RURAL DEVELOPMENT
FY 2002 and FY 2003 ANNUAL PERFORMANCE PLANS

The Rural Development mission area, was established on October 13, 1994, by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act. Rural Development is one of seven mission areas within the Department. It consists of three agencies, the Rural Business-Cooperative Service (RBS), the Rural Housing Service (RHS), and the Rural Utilities Service (RUS). The mission area also administers the rural portion of the Administration's Empowerment Zones and Enterprise Communities (EZ/EC) Initiative and the National Rural Development Partnership, a nationwide network of rural development leaders and officials committed to the vitality of rural areas. The mission areas' programs are authorized by a variety of statutes which are identified with the discussion of each goal.

The mission of Rural Development is to: Enhance the ability of rural communities to develop, to grow, and to improve their quality of life by targeting financial and technical resources in areas of greatest need through activities of greatest potential.

Rural Development achieves its mission by helping rural individuals, communities and businesses obtain the financial and technical assistance needed to address their diverse and unique needs. This financial and technical assistance may come directly from Rural Development or, with Rural Development's assistance, from one of the numerous public and private organizations involved in the development of rural communities. Rural Development agencies deliver over 40 different loan, loan guarantee, and grant programs in the areas of business development, cooperative development, housing, community facilities, water supply, waste disposal, electric power, and telecommunications, including distance learning and telemedicine. Rural Development staff also provide technical assistance to rural families and community leaders to ensure success of the projects it finances. Rural Development staff are also responsible for the servicing and collection of a loan portfolio that exceeds $70 billion. Additional information regarding Rural Development can be found in its strategic plan.

This Plan is a combined Plan for all of the agencies in the mission area. This plan is based on Rural Development's Long-Range Plan for FY's 2000-2005, which was published in September 2000 to replace the Strategic Plan 1997-2002.

Performance indicators have been added to address the Rural Business Opportunity Grant (RBOG) program as these have not been addressed in the past.

This plan was developed solely by Federal employees. No non-Federal entities were involved in its preparation.

Efforts to Improve Data: With a history of being a provider of loans and grants, Rural Developments' automated systems are primarily accounting systems and are generally not designed to capture the type of data desired for reporting under the Government Performance and Results Act (GPRA). The major non-accounting system used by the agencies is the Rural Community Facilities Tracking System (RCFTS). This system, which has been in place for many years, is dependent upon field staff inputting and maintaining the data and there are few quality controls in place to ensure accuracy of the data. With few other sources of data available, the agencies have had no choice but to rely on this data for GPRA purposes. Efforts are underway to replace RCFTS with the Rural Development Application Processing and Tracking System (RDAPTS).

Efforts to Improve Information Security: Security of all agency information resources is being accomplished in concert with policies and standards being published by the Department's Office of the Chief Information Officer. Rural Development has established a web farm in St. Louis as a part of the Service Center Modernization Initiative (SCMI) and in conjunction with the Farm Service Agency and the Natural Resources Conservation Service. Efforts to secure the three web sites operating under the auspices of SCMI are underway and are being expedited as a result of the imposed timeframes contained within the Government Paperwork Elimination Act and the Freedom to E-File Act. The Department's efforts to define the level of security required to host an internet web site where information can be disseminated and collected from the public are continuing and the needed technologies evaluated. Rural Development is taking steps to comply with the Department's policies and standards as they are published.

Baseline Indications of Need: Indications of the extensive nature of rural America's needs are provided by selected baseline data below. Rural Development programs will contribute to the amelioration of these conditions but, without huge increases in funding, cannot markedly impact the macro indicators of disparity.

From the American Housing Survey (1997 data):
- 4.4 percent of all rental units exhibit crowding (more than one person per room).
- 1,817,000 households reported moderate to severe physical housing problems.
- The median household income for nonmetro renters was $17,840, as compared to $22,749 for urban renters.
- 65 percent of households with incomes below the poverty level pay more than 30 percent of their income towards housing costs.
- 25 percent of nonmetro renters pay over 40 percent of income to housing costs.
- In 1,475,000 occupied nonmetro housing units, the primary source of drinking water was "not safe to drink."

From the Rural Utilities Service:
- Revenue per mile for urban utility systems is 8 times higher than for rural systems.
- Only 7.3% of rural households have access to broadband services.

From the Economic Research Service:
- Poverty is 2.7 percentage points higher in rural areas than in urban areas (15.9 percent rural; 13.2 percent urban).
- Poverty in the rural south is 18.7 percent.
- The unemployment rate is 9 percent higher in rural areas than in urban areas (1998).
- 46 percent of rural Black children live in poverty (1996).
- 3.2 million rural children live in poverty (1996).
- 6.3 million rural households have household incomes under $15,000.
- More than 20 percent of rural people in poverty were either full time workers or were in a family with at least one full time worker.
- 64 percent of rural people in poverty worked at least part time or had a family member who worked at least part time.
- Rural household income averaged 25 percent less than urban household income (1996).

Key External Factors: The ability of the mission area to achieve the goals of its strategic plan can be impacted by a variety of factors beyond its control. Primary external factors affecting all programs are:

Macroeconomic influences - Changes in the economy can have a major impact on our financial programs and the ability of our customers to meet their obligations. A rise in unemployment generally impacts low-income families first. Inflation can impact the disposable income of low-income families and may also adversely impact the ability of small communities and businesses to meet their obligations if their operating expenses are increasing faster than their income. Changes in the cost of money have the greatest impact on the mission area. As interest rates rise or fall, there is a clear impact on the cost of the financing provided by the mission area and the ability of new customers to afford the assistance they need. For instance, high interest rates reduce the ability of our existing direct loan borrowers to graduate to private sector credit. Changing interest rates will impact the subsidy rates of each program. Lower interest rates reduce the subsidy cost of direct loans, and increase the subsidy cost of some of the guaranteed programs. Rural Development can partially ameliorate the impact of adverse economic conditions by increasing its loan servicing activities to minimize delinquencies.

Reductions in funding - Reductions in the level of funding provided to the Rural Development agencies will reduce their ability to help rural America and to achieve their goals. Likewise, reductions in funding for Salaries and Expenses will limit the ability of the mission area to provide the staff and other resources needed to deliver the programs or achieve the anticipated level of performance. Reductions in program funding can be partially offset by efforts to increase the leveraging of agency funds with other sources of funds. Reductions in Salaries and Expenses can only be offset by the elimination of lower priority work efforts which may, in the long run, be to the detriment of the government and its customers.

Coordination of Cross Cutting Program Activities: The partnerships and coordination with other organizations required for program delivery varies among agencies and by programs within the agencies. Most of the direct financial programs do not require a partner for program delivery. We are, however, seeking to ensure that placement of our funds is coordinated with, and supports the delivery of, the funds of other entities. We are also seeking to leverage our funds to the maximum extent possible with other lenders. Guaranteed programs are generally made through local financial institutions with coordination at the local level. The mission area strategic plan is the basis for the development of State/Tribal strategic plans required by the 1996 Federal Agriculture Improvement and Reform Act. Rural Development State Directors have developed these plans with their various public and private partners to support the coordinated delivery of all resources, both financial and technical.
Other USDA agencies with which the mission area works closely are the Economic Research Service; Farm Service Agency; Natural Resources Conservation Service; Forest Service; Foreign Agricultural Service; Agricultural Marketing Service; Cooperative State Research, Education and Extension Service; and National Agricultural Statistics Service. Outside of the Department, coordination is often done with the Department of Housing and Urban Development, Economic Development Administration, Environmental Protection Agency, Small Business Administration, Department of Labor, Department of Energy, Federal Energy Regulatory Commission, and Federal Communications Commission.

Strategic Goals: The Rural Development strategic plan consists of five goals. Goals 1-4 support Goal 4 of the Departmental strategic plan —"Enhance the capacity of rural residents, communities, and businesses to prosper." Goal 5 of the mission area plan supports Goal 5 of the Departmental plan - "Operate an efficient, effective and discrimination-free organization."

Goal 1: Good Jobs and Diverse Markets. " Rural Development will improve the quality of life in rural America by encouraging the establishment and growth of rural businesses and cooperatives."

Goal #1 of the mission area plan is specific to the programs administered by the Rural Business-Cooperative Service (RBS). The Agency is responsible for delivering business development programs authorized by the Consolidated Farm and Rural Development Act, Food Security Act of 1985, Rural Electrification Administration Act of 1936, and cooperative development programs authorized by the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1946.

Objectives of Goal 1:
1.1 Increase the availability and quality of jobs in rural areas.
1.2 Encourage and promote the use of marketing networks and cooperative partnerships to increase and expand business outlets.
1.3 Direct Rural Development program resources to those rural communities and customers with the greatest need.
1.4 Manage the loan portfolio in a manner that is efficient and effective.

Program Activities supporting Goal 1: Business Programs and Cooperative Development Programs.

	FY 2000 ACTUAL	FY 2001* ACTUAL	FY 2002* ESTIMATE	FY 2003* ESTIMATE
Funding (Appropriated)				
Program	$1.172b*	$2.903b*	$1.26b*	$0.85b**
S&E	$27.949M	**	**	**
FTEs (Appropriated)	304	**	**	**

*Includes supplemental for FY 2001. Also includes $15 million in FY 2001, $15 million in FY 2002 and $14 million in FY 2003, for Rural Empowerment Zone and Rural Enterprise Community Grants. These funds are administered by the Office of Community Development rather than RBS.
** Starting with the FY 2001 budget, S&E for all Rural Development agencies are combined and neither the S&E nor FTE figures can be provided separately.

BUSINESS PROGRAMS

Business and Industry (B&I) Guaranteed Loans. This program finances business and industrial acquisition, construction, conversion, enlargement, repair or modernization in rural unincorporated areas and incorporated areas with a population of 50,000 or less and the immediately adjacent urbanized and urbanizing areas. Loan funds are used to finance the purchase and development of land, easements, rights-of-way, buildings, equipment, facilities, machinery, supplies and materials plus funds can be used to pay start-up costs and to supply working capital. Eligible applicants include individuals as well as public, private, or cooperative organizations organized for profit or nonprofit, Indian tribes, and corporate entities. Loans may be guaranteed by RBS with a maximum percentage for guarantee of 80 percent for loans of $5 million or less, 70 percent for loans between $5 million and $10 million, and 60 percent for loans exceeding $10 million up to $25 million.

Business and Industry Direct Loans. The criteria and loan purposes are basically the same as for the guaranteed loans except for, recreation and tourism, hotels and motels, qualified agricultural production, and cooperative stock purchase loans, all of which are eligible loan purposes under the B&I Guaranteed Loan Program, are not eligible purposes under the B&I Direct Loan Program. These loans are available to applicants who are unable to obtain the needed assistance from a private lender with a guarantee. The maximum loan amount to any one borrower is $10 million.

Intermediary Relending Program (IRP) Loans. These direct loans are made to intermediary borrowers (i.e. private nonprofit corporations, state or local government agencies, Indian tribes, and cooperatives) who, in turn, relend the funds to rural businesses, private nonprofit organizations and others meeting the criteria for ultimate recipients. IRP loans are limited to rural unincorporated areas, and cities or towns of 25,000 or less population. Financial assistance from the intermediary to the ultimate recipient must be for economic development projects, the establishment of new businesses and/or the expansion of existing businesses, creation of employment opportunities and/or saving existing jobs in rural areas.

Rural Economic Development Loans (REDL). Zero interest loans are provided to any RUS electric or telephone entity (that is not delinquent on any Federal debt or in bankruptcy proceedings) to relend to ultimate recipient projects at zero interest. Proceeds are used to provide rural economic development and/or job creation projects including, but not limited to, project feasibility studies, start-up costs, incubator projects, and other reasonable expenses.

Rural Economic Development Grants (REDG). Grants are provided to borrowers that re-loan the funds, at zero interest rates, to businesses in unincorporated areas or small towns of 2,500 or less population. The revolving loan funds provide needed capital to non-profit entities and municipal organizations to finance community facilities in rural areas which promote job creation, promote education and training to enhance marketable job skills, or extend or improve medical care. Grant funds are used to establish revolving loan fund programs to promote economic development in rural areas.

Rural Business Enterprise Grants. Grants are available to public bodies, private nonprofit corporations, and Federally-recognized Indian Tribal groups to encourage the development of small and emerging private business enterprises; the creation, expansion, and operation of rural distance learning networks; and to provide adult education or job training related to potential employment or job advancement for adult students. These grants are limited to unincorporated areas and incorporated areas of 50,000 population or less and the immediately adjacent urbanized and urbanizing areas. Grant funds may be used for the acquisition and development of land, construction of buildings, purchase of equipment, obtaining of needed technical assistance, start up capital in the form of a loan from the establishment of revolving loan funds, refinancing, services and fees. Grants are also available to qualified nonprofit organizations for the provision of technical assistance and training to rural communities for the purpose of improving passenger transportation services or facilities.

Rural Business Opportunity Grants. Grants are made to public bodies, nonprofit corporations, Indian tribes, and cooperatives for training, planning, and technical assistance for rural economic development in unincorporated areas and rural towns of 10,000 or less population. Funds may be used to pay costs of providing technical assistance for rural business, economic planning for rural communities, or training for rural entrepreneurs or economic development officials.

Program Activity: Business Programs	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program Level	$1.139b	*$2.852b	$1.289b	$0.84b

PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Create or save jobs in rural area.				
Number of jobs created or saved:				
B&I Guaranteed Loans *	29,118	29,927	31,049	20,400
B&I Direct Loans **	1,080	1,816	0	0
IRP Loans				
Rural Business Enterprise Grants	29,266	29,866	29,206	30,600
Rural Economic Development Loans	9,550	39,292	32,721	35,100
Rural Economic Development Grants	2,967	3,697	2,444	2,400
	1,521	624	844	800
Community economic benefits				
B&I Guaranteed Loans	$2,568m	$2,689m	$2,789m	$1.831m
B&I Direct Loans	$75.5m	$126.3m	0	0

IRP Loans Rural Business Enterprise Grants	$95.6m $86.0m	$97.6m $123.1m	$95.43m $102.5m	95.43m 110m
IRP dollars lent by intermediaries/IRP dollars obligated to intermediaries (cumulative since Program inception).	78.5%	80.6%	75%	75%
Non-IRP funds leveraged for each dollar of IRP funds.	$3.12	$3.12	$3.76	$3.12
Number of businesses benefiting from RBEG program.	1,483	3,792	1,741	3,400
Non-RBE funds leveraged for each dollar of RBEG funds.	$1.12	$1.29	$2.40	$1.12
Non-REDLG funds leveraged per dollar of program funds. Loans Grants	 $4.56 $7.16	 $6.44 $5.29	 $3.00 $3.00	 $3.00 0
Non-RBOG funds leveraged for each dollar of RBOG funds.	N/A	N/A	$1.00	$1.00
Number of businesses benefiting from RBOG Program.			509	0
Number of economic development plans developed with RBOG.			10	6
Number of people trained through RBOG program.			96	56
Assist marketing networks and cooperative partnerships in the establishment and expansion of business outlets.				
Percentage of B&I Guaranteed funds obligated to cooperatives.	11%	3.9%	20%	20%
Direct Rural Development program resources to those rural communities and customers with the greatest need.				
Percent of funds obligated in Empowerment Zones/Enterprise Communities/REAPs: B&I Guaranteed IRP RBEG	 2.0% 4.7% 20.3%	 .8% 10.8% 12.7%	 2.3% 19% 22%	 2.3% 16% 17%
Percentage of funds obligated for				

Mississippi Delta and Native American Initiatives:		MD	NA	MD	NA	MD	NA
B&I Guaranteed	0	0%	5%	0%	5%	0%	5%
IRP	0	21%	10%	21%	10%	11%	10%
RBEG	0	2%	6%	2%	6%	2%	6%
Manage the B&I portfolio effectively to minimize the delinquency rate.							
Delinquency rate (excluding bankruptcy cases).	4.2%	4%		3%		4%	

* Includes $1.162 billion of B&I Guaranteed Loan Program for Disaster and Emergency Assistance.
** B&I Direct Loan Program is not funded in FY 2002 or FY 2003.

Discussion of Performance Goals: Building competitive businesses in rural areas helps achieve the Departments' goal to "Expand economic and trade opportunities for agricultural producers and other rural residents."

The development of performance measures for this program is complicated by the wide variety of businesses which can be assisted. The key factor, however, for all of the Business and Industry programs is the creation or saving of jobs. Performance indicators related to job creation/saved are established for all programs. While the amount of funding available for these programs will have minimum impact on National employment data, there will be a significant impact on the unemployment rates and the economy in some rural areas. We are unable to measure the quantitative impact at this time.

Reaching those communities and individuals with the greatest need for job creation is a major concern of the Agency. Several measures relate to funding provided to EZ/EC communities or to regional Initiatives established by the President to address unique economic problems.

One of the Objectives in the mission area's strategic plan is the intent to direct business program resources to those communities and customers with the greatest need. This includes areas that have been consistently poor, have high unemployment rates, have out-migration, have experienced natural disasters, or experienced economic stress due to Federal action, such as the closure of military bases. Several performance measures relate to this Objective. RBS has established two strategies to ensure funds are targeted to these communities and customers. In addition, priority selection criteria that supports those targeted areas and customers have been established, are published in the program regulations, and are used in funding decisions.

A second Objective is to manage the business loan portfolio in a manner that is efficient and effective. This Objective is addressed in the performance measures in terms of delinquency rates. Performance of the loan portfolio is continually monitored within RBS. States are delegated approval authority based on National Office assessment of State employee qualifications and training in delivery of programs. In addition, a Business Programs Assessment Review process was initiated in Fiscal Year 1998 for the purpose of reviewing State Office administration of Business Programs within the states, and states are reviewed as a part of this process. Quarterly review of delinquent loan portfolios and state servicing of the cases is performed by the National Office and assistance is provided to the states, as needed, to ensure effective and timely servicing decisions are made. Specific training needs have been identified and are being addressed.

Means and Strategies: Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program and general support resources indicated in this plan. The program levels and projected performance targets are based on Congressional appropriations, however, subsidy rates are not subject to change. As required by the Balanced Budget Act of 1997, the program-specific subsidy rates utilized in the development of the President's Budget will be used when establishing obligations of funds. Funds expended in any particular program could be impacted, however, by the movement of funds from one program to another as authorized by the Rural Community Advancement Program.

RBS is concerned about the quality of jobs created. While it is unable to measure job quality, it is giving funding priority to projects that support jobs with average wage rates that exceed Federal minimum wage rates.

RBS, as part of the FY 2002 Administrative Budget funding request, proposes to procure and distribute off-the-shelf software that provides credit and financial analysis, including the ability to develop spreadsheets of business transactions. Acquisition of this software will improve the quality of the portfolio through more informed and consistent credit analyses by field staff for loan origination and loan servicing activities.

Coordination with other Federal programs is not required but strongly encouraged for the delivery of the Business Programs. Funded businesses must meet the standards of OSHA or, if construction is involved, the Environmental Protection Agency in the same sense that they must meet the zoning and construction requirements of the state, county, or local government. These are issues of concern handled by the applicant's engineer or staff. Other Federal agencies, such as the Economic Development Agency, or state agencies may be potential partners for joint funding if a specific project meets their requirements.

Verification and Validation: Data to measure the performance measures will come from the following automated accounting systems:

- Program Loan Accounting System (PLAS)
- Guaranteed Loan System (GLS)
- Rural Community Facilities Tracking System (RCFTS)

These systems are used by agency managers in their management of the programs. PLAS and GLS are accounting systems designed to manage the agency's portfolio of direct and guaranteed loans. These systems contains a variety of data edits to minimize the risk of inaccurate data being placed in the systems. These two systems provide reports used by OIG in their annual audit of the mission area's financial statement.

The Guaranteed Loan System (GLS) is a web-based accounting and loan management system currently in development by Rural Development. (The name of this system will likely be changed as data for direct loans and grants is incorporated.)

- The financial data in the predecessor accounting system, the Guaranteed Loan Accounting System (GLAS), was moved into GLS in April 2001, and GLAS was shut down.

- The existing non-accounting management system, the Rural Communities Facilities Tracking System (RCFTS), contains a variety of data related to Business Programs, including grants and guaranteed and direct loans. It contains data such as the number of jobs created and saved and the Congressional District in which the business applicant is located. The field offices maintain the data. This system is being redeveloped in GLS. All the data currently captured in RCFTS, as well as the accounting data previously contained in GLAS, plus all the information captured on the application for a loan, will be captured and maintained in GLS. Lenders will be able to submit applications on-line, and Rural Development field offices will use this system to process loans on-line. Because the new system will be a tool the field offices use to actually process and service loans, not simply a tracking system for reporting purposes, we feel the quality of Agency data will improve significantly. This redevelopment is expected to be available by year end.

- Rural Development is also developing a Data Warehouse into which the data from all the Agency systems will be continuously loaded. A feature of the Data Warehouse is the capability to run reports using all the internal Agency data as well as data from external sources, such as the Census. The Data Warehouse will enable the Agency to compile accurate reports using verifiable data.

- The new systems will reduce the number of manual reports, requested from State Directors, which contain unverifiable data.

Jobs created or saved is an important indicator for the Business Programs and an estimate of the jobs being created or saved is determined for each loan during processing. The exception to this is the IRP. On average, each $100,000 of IRP money loaned by the intermediary results in one ultimate recipient (business) loan. This loan provides jobs for approximately 20-25 people. The average loan to an ultimate recipient is 8.82 years. Based on an average term of 8.82 years per loan to ultimate recipients, the total loan funds available to the intermediary revolves 3.4 times over the 30-year life of the loan to the intermediary. Therefore, approximately 76.5 jobs are established per $100,000 over the 30-year life of the loans to the intermediaries (22.5 * 3.4 =76.5).

The economic impact of the Business programs is also an important indicator. The Department of Labor estimates an economic multiplier effect of $2.50 for every dollar of Business loans or grants provided.

COOPERATIVE DEVELOPMENT PROGRAMS

Rural Cooperative Development Grants. Grants are made to fund the establishment and operation of centers for rural cooperative development with their primary purpose being the improvement of economic conditions in rural areas. Grants may be made to nonprofit institutions or institutions of higher education. Grants may be used to pay up to 75 percent of the cost of the project and associated administrative costs. The applicant must contribute at least 25 percent from non-federal sources. Grants are competitive and are awarded based on specific selection criteria.

The Appropriate Technology Transfer for Rural Areas (AFTRA) Program. The program encourages agricultural producers to adopt sustainable agricultural practices that allow farmers to maintain or improve profits, produce high quality food and reduce adverse impacts to the environment. AFTRA is located on the University of Arkansas campus at Fayetteville, Arkansas, and functions as an information and technical assistance center staffed with sustainable agriculture specialists accessible nationally by toll-free telephone.

National Sheep Industry Improvement Center. The Center promotes strategic development activities to strengthen and enhance the production and marketing of sheep and goat products in the United States. It does this by encouraging infrastructure development, business development, market and environmental research, and designing unique responses which address the needs of the industries and ensures their long term, sustainable development. The Center has a Board of Directors that oversees its activities and operates a no-year revolving fund for loans, grants, and cooperative agreements. The Center is to be privatized upon receiving total appropriations of $50 million, or by April 4, 2006, whichever comes first.

Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program resources outlined below.

Program Activity: Cooperative Development Programs	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 ESTIMATE	FY 2003 ESTIMATE

Program Levels	$16m	$36.5m	$7.75m	$9.0m

PERFORMANCE GOALS AND INDICATORS	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2003 TARGET
Assist marketing networks and cooperative partnerships in the establishment and expansion of business outlets.				
Number of Technical assistance and educational services provided.	205	244	200	200
Customer rated quality of technical assistance (0-5 rating scale).	3.5	N/A	3	3
Leverage of research expenditure (dollar value of RBS sponsored research per dollar of RBS research expenditures).	1.25	1.44	1.25	1.25
Research and educational materials provided to customers.	51,137	53,594	25,000	25,000
Number of responses to inquires for information.	16,000	16,000	15,000	15,000

Discussion of Performance Goals: Strong cooperatives in rural areas help achieve the Departmental goal to "Expand economic and trade opportunities for agricultural producers and other rural residents."

A priority of the Administration is providing assistance to small and beginning farmers. The need for this assistance is reflected in the following indicators:

- In 1980 farmers received 37 cents of every consumer dollar spent for food. By 1996 the farmers' share had dropped to 23 cents.
- Farms with gross annual sales under $250,000 represent 94 percent of all farms, but they receive only 41 percent of all farm receipts.

Cooperative purchasing and selling is an important tool for helping small and beginning farmers be economically viable. These goals reflect the success of the RBS in enhancing the quality of life of rural Americans by providing leadership in building competitive businesses and sustainable cooperatives. These goals include the number of businesses, cooperatives, and communities that receive financial resources and technical assistance, and the impacts on rural economies that stem from this assistance. These goals also reflect success in implementing the themes from the mission area strategic plan, including partnering, leveraging, capacity building, etc. Many goals relate directly to the levels of program funding and Agency staffing levels. Reductions in the proposed levels of funding and staffing will cause corresponding reductions in the planned levels of performance.

Means and Strategies: Strategies to achieve the objectives include:

- Coordinate efforts with the Foreign Agricultural Service to utilize cooperatives to promote in rural areas product development of products which have a foreign market.

- Involve 1890 and 1862 land-grant universities in providing technical assistance, credit acquisition assistance, and business plan development to minority-owned businesses and entrepreneurs in training.
- Partner with public, non-profit, and educational institutions to heighten awareness and understanding of cooperatives and marketing opportunities in under-served rural areas.
- Provide field-level training and technical assistance to cooperatives and developing cooperative groups.
- Establish an Outreach Program and Outreach Liaison Position.
- Improve accessibility of Rural Development programs for Native Americans.

Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program and general support resources indicated in this plan.

Verification and Validation: The data comes from the Agencys' program records which are not automated nor audited. They are, however, considered to be reasonably accurate for use by management. The amount of technical assistance and services provided includes services provided under technical assistance requests, workshops, international briefings, specialized analysis, training, staff presentations, etc.

The customer rated quality of technical assistance is based upon a composite of a survey of cooperatives or groups that have received substantial technical assistance from RBS during the year. The customers rate the performance on a scale of 1 to 5, with 5 being the best. The survey process is managed through the National Office.
The leveraging of research expenditures includes research funded through direct appropriation to the salaries and expenses account and allocations from appropriate program accounts.

Goal 2: Quality Housing and Modern Community Facilities. Rural Development will improve the quality of life of rural residents by providing access to technical assistance, capital, and credit for quality housing and modern, essential community facilities.

Goal 2 of the mission area plan is specific to the programs administered by RHS. The agency is responsible for delivering housing programs authorized by the Housing Act of 1949, as amended, and community facilities programs authorized by the Consolidated Farm and Rural Development Act, as amended.

Objectives of Goal 2:
2.1 Improve the quality of life for the residents of rural communities by providing access to decent, safe, sanitary and affordable housing.
2.2 Improve the quality of life in rural America by providing essential community facilities.
2.3 Maximize the leveraging of loan funds to increase the number of rural residents assisted by Rural Development programs.
2.4 Manage the loan portfolio in a manner that is efficient and effective.

Program Activities supporting Goal 2: , Homeownership, Rental Housing, and Community Facilities programs.

	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 ESTIMATE	FY 2003 ESTIMATE
Funding (Appropriated)				
Program	$4.600b	$4.90b	$6.11b	$5.24b
S&E	$437.858m	*	*	*
FTEs (Appropriated)	6,081	*	*	*

* Starting with FY 2001 budget, the S&E budget for all Rural Development agencies are combined. Therefore, S&E and FTE figures, at the agency level, cannot be provided separately.

HOMEOWNERSHIP PROGRAMS

Section 502 Rural Housing Direct Loan Program. This program provides mortgage financing to very low- and low-income families who cannot obtain credit from other sources. Borrowers are offered fixed-interest-rate loans with maturities ranging from 30 to 38 years. The loans are subsidized at a graduated interest rate level from 1 percent to a percent over Treasury's cost of money, depending on family income. Approximately 40 percent of the people served earn less than 50 percent of the median income in the rural area in which they live; the remainder earn between 50 and 80 percent. The 502 program also provides "supervised credit" to its borrowers to help them maintain their homes in times of financial crises through workout agreements and moratoriums.

Section 502 Guaranteed Loan Program. The Section 502 Loan Guarantee program provides homeownership opportunities to low- and moderate-income rural residents, typically those whose incomes are between 80 percent and 115 percent of the median income in the county. The program offers a 90 percent guarantee as encouragement to private lenders to provide 30-year, fixed-rate guaranteed mortgages for customers who would be unable to obtain credit without the guarantee. The loans can be for up to 100 percent of market value or for acquisition cost, whichever is less, thereby removing the down payment barrier that prevents many people from becoming homeowners.

Mutual and Self-Help Housing Program. The Mutual Self-Help Technical Assistance Grant program truly empowers very-low-income and low-income rural Americans by enabling them to use sweat equity to help reduce the cost of homeownership. Nonprofit organizations and local governments may obtain grant funds to enable them to provide technical assistance to groups of families who work cooperatively to build their own homes. Typically, the future homeowners obtain section 502 direct loans to finance their homes, however, other mortgage products have also been used. By providing their "sweat equity", the future owners help themselves as well as others in the group to own a home with a smaller mortgage than if the borrower paid full market price. It is estimated that a homeowner under the self-help method realizes, on average, a 10-15 percent reduction in construction costs while learning basic construction and maintenance skills. The Self-Help Program also builds a strong sense of community commitment and involvement among the participants.

Section 504 Rural Housing Loan and Grant Program. This program provides financial assistance to very-low-income rural homeowners to remove health and safety hazards from their homes. Grants are limited to $7,500 and are only available to elderly homeowners (those age 62 or over) whose incomes are 50 percent or less of the median in the rural area in which they live. At the Secretary's discretion, the grant limit can be increased to $15,000.

Section 533 Housing Preservation Grant Program. This program provides financial assistance through nonprofit groups and government agencies to very-low- and low-income homeowners to repair their homes, and to rental property owners for the rehabilitation of units which will be rented to low- and very-low-income families. Housing rehabilitated through this program must be brought up to local building codes.

Section 523 Rural Housing Site Loan Program. This program provides funds to nonprofit organizations to develop building sites for participants in the RHS Self-Help housing program. The nonprofit organizations resell these improved sites to program participants at cost, thus passing on their savings in land and development costs. The interest rate on the loans is 3 percent, and the nonprofit organizations repay the loans when they sell the properties. Self-Help participants who are able to purchase one of these improved sites generally have lower overall costs and thus require smaller RHS housing loans than those Self-Help participants who acquire their improved building site through the contract method.

Section 524 Rural Housing Site Loan Program. This program is similar to the Section 523 Rural Housing Site Loan program in that it provides loans to nonprofit organizations to purchase and develop rural building sites. However, once developed the sites may be provided to any low- or moderate-income person, not just an RHS Self-Help participant. Loans are made at the Treasury's rate of interest.

Program Activity: Homeownership Programs	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program Level (direct and guaranteed)	$3.389b	$3.51b	$4.38b	$3.83b
PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Improve the quality of life of residents of rural communities by providing access to credit for decent, safe, and sanitary housing.				
Rural households receiving financial assistance to purchase a home of their own.	45,420	44,073*	53,000*	46,000*
Total Units Sec. 502 Direct and Guaranteed 502 and Sec. 504 Loan and Grant.	58,018	57,234**	69,000**	59,000**
Number of houses financed through the Section 502 Direct Loan Program.	17,026	14,638*	15,000*	13,000*
Number of houses financed through the Section 502 Direct Loan (Natural Disaster) Program.	519	137*	N/A	N/A
Number of houses financed through the Section 502 Guaranteed Loan Program.	29,123	29,326*	39,000*	33,000*
Number of existing houses improved (Section 504 Loans and Grants).	10,360	11,762*	11,700*	12,000*
Number of existing houses improved (Section 504 Loans and Grants Natural Disaster).	990	507**	N/A	N/A
Number of jobs created (Direct 502).	17,520	16,171	16,500	14,000
Number of jobs created (Guaranteed 502).	14,323	14,438	24,000	20,000
Maximize the leveraging of loan funds to increase the number of rural residents assisted by Rural Development programs.				
Number of borrowers assisted through leveraging (Direct 502).	6,448	7,753	10,000	10,000
Number of Guaranteed lenders participating in low-income housing finance.	2,400	2,400	2,400	N/A
Number of Rural Home Loan Partnerships.	177	239	180	300
Provide effective supervision to minimize delinquencies and future loss.				
First-year delinquency rate.	3.2%	3.2%	3.8%	3.3%

* These figures are initial loans only, since subsequent loans do not create additional houses.
* * This figure is total units obligated, including subsequent loans.

Discussion of Performance Goals: Affordable housing helps meet the Departmental goal to "Enhance the capacity of all rural residents, communities, and businesses to prosper."

The primary purpose of the Homeownership program is to increase the number of decent, safe and sanitary housing units available to low- and very-low-income families in rural areas. The agency is tracking the number of homes financed to quantify this effort.

A key component of the Rural Development strategic plan is that all programs will develop partnerships with other organizations involved in rural development. The purposes of these partnerships are to encourage strategic delivery of the programs of both organizations and to coordinate the delivery of technical assistance and financing to rural communities. Several performance measures relate to the leveraging of the programs' funds which is the most likely outcome of the partnerships. Leveraging of funds extends the impact of Rural Development's limited funds and brings additional dollars into the development of rural communities.

The final indicator relates to effective management of the portfolio. Ensuring that loans are repaid on time is a factor in any lending program. Since over 80 percent of RHS borrowers are first-time homeowners, it is important they immediately establish a habit of making their mortgage payments on time. The agency pays close attention to the first-year delinquency rate to ensure that those borrowers who miss a payment are contacted immediately before they become hopelessly delinquent and no longer able to keep their home.

Means and Strategies: Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program and general support resources indicated in this plan. Program levels and projected performance targets are based on Congressional appropriations, however, subsidy rates are not subject to change. As required by the Balanced Budget Act of 1997, the program-specific subsidy rates utilized in the development of the President's Budget will be used when establishing obligations of funds.

RHS programs have helped raise the number of homeowners in the United States to an all-time high. RHS has developed financial and technical partnerships to extend the impact of Rural Development's limited funds and bring additional dollars into the development of rural communities.

While other Federal agencies have single family housing programs, RHS' programs are the only ones that focus on making affordable credit available to lower income, rural residents. Long term, fixed rate mortgage credit is less available, and more costly, in rural areas than metro areas. RHS' programs help to level the playing field for lower income families. Through its leveraging and loan guarantee programs, RHS is also helping the private sector, as well as State Housing Authorities and nonprofits, reach into rural areas that they otherwise have had difficulty serving.

Verification and Validation: Data from the following systems can be used to verify and validate most performance measures:

- Program Loan Accounting System (PLAS)
- Guaranteed Loan System (GLS)
- Dedicated Loan Origination and Servicing System (DLOS)

These systems track financial data, but generally not management data. These systems contain a variety of data edits to minimize the risk of inaccurate data being placed in the system. Reports from these systems are used by OIG in development of the mission area's audited financial statement.

RENTAL HOUSING PROGRAMS

Section 515 Rural Rental Housing (RRH) Direct Loans. The Section 515 program employs a public-private partnership by providing subsidized loans at an interest rate of 1 percent to limited-profit and nonprofit developers to construct or renovate affordable rental complexes in rural areas. This 1 percent loan keeps the debt service on the property sufficiently low to support below-market rents affordable to low-income tenants. Many of these projects also utilize low-income housing tax credit proceeds. This program is typically used in conjunction with RHS Section 521 Rental Assistance which provides project-based rental assistance payments to property owners to subsidize the tenants' rent at an affordable level. With rental assistance, tenants pay a maximum of 30 percent of their income towards their rent and utilities. Some 515 projects also utilize HUD's Section 8 project-based assistance which enables additional very-low-income families to be served.

Section 538 Rural Rental Guaranteed Loan Program. This program provides affordable rental housing to low- to moderate-income rural residents by providing 90 percent guarantees to certified lenders. For the for-profit sector, the guarantees cover 90 percent loan-to-value ratios. For the nonprofit sector they cover 97 percent loan-to-value ratios.

Farm Labor Housing Direct Loans. Section 514 direct loans are available for farm owners, public bodies, and nonprofit associations to provide living quarters, furnishings, and related facilities for domestic farmworkers. The Section 514 loans have a 1 percent interest rate and a maximum term of 33 years. The Section 516 grants are used in conjunction with the loans to finance off-farm rental housing which will be affordable for low-wage farmworkers. Grants are only available to a governmental or nonprofit organization and may not exceed 90 percent of the total project cost. Section 521 rental assistance can also be used in conjunction with this program. Farmworkers who lease Section 514/516 Farm Labor Housing units must be either US citizens or permanent residents. A majority of their income must come from farm work.

Section 521 Rental Assistance. In 1999, one third of all rural renters paid more than 30 percent of their income for housing costs. The Section 521 Rental Assistance Program helps to mitigate that rent overburden and also enable very-low- and low-income rural residents to live in decent, safe, and sanitary housing. Rental Assistance is project-based assistance used in conjunction with the Section 515 and Section 514/516 programs. The program provides rental assistance payments directly to the owners of some RHS-financed rental projects under contracts specifying that Rental Assistance beneficiaries will pay no more than 30 percent of their income for rent. This subsidy goes to the unit, not to an individual tenant.

Program Activity: Rural Rental Housing (RRH)	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program Level	$910m	$859m	$1b	$937m

PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Improve the quality of life for the residents of rural communities by providing access to decent, safe, sanitary and affordable rental housing.				
Total Number of units funded for new construction (FY).	5,357	2,457	5,500	3,800
Sec. 515	1,626	1,578	1,700	0***
Sec. 514/516	680	855	1,000	1,000
Sec. 514/516 Natural Disaster	156	24	0	0
Sec. 538	2,895	0	2,800	2,800
Total Number of units funded for rehabilitation (FY).	7,100	8,243	8,400	9,000
Sec. 515	4,990	5,511	5,500	5,800
Sec. 514/516	696	1,003	1,200	1,200
Sec. 533	1,414	1,729	1,700	2,000
Direct resources to those rural communities and customers with the greatest need.				

Average tenant income.	$7,775	$7,980	$8,135	$8,135
Average income of tenants who do not receive Rental Assistance.	N/A*	N/A*	N/A*	N/A
Average income of tenants who receive Rental Assistance.	N/A*	N/A*	N/A*	N/A
Number of tenants who are rent overburdened.	N/A*	74,377	N/A	N/A
Number of rental assistance units renewed (tenants do not lose subsidy).	38,489	39,159	42,330	42,330
Percent of rental assistance units renewed.	100%	100%	100%	100%
Number of tenant households living in affordable, decent , safe, and sanitary housing.	429,288**	453,275	435,246	435,246
Effectively manage the portfolio to minimize delinquencies and future losses.				
Number of projects with accounts more than 180 days past due.	153***	146	130	130
Develop systems and processes which strengthen the management of MFH projects and help preserve the portfolio.	Developed automated system (Multi-Family Information System) to monitor projects and tenants.	Publish new regulations for comment.	Publish final regulations.	

* Available by end of FY 2002 reporting period.
** Estimated, actual data not available.
*** Includes 18 properties in inventory.

Discussion of Performance Goals: Affordable rental housing in rural communities helps achieve the Departmental goal to "Enhance the capacity of all rural residents, communities, and businesses to prosper."

Most communities in rural America have a scarcity of decent rental housing affordable to very low-income families. In addition, migrant workers and farm laborers, whose incomes are extremely limited, face some of the worst housing conditions in the Nation. Despite improvements in housing quality, especially in the number of rural units with complete plumbing facilities, the 1990 census data indicated rural renters were more than twice as likely to live in substandard housing as people who owned their own homes. Many rural renters, with lower median incomes and higher poverty rates than homeowners, are simply unable to find decent housing that is also affordable. RHS' rental housing programs are among the few resources that enable low- and very low-income, elderly and disabled renters in rural America to access decent, safe, sanitary, and affordable housing.

Funding for this program has been reduced substantially during the past few years while the rental units in the portfolio continue to age and require resources for rehabilitation. A major focus of the performance measures is on the agency's efforts to maintain or increase the number of rental units available to house low- and very low-income families, at a rental rate affordable to the family. With over 86,000 of RHS' current tenants rent overburdened, meaning that they pay more than 30 percent of their monthly income for rent, maintaining the number of occupiable, affordable units is a significant challenge for the agency. The agency is tracking the number of units being built or rehabilitated as well as the impact of rental assistance on the families.

This program has also been the focus of several audits by the Inspector General related to fraud, waste, and abuse and the program is on USDA's list of Major Management Challenges and Program Risks. The performance indicator to "develop systems and processes which strengthen the management of MFH projects and help preserve the portfolio" and encourage sound life cycle management, was added in FY 2001 to address this concern.

Means and Strategies: Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program and general support resources indicated in this plan. The program levels and projected performance targets are based on Congressional appropriations and are not subject to changes that could impact a programs' subsidy rate, such as fluctuations in the Treasury discount rate. As required by the Balanced Budget Act of 1997, the program-specific subsidy rates utilized in the development of the Presidents' Budget are used when establishing obligations of funds.

The agency is employing several key strategies to implement its program:
- Build leveraging partnerships to expand resources going into rural areas.
- Reinvent the Multi-Family Housing Program, including completion of automation projects to improve program management.

In order to stretch its resources, RHS is actively developing leveraging partnerships. Leveraging of funds extends the impact of Rural Development's limited funds and brings additional dollars into the development of rural communities.

The Rural Rental Housing program has a history of fraud, abuse, and indifference to the health and safety of tenants. In reviewing the $12 billion Rural Rental Housing Program, GAO and OIG previously identified a continuing history of fraud and abuse by owners and management companies, along with instances of indifference towards the health and safety of low-income and elderly tenants. The agency has made substantial progress and, in the 1999 listing of high-risk areas, the MFH program was not included. However, the agency continues to work on this area of concern.

Coordination with other Federal programs can substantially enhance the delivery of the Multi Family Housing programs under the appropriate circumstances. Low-income housing tax credits, authorized through the Department of Treasury, can help make housing more affordable for very low-income tenants. Section 8 assistance from HUD also helps with affordability. RHS program dollars also help State government programs and nonprofit organizations leverage their resources. These programs complement, rather than compete with, each other as our programs can help make these projects affordable for the community while helping to meet the public policy goals of other Federal and State agencies.

RHS loan guarantee programs enable private sector lenders to become more involved in rural financing. Our guarantee programs bring otherwise unavailable long-term, fixed-rate private sector credit to rural areas.

Verification and Validation: Data from the following systems can be used to verify and validate most performance measures:

- Automated Multi-Family Housing Accounting System (AMAS)
- Program Loan Accounting System (PLAS)
- Guaranteed Loan System (GLS)

- Multi-Family Housing Information System (MFIS)
- Multi-Family Housing Tenant Information System (MFTS)

These systems track financial data, but generally not management data. These systems contain a variety of data edits to minimize the risk of inaccurate data being placed in the system. Reports from these systems are used by OIG in development of the mission area's audited financial statement.

COMMUNITY FACILITIES PROGRAMS

Community Facility Direct Loans. The direct loan program is for the purposes of constructing, enlarging, extending, or improving essential community facilities. Eligible applicants must demonstrate that they are unable to obtain capital from commercial sources. Applications for health and public safety projects receive the highest priority. The interest rate on these loans is determined by the median family income of the area to be served and ranges from 4.5 percent to 5.25 percent.

Community Facility Loan Guarantees. The criteria for the loan guarantees are the same as the direct loans. In the case of the guarantee program, the loans are offered by a private lender and the interest rate on the loan is negotiated between the lender and the borrower.

Community Facility Grants. This program was authorized under the Federal Agriculture Improvement and Reform Act of 1996. In most cases, the grant program is used in conjunction with the community facilities direct loan program to make essential community facilities affordable for the most needy communities, which often cannot afford even direct loans without additional subsidies.

Program Activity: Community Facilities	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program level	$302m	$535m	$478m	$478m

PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Improve the quality of life for rural residents by providing new or improved essential community facilities.				
Number of rural residents with improved standards of living through new or improved essential community facilities (in millions).	8.1	12	13	13
Number of jobs created or retained.	4,493	5,814	7,200	7,200
Community Health				
Number of new or improved health care facilities.	116	156	180	180
Number of new or improved elder care facilities.	32	47	50	50
Number of beds available at new or improved elder care facilities.	2,558	935	4,000	4,000
Emergency Services				
Number of new or improved fire and rescue facilities.	104	161	170	170
Number of new or improved fire and rescue				

vehicles.	128	212	200	200
Education and Child Care				
Number of new or improved child care centers.	55	63	50	50
Number of children served by new or improved child care centers.	4,049	2,167	3,500	3,600
Number of new or improved schools.	44	67	70	70
Maximize the leveraging of loan funds to increase the number of rural residents assisted by Rural Development programs.				
Number of CF funding partnerships.	866	452	1,400	1,400
Number of CF borrowers assisted through leveraging.	492	414	790	790

Discussion of Performance Goals/Indicators: The availability of needed community facilities in rural communities helps achieve the Departmental goal to "Enhance the capacity of all rural residents, communities, and businesses to prosper."

Since the programs began in 1965, over 80 different types of projects have been financed with Community Facility funds. Examples of these projects are child care centers, nursing homes, assisted living facilities, hospitals, health clinics, fire stations, libraries, telecommunications, school facilities, community buildings, and industrial parks. The development of performance measures for these programs is complicated by the wide variety of projects which can be funded. While applications are prioritized upon receipt, with health and safety receiving top priority, projects are generally funded in the order of receipt at the State-level to ensure equity in the distribution of funds. As a result, it is impossible to know ahead of time what the mix of funded projects will be during the fiscal year.

Community Facilities projects are grouped into three categories (Community Health, Emergency Services, and Education and Child Care) in order to simplify the presentation of performance measures. Each category has one or more measures of the number of new or improved facilities to be provided in rural areas during the fiscal year. This output measure is supported, where possible, with an assessment of the impact of the project, such as the number of hospital beds added to the stock in rural communities or the number of children served in a day care facility.

A key component of the Rural Development strategic plan is that all programs would develop partnerships with the other organizations involved in rural development. The purposes of these partnerships are to encourage strategic delivery of the programs of both organizations and to coordinate the delivery of technical assistance and financing to rural communities. Two of the performance measures relate to the leveraging of the program's funds which is the most likely outcome of the partnerships. Leveraging of funds extends the impact of Rural Development's limited funds and brings additional dollars into the development of rural communities.

Means and Strategies: Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program and general support resources indicated in this plan. The program levels and projected performance targets are based on Congressional appropriations and are not subject to changes that could impact a program's subsidy rate, such as fluctuations in the Treasury discount rate. As required by the Balanced Budget Act of 1997, the program-specific subsidy rates utilized in the development of the President's Budget will be used when establishing obligations of funds. Funds expended in any particular program could be impacted, however, by the movement of funds from one program to another as authorized by the Rural Community Advancement Program.

Specific strategies to achieve the performance goal include:

- Build leveraging partnerships to expand resources going into rural areas.

- Support Welfare Reform by promoting development of day-care facilities.

In order to stretch its resources, RHS is actively developing leveraging partnerships. The purposes of these partnerships are to encourage lender participation in providing financing to rural communities. The effort to move families off of welfare and into work requires the availability of affordable quality day care, which is often more limited in rural America. This can present a real barrier to a family who is trying to move out of poverty. RHS' Community Facilities Programs can be used to finance both child and adult day care.

Coordination with other Federal programs enhances the delivery of the Community Facilities Programs under the appropriate circumstances. Proposed projects must meet the standards of the Environmental Protection Agency and health facilities must meet the standards of the Department of Health and Human Services, in the same sense that they must meet the zoning and construction requirement of the State, county, or local government. These are issues of concern handled by the applicant's engineer. Other Federal agencies, such as the Economic Development Agency or Indian Health Service, or State agencies may be potential partners for joint funding if a specific project meets their requirements. RHS program dollars also help State government programs and nonprofit organizations leverage their resources.

RHS loan guaranteed programs enable private sector lenders to get more involved in rural financing. The guaranteed programs bring otherwise unavailable long term, fixed rate private sector credit to rural areas.

Verification and Validation: Several performance indicators address the overall impact of the Community Facilities Program while others support the various categories of projects normally funded by the program. One overall measure is an assessment of the number of rural residents whose quality of life will be improved by the Community Facilities projects financed during the fiscal year. This is, and will always be, a soft estimate but it is an attempt by the agency to quantify the impact of the Community Facilities Program on the rural population it serves. It cannot, in fact, be specifically measured, even at the end of the fiscal year, as there is a wide variation in the impact of projects and most have an impact far beyond the city limits of the town in which it is located. For example, the expansion of a hospital will provide improved medical care, and an improved quality of life, for people living miles from the town in which the hospital is located.

A second way the impact of the total program is quantified is through the estimation of the number of jobs created or retained as a result of the expenditure of Federal funds in the rural communities. This measure is also used by the other Rural Development agencies. Community Facilities funds are often construction related and the impact is established through the use of economic multipliers developed by the Department of Commerce.

Data to measure the performance measures will come from the following automated accounting systems:

- Program Loan Accounting System (PLAS)
- Guaranteed Loan System (GLS)
- Rural Community Facilities Tracking System (RCFTS)

These systems are used by agency managers in their management of the programs. PLAS and GLS are accounting systems designed to manage the agency's portfolio of direct and guaranteed loans. These systems contains a variety of data edits to minimize the risk of inaccurate data being placed in the systems. Reports from these two systems are used by OIG in development of the mission area's audited financial statement.

RCFTS is a non-accounting management system which contains a variety of data related to Community Facilities projects, e.g., community populations and number of people served by each project. Data in RCFTS is input by the field staff and does not contain edits to verify the accuracy of the data. Manual reports from State Directors will be used to obtain data regarding several of the performance measures. This information will be less reliable since it is obtained manually and its accuracy cannot be verified. However, confidence in this data is high enough to be acceptable for the purposes for which it is being used.

Goal 3: Modern Affordable Utilities. "Rural Development will improve the quality of life of rural residents by promoting and providing access to capital and credit for the development and delivery of modern affordable utility services."

Goal 3 of the mission area plan is specific to the programs administered by the Rural Utilities Service (RUS). The agency is responsible for delivering electric and telecommunications programs as authorized by the Rural Electrification Act of 1936, as amended; distance learning and telemedicine grant programs as authorized by the Rural Economic Development Act of 1990, as amended; and water and waste programs authorized by the Consolidated Farm and Rural Development Act, as amended.

Objectives of Goal 3:

3.1 Provide financing for modern, affordable, water and waste disposal services in rural communities.
3.2 Provide financing for modern, affordable telecommunications, including Distance Learning/Telemedicine services, in rural communities.
3.3 Provide financing for modern, affordable electric service to rural communities.
3.4 Direct Rural Development resources to those rural communities and customers with the greatest need.
3.5 Maximize the leveraging of loan funds to increase the number of rural residents assisted by Rural Development programs.

Program Activities supporting Goal 3: Water and Waste, Telecommunications, and Electric

	FY 2000 ACTUAL	FY 2001* ACTUAL	FY 2002* ESTIMATE	FY 2003* ESTIMATE
Funding (Appropriated)				
Program	$4.148b	$5.199b	$6.999b	$4.782b
S&E	$68.153m	$0	$0	$0
FTE's (Appropriated)	715	$0	$0	$0

* Starting with the FY 2001 budget, the S&E budget for all Rural Development agencies is combined. Therefore, the S&E and FTE cannot be provided separately at the agency level.

WATER AND WASTE PROGRAM

Water and Waste Disposal Direct Loans. Loans are made to public bodies, organizations operated on a not-for-profit basis, Indian tribes on Federal and State Reservations, and other Federally recognized Indian tribes, for the development of storage, treatment, purification, or distribution of water or for the collection, treatment, and disposal of waste in rural areas. A rural area may include an area in any city or town which has a population of not more than 10,000 inhabitants. Applicants must be unable to obtain sufficient credit elsewhere to finance actual needs at reasonable rates and terms. Loans are repayable in not more than 40 years or the useful life of the facility, whichever is less. These loans bear interest not in excess of the current market yield for comparable term municipal obligations. Loans made in areas where: (1) the median household income of the service area falls below the higher of 80 percent of the Statewide non-metropolitan median household income or the poverty level; and (2) the project is needed to meet applicable health or sanitary standards, bear interest not in excess of 5 percent.

Water and Waste Disposal Guaranteed Loans. Eligible borrowers and loan purposes are similar to those under the direct water and waste disposal loan program, except that loans involving tax-exempt obligations and loans involving a water and waste disposal grant may not be guaranteed. Normally, the guarantee will not exceed 80 percent, however, in extraordinary circumstances it may be increased to a maximum of 90 percent. The interest rate is negotiated between the borrower and lender and may be at a fixed or variable rate.

Water and Waste Disposal Grants. Grants are made to public, quasi-public, and nonprofit associations, and to certain Indian tribes for the development, storage, treatment, purification, and distribution of water or the collection, treatment, or disposal of waste in rural areas. Grants are used for water and waste disposal projects serving the most financially needy communities to reduce user cost to a reasonable level. Grants may be made to communities that have a median household income that falls below the higher of the poverty line or 100 percent of the State's non-metropolitan median household income. P.L. 104-127, the Federal Agriculture Improvement and Reform Act of 1996, provided that not less than one percent, nor more than 3 percent, of the water and waste disposal grant funds appropriated each year be made available for technical assistance and training of eligible grantee associations for such purposes as assisting in identifying and evaluating alternative solutions to problems relating to water and waste disposal, preparing applications, and improving operation and maintenance practices at existing facilities.

Solid Waste Management Grants. Grants are made to nonprofit organizations to provide technical assistance in rural areas and towns up to 10,000 inhabitants, and to provide technical assistance to local and regional governments and related agencies for the purpose of reducing or eliminating pollution of water resources and improve planning and management of solid waste disposal facilities.

Program Activity: Water and Waste	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program level	$1.337b	$1.410b	$1.540b	$1.479b

PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Provide rural residents with modern, affordable water and waste services.				
Loans to develop or expand Rural water systems to provide quality drinking water in compliance with the Safe Drinking Water Act.	590	613	600	540
Loans to develop or expand Rural waste disposal systems to provide quality waste disposal service in compliance with State and Federal environmental standards.	325	309	300	275
Total jobs generated as a result of facilities constructed with W&W funds.	39,771	40,600	40,150	38,460
Direct program resources to those rural communities with the greatest need.				
Persistent poverty counties.	219	236	230	210
Total W&W project cost.	$341m	$308m	$305m	$292m
RUS amount.	$249m	$240m	$236m	$225m
Special initiative - number of projects and amount of W&W funding (in millions)				
EZ/EC	33 ($46)	59 ($49)	49 ($43)	49 ($43)
Colonias	36 ($19)	32 ($20)	33 ($20)	32 ($20)
Pacific Northwest	0	0	0	0

Alaskan Villages	24 ($20)	18 ($20)	28 ($24)	28($24)
Guaranteed Loans	9($11)	6 ($5)	6 ($5)	6 ($5)

Discussion of the Performance Goals: The availability of adequate, safe drinking water and waste disposal facilities helps achieve the Departmental goal to "Enhance the capacity of all rural residents, communities, and businesses to prosper."

One of the Objectives in the mission area's strategic plan is the intent to direct resources to those communities and customers with the greatest need. This includes areas that have been consistently poor, have high unemployment rates, have out-migration, have experienced natural disasters, or experienced economic stress due to Federal action, such as changes in Federal policy related to timber production. Several performance indicators relate to achieving this Objective.

Means and Strategies: Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program and general support resources indicated in this plan. The program levels and projected performance targets are based on Congressional appropriations, however, subsidy rates are not subject to change. As required by the Balanced Budget Act of 1997, the program-specific subsidy rates utilized in the development of the President's Budget will be used when establishing obligations of funds. Funds expended in any particular program could be impacted, however, by the movement of funds from one program to another as authorized by the Rural Community Advancement Program.

Specific strategies to achieve the performance goals include:

- Build leveraging partnerships to expand resources going to rural areas.
- Where applicable, direct resources to the neediest projects and communities.
- Work with local communities and other borrowers to ensure funds are invested wisely.

RUS has established and monitors annual priority performance goals for State delivery of programs which include targeting of program resources to target communities and customers. In addition, priority selection criteria that support those targeted areas and customers have been established, are published in the program regulations, and are used in funding decisions.

Verification and Validation: Most of the data used in the Performance Indicators are taken from internal RUS and Rural Development Mission Area records. Data to measure the performance measures will come from the following automated systems:

- Program Loan Accounting System (PLAS)
- Guaranteed Loan System (GLS)
- Rural Community Facilities Tracking System (RCFTS)

These systems are used by agency managers in their management of the programs. PLAS and GLS are accounting systems designed to manage the agency's portfolio of direct and guaranteed loans. These systems contains a variety of data edits to minimize the risk of inaccurate data being placed in the systems. The three systems are audited annually by OIG as a part of their development of an audited financial statement.

The number of loans and grants made and loan and grant amounts are available from Rural Development accounting records.

The numbers of people served and the number of new and expanded water systems financed are available from the Rural Community Facilities Tracking System. RCFTS is a non-accounting management system which contains a variety of data related to water and waste projects, e.g., community populations and number of people served by each project. Data in RCFTS is input by the field staff; RCFTS does not contain edits to verify the accuracy of the data. Information from the USDA Economic Reporting Service will be used to identify persistent poverty counties and persistent out-migration counties.

RUS has had a lot of experience with these data and is highly confident of their accuracy. Non-RUS data are identified by source and are also considered very reliable. Confidence in this data is high enough to be acceptable for the purposes for which it is being used.

TELECOMMUNICATIONS PROGRAM

The Rural Utilities Service's Telecommunications Program contains three major components: 1) loans for infrastructure improvement and expansion; 2) loans specifically targeted for the deployment of broadband service in small towns and communities; and 3) loans and grants for distance learning and telemedicine initiatives in rural areas. Utilizing advanced telecommunications services, combined, these programs provide the Administration with a powerful tool in building strong rural economies and increasing educational and health care services in rural communities across the US.

Telecommunications Loans. Loans are made to furnish and improve telecommunications service, including a wide array of telecommunications related services, in rural areas:

- RUS hardship loans bear interest at a fixed rate of five percent per year. These loans are intended only for borrowers with extremely high investment costs in terms of per subscriber service. These borrowers also have a very low number of subscribers for each mile of telecommunications line constructed. This low subscriber "density" inherently increases the cost to serve the most sparsely populated rural areas. Because of the high cost of the investment needed, these borrowers cannot typically afford higher interest rate loans.
- The RUS Direct loans (or Treasury rate loans) bear interest at the government's cost of money (or the current Treasury rate). Thus, the interest charged varies with the Treasury rate. As Treasury rates increase, so does the cost to the borrower for these loans. Since the interest rate is tied to the cost of borrowing from Treasury, there is very little cost to the taxpayer for these loans in terms of subsidy and budget authority.
- Rural Telephone Bank (RTB) loans are made under the same terms and conditions as Treasury rate loans. In 1993, Congress mandated that all Treasury rate loans and RTB loans be made concurrently. The RTB acts as a supplemental source of financing to RUS borrowers in order to meet the growing capital demands for improvements to rural telecommunications infrastructure. Interest rates on RTB loans are calculated by formula based on the RTB's cost of borrowing funds from Treasury. This results in a rate that nearly mirrors the government's cost of money. One significant difference, however, is that borrowers from this program must make an equity contribution in the form of a stock purchase from the government in an amount equal to five percent of their construction needs. It should be noted that the RTB is mandated by law (the RE Act) to become a private entity. Privatization of the RTB began in FY 1996.
- In addition, RUS can provide loan guarantees to borrowers a non-government lender or from the Federal Financing Bank (Treasury). The interest rate charged on FFB loans is the Treasury rate plus one-eighth of one percent. The terms of these loans may vary significantly and allow borrowers more flexibility in meeting their financing needs. The FBB loan guarantee program has a zero cost to taxpayers in terms of subsidy.

In terms of risk, there has never been a default or loss on a telecommunications loan. All loans are based on extensive feasibility studies that determine a borrower's ability to repay the loan and loans are monitored and secured through covenants in loan contracts and the borrower's mortgage with RUS, which gives the government a first lien on all of the assets of the borrower.

Broadband Loans. Broadband networks in small, rural towns will facilitate economic growth and provide the backbone for the delivery of increased educational opportunities over state-of-the-art telecommunications networks.

Loans are made for the deployment and expansion of broadband service in rural areas and towns with populations up to 20,000 inhabitants. In the capital intensive telecommunications marketplace today, larger carriers are reluctant to make investment for broadband service in places other than predominantly urban and suburban markets. Small rural towns and communities will be left behind and lose the ability to attract new businesses and expand existing ones. Loans are made at the Treasury rate of interest (and therefore at a zero subsidy cost to taxpayers) to provide broadband service to rural consumers where such service does not currently exist.

Distance Learning and Telemedicine (DLT) Loans and Grants. This program is having a profound impact in rural America by assisting rural schools and learning centers in gaining access to improved educational resources over advanced broadband networks and by assisting rural hospitals and health care centers in gaining access to improved medical care by linking to urban medical centers for clinical interactive video consultation, distance training of rural health care providers, and access to medical expertise and library resources. Building on advanced telecommunications infrastructure, telemedicine projects are providing new and improved health care services and benefits to rural residents, many in medically under-served areas. Distance learning projects provide funding for computers and Internet hookups in schools and libraries and promote confidence in, and understanding of, the world-wide-web and its benefits to students and young entrepreneurs. Loans, made at the Treasury rate of interest and bearing no subsidy cost, and grants are made to encourage, improve, and make affordable the use of advanced telecommunications that will provide educational and health care benefits to people living in rural areas. Program results have demonstrated the dramatic benefits that can be achieved by investments made educational interactive video, Internet, and other information networks.

Program Activity: Telecommunications Loans	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program Level	$670m	$669m	$669m	$495m
PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Provide modern, affordable telecommunications services to rural communities.				
Number of new subscribers receiving service	154,899	188,908	180,000	133,000
Jobs Generated as a result of facilities constructed with telecommunications funds.	15,410	15,387	16,000	11,385
Number of subscribers with improved service	275,196	315,308	670,000	495,000
Maximize the leveraging of loan funds to increase the number of rural residents assisted.				
Leveraging of telecommunications financial assistance (private investment to RUS and RTB funding).	$6.51:$1	$5.7:$1	$5:$1	$5:$1

Program Activity: Broadband Loans	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program Level	$na	$100m	$80m	$80m
PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**

Provide modern, affordable telecommunications services to rural communities.				
Number of new subscribers receiving service	na	78,524	106,500	106,500

Program Activity: Distance Learning and Telemedicine Programs	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program Level	$25m	$328m	$328m	$75m
PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Provide distance learning and telemedicine services, utilizing telecommunications technologies, to rural communities.				
Number of schools receiving distance learning facilities.	277	590	840	140
Number of healthcare providers receiving telemedicine facilities.	138	236	570	55
Maximize the leveraging of grant funds to increase the number of rural residents assisted.				
Leveraging of telemedicine and distance learning financial assistance (private investment to RUS funding).	$1.21:$1	$.94:$1	$2:$1	$1:$1

Discussion of the Performance Goals: While significant progress is being made in the deployment of advanced telecommunications technologies in rural areas, RUS will continue to focus on the challenges remaining in providing rural access to the digital economy and its benefits:

- serving the unserved and underserved;
- keeping pace with new industry changes in a competitive market; and
- addressing special needs of economically distressed regions and those areas with limited resources.

Households in rural America remain less likely to be connected to the Internet than households in urban areas. While it is estimated that nearly 39% of rural households have some type of access, the "quality" of that access is, in many cases, far less than that in urban areas. "Regular" phone lines, for instance, will allow for access, but at substantially lower transmission rates, such as 9.6 kilobits per second. Urban users usually connect at a minimum of 28 kilobits per second. So the "ability" to connect to the Internet must also be measured in terms of the quality, or speed, of the connection. Unfortunately, much of the older plant in service today was designed before the Internet and was optimized for voice traffic in a way that makes them unsuitable for the high data rates enjoyed by the typical urban user. Adding to this inequity is the fact that the pace at which rural families and business get connected is also lower than the pace at which their urban counterparts come on line.

The divide between rural and urban is larger for broadband services, where only 7.3% of rural household have access. This divide is caused by a lack of infrastructure due to the high costs of serving areas of low population density and/or technical limitations. Couple this with the fact that much of the existing infrastructure serving rural areas is not capable, technologically, of supporting broadband service and must first be replaced. While some alternatives to "traditional" telecommunications services exist, there are limitations with their deployment in rural

America. For instance, Cable TV systems can be modified to provide broadband access; however Cable TV doesn't reach every household and typically does not extend outside of towns in rural areas. For the estimated 14 to 19% of American households with no access to Cable TV service, there is no possibility of cable modem service. And while satellite service appears promising because it can reach remote areas as easily as urban areas, current satellites are limited by spectrum availability and transmission delays caused by the great distance from earth to the geo-stationary satellite.

As noted before, progress is being made and there are successes being achieved everyday. In areas served by *rural* telecommunications carriers, there is more access and higher rate access than the areas served by *non-rural* carriers. This is due in large part to the RUS program and the universal service support mechanisms.

Means and Strategies: Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program and general support resources indicated in this plan. The program levels and projected performance targets are based on Congressional appropriations and are not subject to changes that could impact a program's subsidy rate, such as fluctuations in the Treasury discount rate. As required by the Balanced Budget Act of 1997, the program-specific subsidy rates utilized in the development of the President's Budget will be used when establishing obligations of funds.

Specific strategies to achieve the performance goals include:
- Build leveraging partnerships to expand resources going to rural areas.
- Where applicable, direct resources to the neediest projects and communities.
- Implement the National Information Infrastructure Initiative, thereby increasing educational and health care levels in rural areas.

Verification and Validation: The data used in the Performance Indicators are taken from internal RUS records rather than from automated accounting systems.

- The number of subscribers receiving new service is collected from the loan application and Loan Feasibility Study, RUS Form 496. Estimates are based on loan studies for the number of new subscribers to be served using loan funds. The figure is adjusted as follows: a distinction is made between the number of new residential subscribers versus the number of new business subscribers. A multiplier of 2.6 (which reflects the average number of persons per household) is applied to the residential subscribers. The business subscribers are then added back in to derive the total. The same sources and methodology is used for determining the number of subscribers with improved service. Improved service is based on a borrowers entire service area. RUS considers an investment in any or all exchanges in a borrower's system as providing improved service to all subscribers in the system.

- The Telecommunications leverage ratio is available from RUS Form 479, Part F, Funds Invested in Plant During the Year. The ratio is derived using total non-RUS loan funds expended for telecommunications plant versus RUS loan funds expended for the same period.

- Information on the number of subscribers receiving new broadband services is based on estimates for the borrowers loan application.

- All information on the number of schools and health care providers is derived from approved DLT loan and grant applications.

ELECTRIC PROGRAM

Electric Distribution Loans. These loans are made to finance electric distribution facilities. In many cases the interest rates are tied to the economic conditions of the areas served and the costs of providing service to that area. Municipal rate loans are made at variable interest rates tied to the industry rate on municipal bonds, capped at 7 percent in areas where consumer income is low and the cost of providing service is high. Hardship loans, with an interest rate fixed at 5 percent, are made to RUS-financed systems where the cost of providing service is very high and local economic conditions are severe. Factors taken into account include consumer density, extreme high residential rates or large rate disparity, and per capita income levels. Treasury rate loans, a budget appropriation program, are made at variable interest rates tied to the Treasury's cost of money. RUS electric borrowers provide service in the vast majority of the poorest non-metropolitan counties and the non-metropolitan counties experiencing the greatest out-migration.

RUS provides only part of the financing needs for most distribution systems. The borrower obtains the balance from the private sector. Generally, borrowers supply approximately 50 percent of their capital needs with internally generated funds. Of their remaining capital needs, RUS provides 70 to 100 percent with the private sector providing the balance. RUS has recently streamlined procedures for sharing the government's lien to better accommodate the private sector. Most loans are made for 35 years and are secured by the borrower's electric system assets. In order to ensure the availability of capital to maintain their electric infrastructure, many borrowers apply for RUS loans every few years.

Guaranteed Loans. RUS guarantees loans made by the Federal Financing Bank (FFB), CoBank - National Bank for Cooperatives and National Rural Utilities Cooperative Finance Corporation (CFC) to finance electric generation, transmission and distribution facilities. The interest rate on FFB loans is based on the Treasury's cost of money plus 1/8 percent.

Program Activity: Electric Program	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program level	$2.116b	$2.616b	$4.071b	$2.621b

PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Provide modern, affordable electric service to rural residents and communities.				
Jobs created as a result of facilities constructed with Electric funds.	48,700	45,000	60,200	59,800
Number of rural electric systems upgraded.	137	220	187	220
Number of consumers benefiting from system improvements (millions).	2.3	3.5	2.8	3.4
Direct program resources to those rural communities with the greatest need.				

Electric loans (number and amount) to clients serving persistent poverty counties. (RUS-financed electric systems provide service in 523 of the 540 identified persistent poverty counties) (Dollars in millions).	72 $615	98 $829	89 $1,160	87 $740
Electric loans (number and amount) to clients serving persistent out-migration counties (RUS financed electric systems provide service to 655 of the 700 counties identified as having net out-migration) (Dollars in millions).	73 $321	97 $530	90 $740	86 $470
Maximize the leveraging of loan funds to increase the number of rural residents assisted.				
Leveraging of rural electric financial assistance (private investment to RUS funding).	$2.88:1	$.70:1	$1:1	$1:1
Effectively manage the portfolio to minimize delinquencies and future losses.				
Develop internal processes which strengthen management of the portfolio of electric loans.	N/A	Review Staff Instruction 1717-Y and revise as needed to identify and monitor financially stressed borrowers.	Review 7CFR 1717 subpart Y - Settlement of Debt regulations and revise if appropriate.	Review 7CFR 1717 subpart Y – Settlement of Debt regulations and revise if appropriate.

Discussion of Performance Goals: The availability of an adequate supply of electricity is critical to achieving the Departmental goal to "Expand economic and trade opportunities for agricultural producers and other rural residents." In previous years this number has been between $2.00 -$3.00 of private investment to Government funding. However, in FY 2001, 50% of the Government advances ($978 million of $1.957 billion) (65.4% of the $1.495 billion Federal Financing Bank advances) went to the G&T's to finance Generation and Transmission projects. G&T financing makes use of FFB loan guarantees. FFB financing does not require a private financing component to finance energy projects as does RUS insured and direct loans to distribution borrowers.

The increase in loan guarantees and the advance of loan funds was in direct response to the uncertainty of the wholesale power market and the need for borrowers serving rural areas to manage their electricity supply portfolio to ensure reliable electric service at a competitive cost. RUS responded quickly to the demands placed on the nation's energy supply and delivery system.

The electric industry is rapidly moving toward a new era of deregulation and intense competition. As more States move toward deregulation, opening up the electric infrastructure to retailing and driving the forces of competition, the rural consumer and the rural provider face particular challenges. For example, RUS electric borrowers average only 6.5 consumers per mile compared to 33 consumers per mile for investor-owned electric utility systems. As the competitive nature of the industry heightens, it will be extremely important to rural electric consumers that rural electric providers have access to reasonably priced capital. The electric program fulfills the continuing purpose of ensuring that rural residents continue to be served with reliable and affordable electricity.

The performance goals for the RUS programs fall into three major categories. One set of goals reflects the impact of RUS on rural residents by measuring the number of rural individuals, families, businesses, and communities whose quality of life has been enhanced with improved electric and telecommunications services, distance learning and telemedicine programs, and improved access to clean water and waste water disposal. Since most of the loans are for construction purposes, a second set measures the impact of the projects on the community through the creation of jobs. The third category of goals reflect the agency's success in implementing two key themes of the Rural Development mission area strategic plan, directing resources to the neediest communities and leveraging of financial resources.

This program has also been the focus of several audits by the Inspector General and the General Accounting Office related to large writeoffs which have occurred in the past and is on USDA's list of Major Management Challenges and Program Risks. The performance indicator, develop internal processes which strengthen management of the portfolio of electric loans, has been added in FY 2001 to address this concern.

Means and Strategies: Achievement of the FY 2002 and FY 2003 Performance Goals and Indicators is contingent upon receiving the program and general support resources indicated in this plan. The program levels and projected performance targets are based on Congressional appropriations and are not subject to changes that could impact a program's subsidy rate, such as fluctuations in the Treasury discount rate. As required by the Balanced Budget Act of 1997, the program-specific subsidy rates utilized in the development of the President's Budget will be used when establishing obligations of funds.

Specific strategies to achieve the objectives include:
- Build leveraging partnerships to expand resources going to rural areas.
- Where applicable, direct resources to the neediest projects and communities.
- Continue the advocacy for Rural America as in policies resulting from deregulation of electric utilities.

Coordination with other Federal programs is not required for the delivery of the electric program. Proposed projects must meet the standards of the Environmental Protection Agency (EPA) in the same sense that they must meet the zoning and construction requirement of the State, county, or local government. These are issues of concern handled by the applicant's engineer. Other Federal agencies, or State agencies, may be potential partners for joint funding if a specific project meets their requirements.

Verification and Validation: Most of the data used in the Performance Indicators are taken from internal RUS and Rural Development mission area records. Data to measure the number of loans, loan amounts, number of borrowers, and funds advanced are performance measures will come from the RUS Loan Servicing System (RULSS). This automated accounting system is designed to manage the agency's portfolio of direct and guaranteed loans. The system contains a variety of data edits to minimize the risk of inaccurate data being placed in the system. RULSS is audited annually by OIG as a part of their development of an audited financial statement.

Consumers served, counties served, and investment in infrastructure is available from RUS borrower reported statistics. While this information is not audited, it is considered to be sufficiently accurate for management's purposes.

The identification of persistent poverty counties and persistent out-migration counties is available from the USDA Economic Research Service.

Goal 4: Community Capacity Building : "Rural Development will provide information, technical assistance, and, when appropriate, leadership to rural areas, rural communities and cooperatives to give their leaders the capacity to design and carry out their own rural development initiatives."

The preceding three goals recognize that rural development involves providing financial assistance. Goal 4 adds the understanding that a successful comprehensive community development process also involves technical assistance to build leadership capacity and community development skills. Mission area staff provide technical assistance to rural communities and cooperatives, often in partnership with public and private organizations.

Funding and FTE's: All funds are appropriated and are included under the program goals.

Program Activity: Community Development	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 ESTIMATE**	**FY 2003 ESTIMATE**
Program level *	$15m	$14.967m	$14.967m	$14.211m

* Funds are appropriated through the Rural Business/Cooperative Service budget.

PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Jobs created or saved in EZ/EC and REAP communities.	3,354	11,997	1,000	1,000
Maximize Resources Available in EZ/ECs.				
Ratio of non-EZ/EC grants to EZ/EC grants.	10.7:1	17.77:1	7:1 or greater	7:1 or greater

Discussion of Performance Goals: The community development performance goals indicate Rural Development's success in helping rural communities plan and implement effective community development programs. The Empowerment Zones/Enterprise Communities (EZ/EC), National Centers of Excellence, and the various initiatives mentioned in the goals are designed to address unique needs of the region or population and reflect the mission area's desire to target its resources to the neediest communities. Since jobs are vital to any prospering community, the measurement of jobs created or saved through the community development initiatives is quite significant and meaningful. The final measure ties our community development efforts to the mission area's desire to maximize partnerships and the leveraging of funds.

Means and Strategies: Use local and State coordinating bodies, such as planning districts, Resource Conservation and Development Councils (RC&D) and the State Rural Development Councils, to identify alternative sources of funding for rural projects. Specific strategies for accomplishing the goal include:

- Use local and State coordinating bodies, such as planning districts, Resource Conservation and Development Councils (RC&D) and the State Rural Development Councils, to identify alternative sources of funding for rural projects.
- Provide assistance and training to rural leaders on strategic planning and other sources of technical assistance, which are available to help them assess community strengths, plan for the future, and prepare applications for assistance.
- Implement collaborative rural economic and community development training for rural organizations, involving other Federal, State, and local agencies, and organizations.
- Expand the base of knowledge and understanding of the Rural Development mission area employees in economic and community development, evaluation methods and operations, and analyzing the social/economic dynamics of rural areas and communities.

Verification and Validation: A manual process to measure the community development indicators has been established utilizing data provided by the State Directors. While its accuracy cannot be verified, confidence in this data is high enough to be acceptable for the purposes for which it is being used.

Goal 5: Effective, Efficient Service to the Public "Rural Development will develop the staff, systems, and infrastructure needed to ensure high quality delivery of its programs to all rural residents."

Goal 5 supports the mission area's management of the human, physical, and financial resources it is given for the effective and efficient delivery of its programs, and addresses agency-specific management reform issues. Management Initiatives 3 and 4 in the September 1997 Strategic Plan are incorporated in this Goal.

Objectives of Goal 5:

5.1: Create and sustain a work environment that develops and fosters partnerships, cooperation, full and open communications, teamwork, mutual respect, and maximum individual development.
5.2: Develop information systems which support cost-effective delivery of programs and maximize the availability of information to all employees.
5.3: Improve financial management to ensure fiscal accountability.
5.4 Improve procurement process and effectiveness.

Funding and FTE's: All funds are appropriated and are included under the program goals.

PERFORMANCE GOALS AND INDICATORS	**FY 2000 ACTUAL**	**FY 2001 ACTUAL**	**FY 2002 TARGET**	**FY 2003 TARGET**
Develop policies and practices which are employee and family friendly.				
Develop common policies with FSA and NRCS in support of the Service	Partnership Council approval obtained	Telecommuting policy	Publish common	N/A

support of the Service Center initiative.	regarding common policies on hours of duty, telecommuting and leave. Common regulation on hours of duties published. Training conducted via teleconference.	document is in the clearance process. Leave and other common policies are on hold pending NFAC decision and guidance on future direction.	policies regarding leave, telecommuting and grievances.	
Provide fair and equitable treatment to all customers and employees.				
Provide civil rights training to employees.	68% of employees received training.	93% of employees not trained in FY 2000 received training.	Train 100% of new employees	Train 50% of new employees.
Reduce backlog of complaints.	Reductions in complaints of 38% program and 34% EEO complaints.	36% of complaints filed were closed.	40% of complaints filed will be closed.	25% of complaints filed will be closed.
Provide efficient, timely personnel support.				
Implement CAMS.	Basic modules implemented in 37 States.	Basic modules implemented Nationwide	Move from client-server to web-based architecture.	Move from client-server to web-based architecture.
Implement an automated staffing system.	Research performed.	Participate in USDA evaluation team to assess alternative systems. Participation on going.	Complete evaluation (with USDA). Help draft USDA-wide guidance.	Select a system. Based on USDA guidance.
Enhance and build information systems which support the mission area's programs.				
Implement the Rural	45% of	N/A	100% of	100% of

Utilities Loan (RULSS).	requirements operational.		requirements operational.	requirements operational.
Implement the new Guaranteed Loan System (GLS).	Phases II, III, & IV completed. Phase V, Funds Reservation system, completed.	GLAS System retired. Electronic Data Interchange implemented.	93% of GLS web processes operational, the remainder to be completed in 2003.	93% of GLS web processes operational, the remainder to be completed in 2003.
Develop the Program Funding Control System (PFCS).	Evaluation of commercial-off-the-shelf systems completed. Request for Proposal completed.	Deferred FY 2001 targets to FY 2002.	Select and install commercial software and begin developing unique capabilities.	Complete systems development.
Implement the provisions of the E-File legislation.	Completed required GPEA and Freedom to E-File plans to achieve compliance.	Implemented web farm. Converted existing forms to web-enabled format.	Complete automation support activities for GPEA and Freedom to E-File requirements.	
Manage the mission area's financial resources efficiently and effectively.				
Percent of disbursements made electronically.	53%	58%	75%	75%
Receive an unqualified opinion on RD's financial statement.	Qualified opinion received.	Subject to OIG Approval	Clean opinion received.	Clean opinion received.
Credit Reform - % of programs with a clean opinion from OIG.	16%	Subject to OIG Approval	100%	100%
Percent of material FMFIA deficiencies corrected timely.	75%	50%	50%	50%

Reach management decision on OIG financial management audit recommendations within 6 months of audit report issuance.	90%	77%	90%	90%
Improve procurement process and effectiveness. Increase use of performance-based contracts.	N/A	14% of new contracts were performance based.	12% of contract dollars awarded on basis of performance standards.	20% of new award dollars will contain performance standards.
Expand on-line procurement.	N/A	78% were posted to FedBizOpps.	All full and open competition solicitations available on the internet.	Implementation Plan prepared for IAS. (Web-based procurement software.

Discussion of Performance Goals: Rural Development is dependent upon the ability and skills of its staff for the effective delivery of its programs. The staff must be adequately trained and have the resources needed if it is to accomplish its job. The mission area's administrative resources have been reduced as a result of the Administration's and Congress' joint efforts to balance the Federal budget, while program resources have increased. This has resulted in reductions in staff and field offices needed to deliver the programs plus an even greater reduction in administrative staff. A reduction in human resources increases the need for automated systems which can help staff work more efficiently, while still maintaining their effectiveness.

Reductions in resources also requires that Rural Development be innovative in identifying new ways of doing business while being ever mindful of the need to provide high quality service to our customers. Rural Development will utilize a management approach and encourage a workplace environment which values employees and involves them, as partners, in the management of the mission area. The environment of the workplace will ensure that all customers and employees are treated fairly, equitably, with dignity and respect.

The performance goal, "Improve procurement process and effectiveness", and the related indicators, support the Administration's priorities. Achievement of this goal should result in greater competition for mission area contracts and improved performance by contractors.

The mission area's inability to reasonably estimate the cost of its credit programs has been an ongoing concern for several years and is included on USDA's list of Major Management Concerns and Program Risks. The indicator, Credit Reform - percent of programs with a clean opinion from OIG, represents the mission area's progress is addressing this concern. The indicator related to obtaining an unqualified opinion also relates to this effort.

Means and Strategies: Specific strategies for achieving the objectives include:

- Develop a workforce capable of delivering a full range of financial and non-financial services in support of rural development activities.
- Foster, and continually strengthen, an internal culture that focuses on and is driven by customer needs, both internally and externally.
- Increase the use of Alternative Dispute Resolution (ADR) as a tool for resolving workplace and external customer disputes.
- Enhance the work environment by developing policies and adopting processes which are friendly to the employees and their families.
- Instill the value of cultural diversity in all Rural Development personnel and develop a workforce which is representative of the diversity of the areas in which they work.
- Provide Civil Rights training to all employees.
- Sup36ort USDA service centers by developing common administrative policies and processes with other USDA agencies.
- Maximize the use of automated systems to ensure consistency in work processes and as a replacement for staff lost in downsizing efforts.
- Include in the recognition and rewards system a linkage to the accomplishment.
- Support the establishment of USDA Service Centers and develop processes and automated systems which maximize their effectiveness.
- Focus information and technical infrastructure development on enhancements which improve service delivery and maximizes the availability of data for all employees.
- Make data more accessible by utilizing WEB technology.
- Develop a data warehouse to ensure current data is available to all employees and to support the ability of the mission area to better manage and analyze its delivery of programs.
- Enhance Rural Development's ability to track and monitor administrative funds appropriations and provide accurate reports to all internal customers.
- Implement the electronic funds transfer (EFT) requirements of the Debt Collection Improvement Act.
- Work with the Departmental OIG and OCFO to resolve issues related to credit reform and obtain a clean opinion on Rural Development's audited financial statement.

Verification and Validation: Quarterly reports from State Civil Rights Managers will be used to report on progress towards civil rights and EEO performance measures. Verification of surveying activity will be determined by the surveying activities conducted during the year. Monthly reports of EEO performance are reviewed to determine progress.

SUMMARY OF RESOURCES FOR FY 2002 **
(Dollars in Billions) (Available Resources)

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
Rural Business-Cooperative Service	$1.3			$.015		$1.315
Rural Housing Service		$6.11				$6.11
Rural Utilities Service			$6.999			$6.999
Total	$1.3	$6.11	$6.999	$.015		$14.424 7020 FTEs

SUMMARY OF RESOURCES FOR FY 2003**
(Dollars in Billions) (President's Budget)

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
Rural Business-Cooperative Service	$0.85			$.014		$0.864
Rural Housing Service		$5.24				$5.24
Rural Utilities Service			$4.782			$4.782
Total	$0.85	$5.24	$4.782	$.014		$10.886 7024 FTEs

** After FY 200 the budget proposals provide for a combined S&E budget for all Rural Development agencies. The FTE cannot be shown separately.