190 | 0 | 0 |
| High energy costs grants <u>c/</u> | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Available or Estimate..... | 1,592,957 | 577,184 | 1,655,242 | 624,792 | -56,187 | -355,785 | 1,599,055 | 269,007 |
| Transfer to high energy cost grants <u>c/</u> | 0 | 0 | 19,860 | 19,860 | -19,860 | -19,860 | 0 | 0 |
| Recovery of prior year obligations..... | -104,483 | -20,126 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, start of year.... | -102,577 | -88,647 | -88,922 | -86,025 | 88,922 | 86,025 | 0 | 0 |
| Unobligated balance expiring..... | 46,997 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, end of year.... | 87,939 | 86,025 | 0 | 0 | 0 | 0 | 0 | 0 |
| Secretary's Interchange transfer..... | 558 | 558 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rescission <u>d/</u> | 0 | 0 | 10,653 | 3,938 | -10,653 | -3,938 | 0 | 0 |
| Total Appropriation | 1,521,390 | 554,994 | 1,596,833 | 562,565 | 2,222 | -293,558 | 1,599,055 | 269,007 |

NOTE: Amounts reflected above are budget projections of use of funds within 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 due to rounding.

a/ Negative subsidy rates of 0.90 percent were calculated for this program in FY 2007, and negative subsidy rate of 0.82 percent for FY 2008 and FY 2009. Therefore, corresponding budget authority is not required to support the loan levels.

b/ Provided by the Emergency Supplemental Appropriations for Hurricanes Disasters Assistance Act of 2005, P.L. 108-324, signed October 13, 2004, for the purpose of serving communities affected by hurricanes and tropical storms in calendar year 2003 or 2004.

c/ Provided by the 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 that occurred during the FY 2005 calendar year.

c/ This program was transferred to the Rural Utilities Service, High Energy Cost Grant Account in accordance with the Consolidated Appropriations Act, 2008.

d/ The amounts are rescinded pursuant to Section 752 of Division A, Title VII, of P.L. 110-161.

JUSTIFICATION OF INCREASES AND DECREASES

- (1) An increase of \$282,054,551 in direct water and waste disposal loans (\$1,022,162,995 available in 2008).

The subsidy rate for this program has dropped from 6.81 percent to 3.77 percent which allows for better utilization of the budget authority. The loan level has increased but the amount of budget authority to cover this loan level has decreased by \$20.4 million. 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. So deal per deal the budget authority is the same, but the grant amount is less and the loan amount is more. This means we will be able to serve more communities with less budget authority overall. This allows us to more efficiently serve those in need.

- (2) A decrease of \$247,895,000 in rural water and waste disposal grants (\$464,227,500 available in 2008).

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. \$216.4 million will be sufficient to cover demand. The decrease in these grants is a direct outgrowth of a lower interest rate environment. Because of the relatively low interest rates on loans, more projects will be feasible with less grant funds required and the overall program will be able to operate at a higher loan to grant ratio. So deal per deal the budget authority is the same but the grant amount is less and the loan amount is more. This means we will be able to serve more communities with less budget authority overall. This allows us to more efficiently serve those in need. In addition, State Directors have the flexibility to better utilize funding by transferring up to 25 percent between loan and grant funds. This flexibility further allows funds to be directed to meet State and local priorities.

- (3) A decrease of \$993,000 in water well system grants (\$993,000 available in 2008).

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 \$496,500 in water and wastewater revolving funds (\$496,500 available in 2008).

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) An increase of \$24,000 in water and wastewater revolving funds (\$3,440,745 available in 2008).

This increase returns the President's Budget request to the level of the 2008 Appropriations Act.

- (6) A decrease of \$20,440,000 in the loan subsidy for the direct water and waste disposal loans (\$69,609,300 available in 2008).

The requested subsidy amount is necessary to support the estimated loan obligations associated with the requested FY 2008 loan levels for the direct water and waste disposal loan program. The change is due to changes in the borrower rate.

- (6) A decrease of \$20,440,000 in the loan subsidy for the direct water and waste disposal loans (\$69,609,300 available in 2008).

The requested subsidy amount is necessary to support the estimated loan obligations associated with the requested FY 2008 loan levels for the direct water and waste disposal loan program. The change is due to changes in the borrower rate.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Rural Water and Waste Disposal Loan Program - Direct

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|------------------------|------------------------|------------------------|
| Alabama | \$32,027,000 | \$31,351,000 | \$37,622,000 |
| Alaska | -- | 9,308,000 | 11,171,000 |
| Arizona | 3,547,000 | 14,925,000 | 17,910,000 |
| Arkansas | 25,912,000 | 22,868,000 | 27,442,000 |
| California | 30,017,500 | 29,001,000 | 34,801,000 |
| Colorado | 2,204,000 | 12,648,000 | 15,178,000 |
| Connecticut | 5,380,000 | 8,445,000 | 10,134,000 |
| Delaware | 8,221,000 | 6,834,000 | 8,201,000 |
| Florida | 23,732,000 | 24,557,000 | 29,468,000 |
| Georgia | 21,591,600 | 35,780,000 | 42,936,000 |
| Hawaii | 2,897,000 | 7,413,000 | 8,896,000 |
| Idaho | 19,983,000 | 12,143,000 | 14,571,000 |
| Illinois | 30,117,000 | 23,828,000 | 28,594,000 |
| Indiana | 24,391,000 | 24,227,000 | 29,072,000 |
| Iowa | 16,765,500 | 18,465,000 | 22,158,000 |
| Kansas | 11,283,300 | 14,317,000 | 17,180,000 |
| Kentucky | 36,290,000 | 32,995,000 | 39,594,000 |
| Louisiana | 25,635,000 | 23,420,000 | 28,104,000 |
| Maine | 35,793,961 | 14,468,000 | 17,362,000 |
| Maryland | 12,240,000 | 12,211,000 | 14,653,000 |
| Massachusetts | 10,411,200 | 9,829,000 | 11,795,000 |
| Michigan | 37,953,000 | 32,896,000 | 39,475,000 |
| Minnesota | 20,301,000 | 20,746,000 | 24,895,000 |
| Mississippi | 30,651,800 | 29,347,000 | 35,216,000 |
| Missouri | 26,397,570 | 27,096,000 | 32,525,000 |
| Montana | 7,453,715 | 11,569,000 | 13,883,000 |
| Nebraska | 10,626,700 | 11,173,000 | 13,408,000 |
| Nevada | 4,955,525 | 7,434,000 | 8,921,000 |
| New Hampshire | 13,178,000 | 10,035,000 | 12,042,000 |
| New Jersey | 16,783,000 | 10,153,000 | 12,184,000 |
| New Mexico | 10,963,664 | 14,418,000 | 17,302,000 |
| New York | 33,380,300 | 31,325,000 | 37,590,000 |
| North Carolina | 70,950,000 | 42,303,000 | 50,764,000 |
| North Dakota | 11,357,500 | 8,702,000 | 10,442,000 |
| Ohio | 33,224,000 | 33,398,000 | 40,078,000 |
| Oklahoma | 18,532,040 | 21,520,000 | 25,824,000 |
| Oregon | 15,708,000 | 15,758,000 | 18,910,000 |
| Pennsylvania | 40,400,734 | 35,362,000 | 42,434,000 |
| Rhode Island | 190,000 | 5,906,000 | 7,087,000 |
| South Carolina | 27,322,900 | 25,953,000 | 31,144,000 |
| South Dakota | 20,463,000 | 10,059,000 | 12,071,000 |
| Tennessee | 45,406,200 | 31,577,000 | 37,892,000 |
| Texas | 100,551,477 | 42,328,000 | 50,794,000 |
| Utah | 8,895,000 | 9,089,000 | 10,907,000 |
| Vermont | 5,448,000 | 9,425,000 | 11,310,000 |
| Virginia | 15,720,500 | 26,924,000 | 32,309,000 |
| Washington | 19,380,900 | 19,694,000 | 23,633,000 |
| West Virginia | 32,355,600 | 20,777,000 | 24,932,000 |
| Wisconsin | 18,755,050 | 23,443,000 | 28,132,000 |
| Wyoming | 6,557,600 | 7,808,000 | 9,370,000 |
| Puerto Rico | 14,733,000 | 15,813,000 | 18,976,000 |
| Virgin Islands | -- | 830,000 | 996,000 |
| W. Pacific Areas | -- | 830,000 | 996,000 |
| Undistributed | -- | 22,547,202 | 100,931,000 |
| Total Avail./Est. | <u>\$1,097,034,836</u> | <u>\$1,025,271,202</u> | <u>\$1,304,217,009</u> |

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Rural Water and Waste Disposal Loans - Guaranteed

| | <u>2007</u> | <u>2008</u> | <u>2009</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 | \$275,000 | 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 | -- | 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 | 101,918 | 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 | -- | 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 | 24,700,000 | 1,629,000 | 1,629,000 |
| Oklahoma | 126,400 | 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 | 2,800,000 | 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>\$28,003,318</u> | <u>\$75,000,000</u> | <u>\$75,000,000</u> |

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Rural Water and Waste Disposal Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|----------------------|----------------------|----------------------|
| Alabama | \$13,713,900 | \$10,173,000 | \$4,069,000 |
| Alaska | 8,822,819 | 3,001,000 | 1,200,000 |
| Arizona | 4,662,902 | 4,829,000 | 1,932,000 |
| Arkansas | 10,257,000 | 7,413,000 | 2,965,000 |
| California | 13,380,800 | 9,409,000 | 3,764,000 |
| Colorado | 1,188,900 | 4,088,000 | 1,635,000 |
| Connecticut | 2,735,000 | 2,721,000 | 1,088,000 |
| Delaware | 2,174,000 | 2,197,000 | 879,000 |
| Florida | 7,727,000 | 7,963,000 | 3,185,000 |
| Georgia | 12,071,000 | 11,614,000 | 4,646,000 |
| Hawaii | 1,560,500 | 2,385,000 | 954,000 |
| Idaho | 7,026,700 | 3,924,000 | 1,570,000 |
| Illinois | 9,010,210 | 7,726,000 | 3,090,000 |
| Indiana | 6,216,000 | 7,856,000 | 3,142,000 |
| Iowa | 7,068,000 | 5,981,000 | 2,392,000 |
| Kansas | 6,625,315 | 4,631,000 | 1,852,000 |
| Kentucky | 10,750,450 | 10,708,000 | 4,283,000 |
| Louisiana | 7,694,649 | 7,593,000 | 3,037,000 |
| Maine | 8,632,000 | 4,680,000 | 1,872,000 |
| Maryland | 10,715,000 | 3,946,000 | 1,578,000 |
| Massachusetts | 3,593,800 | 3,171,000 | 1,268,000 |
| Michigan | 13,900,000 | 10,676,000 | 4,270,000 |
| Minnesota | 8,639,000 | 6,723,000 | 2,689,000 |
| Mississippi | 8,338,333 | 9,521,000 | 3,808,000 |
| Missouri | 8,646,000 | 8,789,000 | 3,516,000 |
| Montana | 3,575,055 | 3,737,000 | 1,495,000 |
| Nebraska | 4,092,000 | 3,608,000 | 1,443,000 |
| Nevada | 3,790,465 | 2,392,000 | 957,000 |
| New Hampshire | 8,784,000 | 3,238,000 | 1,295,000 |
| New Jersey | 9,849,000 | 3,276,000 | 1,310,000 |
| New Mexico | 15,130,856 | 4,664,000 | 1,866,000 |
| New York | 10,980,844 | 10,165,000 | 4,066,000 |
| North Carolina | 12,524,000 | 13,737,000 | 5,495,000 |
| North Dakota | 6,995,568 | 2,804,000 | 1,122,000 |
| Ohio | 11,658,000 | 10,839,000 | 4,336,000 |
| Oklahoma | 31,464,282 | 6,975,000 | 2,790,000 |
| Oregon | 6,313,000 | 5,100,000 | 2,040,000 |
| Pennsylvania | 11,068,550 | 11,478,000 | 4,591,000 |
| Rhode Island | 150,000 | 1,894,000 | 758,000 |
| South Carolina | 11,842,400 | 8,417,000 | 3,367,000 |
| South Dakota | 2,852,325 | 3,246,000 | 1,298,000 |
| Tennessee | 12,766,000 | 10,247,000 | 4,099,000 |
| Texas | 29,621,670 | 13,759,000 | 5,504,000 |
| Utah | 3,184,500 | 2,930,000 | 1,172,000 |
| Vermont | 3,603,000 | 3,039,000 | 1,216,000 |
| Virginia | 8,508,000 | 8,733,000 | 3,493,000 |
| Washington | 9,337,950 | 6,380,000 | 2,552,000 |
| West Virginia | 10,803,000 | 6,733,000 | 2,693,000 |
| Wisconsin | 11,248,000 | 7,600,000 | 3,040,000 |
| Wyoming | 2,687,500 | 2,513,000 | 1,005,000 |
| Puerto Rico | 4,987,000 | 5,118,000 | 2,047,000 |
| Virgin Islands | -- | 830,000 | 332,000 |
| W. Pacific Areas | -- | 830,000 | 332,000 |
| Undistributed | -- | 206,954,606 | 85,975,000 |
| Total Avail./Est. | <u>\$442,966,243</u> | <u>\$532,954,606</u> | <u>\$216,373,000</u> |

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

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

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|---------------|-------------------|---------------|
| Total Avail./Est. | <u> --</u> | <u>\$5,689 1/</u> | <u> --</u> |

Rural Water and Waste Disposal Grants
2005 Hurricanes for Natural Disaster

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|---------------------|------------------------|---------------|
| Alabama | \$46,700 | -- | -- |
| Louisiana | 3,660,600 | -- | -- |
| Mississippi | 5,248,613 | -- | -- |
| Texas | 4,053,900 | -- | -- |
| Total Avail./Est. | <u>\$13,009,813</u> | <u>\$16,890,887 1/</u> | <u> --</u> |

Water and Waste Individually-Owned Water Well System Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|------------------|---------------------|---------------|
| California | \$100,000 | -- | -- |
| Iowa | 176,000 | -- | -- |
| Michigan | 404,000 | -- | -- |
| New York | 60,000 | -- | -- |
| Vermont | 250,000 | -- | -- |
| Total Avail./Est. | <u>\$990,000</u> | <u>\$993,000 1/</u> | <u> --</u> |

Water and Wastewater Revolving Fund Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|------------------|---------------------|---------------|
| Oklahoma | \$495,000 | -- | -- |
| Total Avail./Est. | <u>\$495,000</u> | <u>\$496,500 1/</u> | <u> --</u> |

1/ Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Solid Waste Management Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|--------------------|----------------------------------|----------------------------------|
| Alaska | \$355,000 | -- | -- |
| Arizona | 320,000 | -- | -- |
| Arkansas | 68,000 | -- | -- |
| California | 281,000 | -- | -- |
| Illinois | 30,000 | -- | -- |
| Indiana | 45,000 | -- | -- |
| Iowa | 61,000 | -- | -- |
| Kansas | 18,000 | -- | -- |
| Kentucky | 95,000 | -- | -- |
| Maine | 224,000 | -- | -- |
| Maryland | 25,000 | -- | -- |
| Massachusetts | 335,000 | -- | -- |
| Michigan | 127,000 | -- | -- |
| Minnesota | 164,000 | -- | -- |
| Montana | 95,000 | -- | -- |
| Nevada | 112,000 | -- | -- |
| New Hampshire | 170,000 | -- | -- |
| North Carolina | 140,000 | -- | -- |
| Ohio | 191,500 | -- | -- |
| Oklahoma | 100,000 | -- | -- |
| Pennsylvania | 49,500 | -- | -- |
| Tennessee | 80,000 | -- | -- |
| Vermont | 359,000 | -- | -- |
| Wisconsin | 54,000 | -- | -- |
| Total Avail./Est. | <u>\$3,499,000</u> | <u>\$3,441,000</u> ^{1/} | <u>\$3,465,000</u> ^{1/} |

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

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Emergency and Imminent Community Water Assistance Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|--------------------|-------------|-------------|
| Idaho | \$500,000 | -- | -- |
| Illinois | 34,440 | -- | -- |
| Louisiana | 150,000 | -- | -- |
| Missouri | 1,300,000 | -- | -- |
| Montana | 909,000 | -- | -- |
| Nebraska | 32,600 | -- | -- |
| New York | 578,212 | -- | -- |
| Oklahoma | 796,900 | -- | -- |
| Oregon | 500,000 | -- | -- |
| South Carolina | 500,000 | -- | -- |
| Tennessee | 720,040 | -- | -- |
| Virginia | 150,000 | -- | -- |
| West Virginia | 500,000 | -- | -- |
| Wisconsin | 288,000 | -- | -- |
| Total Avail./Est. | <u>\$6,959,192</u> | <u>--</u> | <u>--</u> |

Emergency and Imminent Community Water Assistance Grants
for Natural Disaster

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|-------------|--------------------------------|-------------|
| Total Avail./Est. | <u>--</u> | <u>\$189,987 ^{1/}</u> | <u>--</u> |

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

RURAL UTILITIES SERVICE

RURAL WATER AND WASTE DISPOSAL PROGRAM ACCOUNT

Classification by Objects
2007 Actual and Estimated 2008 and 2009

| | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> |
|--|---------------------------|---------------------------|---------------------------|
| Other Objects: | | | |
| 41 Grants, subsidies, and contributions..... | <u>\$577,183,917</u> | <u>\$624,792,384</u> | <u>\$269,007,000</u> |
| Total direct obligations..... | <u><u>577,183,917</u></u> | <u><u>624,792,384</u></u> | <u><u>269,007,000</u></u> |

RURAL UTILITIES SERVICE

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

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

The principal amount of direct and guaranteed loans as authorized by 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, [~~\$6,500,000,000~~; guaranteed underwriting loans pursuant to section 313A, \$500,000,000;]\$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~~]\$525,000: Provided, That notwithstanding section 305(d)(2) of the Rural Electrification Act of 1936, borrower interest rates may exceed 7 percent per year.

- 1 In addition, for administrative expenses necessary to carry out the direct and guaranteed loan programs, [~~\$38,623,000~~]\$37,819,000 which shall be [transferred to and merged with]paid to the appropriation for "Rural Development, Salaries and Expenses". (Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2008.)

This change reflects language simplifying the transfer and consolidation of funds from the individually appropriated administrative expense account to the Rural Development, Salaries and Expense account.

RURAL UTILITIES SERVICE

Analysis of Change in AppropriationRURAL ELECTRIFICATION AND TELECOMMUNICATIONS ACCOUNT

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

| | <u>Loan Level</u> | <u>Subsidy</u> | <u>Administrative Expenses</u> |
|---|-----------------------|-------------------|------------------------------------|
| Appropriations Act, 2008..... | \$7,790,000,000 | \$3,740,000 | \$38,623,000 |
| Budget Estimates, 2009..... | <u>4,790,000,000</u> | <u>525,000</u> | <u>37,819,000</u> |
| Decrease in Appropriations..... | <u>-3,000,000,000</u> | <u>-3,215,000</u> | <u>-804,000</u> |
| Adjustments in 2008: | | | |
| Appropriations Act, 2008..... | 7,790,000,000 | 3,740,000 | 38,623,000 |
| Rescission under P.L. 110-161 <u>a/</u> | <u>-5,530,000</u> | <u>-26,180</u> | <u>-270,361</u> |
| Adjusted base for 2008..... | 7,784,470,000 | 3,713,820 | 38,352,639 |
| Budget Estimate, 2009..... | <u>4,790,000,000</u> | <u>525,000</u> | <u>37,819,000</u> |
| Decrease over adjusted 2008..... | <u>-2,994,470,000</u> | <u>-3,188,820</u> | <u>-533,639</u> |

a/ The amount is rescinded pursuant to Section 752 of Division A, Title VII of P.L. 110-161.

PROJECT STATEMENT

(On basis of supportable loan levels and appropriated subsidies and grants)

(In thousands of dollars)

| Item of Change | 2007 Actual | | 2008 Estimated | | Increase or Decrease | | 2009 Estimated | |
|---|---------------|------------|----------------|------------|----------------------|------------|----------------|------------|
| | Program Level | Subsidy/BA | Program Level | Subsidy/BA | Program Level | Subsidy/BA | Program Level | Subsidy/BA |
| Electric Loans: | | | | | | | | |
| Direct, 5% <u>a</u> /..... | \$99,000 | \$2,119 | \$99,300 | \$119 | \$700 (1) | -\$119 | \$100,000 | \$0 |
| Direct, Treasury Rate <u>b</u> /..... | 990,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Direct, Municipal..... | 100,764 | 1,522 | 0 | 0 | 0 | 0 | 0 | 0 |
| Direct, FFB <u>c</u> /..... | 2,700,000 | 0 | 6,500,000 | 0 | -2,500,000 (2) | 0 | 4,000,000 | 0 |
| Direct, FFB, loan modifications - 2005 | | | | | | | | |
| Hurricane Supplemental <u>g</u> /..... | 0 | 77 | 0 | 0 | 0 | 0 | 0 | 0 |
| Electric Underwriting Loans | 0 | 0 | 500,000 | 0 | -500,000 (3) | 0 | 0 | 0 |
| Total Electric..... | 3,889,764 | 3,717 | 7,099,300 | 119 | -2,999,300 | -119 | 4,100,000 | 0 |
| Telecommunications Loans: | | | | | | | | |
| Direct, 5% <u>d</u> /..... | 85,537 | 316 | 143,985 | 115 | 1,015 (4) | -115 | 145,000 | 0 |
| Direct, Treasury Rate..... | 252,014 | 76 | 248,250 | 1,663 | 1,750 (5) | -1,138 | 250,000 | 525 |
| Direct, FFB <u>e</u> /..... | 39,185 | 0 | 292,935 | 1,816 | 2,065 (6) | -1,816 | 295,000 | 0 |
| Total Telecommunications..... | 376,736 | 392 | 685,170 | 3,595 | 4,830 | -3,070 | 690,000 | 525 |
| Total loans and subsidies..... | 4,266,500 | 4,109 | 7,784,470 | 3,714 | -2,994,470 | -3,189 (7) | 4,790,000 | 525 |
| Total administrative expenses <u>f</u> /..... | 0 | 38,623 | 0 | 38,353 | 0 | -534 (8) | 0 | 37,819 |
| Secretary's Interchange Transfer..... | 32,427 | 44 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to Working Capital Fund..... | 193,964 | 226 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, start of year..... | 0 | -7,092 | 0 | -7,015 | 0 | 0 | 0 | -7,015 |
| Unobligated balance expiring..... | 336,633 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, end of year..... | 0 | 7,015 | 0 | 7,015 | 0 | 0 | 0 | 7,015 |
| Rescission <u>h</u> /..... | 0 | 0 | 5,530 | 296 | -5,530 | -296 | 0 | 0 |
| Total Appropriation..... | 4,829,524 | 42,925 | 7,790,000 | 42,363 | -3,000,000 | -4,019 | 4,790,000 | 38,344 |

NOTE: Individual columns may not add due to rounding.

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

- a/ Negative subsidy rate of 2.38% was calculated for FY 2009. Therefore, corresponding budget authority is not required to support the program level.
- b/ Zero subsidy rate was calculated in FY 2007. Therefore, corresponding budget authority is not required to support the program level.
- c/ Negative subsidy rates of 1.19%, 0.70% and 2.28% were calculated for FY 2007, FY 2008, and FY 2009, respectively. Therefore, corresponding budget authority is not required to support the program levels.
- d/ Negative subsidy rate of 1.76% was calculated for FY 2009. Therefore, corresponding budget authority is not required to support the program level.
- e/ Negative subsidy rate of 1.49% and 0.94% was calculated for FY 2007 and FY 2009. Therefore, corresponding budget authority is not required to support the program levels.
- f/ In FY 2007, funding of \$38,623,160 was appropriated and transferred to the Rural Development Salaries and Expenses account. In FY 2008, funding of \$38,352,639 was appropriated and transferred to the Rural Development Salaries and Expenses account. In FY 2009, funding of \$37,819,000 is requested and will 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 2008 amounts are rescinded pursuant to Section 752 of Division A, Title VII, of P.L. 110-161.

JUSTIFICATION OF INCREASES AND DECREASES

- (1) An increase of \$700,000 in direct electric 5% loans (\$99,300,000 available in 2008).

Eligibility for 5% hardship loans is based on a low per capita and household income, rates significantly in excess of the state averages, or impact of a natural disaster. An increase of \$700,000 is necessary to meet the anticipated demand of borrowers qualifying for this program.

- (2) A decrease of \$2,500,000,000 in the direct FFB electric loan level (\$6,500,000,000 available in 2008).

The proposed decrease of \$2,500,000,000 reflects the Administration's objective of consolidating the financing applications of new generation nuclear plants in the Department of Energy and the Administration's support for commercial financing of new base load generation. \$4,000,000,000 in funding will be sufficient to meet the demand for transmission, distribution borrowers and improvements and environmental upgrades to existing generation facilities.

- (3) A decrease of \$500,000,000 in direct electric underwriting loan level (\$500,000,000 available in 2008).

The program has reached the eligibility limitation mandated by law.

- (4) An increase of \$1,015,000 in direct 5% telecommunications loan level (\$143,985,000 available in 2008).

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

- (5) An increase of \$1,750,000 in direct Treasury rate telecommunication loan level (\$248,250,000 available in 2008).

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

- (6) An increase of \$2,065,000 in direct FFB telecommunication loan level (\$292,935,000 available in 2008).

The FY 2009 budget requests a comparable increase in the FFB guaranteed loan program, which offers greater flexibility in loan terms and a lower subsidy rate.

- (7) A decrease of \$3,189,000 in loan subsidy for electric and telecommunication programs (\$3,714,000 available in 2008).

The requested subsidy amount is necessary to support the estimated loan obligations associated with the requested FY 2009 loan levels for the total electric and telecommunications direct loan programs. The decrease is due to changes in the interest rate assumptions.

- (8) A decrease of \$534,000 administrative expenses (\$38,353,000 available in 2008).

Justifications for administrative expenses in the amount of \$37,819,000 and the associated staff-years are reflected in the Rural Development Salaries and Expenses Project Statement.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Electric Loans - Direct 5% and Municipal

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|----------------------|-----------------------------------|------------------------------------|
| Iowa | \$5,850,000 | -- | -- |
| Kansas | 30,696,000 | -- | -- |
| Minnesota | 25,134,000 | -- | -- |
| Montana | 6,471,000 | -- | -- |
| New Mexico | 5,523,000 | -- | -- |
| North Dakota | 14,850,000 | -- | -- |
| Oklahoma | 32,772,000 | -- | -- |
| South Dakota | 33,478,660 | -- | -- |
| Texas | 24,501,644 | -- | -- |
| Virginia | 4,149,000 | -- | -- |
| Washington | 3,700,000 | -- | -- |
| West Virginia | 7,500,000 | -- | -- |
| Wisconsin | 2,800,000 | -- | -- |
| Wyoming | 2,339,000 | -- | -- |
| Total Avail./Est. | <u>\$199,764,304</u> | <u>\$99,300,000</u> ^{1/} | <u>\$100,000,000</u> ^{1/} |

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

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Electric Loans - Treasury Rate

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|----------------------|-------------|-------------|
| Alabama | \$8,400,000 | -- | -- |
| Alaska | 38,000,000 | -- | -- |
| Arkansas | 16,366,000 | -- | -- |
| Colorado | 29,670,000 | -- | -- |
| Florida | 166,961,000 | -- | -- |
| Georgia | 152,292,000 | -- | -- |
| Indiana | 23,400,000 | -- | -- |
| Iowa | 26,807,000 | -- | -- |
| Kentucky | 83,946,000 | -- | -- |
| Louisiana | 21,707,000 | -- | -- |
| Michigan | 10,200,000 | -- | -- |
| Minnesota | 59,395,000 | -- | -- |
| Mississippi | 41,057,000 | -- | -- |
| Missouri | 29,331,000 | -- | -- |
| New Mexico | 39,657,000 | -- | -- |
| North Carolina | 76,000,000 | -- | -- |
| Ohio | 23,400,000 | -- | -- |
| Oklahoma | 18,124,000 | -- | -- |
| Oregon | 12,635,000 | -- | -- |
| South Carolina | 57,861,000 | -- | -- |
| Tennessee | 16,000,000 | -- | -- |
| Texas | 13,310,000 | -- | -- |
| Wisconsin | 25,481,000 | -- | -- |
| Total Avail./Est. | <u>\$990,000,000</u> | <u>--</u> | <u>--</u> |

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Electric Loans - FFB

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|-------------------------------|---|---|
| Colorado | \$5,738,000 | -- | -- |
| Florida | 479,605,000 | -- | -- |
| Georgia | 779,202,000 | -- | -- |
| Indiana | 392,849,000 | -- | -- |
| Iowa | 59,203,000 | -- | -- |
| Kentucky | 8,709,000 | -- | -- |
| Minnesota | 24,153,000 | -- | -- |
| Missouri | 13,500,000 | -- | -- |
| North Carolina | 76,024,000 | -- | -- |
| North Dakota | 213,063,000 | -- | -- |
| Ohio | 280,800,000 | -- | -- |
| Oklahoma | 101,105,000 | -- | -- |
| South Dakota | 64,931,000 | -- | -- |
| Texas | 199,693,000 | -- | -- |
| Wisconsin | 1,425,000 | -- | -- |
| Total Avail./Est. | <u><u>\$2,700,000,000</u></u> | <u><u>\$6,500,000,000</u></u> ^{1/} | <u><u>\$4,000,000,000</u></u> ^{1/} |

Guaranteed Underwriting Loans

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|------------------|---|------------------|
| | -- | -- | -- |
| Total Avail./Est. | <u><u>--</u></u> | <u><u>\$500,000,000</u></u> ^{1/} | <u><u>--</u></u> |

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

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Telephone Loans - Direct 5% and Treasury Rate

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|----------------------|------------------------------------|------------------------------------|
| Alaska | \$13,521,000 | -- | -- |
| Arizona | 8,342,000 | -- | -- |
| Arkansas | 8,288,000 | -- | -- |
| California | 34,965,000 | -- | -- |
| Idaho | 12,145,000 | -- | -- |
| Iowa | 53,604,000 | -- | -- |
| Kansas | 48,046,000 | -- | -- |
| Maine | 5,895,000 | -- | -- |
| Minnesota | 6,026,000 | -- | -- |
| Mississippi | 8,657,000 | -- | -- |
| Montana | 11,235,000 | -- | -- |
| Nebraska | 1,795,000 | -- | -- |
| Nevada | 3,109,000 | -- | -- |
| Oklahoma | 17,961,000 | -- | -- |
| Tennessee | 23,582,000 | -- | -- |
| Texas | 25,539,920 | -- | -- |
| Washington | 15,839,000 | -- | -- |
| West Virginia | 7,789,000 | -- | -- |
| Wisconsin | 31,212,000 | -- | -- |
| Total Avail./Est. | <u>\$337,550,920</u> | <u>\$392,235,000</u> ^{1/} | <u>\$395,000,000</u> ^{1/} |

Telephone Loans FFB

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|---------------------|------------------------------------|------------------------------------|
| Georgia | 12,224,000 | -- | -- |
| North Carolina | 23,193,000 | -- | -- |
| Wisconsin | 3,768,000 | -- | -- |
| Total Avail./Est. | <u>\$39,185,000</u> | <u>\$292,935,000</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

Classification by Objects
2007 Actual and Estimated 2008 and 2009

| | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> |
|---|--------------------------|--------------------------|--------------------------|
| Other Objects: | | | |
| 25 Other purchases of goods and services from government accounts..... | \$38,623,160 | \$38,352,639 | \$37,819,000 |
| 41 Grants, subsidies, and contributions..... | <u>4,109,437</u> | <u>3,713,820</u> | <u>525,000</u> |
| Total direct obligations..... | <u><u>42,732,597</u></u> | <u><u>42,066,459</u></u> | <u><u>38,344,000</u></u> |

RURAL UTILITIES SERVICE

The estimates include appropriation language for this item as follows (new language underscores; deleted matter enclosed in brackets):

Distance Learning, Telemedicine and Broadband Program

For the principal amount of broadband telecommunication loans, [~~\$300,000,000~~] \$297,923,000.

For grants for telemedicine and distance learning services in rural areas, as authorized by 7 U.S.C. 950aaa et seq., [~~\$35,000,000~~] \$20,000,000, to remain available until expended[: Provided, That \$5,000,000 shall be made available to convert analog to digital operation those noncommercial educational television broadcast stations that serve rural areas and are qualified for Community Service Grants by the Corporation for Public Broadcasting under section 396(k) of the Communications Act of 1934, including associated translators and repeaters, regardless of the location of their main transmitter, studio-to-transmitter links, and equipment to allow local control over digital content and programming through the use of high-definition broadcast, multi-casting and datacasting technologies].

For the cost of broadband loans, as authorized by 7 U.S.C. 901 et seq., [~~\$6,450,000~~] \$11,619,000, to remain available until expended: Provided, That the cost of direct loans shall be as defined in section 502 Congressional Budget Act of 1974. In addition, of the unobligated balances available for the cost of the broadband loans, \$6,450,000 is permanently cancelled.

[In addition, \$13,500,000, to remain available until expended, for a grant program to finance broadband transmission in rural areas eligible for Distance Learning and Telemedicine Program benefits authorized by 7 U.S.C. 950aaa]. (Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2008.)

This change cancels the unobligated balances available for cost of the broadband loans in the amount of \$6,450,000.

RURAL UTILITIES SERVICE

Analysis of Change in AppropriationDISTANCE LEARNING, TELEMEDICINE AND BROADBAND PROGRAM ACCOUNT

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

| | <u>Loan Level</u> | <u>Subsidy</u> | <u>Grants</u> |
|---|-------------------|------------------|--------------------|
| Appropriations Act, 2008..... | \$300,000,000 | \$6,450,000 | \$48,500,000 |
| President's Budget Estimates, 2009..... | 297,923,000 | 11,619,000 | 20,000,000 |
| Increase or Decrease in Appropriations..... | <u>-2,077,000</u> | <u>5,169,000</u> | <u>-28,500,000</u> |
| Adjustments in 2008: | | | |
| Appropriations Act, 2008..... | 300,000,000 | 6,450,000 | 48,500,000 |
| Rescission under P.L. 110-161 a/..... | <u>-2,100,000</u> | <u>-45,150</u> | <u>-339,500</u> |
| Adjusted base for 2008..... | 297,900,000 | 6,404,850 | 48,160,500 |
| Budget Estimate, 2009..... | 297,923,000 | 11,619,000 | 20,000,000 |
| Increase over or Decrease from adjusted 2008... | <u>23,000</u> | <u>5,214,150</u> | <u>-28,160,500</u> |

a/ The amount is rescinded pursuant to Section 752 of Division A, Title VII of P.L. 110-161.

PROJECT STATEMENT

(On basis of supportable loan levels and appropriated subsidies and grants)

(In thousands of dollars)

| Item of Change | 2007 Actual | | 2008 Estimated | | Increase or Decrease | | 2009 Estimated | |
|---|----------------|---------------|----------------|---------------|----------------------|----------------|----------------|---------------|
| | Program Level | Subsidy/BA | Program Level | Subsidy/BA | Program Level | Subsidy/BA | Program Level | Subsidy/BA |
| Discretionary: | | | | | | | | |
| Distance learning and telemedicine: | | | | | | | | |
| Direct Loans..... | \$31,910 | \$201 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Grants..... | 27,490 | 27,490 | 29,790 | 29,790 | -9,790 (1) | -9,790 | 20,000 | 20,000 |
| Public broadcasting systems grants..... | 4,950 | 4,950 | 4,965 | 4,965 | -4,965 (2) | -4,965 | 0 | 0 |
| Broadband telecommunication: | | | | | | | | |
| Direct, Treasury rate loans..... | 250,959 | 5,396 | 0 | 0 | 297,923 (3) | 11,619 (5) | 297,923 | 11,619 |
| Grants..... | 10,343 | 10,343 | 13,405 | 13,405 | -13,405 (4) | -13,405 | 0 | 0 |
| Total Available or Estimate..... | 325,652 | 48,380 | 48,160 | 48,160 | 269,763 | -16,541 | 317,923 | 31,619 |
| Recovery of prior year obligations..... | -6,669 | -6,661 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, start of year..... | -624,347 | -13,056 | 0 | 0 | 0 | -6,450 | 0 | -6,450 |
| Unobligated balance expiring..... | 244,041 | 5,247 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, end of year..... | 594,933 | 15,167 | 297,900 | 6,405 | -297,900 (3) | -6,405 (5) | 0 | 0 |
| Rescission a/..... | 0 | 0 | 2,440 | 385 | -2,440 | -385 | 0 | 0 |
| Rescission b/..... | 0 | 0 | 0 | 0 | 0 | 6,450 (6) | 0 | 6,450 |
| Total Appropriation, Discretionary | 533,610 | 49,077 | 348,500 | 54,950 | -30,577 | -23,331 | 317,923 | 31,619 |
| Mandatory: | | | | | | | | |
| Unobligated balance available, start of year..... | -38,210 | -38,210 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rescission - Deficit Reduction Act of 2005..... | 38,210 | 38,210 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Appropriation, Mandatory | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Appropriation..... | 533,610 | 49,077 | 348,500 | 54,950 | -30,577 | -23,331 | 317,923 | 31,619 |

NOTE: Individual columns may not add due to rounding.

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

a/ The amounts are rescinded pursuant to Section 752 of Division A, Title VII, of P.L. 110-161.

b/ The proposed rescission of \$6.45 million supports a loan level of \$165,384,615.

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

| Item of Change | 2007 Actual | | 2008 Estimated | | Increase or Decrease | | 2009 Estimated | |
|--|----------------|---------------|----------------|---------------|----------------------|----------------|----------------|---------------|
| | Program Level | Subsidy/BA | Program Level | Subsidy/BA | Program Level | Subsidy/BA | Program Level | Subsidy/BA |
| Discretionary: | | | | | | | | |
| Distance learning and telemedicine: | | | | | | | | |
| Direct loans..... | \$31,910 | \$201 | \$28,265 | \$605 | -\$28,265 | -\$605 | \$0 | \$0 |
| Grants..... | 27,490 | 27,490 | 31,332 | 31,332 | -11,332 | -11,332 | 20,000 | 20,000 |
| Public broadcasting systems grants..... | 4,950 | 4,950 | 4,965 | 4,965 | -4,965 | -4,965 | 0 | 0 |
| Broadband telecommunication: | | | | | | | | |
| Direct, Treasury rate loans..... | 250,959 | 5,396 | 492,900 | 10,597 | -194,977 | 1,022 | 297,923 | 11,619 |
| Grants..... | 10,343 | 10,343 | 15,783 | 15,783 | -15,783 | -15,783 | 0 | 0 |
| Total Available or Estimate..... | 325,652 | 48,380 | 573,246 | 63,282 | -255,323 | -31,663 | 317,923 | 31,619 |
| Recovery of prior year obligations..... | -6,669 | -6,661 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, start of year | -624,347 | -13,056 | -527,185 | -15,167 | 527,185 | 8,717 | 0 | -6,450 |
| Unobligated balance expiring..... | 244,041 | 5,247 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unobligated balance available, end of year..... | 594,933 | 15,167 | 300,000 | 6,450 | -300,000 | -6,450 | 0 | 0 |
| Rescission a/..... | 0 | 0 | 2,440 | 385 | -2,440 | -385 | 0 | 0 |
| Rescission b/..... | 0 | 0 | 0 | 0 | 0 | 6,450 | 0 | 6,450 |
| Total Appropriation, Discretionary | 533,610 | 49,077 | 348,500 | 54,950 | -30,578 | -23,331 | 317,923 | 31,619 |
| Mandatory: | | | | | | | | |
| Unobligated balance available, start of year..... | -38,210 | -38,210 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rescission - Deficit Reduction Act of 2005..... | 38,210 | 38,210 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Appropriation, Mandatory | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Appropriation | 533,610 | 49,077 | 348,500 | 54,950 | -30,577 | -23,331 | 317,923 | 31,619 |

NOTE: Individual columns may not add due to rounding.
Staff-years are reflected in the Salaries and Expenses Project Statement.

a/ The amounts are rescinded pursuant to Section 752 of Division A, Title VII, of P.L. 110-161.
b/ The proposed rescission of \$6.45 million supports a loan level of \$165,384,615.

JUSTIFICATION OF INCREASES AND DECREASES

- (1) A decrease of \$9,790,000 in the distance learning and telemedicine grants (\$29,790,000 available in 2008).

The Administrations has historically supported a grant level of \$25 million. The \$20 million request is consistent with that annual request since nearly \$30 million in funding is available in FY 2008; resulting in the annual average funding of \$25 million per year for FY's 2008 and 2009

- (2) A decrease of \$4,965,000 in public broadcasting system grants (\$4,965,000 available in 2008).

The purpose of these grants is to provide funding to public broadcast stations to convert analog signals to digital signals. The deadline for the conversion is February 2009. Therefore, no funding is being requested.

- (3) An increase of \$23,000 in direct broadband Treasury rate loan level (\$297,900,000 available in 2008).

Available funding in recent years has significantly outpaced demand. \$495 million in unused program level was carried forward to 2008, in addition to the 2008 funding.

- (4) A decrease of \$13,405,000 in broadband grants (\$13,405,000 available in 2008).

Consistent with 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.

- (5) An increase of \$5,169,000 in loan subsidy for direct broadband telecommunication treasury rate (\$6,405,000 available in 2008).

The requested subsidy amount is necessary to support the estimated loan obligations associated with the requested FY 2009 loan level. Subsidy rates for FY 2007/2008 were calculated at 2.14% and 3.90% for FY 2009. Therefore the subsidy level for FY 2009 has increased.

- (6) A decrease of \$6,450,000 in loan subsidy for broadband telecommunication treasury rate.

The request includes a rescission of \$6,450,000 of unobligated balances. This program routinely carries over the entire year's appropriations, so the funds are not necessary to support the programs demand.

RURAL UTILITIES SERVICE
 GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
 2007 Actual and Estimated 2008 and 2009

Distance Learning and Telemedicine Loans

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|---------------------|-----------------------------------|-------------|
| Alaska | \$9,900,000 | -- | -- |
| Colorado | 246,192 | -- | -- |
| Illinois | 462,400 | -- | -- |
| Iowa | 527,200 | -- | -- |
| Kansas | 8,953,560 | -- | -- |
| Maine | 800,000 | -- | -- |
| Michigan | 99,200 | -- | -- |
| Missouri | 346,000 | -- | -- |
| Oregon | 9,900,000 | -- | -- |
| Pennsylvania | 675,800 | -- | -- |
| Total Avail./Est. | <u>\$31,910,352</u> | <u>\$28,265,371</u> ^{1/} | <u>--</u> |

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

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Distance Learning and Telemedicine Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|---------------------|------------------------|------------------------|
| Alaska | \$3,811,593 | -- | -- |
| Alabama | 609,449 | -- | -- |
| Arizona | 739,719 | -- | -- |
| Arkansas | 470,128 | -- | -- |
| California | 287,102 | -- | -- |
| Colorado | 417,472 | -- | -- |
| Georgia | 90,185 | -- | -- |
| Illinois | 357,832 | -- | -- |
| Iowa | 355,924 | -- | -- |
| Kansas | 1,489,040 | -- | -- |
| Kentucky | 931,658 | -- | -- |
| Louisiana | 788,154 | -- | -- |
| Maine | 3,928,658 | -- | -- |
| Michigan | 946,017 | -- | -- |
| Minnesota | 366,254 | -- | -- |
| Mississippi | 580,456 | -- | -- |
| Missouri | 690,949 | -- | -- |
| Nebraska | 1,240,811 | -- | -- |
| New Mexico | 728,329 | -- | -- |
| Ohio | 184,783 | -- | -- |
| Oklahoma | 744,407 | -- | -- |
| Oregon | 1,100,000 | -- | -- |
| Pennsylvania | 218,950 | -- | -- |
| South Carolina | 332,303 | -- | -- |
| South Dakota | 587,899 | -- | -- |
| Tennessee | 496,212 | -- | -- |
| Texas | 1,787,848 | -- | -- |
| Utah | 1,249,514 | -- | -- |
| Virginia | 182,968 | -- | -- |
| Washington | 987,565 | -- | -- |
| Wisconsin | 107,212 | -- | -- |
| Wyoming | 680,741 | -- | -- |
| Total Avail./Est. | <u>\$27,490,132</u> | <u>\$31,332,337</u> 1/ | <u>\$20,000,000</u> 1/ |

Public Broadcasting Systems Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|--------------------|-----------------------|-------------|
| Minnesota | \$398,436 | -- | -- |
| Mississippi | 1,862,101 | -- | -- |
| North Dakota | 837,895 | -- | -- |
| Oklahoma | 1,000,000 | -- | -- |
| South Dakota | 25,510 | -- | -- |
| Tennessee | 826,058 | -- | -- |
| Total Avail./Est. | <u>\$4,950,000</u> | <u>\$4,965,000</u> 1/ | <u>--</u> |

1/ Cannot be distributed by geographic area in advance.

RURAL UTILITIES SERVICE
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2007 Actual and Estimated 2008 and 2009

Direct Broadband Telecommunications Loans - Treasury Rate

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|----------------------|------------------------------------|------------------------------------|
| Alabama | \$9,796,000 | -- | -- |
| Arizona | 18,331,000 | -- | -- |
| Connecticut | 12,478,000 | -- | -- |
| Florida | 8,136,000 | -- | -- |
| Iowa | 15,902,000 | -- | -- |
| Kansas | 4,973,000 | -- | -- |
| Louisiana | 42,066,000 | -- | -- |
| Maryland | 3,211,000 | -- | -- |
| Minnesota | 55,353,000 | -- | -- |
| New Jersey | 12,444,000 | -- | -- |
| New York | 5,713,000 | -- | -- |
| Oregon | 24,583,000 | -- | -- |
| West Virginia | 37,973,000 | -- | -- |
| Total Avail./Est. | <u>\$250,959,000</u> | <u>\$492,900,000</u> ^{1/} | <u>\$297,923,000</u> ^{1/} |

Broadband Telecommunications Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|---------------------|-----------------------------------|-------------|
| Arizona | \$400,695 | -- | -- |
| Colorado | 743,281 | -- | -- |
| Kentucky | 177,487 | -- | -- |
| Louisiana | 1,404,827 | -- | -- |
| Mississippi | 761,000 | -- | -- |
| Missouri | 727,388 | -- | -- |
| New Jersey | 1,589,513 | -- | -- |
| Ohio | 920,040 | -- | -- |
| Oklahoma | 371,139 | -- | -- |
| Virginia | 594,400 | -- | -- |
| Washington | 1,832,661 | -- | -- |
| West Pacific | 820,343 | -- | -- |
| Total Avail./Est. | <u>\$10,342,774</u> | <u>\$15,783,209</u> ^{1/} | <u>--</u> |

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

RURAL UTILITIES SERVICE

DISTANCE LEARNING, TELEMEDICINE AND BROADBAND PROGRAM ACCOUNT

Classification by Objects
2007 Actual and Estimated 2008 and 2009

| | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> |
|--|--------------------------|--------------------------|--------------------------|
| Other Objects: | | | |
| 41 Grants, subsidies, and contributions..... | <u>\$48,379,560</u> | <u>\$63,282,775</u> | <u>\$31,619,000</u> |
| Total direct obligations..... | <u><u>48,379,560</u></u> | <u><u>63,282,775</u></u> | <u><u>31,619,000</u></u> |

RURAL UTILITIES SERVICE

HIGH COST ENERGY GRANTSPROJECT STATEMENT

(On basis of appropriation transfer)

(In thousands of dollars)

| Item of Change | 2007 Actual | 2008 Budget | Increase or Decrease | 2009 Estimated |
|---|----------------|----------------|-------------------------|-------------------|
| High cost energy grants a/..... | \$19,687 | \$19,860 | -\$19,860 | \$0 |
| Total Available or Estimate..... | 19,687 | 19,860 | -\$19,860 | 0 |
| Transfer from Rural Community Advancement Program..... | -25,740 | | | |
| Transfer from Rural Water and Waste Disposal Program..... | 0 | -19,860 | 19,860 | 0 |
| Secretary's Interchange transfer..... | 2,659 | | | |
| Unobligated balance available, start of year..... | -17,514 | 0 | 0 | 0 |
| Unobligated balance available, end of year..... | 20,907 | 0 | 0 | 0 |
| Total Appropriation..... | 0 | 0 | 0 | 0 |

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

a/ In FY 2007, \$25,740,000 was provided for this program in the Rural Community Advancement Program account and transferred to this account. In FY 2008, \$19,860,000 was provided for this program in the Rural Water and Waste Disposal Program account.

PROJECT STATEMENT

(On basis of available funds)

(In thousands of dollars)

| Item of Change | 2007 Actual | 2008 Budget | Increase or Decrease | 2009 Estimated |
|---|----------------|----------------|-------------------------|-------------------|
| High cost energy grants..... | \$19,687 | \$40,767 | -\$40,767 | \$0 |
| Total Available or Estimate..... | 19,687 | 40,767 | -40,767 | 0 |
| Transfer from Rural Community Advancement Program..... | -25,740 | 0 | | |
| Transfer from Rural Water and Waste Disposal Program..... | 0 | -19,860 | 19,860 | 0 |
| Secretary's Interchange Transfer..... | 2,659 | | | |
| Unobligated balance available, start of year..... | -17,514 | -20,907 | 20,907 | 0 |
| Unobligated balance available, end of year..... | 20,907 | 0 | 0 | 0 |
| Total Appropriation..... | 0 | 0 | 0 | 0 |

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

RURAL UTILITIES SERVICE
 GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
 2007 Actual and Estimated 2008 and 2009

High Energy Cost Grants

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------------------|---------------------|-----------------------------------|-------------|
| Alaska | \$18,729,065 | -- | -- |
| Arizona | 763,350 | -- | -- |
| Maine | 195,000 | -- | -- |
| Total Avail./Est. | <u>\$19,687,415</u> | <u>\$40,767,352</u> ^{1/} | <u>--</u> |

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

RURAL UTILITIES SERVICE

HIGH ENERGY COST GRANTS

Classification by Objects
2007 Actual and Estimated 2008 and 2009

| | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> |
|--|--------------------------|--------------------------|-----------------|
| Other Objects: | | | |
| 41 Grants, subsidies, and contributions..... | <u>\$19,687,415</u> | <u>\$40,907,000</u> | <u>\$0</u> |
| Total direct obligations..... | <u><u>19,687,415</u></u> | <u><u>40,907,000</u></u> | <u><u>0</u></u> |

RURAL DEVELOPMENT UTILITIES PROGRAMS

STATUS OF PROGRAMS

Rural Electrification and Telecommunications Loans Programs

Current Activities: The Rural Development (RD) Utilities Programs provide electric and telecommunications financing through loan and loan guarantee programs. The rural electric direct and loan guarantee programs provide financing for the operation of electric generation, transmission, and distribution facilities. The telecommunications loan program provides direct loans for construction, expansion, and operation of telecommunications facilities.

Specific areas being addressed currently include:

1. Financing projects to improve electric service in rural areas. Providing reliable, affordable electricity is essential to the economic well-being and quality of life for all of the nation's rural residents. The electric programs provide leadership and capital to upgrade, expand, maintain, and replace America's vast rural electric infrastructure.
2. Financing projects to improve telecommunication service in rural areas. The program priorities are to ensure that rural communities have access to advanced telecommunications services such as high-speed Internet services and advanced communications services such as distance learning and telemedicine. Program outreach efforts are focused on identifying rural areas that do not have access to these services, which are essential for economic development and improved health and education services.

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

Electric Programs:

The electric programs makes loans and loan guarantees to finance the construction of electric generation, transmission and distribution 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 programs services nearly 700 active electric borrowers in 46 States, plus the active territories of the Marshall Islands, Puerto Rico, and American Samoa.

In FY 2007, the electric programs approved 103 loans and loan guarantees totaling nearly \$3.9 billion. Of this amount, 89 distribution loans were made totaling over \$1.4 billion and 14 generation and transmission loans were made totaling almost \$2.5 billion. Some of the loans and loan guarantees that were approved follow:

- \$99 million for 14 loans in the direct hardship electric loan program.
- Over \$961.0 million for 50 loans, plus \$29 million for a renewable energy loan in the treasury rate loan program
- Over \$100.7 million for 13 loans in the municipal rate loan program.
- \$2.7 billion for 25 loans in the guaranteed loan program, including \$872 million for environmental improvements to existing generation plants.

The \$3.9 billion in financing supported projects in 1,526 of the 2,500 non-metropolitan counties, including 220 counties classified as persistent poverty counties and 484 counties classified as out-migration counties. Financing contributed to the creation of over 89,465 jobs in rural areas.

Funding more renewable energy projects is a goal for USDA. USDA gives priority to completed loan applications that are requesting funds for renewable energy projects.

PART Assessments

The electric programs have a rating of "adequate." The electric programs continuously gather, analyze and evaluate a vast amount of data and statistics received from approved loan applications and other sources to determine if the electric programs are meeting or improving its position in meeting aggressive targets and goals.

Telecommunications Program:

The telecommunications program makes direct loans for construction, expansion, and operation of telecommunications lines and facilities or systems. RD continues to fund the deployment of advanced telecommunications facilities in rural America. The program makes new or improved services available to borrower's customers, including rural residents and businesses. Performance measures directly measure the impact of the programs on rural communities.

In FY 2007, the telecommunications program approved almost \$377 million in infrastructure program loans. This funding, will allow rural telecommunications providers to deploy new or improved service to more than 155,000 rural subscribers.

Financing provided by the telecommunications program to Sacred Wind Communications illustrates the benefits of the program. Sacred Wind Communications is deploying telecommunications services to the Navajo Nation in New Mexico where many of the residents on the reservation did not even have basic telephone service. Sacred Wind delivered new telecommunications services to over 650 Navajo homes in 2007 and began construction of a fixed wireless network to expand telecommunication services to 6,500 Navajo homes with no access to basic phone services or broadband. In addition, RD funds made an Internet Training Center available to over 2,500 Navajo people.

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. Performance measures include the number of borrowers' subscribers who receive new or improved service as a result of the financing provided. One weakness noted by OMB is the absence of independent reviews of program results. The program is developing an independent review policy and process and expects to have it completed in FY 2008.

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. The program focuses on Medically Underserved Areas identified by the Department of Health and Human Services, and on encouraging growth in the number of rural schools which offer distance learning classes to rural residents. A current emphasis is providing loan and grant funds for the

creation of Electronic Medical Records (EMR), which improves the efficiency of healthcare providers' telemedicine services.

2. Financing projects to provide rural access to high-speed internet services. Priority is given to providing financing for rural communities that do not have access to broadband services. These services are essential for the economic and social development of rural communities.

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

Distance Learning and Telemedicine Program:

In FY 2007, the distance learning and telemedicine program approved \$59 million in distance learning and telemedicine loans and grants, which will benefit 392 rural counties. For instance, Scott County schools, in rural Tennessee, were awarded a \$500,000 distance learning grant. The Scott County school system is a 3,000 student school district. They broadcast live classes out from their high school to utilize their best teachers for the most challenging classes. Algebra was the first class offered in Scott County schools using the new technology. They have also used the technology to: provide classes not offered by the school district; give advanced students the opportunity to receive dual credit from Roane State Community College; highlight the Scott County Museum built and run by students; send students on virtual field trips so they can experience locations miles from their rural mountain community, and provide in-service training to the teaching staff. Estimated savings from the program are about \$76,000 per year. The school system had a 17 percent increase in the number of middle school students who signed up for the online algebra classes. After one school year, the 2007 test scores showed all 68 students in the eighth grade passed the Algebra Gateway Exam. Approximately 75 percent achieved an advanced level status. With the help of the Rural Development award, the schools were able to provide classes that would have been impossible to teach at the local system because of lack of funds and availability.

In 2007 the Scott County schools received their first ever national award – the Computerworld Honors Program Laureate that commemorates the contributions people and organizations have made to the betterment of society through exceptional use of information technology. The Scott County schools were nominated by their Rural Development grant partners, the TANDBERG Corporation, for their implementation of the distance learning grant funded by the USDA. In addition to the Computerworld Honors Program Laureate medal, the Scott County schools were recently nominated for a national award from the United States Distance Learning Association.

Special Distance Learning Telemedicine Electronic Medical Records (EMR) Loan/Grant Combination Initiative: In FY 2007, a special initiative for Electronic Medical Records (EMR) systems was introduced. Under this initiative, combinations consist of \$4 of loan for every \$1 of grant. Special EMR combinations must be exclusively for EMR systems and related equipment. The introduction of this program resulted in an increased demand for loan/grant combination funds compared to previous years. Eleven loan/grant combinations were obligated, in the amount of \$35,894,390, benefiting 75 counties in 11 states. Of these, 7 were for EMR systems.

PART Assessments

A PART assessment was submitted to OMB in FY 2007 in which the distance learning and telemedicine program developed new performance measures with ambitious targets. As a result, the OMB' RND rating improved to "adequate". The performance measures developed include the number of rural K-12 schools offering distance learning classes and the number of counties designated as Medically Underserved Areas by the Department of Health and Human Services which are provided telemedicine services under loan or grant funding. One weakness noted by OMB is the absence of independent reviews of program results. The program is developing an independent review policy and process and expects to have it completed in FY 2008. In FY 2007, the program staff conducted a review of Distance Learning and Telemedicine grants and published the results of the review on the public website.

Broadband Program:

Under loans financed in FY 2007, the broadband loan program's rural telecommunications providers will be able to deploy new or improved broadband service to more than 201,300 rural subscribers representing approximately 524 rural communities.

In FY 2007, the broadband program approved more than \$261 million in broadband program loans and grants. Financing provided by a Broadband Loan has permitted Camellia Communications to bring broadband service to Greenville, AL with a population 7,166. Camellia provides high speed broadband service to every department operated by the City of Greenville, including the mayor's office, fire department and other community facilities. The City Clerk reports that they have been able to greatly improve productivity and efficiency with the use of Camellia's broadband service. The Emergency Operation Center, operated by the city, houses representatives from E-911, the Emergency Management Service, the Police Chief, the Fire Department Chief, Mayor, City Clerk, and Public Works. Although the City of Greenville saw tremendous damage during Hurricane Opal and Hurricane Katrina, the Rural Development supported broadband service provided by Camellia Communications allowed the Emergency Operation Center to constantly monitor the weather giving the city up-to-date information in order to prepare for future disasters.

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. A reassessment was submitted to OMB in FY 2007 in which the broadband program developed new performance measures with ambitious targets, resulting in an improvement in the OMB rating from RND to "adequate". These performance measures include the percentage of rural residents subscribing to broadband services, the number of borrowers' subscribers receiving new or improved services, and the percentage of borrowers meeting their subscriber forecasts. One weakness noted by OMB is the absence of independent reviews of program results. The program is developing an independent review policy and process and expects to have it completed in FY 2008.

Water and Environmental Programs

The water and environmental programs 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.

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: Recent accomplishments under this appropriation item are cited below by program:

In FY 2007, Rural Development invested \$1.6 billion in direct and guaranteed loans and grants to help rural communities develop 1,088 water and waste disposal facilities. These facilities provided new or improved water and waste disposal services to 1,322,063 borrowers' subscribers. Funding activities included:

- \$1.4 billion in water program's direct loans and grants were made to develop 868 facilities.
- \$69.6 million assisted 103 projects in disadvantaged communities.
- \$20 million funded 31 projects in communities qualifying for emergency assistance.
- \$35.7 million funded 55 grants to technical assistance providers.
- \$25 million funded 9 projects in Empowerment Zones/Enterprise Communities and Rural Economic Area Partnership areas.
- \$856,999 in Colonias grants were made to 229 individuals and families for home improvements.
- \$28 million in guaranteed loans were made.
- \$13 million funded 7 projects for areas affected by hurricanes in 2005.
- \$990,000 funded individually-owned water well systems grants.
- \$495,000 funded water and wastewater revolving fund grants.
- \$497,882 funded 40 pre-development planning grants to assist in preparing applications for water programs funds.
- 50,033 technical assistance calls were completed by circuit riders.
- 25 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, implemented in FY 2005, continues 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; however, with refinements in data collection inputs, reports could be generated showing the data for 2004 and 2005. After analyzing and evaluating the data generated for the years 2004 through 2007, the water program re-adjusted its projections to 37 percent by 2010, a level higher than 10 percent originally set for the measure. In FY 2007, the amount of commercial credit requested by applicants and borrowers as a percent of the dollar amount of loans closed was 30.60 percent.
- The ratio of "loan to grant funds obligated" for FY 2007 was 75 percent loans and 25 percent grants. (The PART annual goal was 70 percent loan and 30 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 met its FY 2007 target of 30 percent in leveraged funds for project development. 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 2007, Rural Development had leveraged over \$767 million from other sources with \$1.6 billion of Rural Development funds.

PART Assessments

The water program received an “effective” rating from OMB after submitting a reassessment in FY 2005. Four performance indicators were implemented as annual measures:

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

One long-term performance indicator strategically focuses on reducing exposure to water related health and safety hazards. The goal, from 2007 to 2010, is to impact 25 percent of the rural population.

Communities are faced with the growing need to upgrade aging facilities, meet new quality standards, and increase the security of their operations. As a result, demand for water program funds has greatly outpaced the annual funding levels.

A second long-term performance indicator focuses on maintaining sustainable rural water systems. In FY 2007, a task force, consisting of three field staff and four national office staff, determined that the debt service coverage ratio and current ratio should be the key ratios used to indicate sustainability of facilities. The sustainability benchmarks are a debt service coverage ratio of 1.10 and a current ratio of 1.50, based on industry standards. Borrowers are required to submit annual financial performance reports and audits. The data will be taken from these documents and inputted into the Community Program Application Processing (CPAP) system for review and reporting purposes. The water programs will analyze the data comparing it to the debt service coverage and current ratio benchmarks. The staff then may flag borrowers that are experiencing or have the potential to develop financial difficulties and establish a corrective action plan to address sustainability of the utility system. The goal is 90 percent of the borrowers will meet or exceed the thresholds established for the financial ratios by FY 2010.

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> |

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) | | | | | | | |
| | 2007 Actual | | 2008 Estimated | | | 2009 Estimated | |
| | Amount | Staff Years | Amount | Staff Years | Increase or Decrease | Amount | Staff Years |
| Strategic Objective 3.1 | | | | | | | |
| Telecommunications Program, DLT and Broadband | \$702,388 | 167 | \$1,558,416 | 165 | -\$856,028 | \$842,538 | 157 |
| Total, Strategic Objective 3.1 | \$702,388 | 167 | \$1,558,416 | 165 | -\$856,028 | \$842,538 | 157 |
| Strategic Objective 3.2 | | | | | | | |
| Rural Electric Programs | \$3,909,451 | 182 | \$7,140,067 | 182 | -\$3,230,616 | \$4,100,000 | 170 |
| Water and Environmental Programs | \$1,579,948 | 542 | \$1,638,157 | 539 | -\$39,102 | \$1,599,055 | 508 |
| Total, Strategic Objective 3.2 | \$5,489,399 | 724 | \$8,778,223 | 721 | -\$3,269,718 | \$5,699,055 | 678 |
| Total, Available | \$6,191,787 | 891 | \$10,336,639 | 886 | -\$4,125,746 | \$6,541,593 | 835 |

Selected Accomplishments Expected at the FY 2009 Proposed Resource Level:

In FY 2009 the telecommunications program expects to provide financing of broadband infrastructure to almost 229,000 rural subscribers through the broadband loan program and the traditional telecommunications loan program. Rural electric programs, through its financing, expect to see 2.5 percent of distribution and transmission lines upgraded and a 4.5 percent increase in the number of consumers receiving new or upgraded service (about 6,125,00 subscribers). In FY 2009, water and environmental programs expects to fund water facilities which will enable 1,418,000 subscribers to receive new or improved service, and improve the programs loan/grant ratio 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 | 2004 Actual | 2005 Actual | 2006 Actual | 2007 Actual | 2008 Target | 2009 Target |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Telecommunications (includes Broadband) | | | | | | |
| a. Number of program borrowers' subscribers receiving new or improved service | 373,813 | 232,249 | 297,027 | 314,706 | 394,931 | 228,931 |
| b. Program Dollars (in thousands) | \$1,286,371 | \$1,256,476 | \$1,027,879 | \$642,988 | \$1,498,818 | \$823,765 |
| Distance Learning | | | | | | |
| a. Number of counties served by entities receiving distance learning and telemedicine funding | 289 | 458 | 653 | 392 | 695 | 368 |
| b. Program Dollars (in thousands) | \$56,945 | \$86,477 | \$65,419 | \$59,400 | \$59,598 | \$20,000 |

| Performance Measure #2 | 2004 Actual | 2005 Actual | 2006 Actual | 2007 Actual | 2008 Target | 2009 Target |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Hardship, Municipal Rate and Treasury Rate Loans | | | | | | |
| a. Number of program borrowers' subscribers receiving new or improved service | 3,765,669 | 2,098,989 | 2,420,212 | 2,016,239 | 125,000 | 125,000 |
| b. Dollars (In Thousands) | \$2,066,803 | \$1,219,115 | \$1,189,764 | \$1,189,764 | \$99,300 | \$100,000 |
| FFB Electric Loans | | | | | | |
| a. Number of program borrowers' subscribers receiving new or improved service | 560,316 | 261,488 | 5,763,437 | 3,810,212 | 7,000,000 | 6,000,000 |
| b. Program Dollars (In Thousands) | \$1,765,000 | \$2,100,000 | \$2,700,000 | \$2,700,000 | \$6,500,000 | \$4,000,000 |
| Performance Measure #3 | 2004 Actual | 2005 Actual | 2006 Actual | 2007 Actual | 2008 Target | 2009 Target |
| Water and Environmental Programs | | | | | | |
| a. Number of program borrowers' subscribers receiving new improved service from Agency's funded water facilities. | 965,780 | 1,325,000 | 1,637,554* | 1,332,063 | 1,380,000 | 1,418,000 |
| b. Program Dollars (in thousands) | \$1,500,000 | \$1,500,000 | \$1,484,144 | \$1,579,948 | \$1,638,157 | \$1,599,055 |

*updated since FY07 Explanatory Note submission

| 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 Opportunites Facilities. | | | | |
| PROGRAM | PROGRAM ITEMS | 2007 AMOUNT (\$000) | 2008 AMOUNT (\$000) | 2009 AMOUNT (\$000) |
| Direct Telecommunications Loans, Treasury Telecommunications Loans, and FFB Telecommunications Loans | | | | |
| | Program Level | \$376,736 | \$685,170 | \$690,000 |
| | Budget Authority | 392 | 3,595 | 525 |
| | S&E | 8,688 | 8,431 | 11,047 |
| | Total Costs | 9,080 | 12,026 | 11,572 |
| | FTEs | 80 | 80 | 97 |
| | Performance measure: | | | |
| | Number of Customers | | | |
| | Target: | 155,135 | 194,931 | 194,931 |
| | Cost per Unit | 0.06 | 0.06 | 0.06 |
| Treasury Distance Learning Loans, Distance Learning and Telemedicine Grants | | | | |
| | Program Level | \$59,400 | \$59,598 | \$20,000 |
| | Budget Authority | 27,691 | 31,937 | 20,000 |
| | S&E | 1,930 | 1,873 | 2,455 |
| | Total Costs | 29,621 | 33,810 | 22,455 |
| | FTEs | 17 | 17 | 22 |
| | Performance measure: | | | |
| | Counties served | | | |
| | Target: | 392 | 695 | 368 |
| | Cost per Unit | 75.56 | 48.65 | 61.02 |
| Public Broadcasting System Grants, and Broadband Telecommunication Loans and Grants | | | | |
| | Program Level | \$266,252 | \$813,648 | \$132,538 |
| | Budget Authority | 20,689 | 37,795 | 5,169 |
| | S&E | 7,618 | 7,391 | 9,685 |
| | Total Costs | 28,307 | 45,186 | 14,854 |
| | FTEs | 70 | 68 | 84 |
| | Performance measure: | | | |
| | Number of Customers | | | |
| | Target: | 201,305 | 200,000 | 34,000 |
| | Cost per Unit | 0.14 | 0.23 | 0.44 |
| FFB Electric Loans 2005 Hurricanes Modifications Emer. Suppl. | | | | |
| | Program Level | \$0 | \$0 | \$0 |
| | Budget Authority | 77 | 7,015 | 0 |
| | S&E | 0 | 0 | 0 |
| | Total Costs | 77 | 7,015 | 0 |
| | FTEs | 0 | 0 | 0 |
| | Performance measure: New/ Upgraded Subscribers | | | |
| | Target: | 0 | 0 | 0 |
| | Cost per Unit | 0 | 0 | 0 |

| Full Cost by Strategic Goal | | | | |
|--|---|--------------------------------|--------------------------------|--------------------------------|
| Strategic Objective 3.1: Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunites Facilities. | | | | |
| PROGRAM | PROGRAM ITEMS | 2007 AMOUNT (\$000) | 2008 AMOUNT (\$000) | 2009 AMOUNT (\$000) |
| Total for Strategic Objective 3.1 | | | | |
| | Program Level | \$702,388 | \$1,558,416 | \$842,538 |
| | Budget Authority | 48,849 | 80,342 | 25,694 |
| | S&E | 18,236 | 17,695 | 23,187 |
| | Total Costs | 67,085 | 98,037 | 48,881 |
| | FTEs | 167 | 165 | 203 |
| | Performance measure: | | | |
| | Target: | N/A | N/A | N/A |
| | Cost per Unit | N/A | N/A | N/A |
| 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 | \$3,889,764 | \$7,099,300 | \$4,100,000 |
| | Budget Authority | 3,640 | 119 | 0 |
| | S&E | 19,876 | 19,285 | 25,270 |
| | Total Costs | 23,516 | 19,404 | 25,270 |
| | FTEs | 182 | 182 | 219 |
| | Performance measure: | | | |
| | Subscribers served | | | |
| | Target: | 5,826,451 | 7,125,000 | 6,125,000 |
| | Cost per Unit | 0.00 | 0.00 | 0.00 |
| Direct Water & Waste Disposal Loans, Guaranteed Water & Waste Disposal Loans, Water & Disposal Grants, Individually-Owned Water Well System Grants, Grants for Water and Wasterwater Revolving Funds, Solid Waste Management Grants, and Emergency & Imminent Community Water Asst. Grants. | | | | |
| | Program Level | \$1,579,948 | \$1,638,156 | \$1,599,055 |
| | Budget Authority | 564,174 | 607,706 | 269,007 |
| | S&E | 59,323 | 57,559 | 75,424 |
| | Total Costs | 623,497 | 665,265 | 344,431 |
| | FTEs | 542 | 539 | 658 |
| | Performance measure: # of subscribers receiving new and/or improved water and/or waste disposal service | | | |
| | Target: | 1,332,063 | 1,380,000 | 1,418,000 |
| | Cost per Unit | 0.47 | 0.48 | 0.24 |
| High Energy Cost Grants | | | | |
| | Program Level | \$19,687 | \$40,767 | \$0 |
| | Budget Authority | 19,687 | 20,907 | 0 |
| | S&E | 0 | 0 | 0 |
| | Total Costs | 19,687 | 20,907 | 0 |
| | FTEs | 0 | 0 | 0 |
| | Performance measure: New/Upgraded Subscribers | | | |
| | Target: | 0 | 0 | 0 |
| | Cost per Unit | 0 | 0 | 0 |

| 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 | 2007 AMOUNT (\$000) | 2008 AMOUNT (\$000) | 2009 AMOUNT (\$000) |
| Water and Waste Disp. Grants 2003/2004 Hurricanes Emergency Supplemental, Water and Waste Disp. Grants 2005 Hurricanes Emergency Supplemental, Emer. and Imminent Comm. Water Asst. Grants - Emergency Supplemental | | | | |
| | Program Level | \$13,010 | \$17,087 | \$0 |
| | Budget Authority | 13,010 | 17,087 | 0 |
| | S&E | 0 | 0 | 0 |
| | Total Costs | 13,010 | 17,087 | 0 |
| | FTEs | 0 | 0 | 0 |
| | Performance measure: New/ Upgraded Subscribers | | | |
| | Target: | N/A | N/A | N/A |
| | Cost per Unit | N/A | N/A | N/A |
| Total for Strategic Objective 3.2 | | | | |
| | Program Level | \$5,502,409 | \$8,795,310 | \$5,699,055 |
| | Budget Authority | 600,511 | 645,819 | 269,007 |
| | S&E | 79,199 | 76,844 | 100,694 |
| | Total Costs | 679,710 | 722,663 | 369,701 |
| | FTEs | 724 | 721 | 877 |
| | 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 | \$6,204,797 | \$10,353,726 | \$6,541,593 |
| | Budget Authority | 649,360 | 726,161 | 294,701 |
| | S&E | 97,435 | 94,539 | 123,881 |
| | Total Costs | 746,795 | 820,700 | 418,582 |
| | FTEs | 891 | 886 | 1,080 |
| | Performance measure: | | | |
| | Target: | N/A | N/A | N/A |
| | Cost per Unit | N/A | N/A | N/A |

** FY 07 targets are based on appropriation.

S&E and FTE figures for each program are based on calculations and a best estimate of the personnel involved. Actual staff time by program is not available at this time.