



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: March 13, 2000

REPLY TO

ATTN OF: 09601-1-Te

SUBJECT: Electric Generation and Distribution Borrower Investments

TO: Christopher McLean
Acting Administrator
Rural Utilities Service

ATTN: Sherie Hinton Henry
Director
Financial Management Division

This report presents the results of our audit of Rural Utilities Service's (RUS) electric generation and distribution borrower investments. RUS' written response to the draft report is included as exhibit M, and RUS' comments and the Office of Inspector General position concerning the written response are set forth in the Recommendations section of the report.

We agree with RUS' planned corrective action for Recommendation No. 1; however, additional information is requested to reach agreement with the management decision. We request RUS to reconsider its position regarding Recommendation No. 2. While the agency response is generally supportive of borrower economic development efforts, the RUS response cites changes in the economic climate and stability of the electric utility industry as reasons to avoid specific RUS directives aimed at measuring any changes in borrower investments in rural America. We disagree.

As stated in the RUS response, the uncertain economic climate is likely to force RUS borrowers to reevaluate long-term investments. We believe that the coming reassessment and associated shifts in investment practices will offer an unprecedented opportunity for investment in rural utilities infrastructure, to include such items as fiber optic phone lines to facilitate internet connections and emerging technologies to bring the full range of television programming to rural America.

Please furnish the information needed to reach agreement on the management decisions for Recommendation Nos. 1 and 2 by May 1, 2000. Please note that Departmental Regulation 1720-1 requires a management decision for all recommendations within a maximum of 6 months from the date of report issuance. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

Christopher McLean

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If you have any questions, please call me at 720-8001 or have a member of your staff contact James R. Ebbitt, Assistant Inspector General for Audit, at (202) 720-6945.

ROGER C. VIADERO
Inspector General

**RURAL UTILITIES SERVICE
ELECTRIC GENERATION AND
DISTRIBUTION BORROWER INVESTMENTS
WASHINGTON, D.C.
AUDIT REPORT NO. 09601-1-Te**

MARCH 2000

**UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
SOUTHWEST REGION
ROOM 324, FEDERAL OFFICE BUILDING
101 SOUTH MAIN STREET
TEMPLE, TEXAS 76501**

EXECUTIVE SUMMARY

ELECTRIC GENERATION AND DISTRIBUTION BORROWER INVESTMENTS

AUDIT NO. 09601-1-Te

RESULTS IN BRIEF

The Rural Electrification Act (RE Act), as amended in December 1987, allows electric generation and distribution borrowers to make investments, loans, and loan guarantees up to 15 percent of their total utility plant (TUP) value without prior approval of the Rural Utilities Service (RUS).¹ Congress amended the RE Act to allow electric borrowers more latitude in making outside investments. It increased the limit of such investments without RUS approval from 3 percent to 15 percent of TUP. While the law did not restrict the type of investments that could be made, the Congressional Record stated the increase was to provide an incentive for electric borrowers to make investments in rural areas. We initiated this review to determine the extent of borrower investments and the extent that those investments were in rural development projects.

We found that the Congressional action to allow electric borrowers' to make investments up to 15 percent of TUP without prior RUS approval has not stimulated increased investments in rural areas. In a 1994 audit, the Office of Inspector General (OIG) reported that less than 1 percent of total investments were in rural areas. This review disclosed essentially the same percentage. We statistically estimated, based on our analysis of calendar year (CY) 1997 data, that of the \$10.9 billion in total investments reported by 787 borrowers, only about 90 borrowers invested about \$61 million in rural development (about one-half of 1 percent of reported investments).

About three-fourths of RUS borrowers who are current on their mortgage, appear to have the ability to continue to pay their debt, and charge their customers reasonable kilowatt rates are exempted by RUS regulations from the 15 percent investment rule. RUS regulations also permit other borrowers to exclude certain safe type investments from the 15 percent limit. We statistically estimated that 358 of 787 electric borrowers had total investments in excess of 15 percent of TUP. We estimated that these 358 borrowers had total investments of \$7.4 billion of which \$3.2 billion was in excess of 15 percent of TUP.

¹RE Act, section 312, Use of Funds, dated December 22, 1987.

Since very little of the total investments (about one-half of 1 percent) have been made in rural development projects, RUS policies and procedures have not significantly helped foster rural development as intended by Congress. Instead, RUS borrowers have used discretionary funds to invest in businesses located in urban areas and a variety of securities and other commercial paper.

KEY RECOMMENDATIONS

We recommend that RUS coordinate with Congress to develop a strategy to encourage electric borrowers to make discretionary investments in rural areas as intended by Congress. We also recommend that RUS include in the Government Performance Review Act (GPRA) Annual Performance Plan a performance measure to assess the increase in borrower investments in rural America.

AGENCY RESPONSE

RUS agreed to strategically develop and implement policies and procedures to strongly encourage borrowers to meet the intent of Congress. However, RUS disagreed that borrower investments in rural development should be included as a GPRA performance measure. A copy of RUS' complete response is included in exhibit M.

OIG POSITION

We agree with RUS' corrective action plan to strategically develop and implement policies and procedures to strongly encourage borrowers to invest in rural development. We requested additional documentation showing the specific actions taken or planned to accomplish this goal and the specific timeframe(s) within which the actions will be completed.

In order to evaluate the effectiveness of the agreed-to strategic action plan, RUS must measure the impact of the policies and procedures implemented to determine whether rural development investments increased. Since the corrective actions must be measured to determine effectiveness in increasing borrower investments in rural development, we continue to believe that such performance measures should be included in RUS' annual GPRA plan. We requested RUS to reconsider its position and include in its annual GPRA plan a performance measure to assess the increase in borrower's investments in rural America.

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ABBREVIATIONS

CFR	-	Code of Federal Regulations
CY	-	Calendar Year
GPRA	-	Government Performance Review Act
KWH	-	Kilowatt Hour
NRUCFC	-	National Rural Utilities Cooperative Corporation
OGC	-	Office of the General Counsel
OIG	-	Office of Inspector General
RE Act	-	Rural Electrification Act of 1936, as amended
REA	-	Rural Electrification Administration
RUS	-	Rural Utilities Service
TUP	-	Total Utility Plant
USDA	-	U.S. Department of Agriculture

INTRODUCTION

BACKGROUND

The Rural Electrification Administration (REA) was established in 1935 and became part of the U.S. Department of Agriculture (USDA) in 1939. The REA made insured and guaranteed loans to electric cooperatives in order to extend electric generation and transmission services to rural areas. Statutory provision for the REA is included in the Rural Electrification Act (RE Act) of 1936, as amended. On October 13, 1994, the Rural Utilities Service (RUS) was established by Public Law 103-354, Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994. RUS assumed the duties to administer the electric and telecommunication programs of the former REA and the water and waste programs of the former Rural Development Administration.

RUS serves a leading role in improving the quality of life in rural America by administering electric, telecommunications, and water and waste programs in a service oriented manner. RUS provides policy and planning, in addition to financial and other services, to utilities serving rural areas. The public-private partnership between RUS and local utilities assist rural communities in developing local infrastructure, which support development and improve quality of life in rural America. RUS makes and guarantees loans to electric generation (or power supply) and electric distribution borrowers serving rural areas under the authority of the RE Act of 1936, as amended. These loans and guarantees are made to borrowers generally for a period of 35 years. RUS electric borrowers are either electric generation or electric distribution cooperatives. Electric generation cooperatives generate and/or sell electricity to electric distribution cooperatives who in turn sell the electricity to consumers.

From 1973 to 1993, the REA insured loan interest rate was generally 5 percent; however, the Administrator could approve a 2 percent interest rate in hardship cases. In 1993, the standard interest rate was adjusted to either the municipal rate (based on the current market yield of outstanding municipal obligations) or a hardship rate of 5 percent.

On December 22, 1987, the RE Act was amended by adding Section 312, "Use of Funds." This new section allowed electric borrowers to

invest up to 15 percent of the value of their TUP² without prior approval of REA (now RUS). Prior to this amendment, a borrower could invest funds up to 3 percent of their TUP value without prior approval from the agency. This 3 percent contractual limit was incorporated as a clause in the borrowers' mortgage agreement.

The Section 312 amendment to the RE Act did not restrict the type of investments, loans, or loan guarantees that borrowers could make. However, the Congressional Record stated that the purpose of increasing the unrestricted investment limit to 15 percent was to provide an incentive for electric borrowers to make investments in rural areas where they were located. In stating its policy that implemented the amendment, RUS assumed that borrowers would use the new latitude afforded them by Section 312 of the RE Act primarily to make the needed investments in rural communities to promote business development and economic diversification projects.

During debate on the Section 312 amendment, Congress expressed concerns that borrowers were restricted in their ability to make needed investments in infrastructure projects (such as water and waste systems, garbage collection services, etc.) or in job creation activities (such as providing technical, financial, and managerial assistance) as well as other activities to promote business development in rural communities. In addition, Congress emphasized that this new level of investments should not in any way put Federal Government funds at risk or impair the borrower's ability to repay their debts.

RUS implemented the Section 312 amendment with a general regulation published in Title 7, Code of Federal Regulation (CFR), part 1717, subpart N. Subpart N specified that borrowers may invest their own funds in any investments, loans, or guaranteed loans without prior approval as long as the borrowers' total investments, loans, or loan guarantees were equal to or less than 15 percent of their TUP value. Subpart N provided for exclusions of certain investments from the calculation of a borrower's investments to TUP percentage ratio and also exempted specific borrowers from obtaining prior approval to invest over 15 percent of their TUP value.

RUS instructions for calculating the percent of investments to TUP is contained in the "Guide for Preparing Financial and Statistical Reports for Electric Distribution Borrowers" (RUS Bulletin 1717B-2) and the "Guide for Preparing Financial and Statistical Reports for Power Supply Borrowers and Electric Distribution Borrowers with Generating Facilities" (RUS Bulletin 1717B-3). As the normal procedure for calculating the percent of investments to TUP, the bulletins state that borrowers should use the amount of funds in "includable" investments added to the balance of funds in their loan guaranties and divide this total amount by the TUP value resulting in the investment ratio expressed as a percent.

²Total Utility Plant (TUP) Value is defined as the sum of the borrower's Electric Plant Accounts and Construction Work in Progress - Electric Accounts, as such terms are used in the Uniform System of Accounts (Title 7 CFR 1717.652, Definitions, dated September 21, 1995).

RUS regulations³ allowed electric borrowers to make unlimited investments in the following "excludable" investment areas:

- (1) Securities or deposits issued, guaranteed, or fully insured as to payment by the U.S. Government or any agency thereof;
- (2) capital term certificates, bank stock, or other similar securities of the supplemental lender which have been purchased as a condition of membership in the supplemental lender or as a condition receiving financial assistance from such lender, as well as any other investment made in, or loan made to, the National Rural Utilities Cooperative Finance Corporation, the St. Paul Bank of Cooperatives, and Agriculture Cooperative Bank;
- (3) patronage capital allocated from a power supply cooperative of which the borrower is a member;
- (4) patronage capital allocated from an electric distribution cooperative to a power supply borrower;
- (5) invest or lend funds derived directly from grants which the borrower is not obligated to repay, regardless of source or purpose of the grant loans received from or guaranteed by any Federal, State, or local government program designed to promote rural economic development; and
- (6) loans made by the borrower and guaranteed by an agency of USDA, up to the amount of principle whose repayment, with interest, is fully guaranteed; and unlimited investments and loans to finance the following community infrastructures that serve primarily consumers located in rural areas and guaranteed debt issued for the construction or acquisition of such infrastructures, up to an aggregate amount of such guarantees not to exceed 20 percent of the borrower's equity: (A) Water and waste disposal systems, (B) solid waste disposal systems, (C) telecommunication and other electronic communication systems, and (D) natural gas distribution systems.

In each of the above four infrastructures, if the system is a component of a larger organization other than the borrower itself, the borrower must certify annually that a majority of the gross revenues of the larger organization came from customers of the systems that were located in rural areas.

Also excluded from the calculation of investments, loans, and loan guarantees made by borrowers are:

- o Amounts properly recordable in Account 142 Customer Account Receivable and Account 143 Other Accounts Receivable;
- o any investment, loan, or guarantee that the borrower is required to make by an agency of USDA, for example, as a condition of obtaining financial assistance for itself or any other person or organization;

³Title 7, Code of Federal Regulations, part 1717, subpart N, Investments, Loans, and Guarantees by Electric Borrowers, dated September 21, 1995.

- o investments included in an irrevocable trust for the purpose of funding post-retirement benefits of the borrower's employees;
- o reserves required by a reserve bond agreement or other agreement legally binding on the borrower that are dedicated to making required payments on debt secured under the RUS mortgage, not to exceed the amount of reserves specifically required by such agreements; and
- o investments included in an irrevocable trust approved by RUS and dedicated for the payment of decommissioning nuclear facilities. The regulation contains a grandfather exclusion for all amounts of individual investments, loans, and guarantees excluded by RUS as of February 16, 1995.

Electric borrowers compute the ratio of investments to TUP per agency instructions and report this ratio on the annual financial reports submitted to RUS. RUS reviews the ratio calculations shown on the annual reports and contacts any nonexempt borrower whose ratio exceeds 15 percent. It is RUS policy to work with any such nonexempt borrower to determine the best course of action to bring the borrower in compliance.

RUS also exempted specific borrowers from any controls in their investment of funds that are used for investments, loans, and loan guarantees under Title 7 CFR 1717.656 with the exception of investments, loans, and loan guarantees made to extend, add to, or modify a borrower's electric system. Borrowers remain exempt if they are in compliance with all provisions of its RUS mortgage, RUS loan contract, and any other agreement with RUS and:

- o The average revenue per kilowatt (KWH) for residential services received by a borrower during the two most recent calendar years does not exceed 130 percent of the average revenue per KWH for residential service during the same period for all residential consumers located in the State or States served by the borrowers. (Electric distribution borrowers only.)
- o In the most recent calendar year for which data are available, the borrower achieved an operating TIER of at least 1.0 and an operating debt service coverage of at least 1.0 based on the average of the two highest ratios achieved in the three most recent calendar years.
- o The borrower's ratio of net utility to long-term debt is at least 1.1 based on year-end data for the most recent calendar year for which data is available.
- o The borrower's equity is equal to at least 27 percent of its total assets, based on year-end data for the most recent year for which data is available.

A listing of borrowers who qualified for this exemption was published in Federal Register on September 21, 1995. A total of 590 of the 738 (80 percent) electric distribution cooperatives and 3 of 49 electric generation cooperatives were listed as exempt. RUS officials stated that this listing has not changed since it was published in the Federal Register.

We performed this review of borrowers' investments to determine if the intent of Congress was achieved. We analyzed investments, loans, and loan guarantee information reported to RUS by electric borrowers for CY 1997 in addition to reviewing current RUS policies and procedures. As of December 31, 1997, there were 798 active electric generation and distribution borrowers with outstanding direct and guaranteed loan balances totaling \$55.8 billion of which 787 borrowers reported financial information to RUS for CY 1997.

OBJECTIVES

The audit objectives were to determine the extent of electric generation and distribution borrowers' investments and the extent that those investments were in rural development projects.

SCOPE

We obtained electric borrowers' financial information for CY 1997 from the RUS National Office in Washington, D.C. We analyzed Forms 12a, Operating Reports - Financial, and Forms 12h,

Operating Reports - Annual Supplement, as of December 31, 1997, for electric generation borrowers. Forms 12a and 12h were reviewed for the 49 electric generation borrowers that provided these reports to RUS for CY 1997. For electric distribution borrowers, we reviewed Forms 7, Financial and Statistical Report, and Forms 7a, Investments, Loan Guarantees and Loans - Distribution, as of December 31, 1997. Forms 7 and 7a were reviewed for a random statistical sample of 100 of the 738 electric distribution borrowers that provided these reports to RUS for CY 1997. The random sample of distribution borrowers was divided into two strata consisting of 50 borrowers who were exempted and 50 borrowers who were not exempted from obtaining prior approval from RUS to invest over 15 percent of TUP value. See exhibit I for the statistical sample design.

We did not visit the selected borrowers to validate the information reported to RUS on the forms 7, 7a, 12a, and 12h. RUS loan funds are audited by RUS field auditors approximately every 3 years and the borrowers' financial statements are certified annually by certified public accountants. The RUS National Office staff also reviews and makes adjustments and corrections to the information submitted annually by the electric borrowers. Therefore, we accepted the information as reported by the borrowers and reviewed and/or amended by RUS personnel for the purpose of this audit. The fieldwork for this audit was performed during the period September 1998 through May 1999.

This audit was performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

METHODOLOGY

To accomplish the audit objectives, we relied on testimonial, documentary, and analytical evidence which consisted of (1) a review of RUS regulations, policies, procedures and interviews with RUS personnel regarding borrower investments, (2) a review of RUS instructions to borrowers for completion of forms 7, 7a, 12a and 12h, (3) a review of 49 electric generation borrowers' forms 12a and 12h submitted to RUS for CY 1997, (4) a review of 100 sampled electric distribution borrowers' forms 7 and 7a submitted to RUS for CY 1997, and (5) computation of total investments reported for the 49 electric generation borrowers and the random sample of 100 electric distribution borrowers. We also contacted two electric borrowers to obtain an understanding of the borrowers' reported investments.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1. RE ACT AMENDMENTS HAVE NOT FOSTERED RURAL DEVELOPMENT INVESTMENTS

BORROWERS NOT INVESTING IN RURAL DEVELOPMENT

RUS electric generation and distribution borrowers did not increase their investment portfolio in rural development as intended by Congress when it amended the RE Act to increase the amount of investments, loans, and loan guarantees that electric borrowers could make without prior approval of RUS. Electric borrowers have taken advantage of the 15 percent investment rule; however, they have not invested in rural development projects. We statistically estimated

FINDING NO. 1

that of the \$10.9 billion in investments reported by 787 borrowers in CY 1997, only 90 borrowers reported about \$61 million in rural development investments (about one-half of 1 percent of the reported investments).

In addition, RUS regulations exempt financially strong borrowers who charged reasonable kilowatt rates from the 15 percent limit. This exclusion applies to about three-fourths of all borrowers. Regulations also permitted other borrowers to exclude certain safe type investments from the limit. Therefore, when we included all investments in computing the percent of investments to total utility plant (TUP) value, we found that almost half of the electric borrowers had total investments, loans, and loan guarantees in excess of 15 percent of TUP. We statistically estimated that 358 of the 787 borrowers had investments in excess of 15 percent of TUP.

In December 1987, Congress amended the RE Act by adding the following under Section 312, Use of Funds: "A borrower of an insured or guaranteed electric loan under this Act may, without restriction or prior approval of the Administrator, invest its own funds or make loans or loan guarantees, not in excess of 15 percent

of its total utility plant [TUP]."⁴ The Congressional intent for allowing borrowers to invest up to 15 percent of their TUP was to permit borrowers to invest in rural development within their local communities. However, the law as written did not mention rural development. The law stated that REA (now RUS) was to approve borrower investments, loans, and loan guarantees that exceed 15 percent of TUP. Prior to December 1987, borrowers were allowed to make investments, loans, and loan guarantees up to 3 percent of TUP without REA approval by a contractual limit clause incorporated into the mortgage agreement with REA.

In his opening statements for the May 1991 REA hearings before the Subcommittee on Conservation, Credit, and Rural Development, Committee on Agriculture, House of Representatives, the chairman of the subcommittee stated that it was not the intent of Congress that the agency divorce itself as to how those funds are invested, where they are invested, and having knowledge of those investments since all borrower assets are collateral for agency loans. The chairman stated that Congress would expect, as any prudent lender would, that the agency would keep track of where those borrower investments are, what kind of investments they are, how secure they are, and whether they are in keeping with the intent of Congress. The chairman also stated that Congress intended for the borrowers to become actively involved in rural development.

INVESTMENTS IN RURAL AREAS

A review of the Congressional hearing and legislative history of section 312 of the RE Act, shows that the intent of Congress was to reduce the restriction on investments by electric borrowers and to stimulate the rural economy by increasing investments in rural development projects. This was accomplished by increasing the 3 percent imposed by their mortgage agreement with the Government on investment of their funds by permitting borrowers the liberty to invest more of their funds in rural development projects that help their local communities. The legislative history to change the law stated:

This 3 percent limitation is an undue and counterproductive restriction on REA borrowers. REA borrowers have played a critical role in the economic development of rural areas for over 50 years. However, today rural America faces the challenge of rebuilding its economic base after several years of agriculture depression. Rebuilding a more diversified economy in rural communities will require creative approaches, technical assistance, and new financial resources. Permitting this increase from 3 percent to 15 percent of an electric borrower's total utility plant is a small incremental contribution to that rebuilding effort and should not in any way put Government funds or security at risk.

⁴RE Act, Section 312, Use of Funds, dated December 22, 1987.

Another statement says:

Borrowers from REA electric loan program are now prohibited administratively from making their fullest contribution to the communities they serve. Under the agency's present policy, electric borrowers are not permitted to invest more than 3 percent of their own funds for "non-Act" purposes, i.e., facilities or projects not required to provide electricity to rural consumers. Because of this restriction which is not statutorily imposed, rural electric borrowers are restricted in their ability to make needed investments in rural community infrastructure projects (such as water and waste systems, garbage collection services, etc.) and in job creation activities (such as providing technical, financial, managerial assistance and other activities) to promote business development in rural communities.

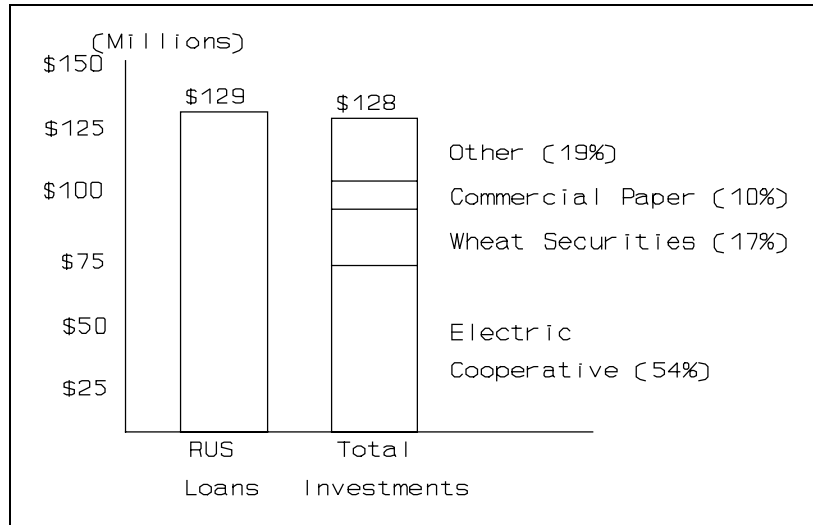
The record clearly indicates that one of the primary purposes of increasing the statutory investment rule was for increasing the funds available for rural development projects and to promote the ability of electric borrowers to improve the rural areas they serve.

We found that only 18 of the 149 borrowers that we reviewed (4 generation and 14 distribution borrowers) reported investments in rural development. Total investments, loans, and loan guarantees for the 149 borrowers reviewed totaled almost \$5 billion while rural development investments totaled about \$33 million (0.07 percent). See exhibit B for a list of the 18 borrowers that we reviewed who reported investments in rural development.

Electric borrowers reported investments such as patronage capital, U.S. Treasury notes, stocks and bonds, money market certificates, certificates of deposit, commercial paper, cash, capital term certificates, real estate, and mutual funds. For example, one distribution borrower (NM023) reported investments of \$43.4 million of which about \$78,000 (0.2 percent) was in rural development. Another distribution borrower (VA055) reported investments of \$127.6 million of which none was in rural development. See exhibit L for the investments reported by these borrowers.

We discussed investment practices with the president and vice-president, finance, for a large electric distribution borrower located in the suburb of Washington, DC (VA 055). Although this borrower owed RUS \$129 million, the cooperative held \$127.6 million in investments (39 percent of TUP), none of which was classified as rural development.

The chart below shows the relationship of the borrower's loan balance and its investment portfolio. (See exhibit L for investment details.)



According to the president, the cooperative has limited opportunities to invest in rural development primarily because of its location in a rapidly growing suburban community. In selecting investment opportunities, the cooperative attempts to provide a financial return that maximizes financial benefits to its members. While willing to invest in rural America, the cooperative does not actively seek such opportunities.

Based on the results of our review, we statistically estimated that the 787 electric generation and distribution borrowers in the sample universe reported investments totaling \$10.9 billion of which about 90 borrowers reported about \$61 million in rural development investments (about one-half of 1 percent of total investments). See exhibits I and J for the statistical sample design and projections.

INVESTMENTS IN EXCESS OF 15 PERCENT

RUS regulations⁵ implementing section 312 of the RE Act allows borrowers to make unlimited investments in certain areas (such as safe investments in securities or deposits fully insured by the U.S. Government) and to exclude those investments from the computation of the percent of investments to TUP. Also, certain borrowers were given blanket approval to invest more than 15 percent of TUP. Borrowers who were current on their RUS mortgage, appear to have the ability to continue to pay its debt, and do not charge their customers an excessive amount were classified as "exempt" borrowers. Exempt borrowers were given blanket approval to invest more than 15 percent of TUP without prior approval. (See Background for details regarding excludable investments.)

⁵Title 7, Code of Federal Regulations, Part 1717, subpart N, Investments, Loans, and Guarantees by Electric Borrowers, dated July 1, 1991.

RUS policy instructs borrowers to classify their investments into two types: Excludable and includable. "Excludable" investments (which are considered safe) are not to be used in the computation of the percent of investments to TUP. RUS policy provides that when borrowers compute the percent of investments to TUP, only "includable" investments and the balance of any guaranteed loans are to be considered. As a result, only a portion of the borrowers' investments are used to calculate the investment to TUP ratio.

In CY 1997, 6 of the 149 borrowers that we reviewed (3 exempt and 3 nonexempt) reported that they exceeded 15 percent of TUP when using the RUS methodology for computing the investment to TUP ratio. The average total investment to TUP ratios for the 49 generation, 50 nonexempt distribution, and 50 exempt distribution borrowers that we reviewed were 5.19, 3.75, and 3.50 percent, respectively, using RUS' calculation methodology. The overall average for these 149 borrowers (per the RUS methodology) was less than 5 percent (about 3.9 percent). See exhibits C, E, and G for the investment to TUP ratios for the 149 borrowers in our sample.

However, if all investments, loans, and loan guarantees are considered, the average ratios for the 49 generation, 50 nonexempt distribution, and 50 exempt distribution borrowers that we reviewed were 22.59, 13.55, and 16.89 percent, respectively (as computed by OIG). See exhibits D, F, and H for the 65 borrowers in our sample whose total investments exceeded 15 percent of TUP.

In addition, when all investments, loans, and loan guarantees were considered, 65 of the 149 electric generation and distribution borrowers that we reviewed (27 exempt and 38 nonexempt) had investments, loans, and loan guarantees in excess of 15 percent of TUP. We found that 24 of the 49 electric generation borrowers and 41 of the 100 sampled electric distribution borrowers exceeded 15 percent of TUP. The average investment to TUP ratio for these 65 borrowers was 26 percent. (Note: These percentages are actual for the 149 borrowers that we reviewed and are not statistical estimates for the total universe of 787 electric borrowers.)

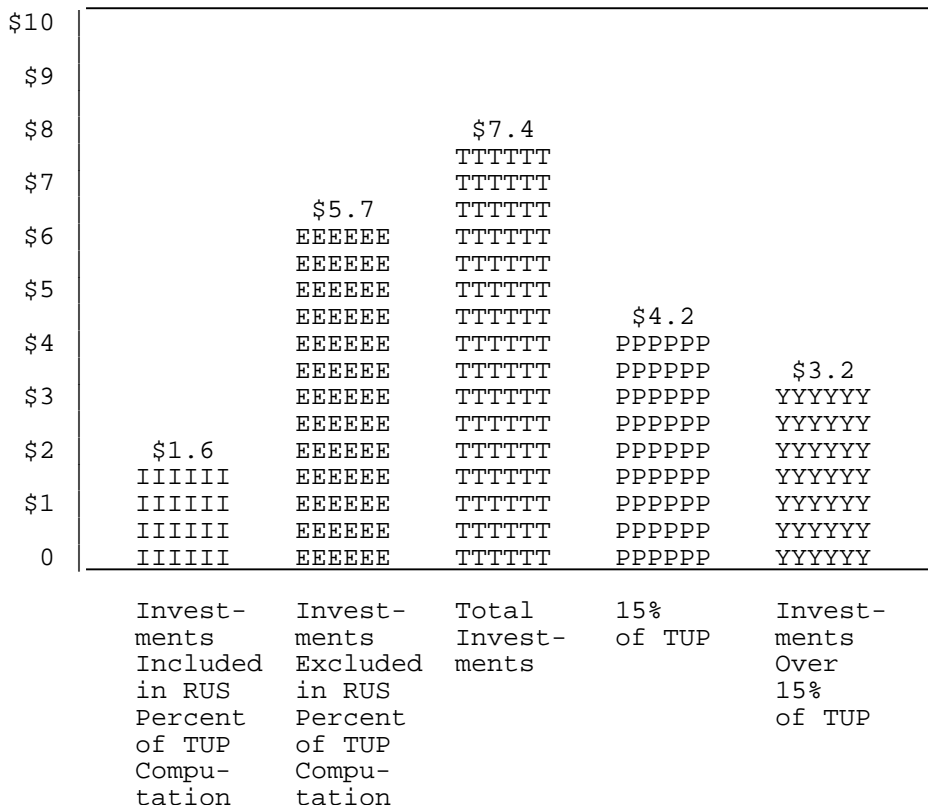
Based on the data for the 149 borrowers reviewed, we statistically estimated that 358 of the 787 (sampling precision of 20.5 percent) electric borrowers in our sample universe (24 of the 49 electric generation borrowers and an estimated 334 of the 738 electric distribution borrowers) exceeded 15 percent of TUP when total investments (both "includable" and "excludable"), loan balances, and guaranteed loan balances reported for CY 1997 were used to calculate the percent of investment to TUP. Our best (midpoint) estimate was that these 358 borrowers had total investments, loans, and loan guarantees totaling \$7.4 billion (sampling precision of 52.7 percent) of which \$3.2 billion was in excess of 15 percent of TUP (sampling precision of 71.8 percent). (We are 95 percent certain that these 358 borrowers had investments totaling at least \$4.7 billion of which at least \$1.6 billion was in excess of 15 percent of TUP.)

We found that the actual investment to TUP ratio was 26 percent for the 24 generation borrowers that reported investments in excess of 15 percent (see exhibit D). We statistically estimated that the percent investment to TUP ratio was 23 percent for the 334 distribution borrowers who reported investments in excess of 15 percent of TUP. See exhibit J for the statistical estimates.

Figure 1 below illustrates the estimated investments, loans, and loan guarantees that were included and excluded by these 358 borrowers when computing investments as a percent of TUP. (Figure values may not total due to rounding and statistically projected values.)

Figure 1: Investments, Loans, and Loan Guarantees for the Estimated 358 Electric Generation and Distribution Borrowers That Had Total Investments in Excess of 15 Percent of TUP Value During CY 1997

(billions)



Specific details for the electric generation and distribution borrowers are discussed separately in exhibit K.

RUS does not measure the amount of borrower investments in rural America as part of its Government Performance Review Act (GPRA) process. Given the level of Congressional interest in stimulating such investments, and given the relatively low level of accomplishment to date, the agency should begin measuring increases in rural investments as part of the GPRA process.

RECOMMENDATION NO. 1

Develop and implement a strategy to encourage electric borrowers to make discretionary investments in rural areas as intended by Congress.

RUS Response

In his February 28, 2000, written response to the draft report, a copy of which is included as exhibit M, the RUS Assistant Administrator for Electric Programs stated that RUS developed policies and procedures strictly adhering to the letter of the law regarding Section 312, Use of Funds, of the RE Act. The Assistant Administrator said no restrictions were placed on the type of investments, loans, or loan guarantees that borrowers could make due to the fact that no restrictions were included in the legislation. RUS attempts to influence borrowers by stating in the regulations (Title 7, CFR 1717, subpart N, General Section) that electric borrowers are encouraged to utilize their own funds to participate in the economic development of rural areas, provided such activity does not in any way put Government funds at risk or impair a borrower's ability to repay its indebtedness to RUS and other lenders.

The Assistant Administrator stated that many borrowers are investing in rural development projects, but may not classify them as rural development investments on the Forms 7a and 12h submitted to RUS. Many borrowers may be confused with the designations of "included" and "excluded" and may not correctly classify "excluded" rural economic development projects as rural development investments. By not including these "excluded" rural development investments, the amount of borrower investments in rural development is reduced, thus increasing the perception that borrowers are not addressing the need identified by Congress.

The Assistant Administrator agreed that electric borrowers should be making a conscious effort to provide for and facilitate rural development in these areas. RUS assumes that borrowers will use the latitude afforded them by Section 312 of the RE Act to make needed investments in rural community infrastructure projects. RUS will strategically develop and implement policies and procedures to strongly encourage borrowers to meet the intent of Congress. As part of this process, RUS will review the instructions for Form 7a and 12h in an effort to clarify any inconsistencies in identifying "included" and "excluded" rural development projects. This will be a top priority for fiscal year 2001.

OIG Position

We agree with RUS' corrective action plan to strategically develop and implement policies and procedures to strongly encourage borrowers to meet the intent of Congress regarding investments in rural development. To reach agreement with RUS's management decision, we request additional documentation showing the specific actions taken or planned to accomplish this goal and the specific timeframe(s) within which the actions will be completed. We also agree that these actions should be given top priority because such actions are in agreement with the Secretary's initiative of "keeping rural America alive" so that residents, even those who are not involved in production agriculture, will still want to stay in rural America. In addition, such actions should be initiated as soon as possible this fiscal year in order for the action plan to be implemented and given top priority in fiscal year 2001.

RECOMMENDATION NO. 2

Include in RUS' annual GPRA plan a performance measure to assess the increase in borrowers' investments in rural America.

RUS Response

In his written response to the draft report, the Assistant Administrator for Electric Programs stated that RUS recognizes the concept and believes it to be very important to quantify activity using measurable and verifiable means to judge the accomplishment of agency goals and objectives. However, with respect to this particular type of discretionary investing, RUS is of the firm opinion that additional consideration must be given to the original intent of the RE Act and loan security in this time of evolutionary change in the electric utility industry.

The Assistant Administrator said electric industry restructuring efforts are advancing across America ushering in a competitive retail marketplace. States are enacting restructuring legislation or comprehensive restructuring regulatory orders and Congressional committees are reviewing proposed Federal legislation. In light of this uncertainty, electric utilities are placing a major emphasis on controlling expenses in an effort to establish a favorable position in rate competitiveness and many utilities are making strategic investments to improve system reliability. This transition to a competitive marketplace may tend to shrink revenue. Combining shrinking revenue with cost controlling efforts and a renewed emphasis on system reliability will minimize the funds available for non-utility plant investment. The quick changing nature of the electric utility business is forcing RUS borrowers (and non-borrower electric utilities alike) to reevaluate long-term investments, whether these investments be in utility plant or community development projects.

The Assistant Administrator said the economic climate and stability of the electric utility industry has changed dramatically in the 13 years following the approval of this investment legislation. The uncertainty of the electric utility restructuring efforts combined with the lagging rural economic recovery and fragile farm economy mandates that the flexibility provided by the 15 percent investment rule be maintained without instituting specific program performance levels.

The Assistant Administrator said encouragement by RUS to continue community development efforts, at appropriate funding levels determined by each borrower, is a laudable effort. Such investment should help build customer/community loyalty which will prove to be priceless in a competitive environment. However, establishing an arbitrary target percentage of total utility plant or a specific number of borrowers making investments in community economic development will do disservice to the electric program in this time of regulatory and market change. While RUS strongly supports borrower economic development effort, specific RUS directives would not be prudent at this time, and could take the focus off of rate competitiveness, reliability, loan security and the long-term economic health of the borrower and the rural community it serves. Such action would be contrary to the intent of the RE Act and Section 312 amendment.

The Assistant Administrator said RUS believes that improvement to the electric program can be attained by: (1) Strategically developing and implementing policies that encourage borrower investment in rural economic development, (2) reviewing Forms 7a and 12h for proper classification of rural development investments, and (3) revising current Form 7a and 12h instructions to help borrowers improve on the tracking of rural economic development projects.

OIG Position

RUS agreed to strategically develop and implement policies and procedures to strongly encourage borrowers to meet the intent of Congress regarding investments in rural development (Recommendation No. 1). In order to evaluate the effectiveness of the actions taken for Recommendation No. 1, RUS must measure the impact of the policies and procedures implemented and determine whether rural development investments increased. Since the corrective actions must be measured to determine effectiveness, we continue to believe such performance measures should be included in RUS' annual GPRA plan. Therefore, we request RUS to reconsider its position regarding Recommendation No. 2 and include in its annual GPRA plan a performance measure to assess the increase in borrower's investments in rural America.

EXHIBIT A - SUMMARY OF MONETARY RESULTS

There are no monetary results being tracked as a result of this audit.

EXHIBIT B - ELECTRIC BORROWERS' INVESTMENTS IN RURAL DEVELOPMENT PROJECTS

No.	Borrower ID	TUP Value	RD Investments	RD Guaranteed Loans	RD Loans	Total RD Investments	
Generation Borrowers							
1	IA 084	\$251,318,690	\$2,732,758	\$0	\$0	\$2,732,758	
2	KY 062	\$1,537,355,412	\$10,000	\$0	\$0	\$10,000	
3	NC 067	\$1,718,171,021	\$1,000,000	\$0	\$5,477,408	\$6,477,408	
4	SD 043	\$113,409,511	\$652,985	\$0	\$0	\$652,985	
Sub Totals		\$3,620,254,634	\$4,395,743	\$0	\$5,477,408	\$9,873,151	
Average		\$905,063,659	\$1,098,936	\$0	\$1,369,352	\$2,468,288	
Nonexempt Distribution							
5	IA 079	\$17,789,843	\$65,954	\$0	\$0	\$65,954	
6	OR 017	\$33,578,939	\$22,395	\$0	\$0	\$22,395	
7	ND 022	\$36,154,267	\$591,033	\$0	\$341,970	\$933,003	
8	ND 050	\$66,756,769	\$1,872,841	\$0	\$1,874,341	\$3,747,182	
9	IA 073	\$17,908,918	\$6,831	\$0	\$0	\$6,831	
10	SD 012	\$65,594,786	\$5,260,007	\$5,200,192	\$1,048,419	\$11,508,618	
11	KS 044	\$58,716,908	\$682,417	\$0	\$0	\$682,417	
12	SD 020	\$12,591,085	\$24,000	\$206,074	\$0	\$230,074	
13	ND 011	\$87,509,276	\$482,711	\$2,796,413	\$0	\$3,279,124	
Sub Totals		\$396,600,791	\$9,008,189	\$8,202,679	\$3,264,730	\$20,475,598	
Average		\$44,066,755	\$1,000,910	\$911,409	\$362,748	\$2,275,066	
Exempt Distribution							
14	KY 021	\$58,074,353	\$610,185	\$0	\$0	\$610,185	
15	MT 031	\$11,646,329	\$300,000	\$0	\$0	\$300,000	
16	SD 036	\$11,052,569	\$406,666	\$0	\$0	\$406,666	
17	AL 025	\$37,260,621	\$452,000	\$0	\$0	\$452,000	
18	KY 034	\$37,343,875	\$236,440	\$0	\$236,440	\$472,880	
Sub Totals		\$155,377,747	\$2,005,291	\$0	\$236,440	\$2,241,731	
Average		\$31,075,549	\$401,058	\$0	\$47,288	\$448,346	
Grand Total							
18		\$4,172,233,172	\$15,409,223	\$8,202,679	\$8,978,578	\$32,590,480	
Borrowers							
Total in Sample		149	\$35,516,183,467	\$15,409,223	\$8,202,679	\$8,978,578	\$32,590,480
Average per Borrower			\$238,363,647	\$103,418	\$55,052	\$60,259	\$218,728

EXHIBIT C - ELECTRIC GENERATION BORROWERS' TOTAL INVESTMENTS

No.	Borrower ID	TUP Value	Reported Investments			Guaranteed Loans Balance	Direct Loans Balance	Total Investments, Loans, and Guarantees	OIG Percent	RUS Percent	Cash and Temporary Investments
			Includable	Excludable	Total						
1	AL 042	\$840,554,512	\$3,150,480	\$80,100,070	\$83,250,550	\$0	\$0	\$83,250,550	9.90	0.37	\$72,603,583
2	AK 032	\$19,441,607	\$637,801	\$10,460,778	\$11,098,579	\$0	\$0	\$11,098,579	57.09	3.28	\$2,919,726
3	AR 032	\$421,754,787	\$1,267,114	\$41,255,755	\$42,522,869	\$0	\$0	\$42,522,869	10.08	0.30	\$11,186,325
4	AR 034	\$964,235,318	\$41,177,125	\$87,024,153	\$128,201,278	\$0	\$0	\$128,201,278	13.30	4.27	\$109,149,132
5	CO 047	\$1,328,283,978	\$124,124,502	\$100,169,097	\$224,293,599	\$0	\$0	\$224,293,599	16.89	9.34	\$111,111,774
6	FL 041	\$851,538,229	\$4,235,848	\$182,024,998	\$186,260,846	\$0	\$0	\$186,260,846	21.87	0.50	\$81,595,153
7	GA 109	\$5,117,917,703	\$157,527,306	\$241,439,960	\$398,967,266	\$0	\$0	\$398,967,266	7.80	3.08	\$157,796,110
8	GA 110	\$902,690,930	\$44,407,111	\$200,410	\$44,607,521	\$0	\$0	\$44,607,521	4.94	4.92	\$34,013,211
9	IL 050	\$177,205,623	\$195,049	\$4,806,913	\$5,001,962	\$0	\$0	\$5,001,962	2.82	0.11	\$2,008,177
10	IN 107	\$191,093,830	\$24,104,217	\$18,461,307	\$42,565,524	\$0	\$0	\$42,565,524	22.27	12.61	\$25,460,394
11	IA 083	\$444,150,112	\$23,565,614	\$77,198,113	\$100,763,727	\$1,506,353	\$0	\$102,270,080	23.03	5.64	\$45,110,303
12	IA 084	\$251,318,690	\$5,499,751	\$22,711,580	\$28,211,331	\$0	\$0	\$28,211,331	11.23	2.19	\$6,294,418
13	IA 085	\$85,653,963	\$2,698,322	\$16,992,576	\$19,690,898	\$448,321	\$0	\$20,139,219	23.51	3.67	\$221,700
14	IA 086	\$9,710,644	\$643,600	\$4,540,645	\$5,184,245	\$0	\$0	\$5,184,245	53.39	6.63	\$1,291,172
15	KS 054	\$220,286,113	\$5,534,540	\$23,913,344	\$29,447,884	\$0	\$9,870	\$29,457,754	13.37	2.51	\$15,924,053
16	KY 059	\$1,067,789,559	\$17,021,061	\$91,864,269	\$108,885,330	\$0	\$813,274	\$109,698,604	10.27	1.59	\$31,074,541
17	KY 062	\$1,537,355,412	\$5,086,556	\$17,299,721	\$22,386,277	\$0	\$0	\$22,386,277	1.46	0.33	\$14,781,911
18	LA 030	\$1,199,702,844	\$137,822,622	\$33,565,653	\$171,388,275	\$0	\$0	\$171,388,275	14.29	11.49	\$19,052,747
19	MN 106	\$803,415,768	\$56,487,725	\$56,143,282	\$112,631,007	\$0	\$187,185	\$112,818,192	14.04	7.03	\$2,360,898

EXHIBIT C - ELECTRIC GENERATION BORROWERS' TOTAL INVESTMENTS

20	MN 107	\$999,915,725	\$28,629,737	\$57,522,826	\$86,152,563	\$10,334,039	\$5,464,226	\$101,950,828	10.20	3.90	\$43,427,415
21	MS 053	\$826,440,344	\$467,836	\$50,402,912	\$50,870,748	\$0	\$0	\$50,870,748	6.16	0.06	\$27,852,019
22	MO 059	\$136,085,604	\$2,296,429	\$46,230,645	\$48,527,074	\$0	\$1,757,243	\$50,284,317	36.95	1.69	\$4,289,650
23	MO 060	\$65,942,239	\$109,033	\$21,749,929	\$21,858,962	\$0	\$0	\$21,858,962	33.15	0.17	\$4,587,391
24	MO 070	\$51,689,196	\$3,222,791	\$14,925,041	\$18,147,832	\$0	\$0	\$18,147,832	35.11	6.23	\$2,746,149
25	MO 071	\$116,506,667	\$18,672,266	\$32,421,992	\$51,094,258	\$0	\$0	\$51,094,258	43.86	16.03	\$44,783
26	MO 072	\$35,527,790	\$1,363,448	\$17,620,369	\$18,983,817	\$0	\$0	\$18,983,817	53.43	3.84	\$367,478
27	MO 073	\$1,312,107,238	\$34,329,691	\$145,632,144	\$179,961,835	\$0	\$0	\$179,961,835	13.72	2.62	\$112,221,998
28	MT 040	\$23,719,268	\$2,382,863	\$14,435,498	\$16,818,361	\$0	\$0	\$16,818,361	70.91	10.05	\$1,918,294
29	NM 018	\$568,559,641	\$24,334,815	\$11,113,739	\$35,448,554	\$0	\$0	\$35,448,554	6.23	4.28	\$10,033,156
30	NC 067	\$1,718,171,021	\$35,940,066	\$292,134,661	\$328,074,727	\$0	\$5,541,633	\$333,616,360	19.42	2.09	\$91,936,131
31	ND 020	\$208,608,597	\$17,561,809	\$0	\$17,561,809	\$0	\$0	\$17,561,809	8.42	8.42	\$16,048,632
32	ND 042	\$60,351,090	\$369,728	\$11,616,588	\$11,986,316	\$0	\$0	\$11,986,316	19.86	0.61	\$162,181
33	ND 045	\$2,118,713,282	\$137,326,671	\$518,504,651	\$655,831,322	\$107,426,738	\$336,299	\$763,594,359	36.04	11.55	\$172,918,842
34	ND 048	\$461,879,425	\$11,697,358	\$0	\$11,697,358	\$0	\$0	\$11,697,358	2.53	2.53	\$10,629,080
35	OK 032	\$813,305,911	\$32,616,791	\$14,999,936	\$47,616,727	\$0	\$0	\$47,616,727	5.85	4.01	\$185,230
36	SC 050	\$63,398,512	\$261,891	\$60,027,167	\$60,289,058	\$0	\$0	\$60,289,058	95.10	0.41	\$13,936,298
37	SC 051	\$516,467,989	\$3,409,756	\$66,103,964	\$69,513,720	\$0	\$0	\$69,513,720	13.46	0.66	\$37,114,440
38	SD 043	\$113,409,511	\$12,426,423	\$24,339,128	\$36,765,551	\$0	\$4,725,936	\$41,491,487	36.59	10.96	\$4,506,687
39	TX 121	\$500,910,495	\$5,498,351	\$22,135,905	\$27,634,256	\$0	\$0	\$27,634,256	5.52	1.10	\$1,389,341
40	TX 148	\$89,313,789	\$191,272	\$17,648,711	\$17,839,983	\$0	\$0	\$17,839,983	19.97	0.21	\$5,541,072
41	TX 154	\$68,224,569	\$10,744,170	\$2,315,410	\$13,059,580	\$0	\$0	\$13,059,580	19.14	15.75	\$10,794,170
42	TX 155	\$453,912,457	\$27,621	\$29,454,442	\$29,482,063	\$0	\$0	\$29,482,063	6.50	0.01	\$13,421,185

EXHIBIT C - ELECTRIC GENERATION BORROWERS' TOTAL INVESTMENTS

43	TX 158	\$107,803,738	\$8,463,003	\$56,176,647	\$64,639,650	\$0	\$0	\$64,639,650	59.96	7.85	\$25,064,991
44	IN 106	\$1,126,266,347	\$57,936,025	\$51,921,085	\$109,857,110	\$0	\$0	\$109,857,110	9.75	5.14	\$38,687,987
45	OR 042	\$62,866,680	\$1,704,196	\$4,571,821	\$6,276,017	\$0	\$0	\$6,276,017	9.98	2.71	\$1,099,844
46	WI 064	\$636,327,262	\$35,722,411	\$98,132,891	\$133,855,302	\$0	\$0	\$133,855,302	21.04	5.61	\$866,833
47	AZ 028	\$437,892,794	\$36,691,314	\$43,909,590	\$80,600,904	\$0	\$0	\$80,600,904	18.41	8.38	\$37,996,987
48	PA 027	\$715,081,364	\$37,285,952	\$6,974,073	\$44,260,025	\$0	\$0	\$44,260,025	6.19	5.21	\$22,018,250
49	TX 157*	\$23,443,281	\$7,545,503	\$4,632,108	\$12,177,611	\$0	\$0	\$12,177,611	51.94	32.19	\$7,553,750
	TOTAL	\$30,866,941,448	\$1,224,415,564	\$2,847,826,497	\$4,072,242,061	\$119,715,451	\$18,835,666	\$4,210,793,178			\$1,463,315,592
	Average	\$629,957,581	\$24,988,073	\$58,118,908	\$83,106,981	\$2,443,172	\$384,401	\$85,934,555	13.64	4.42	\$29,863,584

* Does not include assumed TU Electric note by TX 157.

EXHIBIT D - ELECTRIC GENERATION BORROWERS' INVESTMENTS IN EXCESS OF 15 PERCENT OF TOTAL UTILITY PLANT VALUE

No.	Borrower ID	Insured Debt to RUS as of 12/31/97	TUP Value	Investments			Guaranteed Loans Balance	Direct Loans Balance	Total Investments, Loans, and Guarantees	OIG Percent	RUS Percent	Cash and Temporary Investments
				Includable	Excludable	Total						
1	AK 032	\$0	\$19,441,607	\$637,801	\$10,460,778	\$11,098,579	\$0	\$0	\$11,098,579	57.09	3.28	\$2,919,726
2	CO 047	\$56,934,990	\$1,328,283,978	\$124,124,502	\$100,169,097	\$224,293,599	\$0	\$0	\$224,293,599	16.89	9.34	\$111,111,774
3	FL 041	\$7,885,620	\$851,538,229	\$4,235,848	\$182,024,998	\$186,260,846	\$0	\$0	\$186,260,846	21.87	0.50	\$81,595,153
4	IN 107	\$92,036,491	\$191,093,830	\$24,104,217	\$18,461,307	\$42,565,524	\$0	\$0	\$42,565,524	22.27	12.61	\$25,460,394
5	IA 083	\$68,831,893	\$444,150,112	\$23,565,614	\$77,198,113	\$100,763,727	\$1,506,353	\$0	\$102,270,080	23.03	5.64	\$45,110,303
6	IA 085	\$5,487,614	\$85,653,963	\$2,698,322	\$16,992,576	\$19,690,898	\$448,321	\$0	\$20,139,219	23.51	3.67	\$221,700
7	IA 086	\$2,813,717	\$9,710,644	\$643,600	\$4,540,645	\$5,184,245	\$0	\$0	\$5,184,245	53.39	6.63	\$1,291,172
8	MO 059	\$36,135,487	\$136,085,604	\$2,296,429	\$46,230,645	\$48,527,074	\$0	\$1,757,243	\$50,284,317	36.95	1.69	\$4,289,650
9	MO 060	\$11,766,945	\$65,942,239	\$109,033	\$21,749,929	\$21,858,962	\$0	\$0	\$21,858,962	33.15	0.17	\$4,587,391
10	MO 070	\$5,780,724	\$51,689,196	\$3,222,791	\$14,925,041	\$18,147,832	\$0	\$0	\$18,147,832	35.11	6.23	\$2,746,149
11	MO 071	\$31,214,413	\$116,506,667	\$18,672,266	\$32,421,992	\$51,094,258	\$0	\$0	\$51,094,258	43.86	16.03	\$44,783
12	MO 072	\$11,073,304	\$35,527,790	\$1,363,448	\$17,620,369	\$18,983,817	\$0	\$0	\$18,983,817	53.43	3.84	\$367,478
13	MT 040	\$7,703,556	\$23,719,268	\$2,382,863	\$14,435,498	\$16,818,361	\$0	\$0	\$16,818,361	70.91	10.05	\$1,918,294
14	NC 067	\$7,697,808	\$1,718,171,021	\$35,940,066	\$292,134,661	\$328,074,727	\$0	\$5,541,633	\$333,616,360	19.42	2.09	\$91,936,131
15	ND 042	\$26,983,548	\$60,351,090	\$369,728	\$11,616,588	\$11,986,316	\$0	\$0	\$11,986,316	19.86	0.61	\$162,181
16	ND 045	\$100,370,199	\$2,118,713,282	\$137,326,671	\$518,504,651	\$655,831,322	\$107,426,738	\$336,299	\$763,594,359	36.04	11.55	\$172,918,842
17	SC 050	\$68,396,326	\$63,398,512	\$261,891	\$60,027,167	\$60,289,058	\$0	\$0	\$60,289,058	95.10	0.41	\$13,936,298

EXHIBIT D - ELECTRIC GENERATION BORROWERS' INVESTMENTS IN EXCESS OF 15 PERCENT OF TOTAL UTILITY PLANT VALUE

18	SD 043	\$47,230,540	\$113,409,511	\$12,426,423	\$24,339,128	\$36,765,551	\$0	\$4,725,936	\$41,491,487	36.59	10.96	\$4,506,687
19	TX 148	\$9,623,214	\$89,313,789	\$191,272	\$17,648,711	\$17,839,983	\$0	\$0	\$17,839,983	19.97	0.21	\$5,541,072
20	TX 154	\$0	\$68,224,569	\$10,744,170	\$2,315,410	\$13,059,580	\$0	\$0	\$13,059,580	19.14	15.75	\$10,794,170
21	TX 158	\$0	\$107,803,738	\$8,463,003	\$56,176,647	\$64,639,650	\$0	\$0	\$64,639,650	59.96	7.85	\$25,064,991
22	WI 064	\$0	\$636,327,262	\$35,722,411	\$98,132,891	\$133,855,302	\$0	\$0	\$133,855,302	21.04	5.61	\$866,833
23	AZ 028	\$14,382,979	\$437,892,774	\$36,691,314	\$43,909,590	\$80,600,904	\$0	\$0	\$80,600,904	18.41	8.38	\$37,996,987
24	TX 157*	\$0	\$23,443,281	\$7,545,503	\$4,632,108	\$12,177,611	\$0	\$0	\$12,177,611	51.94	32.19	\$7,553,750
	TOTAL	\$612,349,368	\$8,796,391,956	\$493,739,186	\$1,686,668,540	\$2,180,407,726	\$109,381,412	\$12,361,111	\$2,302,150,249			\$652,941,909
	Average	\$25,514,557	\$366,516,332	\$20,572,466	\$70,277,856	\$90,850,322	\$4,557,559	\$515,046	\$95,922,927	26.17	7.00	\$27,205,913

EXHIBIT E - NONEXEMPT ELECTRIC DISTRIBUTION BORROWERS' TOTAL INVESTMENTS

No.	Borrower ID	TUP Value	Investments			Guaranteed Loans Balance	Direct Loans Balance	Total Investments, Loans, and Guarantees	OIG Percent	RUS Percent	Cash and Temporary Investments
			Includable	Excludable	Total						
1	IA 079	\$17,789,843	\$247,229	\$2,198,903	\$2,446,132	\$0.00	\$65,422	\$2,511,554	14.12	1.39	\$801,821
2	CO 025	\$54,195,389	\$808,016	\$8,610,042	\$9,418,058	\$0.00	\$12,302	\$9,430,360	17.40	1.49	\$1,322,370
3	KS 051	\$75,039,434	\$7,473,871	\$2,397,293	\$9,871,164	\$0.00	\$0.00	\$9,871,164	13.15	9.96	\$3,054,421
4	LA 013	\$215,603,476	\$2,973,415	\$5,776,364	\$8,749,779	\$333,993	\$0.00	\$9,083,772	4.21	1.53	\$2,028,457
5	ME 012	\$28,316,782	\$374,329	\$1,105,272	\$1,479,601	\$0.00	\$0.00	\$1,479,601	5.23	1.32	\$70,990
6	CO 035	\$21,655,746	\$279,668	\$3,919,362	\$4,199,030	\$0.00	\$0.00	\$4,199,030	19.39	1.29	\$1,519,600
7	KS 014	\$19,125,094	\$79,192	\$2,419,516	\$2,498,708	\$0.00	\$0.00	\$2,498,708	13.07	0.41	\$1,500,258
8	MT 005	\$24,569,494	\$1,250,122	\$2,314,544	\$3,564,666	\$0.00	\$0.00	\$3,564,666	14.51	5.09	\$1,506,333
9	MI 020	\$20,221,483	\$144,789	\$1,088,782	\$1,233,571	\$0.00	\$0.00	\$1,233,571	6.10	0.72	\$524,154
10	IN 009	\$12,895,472	\$3,019,387	\$1,000	\$3,020,387	\$0.00	\$0.00	\$3,020,387	23.42	23.41	\$392,500
11	OR 017	\$33,578,939	\$1,290,150	\$2,600,649	\$3,890,799	\$0.00	\$0.00	\$3,890,799	11.59	3.84	\$2,906,910
12	KS 057	\$29,784,698	\$1,468,178	\$912,961	\$2,381,139	\$0.00	\$4,340	\$2,385,479	8.01	4.93	\$73,341
13	ME 016	\$1,551,064	\$30,809	\$0.00	\$30,809	\$0.00	\$0.00	\$30,809	1.99	1.99	\$13,875
14	TX 080	\$14,969,775	\$112,375	\$788,761	\$901,136	\$0.00	\$18,095	\$919,231	6.14	0.75	\$283,440
15	ND 022	\$36,154,267	\$556,512	\$3,121,690	\$3,678,202	\$0.00	\$344,495	\$4,022,697	11.13	1.54	\$67,895

EXHIBIT E - NONEXEMPT ELECTRIC DISTRIBUTION BORROWERS' TOTAL INVESTMENTS

16	KS 019	\$19,272,458	\$360,978	\$2,523,250	\$2,884,228	\$0.00	\$89,483	\$2,973,711	15.43	1.87	\$947,619
17	PA 013	\$46,985,583	\$3,619,019	\$3,891,026	\$7,510,045	\$0.00	\$0.00	\$7,510,045	15.98	7.70	\$377,248
18	LA 015	\$24,531,690	\$1,129,335	\$2,189,168	\$3,318,503	\$0.00	\$0.00	\$3,318,503	13.53	4.60	\$2,211,426
19	CO 036	\$63,004,664	\$189,145	\$6,345,585	\$6,534,730	\$0.00	\$0.00	\$6,534,730	10.37	0.30	\$4,595,214
20	CO 017	\$51,631,411	\$913,423	\$4,515,127	\$5,428,550	\$0.00	\$2,410	\$5,430,960	10.52	1.77	\$538,040
21	KS 050	\$7,420,428	\$178,275	\$882,216	\$1,060,491	\$0.00	\$0.00	\$1,060,491	14.29	2.40	\$628,519
22	OR 037	\$8,786,782	\$140,312	\$887,990	\$1,028,302	\$0.00	\$0.00	\$1,028,302	11.70	1.60	\$722,013
23	AK 026	\$10,201,876	\$964,078	\$715,636	\$1,679,714	\$0.00	\$0.00	\$1,679,714	16.46	9.45	\$1,164,942
24	ND 029	\$52,398,577	\$7,155,004	\$11,659,700	\$18,814,704	\$0.00	\$273,559	\$19,088,263	36.43	13.65	\$189,405
25	ND 050	\$66,756,769	\$4,198,402	\$9,945,105	\$14,143,507	\$0.00	\$1,898,877	\$16,042,384	24.03	6.29	\$2,409,121
26	SC 037	\$94,036,542	\$2,254,452	\$14,420,084	\$16,674,536	\$0.00	\$1,141,407	\$17,815,943	18.95	2.40	\$6,076,349
27	MN 109	\$101,066,499	\$6,095,475	\$12,571,827	\$18,667,302	\$0.00	\$800,272	\$19,467,574	19.26	6.03	\$2,464,478
28	MT 016	\$19,435,682	\$431,954	\$693,660	\$1,125,614	\$0.00	\$0.00	\$1,125,614	5.79	2.22	\$474,348
29	KY 046	\$26,754,538	\$3,446,136	\$0.00	\$3,446,136	\$0.00	\$0.00	\$3,446,136	12.88	12.88	\$273,831
30	IA 073	\$17,908,918	\$159,340	\$2,744,307	\$2,903,647	\$0.00	\$8,529	\$2,912,176	16.26	0.89	\$485,217
31	AL 033	\$35,346,773	\$0.00	\$5,756,530	\$5,756,530	\$0.00	\$0.00	\$5,756,530	16.29	0.00	\$263,885
32	KS 029	\$11,991,777	\$310,013	\$488,614	\$798,627	\$0.00	\$0.00	\$798,627	6.66	2.59	\$24,274
33	SD 012	\$65,594,786	\$1,257,240	\$13,592,982	\$14,850,222	\$5,200,192	\$1,713,594	\$21,764,008	33.18	9.84	\$123,704
34	KS 044	\$58,716,908	\$2,181,373	\$3,875,536	\$6,056,909	\$0.00	\$0.00	\$6,056,909	10.32	3.72	\$2,537,685
35	KS 028	\$34,325,179	\$513,209	\$2,601,658	\$3,114,867	\$389,485	\$11,700	\$3,516,052	10.24	2.63	\$1,809,290
36	ME 019	\$5,673,389	\$119,674	\$71,627	\$191,301	\$0.00	\$0.00	\$191,301	3.37	2.11	\$26,072
37	MD 004	\$349,981,336	\$5,073,031	\$10,850,223	\$15,923,254	\$0.00	\$0.00	\$15,923,254	4.55	1.45	\$1,116,114

EXHIBIT E - NONEXEMPT ELECTRIC DISTRIBUTION BORROWERS' TOTAL INVESTMENTS

38	SD 020	\$12,591,085	\$373,634	\$1,630,875	\$2,004,509	\$206,074	\$0.00	\$2,210,583	17.56	4.60	\$236,609
39	KS 038	\$16,909,395	\$316,768	\$1,714,631	\$2,031,399	\$0.00	\$0.00	\$2,031,399	12.01	1.87	\$858,334
40	TN 061	\$61,249,982	\$1,174,386	\$3,547,093	\$4,721,479	\$0.00	\$0.00	\$4,721,479	7.71	1.92	\$2,471,232
41	MO 035	\$15,428,918	\$207,224	\$4,591,177	\$4,798,401	\$0.00	\$96,060	\$4,894,461	31.72	1.34	\$1,418,034
42	NM 014	\$15,881,523	\$202,798	\$1,678,687	\$1,881,485	\$0.00	\$0.00	\$1,881,485	11.85	1.28	\$458,274
43	NE 088	\$38,012,039	\$0.00	\$5,141,596	\$5,141,596	\$0.00	\$0.00	\$5,141,596	13.53	0.00	\$860,349
44	ND 011	\$87,509,276	\$627,501	\$4,721,324	\$5,348,825	\$2,796,413	\$484,402	\$8,629,640	9.86	3.91	\$696,772
45	KS 039	\$11,360,434	\$111,563	\$776,144	\$887,707	\$0.00	\$0.00	\$887,707	7.81	0.98	\$15,591
46	MT 034	\$5,328,083	\$177,045	\$788,531	\$965,576	\$0.00	\$0.00	\$965,576	18.12	3.32	\$416,858
47	OK 002	\$24,512,227	\$233,105	\$2,794,071	\$3,027,176	\$0.00	\$62,478	\$3,089,654	12.60	0.95	\$169,790
48	MT 029	\$6,892,567	\$241,716	\$18,112	\$259,828	\$0.00	\$0.00	\$259,828	3.77	3.51	\$17,547
49	MT 032	\$22,873,853	\$753,002	\$4,402,449	\$5,155,451	\$0.00	\$0.00	\$5,155,451	22.54	3.29	\$3,624,550
50	KY 064	\$21,408,126	\$504,201	\$1,700,141	\$2,204,342	\$457,304	\$0.00	\$2,661,646	12.43	4.49	\$69,541
	TOTAL	\$2,117,231,029	\$65,720,853	\$181,981,821	\$247,702,674	\$9,383,461	\$7,027,425	\$264,113,560			\$56,838,640
	Average	\$42,344,621	\$1,314,417	\$3,639,636	\$4,954,053	\$187,669	\$140,549	\$5,282,271	12.47	3.88	\$1,136,773

EXHIBIT F - NONEXEMPT ELECTRIC DISTRIBUTION BORROWERS' INVESTMENTS IN EXCESS OF 15 PERCENT OF TOTAL UTILITY PLANT VALUE

No.	Borrower ID	Insured Debt to RUS as of 12/31/97	TUP Value	Investments			Guaranteed Loans Balance	Direct Loan Balance	Total Investments, Loans, and Guarantees	OIG Percent	RUS Percent	Cash and
				Includable	Excludable	Total						Temporary Investments
1	CO 025	\$8,094,187	\$54,195,389	\$808,016	\$8,610,042	9,418,058	\$0	\$12,302	\$9,430,360	17.40	1.49	\$1,322,370
2	CO 035	\$8,305,054	\$21,655,746	\$279,668	\$3,919,362	4,199,030	\$0	\$0	\$4,199,030	19.39	1.29	\$1,519,600
3	IN 009	\$1,269,821	\$12,895,472	\$3,019,387	\$1,000	3,020,387	\$0	\$0	\$3,020,387	23.42	23.41	\$392,500
4	KS 019	\$5,438,778	\$19,272,458	\$360,978	\$2,523,250	2,884,228	\$0	\$89,483	\$2,973,711	15.43	1.87	\$947,619
5	PA 013	\$18,278,728	\$46,985,583	\$3,619,019	\$3,891,026	7,510,045	\$0	\$0	\$7,510,045	15.98	7.70	\$377,284
6	AK 026	\$4,074,592	\$10,201,876	\$964,078	\$715,636	1,679,714	\$0	\$0	\$1,679,714	16.46	9.45	\$1,164,942
7	ND 029	\$18,009,866	\$52,398,577	\$7,155,004	\$11,659,700	18,814,704	\$0	\$273,559	\$19,088,263	36.43	13.65	\$189,405
8	ND 050	\$35,237,050	\$66,756,769	\$4,198,402	\$9,945,105	14,143,507	\$0	\$1,898,877	\$16,042,384	24.03	6.29	\$2,409,121
9	SC 037	\$38,377,542	\$94,036,542	\$2,254,452	\$14,420,084	16,674,536	\$0	\$1,141,407	\$17,815,943	18.95	2.40	\$6,076,349
10	MN 109	\$33,487,341	\$101,066,499	\$6,095,475	\$12,571,827	18,667,302	\$0	\$800,272	\$19,467,574	19.26	6.03	\$2,464,478
11	IA 073	\$6,608,451	\$17,908,918	\$159,340	\$2,744,307	2,903,647	\$0	\$8,529	\$2,912,176	16.26	0.89	\$485,217
12	AL 033	\$15,145,969	\$35,346,773	\$0	\$5,756,530	5,756,530	\$0	\$0	\$5,756,530	16.29	0.00	\$263,885
13	SD 012	\$25,189,622	\$65,594,786	\$1,257,240	\$13,592,982	14,850,222	\$5,200,192	\$1,713,594	\$21,764,008	33.18	9.84	\$123,704
14	SD 020	\$4,812,234	\$12,591,085	\$373,634	\$1,630,875	2,004,509	\$206,074	\$0	\$2,210,583	17.56	4.60	\$236,609
15	MO 035	\$4,676,682	\$15,428,918	\$207,224	\$4,591,177	4,798,401	\$0	\$96,060	\$4,894,461	31.72	1.34	\$1,418,034
16	MT 034	\$975,640	\$5,328,083	\$177,045	\$788,531	965,576	\$0	\$0	\$965,576	18.12	3.32	\$416,858
17	MT 032	\$9,657,093	\$22,873,853	\$753,002	\$4,402,449	5,155,451	\$0	\$0	\$5,155,451	22.54	3.29	\$3,624,550

**EXHIBIT F - NONEXEMPT ELECTRIC DISTRIBUTION BORROWERS'
INVESTMENTS IN EXCESS OF 15 PERCENT OF TOTAL UTILITY PLANT VALUE**

	TOTAL	\$237,638,650	\$654,537,327	\$31,681,964	\$101,763,883	\$133,445,847	\$5,406,266	\$6,034,083	\$144,886,196			\$23,432,525
	Average	\$13,978,744	\$38,502,196	\$1,863,645	\$5,986,111	\$7,849,756	\$318,016	\$354,946	\$8,522,718	22.14	6.59	\$1,378,384

EXHIBIT G - EXEMPT ELECTRIC DISTRIBUTION BORROWERS' TOTAL INVESTMENTS

No.	Borrower ID	TUP Value	Investments			Guaranteed Loans Balance	Direct Loans Balance	Total Investments, Loans, and Guarantees	OIG Percent	RUS Percent	Cash and Temporary Investments
			Includable	Excludable	Total						
1	IL 032	\$11,008,183	\$885,730	\$515,626	\$1,401,356	\$0	\$19,630	\$1,420,986	12.91	8.05	\$399,411
2	VA 054	\$266,341,837	\$12,348,880	\$43,266,284	\$55,615,164	\$0	\$152,310	\$55,767,474	20.94	4.64	\$9,188,334
3	SD 040	\$26,097,756	\$1,936,219	\$2,733,132	\$4,669,351	\$0	\$55,823	\$4,725,174	18.11	7.42	\$2,408,282
4	KY 021	\$58,074,353	\$626,130	\$8,971,220	\$9,597,350	\$0	\$0	\$9,597,350	16.53	1.08	\$1,986,355
5	TN 037	\$47,886,867	\$3,272,286	\$3,369,048	\$6,641,334	\$0	\$0	\$6,641,334	13.87	6.83	\$5,560,690
6	GA 066	\$39,732,798	\$237,905	\$5,568,623	\$5,806,528	\$0	\$0	\$5,806,528	14.61	0.60	\$318,322
7	MS 046	\$46,295,713	\$238,695	\$5,783,899	\$6,022,594	\$0	\$0	\$6,022,594	13.01	0.52	\$1,978,594
8	KY 055	\$55,146,487	\$1,132,494	\$18,472,953	\$19,605,447	\$0	\$81,261	\$19,686,708	35.70	2.05	\$962,713
9	MO 028	\$19,995,570	\$59,483	\$1,847,010	\$1,906,493	\$0	\$0	\$1,906,493	9.53	0.30	\$181,669
10	IL 045	\$13,489,784	\$412,718	\$1,624,348	\$2,037,066	\$29,166	\$151,200	\$2,217,432	16.44	3.28	\$1,388,862
11	CO 032	\$125,199,232	\$3,804,585	\$16,516,268	\$20,320,853	\$0	\$0	\$20,320,853	16.23	3.04	\$2,658,983
12	AL 044	\$52,690,526	\$2,540,593	\$6,223,481	\$8,764,074	\$1,429,191	\$4,162	\$10,197,427	19.35	7.53	\$133,686
13	MT 015	\$27,057,062	\$122,830	\$1,798,887	\$1,921,717	\$0	\$0	\$1,921,717	7.10	0.45	\$1,313,557
14	KS 007	\$14,758,054	\$155,668	\$1,651,338	\$1,807,006	\$0	\$0	\$1,807,006	12.24	1.05	\$940,532
15	SD 025	\$15,941,302	\$287,948	\$1,641,579	\$1,929,527	\$0	\$70,152	\$1,999,679	12.54	1.81	\$81,415
16	MS 041	\$53,770,362	\$2,364,349	\$11,392,880	\$13,757,229	\$0	\$0	\$13,757,229	25.59	4.40	\$6,422,266
17	TX 065	\$49,807,102	\$334,233	\$12,724,614	\$13,058,847	\$278,296	\$0	\$13,337,143	26.78	1.22	\$4,048,307
18	MT 031	\$11,646,329	\$506,403	\$1,437,279	\$1,943,682	\$0	\$0	\$1,943,682	16.69	4.35	\$1,038,937

EXHIBIT G - EXEMPT ELECTRIC DISTRIBUTION BORROWERS' TOTAL INVESTMENTS

19	MO 032	\$9,072,982	\$1,825,962	\$2,630,207	\$4,456,169	\$0	\$0	\$4,456,169	49.11	20.13	\$1,932,127
20	MN 018	\$31,266,515	\$215,515	\$3,456,387	\$3,671,902	\$0	\$97,824	\$3,769,726	12.06	0.69	\$767,379
21	SD 017	\$12,162,042	\$327,190	\$2,044,478	\$2,371,668	\$608,194	\$8,207	\$2,988,069	24.57	7.69	\$26,520
22	SD 036	\$11,052,569	\$182,428	\$1,892,829	\$2,075,257	\$37,343	\$0	\$2,112,600	19.11	1.99	\$390,012
23	MT 024	\$14,135,531	\$1,350,783	\$903,975	\$2,254,758	\$0	\$0	\$2,254,758	15.95	9.56	\$1,851,586
24	MT 033	\$22,448,332	\$808,660	\$988,730	\$1,797,390	\$0	\$0	\$1,797,390	8.01	3.60	\$975,925
25	NE 077	\$70,434,145	\$0	\$9,607,708	\$9,607,708	\$0	\$0	\$9,607,708	13.64	0.00	\$5,881,183
26	KS 018	\$12,525,194	\$689,735	\$1,678,258	\$2,367,993	\$0	\$0	\$2,367,993	18.91	5.51	\$1,247,741
27	AL 025	\$37,260,621	\$782,946	\$3,731,476	\$4,514,422	\$0	\$167,166	\$4,681,588	12.56	2.10	\$98,087
28	NY 024	\$5,033,475	\$70,620	\$288,781	\$359,401	\$0	\$0	\$359,401	7.14	1.40	\$153,779
29	NM 008	\$27,605,469	\$417,263	\$1,175,109	\$1,592,372	\$0	\$404,980	\$1,997,352	7.24	1.51	\$619,313
30	CO 020	\$72,232,231	\$992,932	\$12,651,544	\$13,644,476	\$0	\$0	\$13,644,476	18.89	1.37	\$327,546
31	NM 023	\$83,606,280	\$20,070,447	\$23,321,995	\$43,392,442	\$0	\$77,906	\$43,470,348	51.99	24.01	\$6,449,486
32	KS 042	\$9,342,838	\$98,491	\$329,832	\$428,323	\$0	\$0	\$428,323	4.58	1.05	\$94,254
33	VA 036	\$23,351,448	\$284,202	\$5,510,460	\$5,794,662	\$0	\$0	\$5,794,662	24.82	1.22	\$145,101
34	PA 015	\$52,971,797	\$109,992	\$4,214,008	\$4,324,000	\$0	\$0	\$4,324,000	8.16	0.21	\$429,443
35	NC 031	\$35,799,954	\$1,679,596	\$1,426,279	\$3,105,875	\$0	\$0	\$3,105,875	8.68	4.69	\$1,471,902
36	NY 019	\$13,974,743	\$3,171	\$413,491	\$416,662	\$0	\$0	\$416,662	2.98	0.02	\$98,724
37	GA 065	\$28,200,762	\$185,592	\$3,910,802	\$4,096,394	\$0	\$0	\$4,096,394	14.53	0.66	\$245,043
38	SD 023	\$14,989,892	\$425,872	\$2,001,077	\$2,426,949	\$161,687	\$0	\$2,588,636	17.27	3.92	\$87,577
39	NC 039	\$89,544,618	\$6,446,310	\$2,852,327	\$9,298,637	\$0	\$0	\$9,298,637	10.38	7.20	\$5,235,295
40	KY 034	\$37,343,875	\$403,199	\$5,515,679	\$5,918,878	\$0	\$236,440	\$6,155,318	16.48	1.08	\$375,267

EXHIBIT G - EXEMPT ELECTRIC DISTRIBUTION BORROWERS' TOTAL INVESTMENTS

41	NE 059	\$16,610,565	\$164,809	\$1,963,663	\$2,128,472	\$0	\$0	\$2,128,472	12.81	0.99	\$1,559,518
42	KY 061	\$32,009,872	\$119,520	\$2,904,945	\$3,024,465	\$0	\$0	\$3,024,465	9.45	0.37	\$139,242
43	PA 025	\$73,246,520	\$1,741,516	\$8,524,272	\$10,265,788	\$0	\$1,268,771	\$11,534,559	15.75	2.38	\$2,349,763
44	VA 055	\$326,806,784	\$23,966,503	\$103,656,866	\$127,623,369	\$0	\$0	\$127,623,369	39.05	7.33	\$49,890,769
45	TN 031	\$35,676,603	\$38,716	\$4,090,420	\$4,129,136	\$0	\$0	\$4,129,136	11.57	0.11	\$3,108,365
46	KY 035	\$128,451,854	\$2,195,728	\$6,206,834	\$8,402,562	\$400,000	\$2,098,254	\$10,900,816	8.49	2.02	\$5,084,634
47	TX 069	\$47,554,946	\$814,941	\$9,898,479	\$10,713,420	\$0	\$0	\$10,713,420	22.53	1.71	\$4,243,315
48	AZ 027	\$149,728,165	\$509,395	\$10,060,161	\$10,569,556	\$0	\$0	\$10,569,556	7.06	0.34	\$2,724,557
49	TN 060	\$38,626,218	\$228,430	\$4,674,668	\$4,903,098	\$0	\$0	\$4,903,098	12.69	0.59	\$337,783
50	IN 038	\$34,004,853	\$347,555	\$9,736,306	\$10,083,861	\$0	\$0	\$10,083,861	29.65	1.02	\$1,377,553
	TOTAL	\$2,532,011,010	\$98,765,168	\$397,800,515	\$496,565,683	\$2,943,877	\$4,894,086	\$504,403,646			\$140,729,704
	Average	\$50,640,220	\$1,975,303	\$7,956,010	\$9,931,314	\$58,878	\$97,882	\$10,088,073	19.92	4.21	\$2,814,594

EXHIBIT H - EXEMPT ELECTRIC DISTRIBUTION BORROWERS' INVESTMENTS IN EXCESS OF 15 PERCENT OF TOTAL UTILITY PLANT VALUE

No.	ID	Insured Loan Balance as of 12/31/97	TUP Value	Investments			Guaranteed Loans Balance	Direct Loans Balance	Total Investments, Loans, and Guarantees	OIG Percent	RUS Percent	Cash and Temporary Investments
				Includable	Excludable	Total						
1	VA 054	\$97,994,959	\$266,341,837	\$12,348,880	\$43,266,284	\$55,615,164	\$0	\$152,310	\$55,767,474	20.94	4.64	\$9,188,334
2	SD 040	\$12,152,278	\$26,097,756	\$1,936,219	\$2,733,132	\$4,669,351	\$0	\$55,823	\$4,725,174	18.11	7.42	\$2,408,282
3	KY 021	\$22,459,397	\$58,074,353	\$626,130	\$8,971,220	\$9,597,350	\$0	\$0	\$9,597,350	16.53	1.08	\$1,986,355
4	KY 055	\$14,930,320	\$55,146,487	\$1,132,494	\$18,472,953	\$19,605,447	\$0	\$81,261	\$19,686,708	35.70	2.05	\$962,713
5	IL 045	\$3,509,059	\$13,489,784	\$412,718	\$1,624,348	\$2,037,066	\$29,166	\$151,200	\$2,217,432	16.44	3.28	\$1,388,862
6	CO 032	\$54,642,846	\$125,199,232	\$3,804,585	\$16,516,268	\$20,320,853	\$0	\$0	\$20,320,853	16.23	3.04	\$2,658,983
7	AL 044	\$14,967,501	\$52,690,526	\$2,540,593	\$6,223,481	\$8,764,074	\$1,429,191	\$4,162	\$10,197,427	19.35	7.53	\$133,686
8	MS 041	\$12,439,701	\$53,770,362	\$2,364,349	\$11,392,880	\$13,757,229	\$0	\$0	\$13,757,229	25.59	4.40	\$6,422,266
9	TX 065	\$18,058,978	\$49,807,102	\$334,233	\$12,724,614	\$13,058,847	\$278,296	\$0	\$13,337,143	26.78	1.23	\$4,048,307
10	MT 031	\$2,194,286	\$11,646,329	\$506,403	\$1,437,279	\$1,943,682	\$0	\$0	\$1,943,682	16.69	4.35	\$1,038,937
11	MO 032	\$3,191,849	\$9,072,982	\$1,825,962	\$2,630,207	\$4,456,169	\$0	\$0	\$4,456,169	49.11	20.13	\$1,932,127
12	SD 017	\$6,397,434	\$12,162,042	\$327,190	\$2,044,478	\$2,371,668	\$608,194	\$8,207	\$2,988,069	24.57	7.69	\$26,520
13	SD 036	\$3,507,460	\$11,052,569	\$182,428	\$1,892,829	\$2,075,257	\$37,343	\$0	\$2,112,600	19.11	1.99	\$390,012
14	MT 024	\$4,295,498	\$14,135,531	\$1,350,783	\$903,975	\$2,254,758	\$0	\$0	\$2,254,758	15.95	9.56	\$1,851,586
15	KS 018	\$2,504,310	\$12,525,194	\$689,735	\$1,678,258	\$2,367,993	\$0	\$0	\$2,367,993	18.91	5.51	\$1,247,741
16	CO 020	\$17,591,688	\$72,232,231	\$992,932	\$12,651,544	\$13,644,476	\$0	\$0	\$13,644,476	18.89	1.37	\$327,546
17	NM 023	\$13,778,864	\$83,606,280	\$20,070,447	\$23,321,995	\$43,392,442	\$0	\$77,906	\$43,470,348	51.99	24.01	\$6,449,486

**EXHIBIT H - EXEMPT ELECTRIC DISTRIBUTION BORROWERS' INVESTMENTS
IN EXCESS OF 15 PERCENT OF TOTAL UTILITY PLANT VALUE**

18	VA 036	\$5,142,198	\$23,351,448	\$284,202	\$5,510,460	\$5,794,662	\$0	\$0	\$5,794,662	24.82	1.22	\$145,101
19	SD 023	\$6,438,248	\$14,989,892	\$425,872	\$2,001,077	\$2,426,949	\$161,687	\$0	\$2,588,636	17.27	3.92	\$87,577
20	KY 034	\$9,452,709	\$37,343,875	\$403,199	\$5,515,679	\$5,918,878	\$0	\$236,440	\$6,155,318	16.48	1.08	\$375,267
21	PA 025	\$25,715,424	\$73,246,520	\$1,741,516	\$8,524,272	\$10,265,788	\$0	\$1,268,771	\$11,534,559	15.75	2.38	\$2,349,763
22	VA 055	\$129,068,671	\$326,806,784	\$23,966,503	\$103,656,866	\$127,623,369	\$0	\$0	\$127,623,369	39.05	7.33	\$49,890,769
23	TX 069	\$19,232,837	\$47,554,946	\$814,941	\$9,898,479	\$10,713,420	\$0	\$0	\$10,713,420	22.53	1.71	\$4,243,315
24	IN 038	\$6,430,972	\$34,004,853	\$347,555	\$9,736,306	\$10,083,861	\$0	\$0	\$10,083,861	29.65	1.02	\$1,377,553
	TOTAL	\$506,097,487	\$1,484,348,915	\$79,429,869	\$313,328,884	\$392,758,753	\$2,543,877	\$2,036,080	\$397,338,710			\$100,931,088
	Average	\$21,087,395	\$61,847,871	\$3,309,578	\$13,055,370	\$16,364,948	\$105,995	\$84,837	\$16,555,780	26.77	5.66	\$4,205,462

EXHIBIT I - STATISTICAL SAMPLE DESIGN

The general statistical sample design for this audit was a stratified simple random sampling scheme where electric generation and distribution borrowers were selected from a data base obtained from the Rural Utilities Service (RUS). There was a total of 787 electric generation and distribution borrowers in this universe. The 787 borrowers were stratified according to the following subjective criteria:

	STRATA
Nonexempt Distribution Borrowers	1
Exempt Distribution Borrowers	2
Electric Generation Borrowers	3

A sample size of 149 borrowers was selected and subjectively allocated to Strata 1 through 3 by sampling 50 each in Strata 1 and Strata 2 and selecting all 49 generation borrowers in Strata 3. A summary of the sample design is presented below.

<u>STRATA</u>		<u>Number of Borrowers</u>	<u>Sample Size</u>
1	Nonexempt Distribution Borrowers	148	50
2	Exempt Distribution Borrowers	590	50
3	Electric Generation Borrowers	49	49
	TOTAL	787	149

The borrowers within Strata 1 and Strata 2 were selected with equal probability without replacement within each strata. The borrowers in Strata 3 were selected with probability equal to one. The sample unit within each strata was a borrower. A 95 percent lower one-sided confidence level was used for all of the statistical estimates in this audit.

All statistical analysis was accomplished on a Pentium personal computer using the Windows version of SAS and SUDAAN. The statistical estimates used for projections along with their standard errors were produced with SUDAAN, which analyzes sample survey data gathered from complex multistage sample designs. SUDAAN was written by B.V. Shah of Research Triangle Institute, Research Triangle Park, North Carolina. The sample design and sample selections used in this audit were determined using SAS.

EXHIBIT I - STATISTICAL SAMPLE DESIGN

The term sample precision (sp), as used in the report for estimating dollar values and number of occurrences, is defined as

$$sp = \frac{t * STDERR}{PTEST}$$

where

t - t factor for a 95% one-sided lower confidence level
PTEST - point estimate (estimate of the total)
STDERR - standard error of the point estimate

The sample precision for estimating percentage values is defined as

$$sp = t * STDERR$$

where

t - t factor for a 95% one-sided lower confidence level
STDERR - standard error of the point estimate (percentage value)

EXHIBIT J - STATISTICAL PROJECTIONS

The following statistical projections are based on a one-sided 95 percent confidence level. We are 95 percent certain that the value of the condition is at least at the lower limit. The midpoint estimate is our best estimate of the condition.

<u>Condition</u>	<u>Midpoint Estimate</u>	<u>Lower Estimate</u>	<u>Sampling Precision (Percent)</u>
1. Number of generation and distribution borrowers with rural investments.	90	48	48.6
2. Number of exempt and nonexempt distribution borrowers with total investments, loans, and loan guarantees in excess of 15 percent of TUP.	334	265	20.5
3. Number of generation and distribution borrowers with total investments in excess of 15 percent of TUP.	358	289	20.5
4. Ratio of investments to TUP for distribution borrowers who had investments in excess of 15 percent of TUP.	.23	.20	12.6
5. Total rural development investments of generation and distribution borrowers.	\$60,976,996	\$32,104,139	56.5
6. Total investments, loans, and loan guarantees for generation and distribution borrowers.	\$10,944,532,338	\$8,334,447,878	38.8
7. Total investments, loans, and loan guarantees for all exempt and nonexempt distribution borrowers with investments in excess of 15 percent of TUP.	\$5,117,459,918	\$2,422,544,857	52.7

EXHIBIT J - STATISTICAL PROJECTIONS

8.	Total investments, loans, and loan guarantees for generation and distribution borrowers with investments in excess of 15 percent of TUP.	\$7,419,610,167	\$4,724,695,106	52.7
9.	Total investments, loans, and loan guarantees in excess of 15 percent of TUP for all exempt and nonexempt borrowers.	\$2,216,461,331	\$ 625,915,161	71.8
10.	Total investments, loans, and loan guarantees in excess of 15 percent of TUP for generation and distribution borrowers.	\$3,199,152,787	\$1,608,606,617	71.8
11.	Amount of total investments, loans, and loan guarantees used to compute the investment percent of TUP for exempt and nonexempt borrowers who had investments in excess of 15 percent of TUP.	\$1,031,051,068	\$ 416,819,926	59.6
12.	Amount of total investments, loans, and loan guarantees used to compute the investment percent of TUP for generation and distribution borrowers who had investments in excess of 15 percent of TUP.	\$1,646,532,777	\$1,032,301,635	59.6
13.	Amount of total investments, loans, and loan guarantees not used to compute the investment percent of TUP for exempt and nonexempt borrowers who had investments in excess of 15 percent of TUP.	\$3,998,501,925	\$1,858,155,984	53.5

EXHIBIT J - STATISTICAL PROJECTIONS

14.	Amount of total investments, loans, and loan guarantees not used to compute the investment percent of TUP for generation and distribution borrowers who had investments in excess of 15 percent of TUP.	\$5,685,170,465	\$3,544,824,524	53.5
15.	15 percent of total TUP values for all exempt and nonexempt distribution borrowers that had total investments in excess of 15 percent of TUP.	\$2,917,912,153	\$1,679,348,507	42.4
16.	15 percent of total TUP values for generation and distribution borrowers that had total investments in excess of 15 percent of TUP.	\$4,237,370,946	\$2,998,807,300	42.4

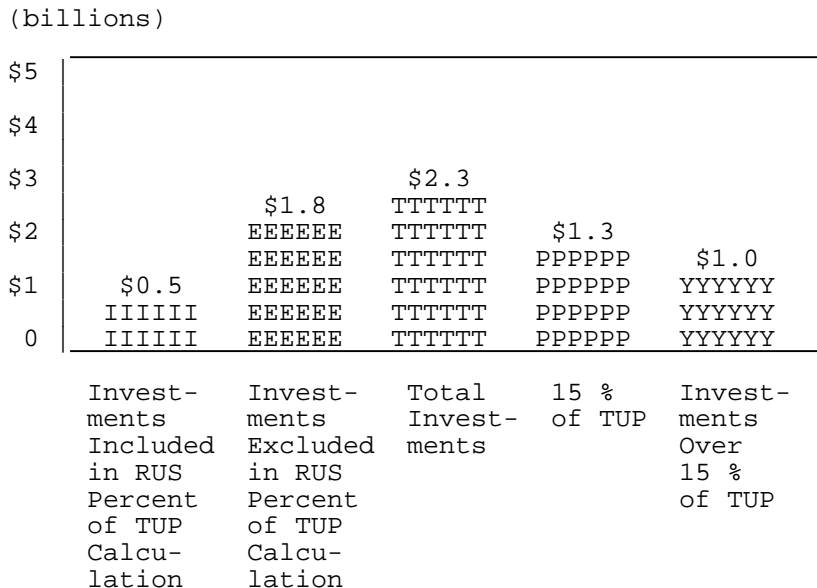
EXHIBIT K - ANALYSIS OF GENERATION AND DISTRIBUTION BORROWERS

ELECTRIC GENERATION BORROWERS

Our analysis of REA Forms 12a, "Operating Report-Financial," and Forms 12h, "Operating Report-Annual Supplement," submitted by 49 electric generation borrowers for CY 1997 revealed that 24 borrowers had total investments, loan balances, and guaranteed loan balances in excess of 15 percent of TUP. Total investments as a percent of TUP for these 24 borrowers ranged from 16.89 percent to 95.10 percent and averaged 37.04 percent. These 24 borrowers reported TUP values totaling about \$8.8 billion and had total investments, loans, and loan guarantees of \$2.3 billion of which about \$982.7 million was in excess of 15 percent of TUP. See exhibit C for the borrowers reviewed and exhibit D for the borrowers that had investments in excess of 15 percent of TUP.

Figure 2 below illustrates the amount of investments per RUS, total investments per OIG, 15 percent of TUP, and amount of investments over 15 percent of TUP for the 24 electric generation borrowers that had investments exceeding 15 percent of TUP.

Figure 2: Twenty-four Electric Generation Borrowers Who Had Total Investments in Excess of 15 Percent of TUP



The following example illustrates how the RUS regulations are applied. An electric generation borrower (NC 067) had a TUP value of more than \$1.7 billion and \$333.6 million in total investments, loans, and guarantees. We computed the investment to TUP ratio to be 19.42 percent when all investments, loans, and loan guarantees are considered. The CY 1997 form 12h submitted by the borrower showed "includable" investments and guaranteed loan balance totaling \$35.9 million. The investment to TUP ratio per the RUS methodology was 2.09 percent. Investments totaling more than \$292.1 million was not used per the RUS computation methodology.

EXHIBIT K - ANALYSIS OF GENERATION AND DISTRIBUTION BORROWERS

ELECTRIC DISTRIBUTION BORROWERS

We selected a random sample of 100 of the 738 electric distribution borrowers that submitted Forms 7, "Financial and Statistical Report," and Forms 7a, "Investments, Loan Guarantees and Loan - Distribution," for CY 1997. The sample was divided into two strata. One strata included 50 of the 148 nonexempt electric distribution borrowers and the other strata included 50 of the 590 exempt electric distribution borrowers. See exhibits E through H for the borrowers selected for review and exhibit I for the statistical sample design.

We found that 41 of the 100 sampled distribution borrowers (17 of the 50 nonexempt and 24 of the 50 exempt) had made investments, loans, and loan guarantees in excess of 15 percent of TUP. Based on this data, we statistically estimated that 334 electric distribution borrowers (approximately 50 nonexempt and 284 exempt (statistically rounded)) made investments, loans, and loan guarantees in CY 1997 that exceeded 15 percent of TUP. We estimated that these 334 distribution borrowers made investments, loans, and loan guarantees totaling \$5.1 billion of which \$2.2 billion was in excess of 15 percent of TUP.

Figure 3 below illustrates the projected amount of investments per RUS, total investments per OIG, 15 percent of TUP, and amount of investments over 15 percent of TUP for the estimated 334 electric distribution borrowers that had investments exceeding 15 percent of TUP. (Figure values may not total due to rounding and statistically projected values.)

EXHIBIT L - EXAMPLE ELECTRIC BORROWER INVESTMENTS

Electric Distribution Borrower NM023 reported the following investments for CY 1997:

Non-Utility Property:	
Land	\$ 57,150
Investments in Associated Organizations:	
Patronage Capital TX Electric Cooperative	108,087
Patronage Capital CUFC (inactive cooperative financial corp)	1,189,766
CUFC Capital Term Certificates	3,032,820
Memberships (various)	1,710
Other Investments (bonds and notes):	
Associates Corp (bonds)	978,112
Federal National Mortgage Association	1,007,560
Federal National Mortgage	1,006,140
Federal National Mortgage Term	1,001,556
Federal Home Loan Medium Term	1,013,125
Federal Home Loan Bank	750,899
Special Funds (certificates of deposit (CD), notes, bonds):	
Queens County Bank (CD)	99,000
New York Federal (CD)	99,000
Goodhue County Bank (CD)	99,000
Union Chelsea National (CD)	99,000
Fajardo Savings Bank (CD)	99,000
Center National Bank (CD)	99,000
Providian National (CD)	100,000
Rockwood Bank (CD)	99,000
Federal National Mortgage (note)	500,542
Bellsouth Capital Corp (bond)	505,242
General Electric Capital Corp (bond)	310,817
Federal National Mortgage (note)	744,631
Federal Home Loan (note)	700,000
U.S. Treasury Notes	5,371,983
Wachovia Bank Medium Term	1,002,318
Pitney Bowes Corp	598,218
Federal Home Loan Mortgage	500,000
Rockwell International Corp	993,151
Du Pont De Nemours	1,009,077
Bank One Sub Note	991,232
General Motors Acceptance Corp	1,024,974
Archer Daniels Midland Note	996,514
Wall Mart Note	1,017,981
J.P. Morgan & Co.	1,035,524
Federal Home Loan Note	1,001,523
Associates Corp Note	965,059
AT&T Corp Note	1,017,074
Pacific Bell Senior Note	993,959
National Rural Coop Finance Corp	500,634
General Electric Capital Corp	1,012,940
Merill Lynch & Co Note	991,389
Ford Motor Co Note	1,016,816
Excelsior Money Fund	20,431

EXHIBIT L - EXAMPLE ELECTRIC BORROWER INVESTMENTS

Cash - General:	
Plains State	113,589
Lea County State Bank	967,519
Norwest Bank	541,647
Temporary Investments (money market accounts):	
Norwest Financial Senior	748,975
Federal Home Loan Bank	500,575
Federal National Mortgage Association	999,701
Estacado Credit Union	99,000
Prudential Money Market	2,852
Edward Jones Money Market	37,633
Solomon Smith Barney Money Market	59,509
Merill Lynch Money Market	49,959
Federal Ginnie Mae	2,328,527
Accounts and Notes Receivable:	
Phillips Petroleum Notes	17,617
Energy Research & Development Note	43,000
Leaco Rural Telephone Cooperative	215
Accounts Receivable Employees	3,376
Accounts Receivable Aid-to-Construction	290,684
Accounts Receivable-Other	483,889
*Notes Receivable Energy Conservation	77,906
Postretirement Benefits	<u>264,315</u>
TOTAL INVESTMENTS	<u>\$43,392,442</u>

*Reported as a rural development investment. The notes involved loans to customers to winterize their homes.

[NOTE: Total investments as a percent of TUP was 52 percent.]

EXHIBIT L - EXAMPLE ELECTRIC BORROWER INVESTMENTS

Electric Distribution Borrower VA055 reported the following investments for CY 1997:

Investments In Associated Organizations:

Patronage Capital - NRUCFC	\$ 2,721,520
Patronage Capital - Old Dominion Electric Cooperative (ODEC)	56,526,972
Investment in Assoc Co/Land & Bldg/VMDAEC	71,280
Other Investment in Organization - NRUCFC	1,000
Investment NRUCFC Capital Term Certificates	5,973,423
Investment CSC Services, Inc.	113,412
Investment in Assoc Co - Novastar	100,000

Other Investments:

Patronage Capital Credit - So States	3,976
Patronage Capital Credit - United Utilities	32,666
Patronage Capital Credit - Eraco	2,867

Special Funds:

Other Special Funds - Mint Plan/Def Comp - DI	199,754
Other Special Funds - Stafford Sub & Lee	42,720
Other Special Funds - Section 457	142,007

Cash - General:

Cash General - Crestar	1,956,760
Cash General - Central Fidelity	60,847
Cash General - Working Funds	3,900

Temporary Investments:

Temp Invest - NRUCFC	13,268,379
Temp Invest - ODEC Prepaid Power Bill	12,748,549
Temp Invest - Wheat Securities	21,556,507
Temp Invest - Signet	295,827

Accounts & Notes Receivable:

Notes Receivable - City of Manassas	592,000
Other Accounts Receivable - Net	2,344,062
Accounts Receivable - Sales	<u>8,864,941</u>

TOTAL INVESTMENTS \$127,623,369

[NOTE: Total investments as a percent of TUP was 39 percent.]

EXHIBIT M - RUS WRITTEN RESPONSE TO THE DRAFT REPORT



United States Department of Agriculture
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service
Washington, DC 20250

FEB 28 2000

John O. Leavy
Regional Inspector General
USDA Office of Inspector General
101 South Main Street, Room 324
Temple, Texas 76501

Dear Mr. Leavy:

This is in response to the Office of Inspector General's (OIG) official draft report; Rural Utilities Service - Electric Generation and Distribution Borrower Investment, Audit No. 09601-1-Te.

Before offering comments on the specific audit recommendations, the Electric Program of the Rural Utilities Service (RUS) wants to take this opportunity to thank the OIG for the exhaustive audit effort and extensive report. RUS appreciates the professionalism displayed by the auditors while working with our staff and the honesty and integrity of the report.

The Audit findings question whether RUS electric generation and distribution (G&T) borrowers increased their investment in rural development programs as intended by Congress when it amended the RE Act in 1987. In regards to the implementation of Section 312, "Use of Funds", amendment to the RE Act, RUS developed policies and procedures strictly adhering to the letter of the law. No restrictions were placed on the type of investments, loan or loan guarantees that borrowers could make, due to the fact that no restrictions were included in the legislation. However, it should be noted that RUS does attempt to influence borrowers by stating in the regulation published in Title 7, Code of Federal Regulation (CFR), part 1717, subpart N, General Section, "RUS electric borrowers are encouraged to utilize their own funds to participate in the economic development of rural areas, provided that such activity does not in any way put government funds at risk or impair a borrower's ability to repay its indebtedness to RUS and other lenders."

RUS believes that many borrowers are investing in rural development projects thereby addressing the Congressional mandate. These rural economic development projects are listed in Forms 7a and 12h as either "included" or "excluded" but, for lack of specific direction, may not be classified by the borrower as rural development investment. Many borrowers may be confused with the designations of "included" and "excluded" and, as such, may not be correctly classifying "excluded" rural economic development projects. By not including these "excluded" rural development investments, the amount of borrower investment in rural infrastructure projects or job creation and business development activities is reduced, thus increasing the perception that borrowers are not addressing the need identified by Congress.

In response to specific audit recommendations, RUS presents the following comments:

Recommendation No. 1 - Develop and implement a strategy to encourage electric borrowers to make discretionary investments in rural areas as intended by Congress.

Rural Development is an Equal Opportunity Lender
Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, DC 20250

EXHIBIT M - RUS WRITTEN RESPONSE TO THE DRAFT REPORT

RUS agrees that its borrowers should be making a conscious effort to provide for and facilitate rural development in these areas. As stated in the audit and in the regulation, "RUS assumes that borrowers will use the latitude afforded them by Section 312 of the RE Act to make needed investments in rural community infrastructure projects...." RUS will strategically develop and implement policies and procedures to strongly encourage borrowers to meet the intent of Congress. As part of this process, RUS will also review the instructions for Form 7a and 12h in an effort to clarify any inconsistencies in identifying "included" or "excluded" rural development projects. This will be a top priority for FY 2001.

Recommendation No. 2 - Include in RUS' annual GPRA plan a performance measure to assess the increase in borrower's investments in rural America.

RUS recognizes the concept and believes it to be very important to quantify activity using measurable and verifiable means to judge the accomplishment of Agency goals and objectives. However, with respect to this particular type of discretionary investing, RUS is of the firm opinion that additional consideration must be given to the original intent of the RE Act and loan security in this time of evolutionary change in the electric utility industry.

Electric industry restructuring efforts are advancing across America ushering in a competitive retail marketplace. Currently 24 states have enacted restructuring legislation or have comprehensive restructuring regulatory orders. Congressional committees are reviewing proposed federal legislation. In light of this uncertainty, electric utilities are placing a major emphasis on controlling expenses in an effort to establish a favorable position in rate competitiveness. Many utilities are also making strategic investments to improve system reliability. The transition to a competitive marketplace may tend to shrink revenue. Combining shrinking revenue with cost controlling efforts and a renewed emphasis on system reliability will minimize the funds available for non-utility plant investment. The quick changing nature of the electric utility business is forcing RUS borrowers (and non-borrower electric utilities alike) to reevaluate long-term investments, whether these investments be in utility plant or community development projects.

The economic climate and stability of the electric utility industry has changed dramatically in the 13 years following the approval of this investment legislation. The uncertainty of the electric utility restructuring efforts combined with the lagging rural economic recovery and fragile farm economy mandates that the flexibility provided by the 15 percent investment rule be maintained without instituting specific program performance levels.

Encouragement by RUS to continue community development efforts, at appropriate funding levels determined by each borrower, is a laudable effort. Such investment should help build customer/community loyalty which will prove to be priceless in a competitive environment. However, establishing an arbitrary target percentage of total utility plant or a specific number of borrowers making investments in community/economic development will do disservice to the electric program in this time of regulatory and market change. While RUS strongly supports borrower economic development efforts, specific RUS directives would not be prudent at this time, and could take the focus off of rate competitiveness, reliability, loan security and the long-term economic health of the borrower and the rural community it serves. Such action would be contrary to the intent of the RE Act and Section 312 amendment.

EXHIBIT M - RUS WRITTEN RESPONSE TO THE DRAFT REPORT

RUS believes that improvements to the electric program can be attained by: 1) strategically developing and implementing policies that encourage borrower investment in rural economic development, 2) reviewing Forms 7a and 12h for proper classification of rural development investments, and 3) revising current Form 7a and 12h instructions to help borrowers improve on the tracking of rural economic development projects.

RUS respectfully submits these comments as our reply to the recommendations listed in Audit No. 09601-1-Te.

Sincerely,



BLAINE D. STOCKTON
Assistant Administrator
Electric Program