

**RURAL DEVELOPMENT
FISCAL YEARS 2003 and 2004 ANNUAL PERFORMANCE PLANS**

This Annual Performance Plan primarily supports Strategic Goal 2 of the United States Department of Agriculture (USDA) Strategic Plan for Fiscal Years 2002-2007 which is "Support Increased Economic Opportunities and Improved Quality of Life in Rural America." Goal 5 of this plan also supports the Management Initiatives in the USDA Strategic Plan.

NOTE: This is an interim plan. Rural Development is in the process of revising its' five year Strategic Plan and future plans will be restructured to support the new strategic plan.

Rural Development was established on October 13, 1994, by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act. It consists of three agencies; the Rural Business-Cooperative Service (RBS), the Rural Housing Service (RHS), and the Rural Utilities Service (RUS). Rural Development 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 programs are authorized by a variety of statutes which are identified within 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. **(This mission statement will be changed when the new strategic plan is issued).**

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. The Rural Development staff also provides technical assistance to rural families and community leaders to ensure success of the projects it finances. The Rural Development staff is 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 agencies in Rural Development. 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 for 1997-2002.

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 nonaccounting system which has been 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. RCFTS has been incorporated into the Guaranteed Loan

System (GLS), a web-based system. In addition to that, much 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 that will come from the Rural Utilities Loan Servicing System (RULSS).

In addition, the Multi-Family Housing Program of RHS implemented a substantial upgrade to its Multi-Family Housing Information System (MFIS). This automated management information system will substantially improve the Agencies' ability to extract program performance data from field offices and accounting databases. Rural disbursement policies and related system applications are being evaluated to expand the practice of using electronic funds transfer for disbursement of loan and grant funds in place of issuance of paper checks to comply with the Debt Collection Improvement Act of 1996.

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 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 toward 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 12.2 percent 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 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 as follows:

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 Rural Development 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.

Goal 1: Good Jobs and Diverse Markets. A 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 Rural Development 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 2001 ACTUAL	FY 2002 ACTUAL	FY 2003* ESTIMATE	FY 2004* ESTIMATE
Funding (Appropriated)				
Program	\$2.903b*	\$967.75m*	\$0.85b*	\$1.583b
S&E	**	**	**	**
FTEs (Appropriated)	**	**	**	**

*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 outside a city with a population of 50,000 or more, and the contiguous and adjacent urbanized 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 startup 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. Forty million dollars for loans to value-added cooperative organizations.

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, and 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, startup 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 nonprofit 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 areas outside a city with a population of 50,000 or more and the contiguous and adjacent urbanized areas. Grant funds may be used for the acquisition and development of land, construction of buildings, purchase of equipment, obtaining of needed technical assistance, startup 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. These grants are limited to areas outside a city with a population of 50,000 or more and the contiguous and adjacent urbanized areas. 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 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
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Program Level	\$2.852b	*\$960m	\$0.84b	\$1.155b
PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Create or save jobs in rural areas.				
Number of jobs created or saved:				
B&I Guaranteed Loans *	29,927	27,452	22,894	18,826
IRP Loans	29,866	23,868	30,600	30,600
Rural Business Enterprise Grants	39,292	16,033	17,206	17,206
Rural Economic Development Loans	3,697	2,745	2,400	2,449
Rural Economic Development Grants	624	196	844	844
Rural Business Opportunity Grants	N/A	6,007		
Community economic benefits				
B&I Guaranteed Loans	\$2,689m	\$2,157m	\$1,832m	\$2,551m
IRP Loans	\$97.6m	\$78m	\$100m	\$100
Rural Business Enterprise Grants	\$123.1m	\$108.2m	\$110m	\$110m
IRP dollars lent by intermediaries/IRP dollars obligated to intermediaries (cumulative since Program inception).	80.6%	82%	75%	75%
Non-IRP funds leveraged for each dollar of IRP funds.	\$3.12	\$.53	\$3.12	\$3.12
Number of businesses benefiting from RBEG program.	3,792	5,442	3,400	3,400
Non-RBE funds leveraged for each dollar of RBEG funds.	\$1.29	\$1.53	\$1.12	\$1.12
Non-REDLG funds leveraged per dollar of program funds.				
Loans	\$6.44	\$4.47	\$3.00	\$3.00
Grants	\$5.29	\$2.78	\$3.00	\$3.00
Non-RBOG funds leveraged for each dollar of RBOG funds.	N/A	\$1.00	\$1.00	\$1.00
Number of economic development plans developed with RBOG.		162	10	10
Number of people trained through RBOG program.		2,485	56	56
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	.8%	2.7%		2.3%		2.3%	
IRP	10.8%	8.8%		14.1%		14.1%	
RBEG	12.7%	15.8%		15.9%		15.9%	
Percentage of funds obligated for Mississippi Delta and Native American Initiatives:							
		<u>MD</u>	<u>NA</u>	<u>MD</u>	<u>NA</u>	<u>MD</u>	<u>NA</u>
B&I Guaranteed	0	0%	1.1%	0%	2%	0%	2%
IRP	0	6.4%	9.6%	17.8%	8.9%	17.8%	8.9%
RBEG	0	2.6%	6.7%	2%	6%	2%	6%
Manage the B&I portfolio effectively to minimize the delinquency rate.							
Delinquency rate (excluding bankruptcy cases).	4%	10.29%		6%		6%	

* 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, FY 2003, or FY 2004.

Discussion of Performance Goals:

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 B&I programs is the creation or saving of jobs. Performance indicators related to jobs created/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 priority selection criteria that supports those targeted areas and customers, are published in the program regulations, and are used in funding decisions to ensure funds are targeted to these communities and customers.

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 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 2003 and FY 2004 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.

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)/Guaranteed Loan System (GLS).

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 contain 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. RCFTS has been replaced by RDAPTS and has become a web-based management system for all business programs.

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.)

- 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 GLS 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. All the data previously 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 online, and Rural Development field offices will use this system to process loans online. 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.
- 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 the 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.

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	FY 2001	FY 2002	FY 2003	FY 2004
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Programs	ACTUAL	ACTUAL	ESTIMATE	ESTIMATE
Program Levels	\$36.5m	\$7.75m	\$9.0m	\$10.0m

PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Assist marketing networks and cooperative partnerships in the establishment and expansion of business outlets.				
Number of Technical assistance and Educational services provided.	244	200	200	200
Customer rated quality of technical assistance (0-5 rating scale).	N/A	3	3	3
Leverage of research expenditure (dollar value of RBS sponsored research per dollar of RBS research expenditures).	1.44	1.25	1.25	1.25
Research and educational materials provided to customers.	53,594	25,000	25,000	25,000
Number of responses to inquires for information.	16,000	15,000	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 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. 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 are as follows:

- 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, nonprofit, and educational institutions to heighten awareness and understanding of cooperatives and marketing opportunities in underserved rural areas;
- Provide field-level training and technical assistance to cooperatives and developing cooperative groups;
- Establish an Outreach Program and Outreach Liaison Position; and
- Improve accessibility of Rural Development programs for Native Americans.

Achievement of the FY 2003 and FY 2004 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 Agency's program records which are not automated or audited. They are, however, considered to be reasonably accurate for use by management. The amount of technical assistance and services provided includes 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 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Funding (Appropriated)				

Program	\$4.90b	\$5.21b	\$5.4b	\$5.67b
S&E	*	*	*	*
FTEs (Appropriated)	*	*	*	*

* 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 home ownership 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 home ownership. 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 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program Level (direct and guaranteed)	\$3.51b	\$3.5b	\$3.7b	\$4.09b
PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 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.	44,073*	42,069*	45,700*	49,000*
Total Units Sec. 502 Direct and Guaranteed 502 and Sec. 504 Loan and Grant.	57,234**	56,017**	51,500**	59,800**
Number of houses financed through the Section 502 Direct Loan Program.	14,638*	14,013*	12,600*	17,700*
Number of houses financed through the Section 502 Direct Loan (Natural Disaster) Program.	137*	42	N/A	N/A
Number of houses financed through the Section 502 Guaranteed Loan Program.	29,326*	28,056*	33,000*	32,100*
Number of existing houses improved (Section 504 Loans and Grants).	11,762*	10,014*	10,300*	10,000*
Number of existing houses improved (Section 504 Loans and Grants Natural Disaster).	507**	143	N/A	N/A
Number of jobs created (Direct 502).	16,171	16,039	14,000	29,000
Number of jobs created (Guaranteed 502).	14,438	24,721	20,000	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).	7,753	4,916	10,000	10,000
Number of Guaranteed lenders participating in low-income housing finance.	2,400	2,400	2,400	2,400
Number of Rural Home Loan Partnerships.	239	N/A	300	TBD

Provide effective supervision to minimize delinquencies and future loss.				
502 Direct loan: first-year delinquency rate.	3.2%	2.7%	3.3%	3.0%
502 Guaranteed loan: first-year delinquency rate.	N/A	N/A	4%	4%

* 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 low-and very low-income families in rural areas who obtain decent, safe, and sanitary housing. The agency tracks the number of homes financed to quantify this effort. Approximately 95 percent of these are new loans (initial loans). The remaining 5 percent are loans to existing borrowers (subsequent loans). New loans are made to help new homeowners finance their homes. Loans to existing borrowers are made to help repair their homes. These loans are also used to facilitate the sale of a property owned by an existing RHS borrower by providing funding to pay their equity so that the new owner can assume the existing RHS loan.

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 “Rural Home Loan Partnership” is an important component of the agency’s leveraging efforts. Funds have been set aside to develop these partnerships. The Agency is in the process of reviewing the progress and future direction of the partnership. The performance goal for the number of Rural Home Loan Partnerships for FY 2004 cannot be projected at this time but will be addressed in the coming months.

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 that 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 are no longer able to keep their home.

Means and Strategies: Achievement of the FY 2003 and FY 2004 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 to increase 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 where the population has been more economically challenging to serve.

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 (DL0S)

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 U.S. 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 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program Level	\$859m	\$834m	\$966m *	\$981m

* \$966m includes all MFH President's Budget funds for FY2003 plus no year funds carried over.

PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 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 selected for funding for new construction (FY).	2,457	5,349	3,800	2820
Sec. 515	1,578	1,800	0	0
Sec. 514/516	855	800	1,000	1,200
Sec. 514/516 Natural Disaster	24	0	0	0
Sec. 538	0	2,700	2,800	2,700
Total Number of units selected for funding for rehabilitation (FY).	8,243	8,685	8,300	13,200
Sec. 515	5,511	5,000	5,000	6,100
Sec. 514/516	1,003	1,100***	1,200	1,300
Sec. 533	1,729	2,100	2,100	2,000
Direct resources to those rural communities and customers with the greatest need.				
Average tenant income.	\$7,980	\$8,135*****	\$8,135	\$8,300
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.	74,377	74,377*****	N/A	86,000
Number of rental assistance units renewed (tenants do not lose subsidy).	39,159	39,454	41,500	42,000
Percent of rental assistance units renewed.	100%	100%	100%	100%
Number of tenant households living in affordable, decent, safe, and sanitary housing.	453,275	446,483	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.	146	145	140	140
Develop systems and processes which strengthen the management of MFH projects and help preserve the portfolio.	Publish new regulations for comment	Publish final regulations.	Publish new regulations for comment.	Publish final rule.

* Available by end of FY 2002 reporting period.

** No funds proposed in FY 2003 or FY 2004 for new construction.

*** Under the FLH program, the number of units funded also reflects those needing FY 2003 funds to cover construction cost overruns via subsequent loans.

**** This data is from the FY 2002 Fair Housing Occupancy Survey, which is done in January. Therefore, the data is from January 2002 and is the same as was used last year. If possible, it will be replaced with new data when the January 2003 report is run.

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 2003 and FY 2004 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 fluctuation 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 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.

In reviewing the \$12 billion Rural Rental Housing Program, GAO and OIG previously identified instances 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 in minimizing abuse in the program. The agency continues to work on this area of concern and improve its controls and borrower compliance.

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. Interest rates for direct loans are based on current market yields for municipal obligations, although loans

for facilities impacting prime or unique farmland may require a slightly higher rate. Certain other direct loans may qualify for a lower interest rate, depending upon the median household income of the residents of the community to be served.

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 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program level	\$535m	\$602m *	\$477m *	\$477m

* Includes programs administered by Community Facilities.

PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Improve the quality of life for rural residents by providing new or improved essential community facilities.				
Number of rural residents who will have access to new and improved essential community facilities (in millions).	*	*	*	13
Number of rural residents with improved standards of living through new or improved essential community facilities (in millions).	12	10	13	*
Number of jobs created or retained.	5,814	4,473	5,000	*
<i>Community Health</i>				
Number of new or improved health care facilities.	156	139	140	140
Number of new or improved elder care facilities.	47	37	50	*
Number of beds available at new or improved elder care facilities.	935	N/A	1,000	*
<i>Emergency Services</i>				
Number of new or improved public safety facilities funded.	*	*	370	370
Number of new or improved fire and rescue facilities.	161	155	160	*
Number of new or improved fire and rescue vehicles.	212	252	220	*

<i>Education and Child Care</i>				
Number of new or improved child care centers.	63	54	50	*
Number of children served by new or improved child care centers.	2,167	N/A	2,200	*
Number of new or improved educational facilities funded.	*	*	*	95
Number of new or improved schools.	67	70	70	*
Maximize the leveraging of loan funds to increase the number of rural residents assisted by Rural Development programs.				
Contributions from other sources.	*	*	*	\$400 million
Number of CF funding partnerships.	452	N/A	1,400	*
Number of CF borrowers assisted through leveraging.	414	N/A	790	*

* Measure has been changed or revised to more accurately describe the unit being measured or removed because the data does not precisely describe the intended output.

Discussion of Performance Goals/Indicators:

Since the programs began in 1974, 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) 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.

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. One of the performance measures relates 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 2003 and FY 2004 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 the following:

- Build leveraging partnerships to expand resources going into rural areas, and
- Support Homeland Security by promoting development of public safety 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. 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 applicants' 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 contain 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. The RDAPTS system will provide more reliable, accurate data for program management and evaluation.

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 Broadband, 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 2001 ACTUAL	FY 2002* ACTUAL	FY 2003* ESTIMATE	FY 2004* ESTIMATE
Funding (Appropriated)				
Program	\$5.199b	\$6.995b	\$4.782b	\$5.466b
S&E				
FTE's (Appropriated)				

* 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 1 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 Environmental Programs	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program level	\$1.410b	\$2.1b	\$1.6b	\$1.48b

PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 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.	613	775	510	648
Loans to develop or expand Rural waste disposal systems to provide quality waste disposal service in compliance with State and Federal environmental standards.	309	415	273	347
Total jobs generated as a result of facilities constructed with W&W funds.	40,600	63,838	36,904	33,780
Direct program resources to those rural communities with the greatest need.				
Persistent poverty counties.	236	255	114	99
Total W&W project cost	\$308m	\$413m	\$180m	\$121m
RUS amount.	\$240m	\$336m	\$147m	\$99m

Special initiative - number of projects and amount of W&W funding (in millions)				
EZ/EC	59 (\$49)	34 (\$32)	27 (\$26)	26(\$26)
Colonias	32 (\$20)	34 (\$19)	32 (\$20)	32(\$20)
Pacific Northwest	0	0	0	0
Alaskan Villages	18 (\$20)	23 (\$24)	23 (\$20)	23(\$20)
Guaranteed Loans	6(\$5)	6 (\$2)	6 (\$2)	6(\$2)

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 2003 and FY 2004 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 the following:

- Build leveraging partnerships to expand resources going to rural areas;
- Where applicable, direct resources to the neediest projects and communities; and
- 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 this 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 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 5 percent per year. These loans are intended only for borrowers with extremely high investment costs in terms of per subscriber service. These borrowers also have a very low number of subscribers for each mile of telecommunications line constructed. This low subscriber “density” inherently increases the cost to serve the most sparsely populated rural areas. Because of the high cost of the investment needed, these borrowers cannot typically afford higher interest rate loans.
- 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 5 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 of a non-government lender or from the Federal Financing Bank (FFB). The interest rate charged on FFB loans is the Treasury rate plus one-eighth of 1

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 The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) established a new loan and loan guarantee program "Access to Broadband Telecommunications Services in Rural Areas." This program is designed to provide funding for the cost of constructing, improving, and acquiring facilities and equipment for broadband service in rural communities of 20,000 inhabitants or less. Direct loans are made at the cost of money to the Treasury for the life of the facilities financed. Loans may be made at 4 percent to extremely rural communities where broadband service does not currently exist. Loan guarantees bear an interest rate set by the private lender consistent with the current applicable market rate for a loan of comparable maturity and are made for no more than 80 percent of the principal amount.

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, and by assisting rural hospitals and health care centers in gaining access to improved medical care. Building on advanced telecommunications infrastructure, telemedicine projects are providing new and improved health care services and benefits to rural residents, many in medically underserved areas by linking to urban medical centers for clinical interactive video consultation, distance training of rural health care providers, and access to medical expertise and library resources. Distance learning projects provide funding for computers and Internet hookups in schools and libraries and promote confidence in, and understanding of, the world-wide-web and its benefits to students and young entrepreneurs. Loans, made at the Treasury rate of interest and 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 in educational interactive video, Internet, and other information networks.

Program Activity: Telecommunications Loans	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program Level	\$669m	\$669m	\$669m	\$495m
PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Provide modern, affordable telecommunications services to rural communities.				
Number of new subscribers receiving service	188,908	84,739	190,000	133,000
Jobs Generated as a result of facilities constructed with telecommunications funds.	15,387	15,387	15,387	11,385
Number of subscribers with improved service	672,437	328,425	495,000	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).	\$5.7:\$1	\$4.6:\$1	\$5:\$1	\$5:\$1
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Program Activity: Broadband Loans	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program Level	\$100m	\$80m	\$1.455b	\$196.5m
PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Provide modern, affordable telecommunications services to rural communities.				
Number of new subscribers receiving service	78,524	148,419	1,834,779	262,000

Program Activity: Distance Learning and Telemedicine Programs	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program Level	\$26.8m	\$44m	\$327m	\$75m
PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Provide distance learning and telemedicine services, utilizing telecommunications technologies, to rural communities.				
Number of schools receiving distance learning facilities.	590	794	800	140
Number of healthcare providers receiving telemedicine facilities.	236	422	425	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).	\$.94:\$1	\$.78:\$1	\$.8:\$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.
- Addressing special needs of economically distressed regions and those areas with limited resources.

It is the goal of RUS' Telecommunications program financing the deployment a seamless, nation-wide broadband network, where the only thing distinguishing to users is their zip code. Since private capital for the deployment of broadband services in rural areas is not sufficient, incentives offered by the RUS program are more important than ever before. Providing rural residents and businesses with barrier-free access to the benefits of today's technology will bolster the economy and improve the quality of life for rural residents.

The building and delivery of advanced telecommunications networks is having a profound effect on our Nation's economy, its strength, and its growth. 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. While rural America can be defined by various statistics – number of counties: 2,300; or percentage of landmass 80 percent -- the most important statistic is that rural America is HOME to 55 million people. Just as our citizens in our cities and suburbs benefit from access to broadband services, so should our rural residents. In rural America, access to broadband plays a vital role in solving the problems created by time, distance, location, and lack of resources. The promise of broadband is not just "faster access:" It means:

- New educational opportunities through distance learning; – enabling rural students to take virtual field trips to places all over the world, from historic Williamsburg to the Louvre;
- Life saving medical treatment over telemedicine networks – allowing for specialists to guide surgeries hundreds of miles away; and
- Economic growth and new markets -- where businesses prosper and grow locally, while competing nationally and globally over high-speed networks and inter-connecting with suppliers, manufacturers, and consumers to optimize business strategies.

Today's advanced telecommunications networks will allow rural communities to become platforms of opportunity for new businesses to compete locally, nationally, and globally and ensure that no rural resident – from students to parents and teachers, from patients to doctors, or from consumers to entrepreneurs – will be left behind in this new century.

Means and Strategies: Achievement of the FY 2003 and FY 2004 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 the following:

- Build leveraging partnerships to expand resources going to rural areas;
- Where applicable, direct resources to the neediest projects and communities; and
- 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 borrower's 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 from the borrower's loan application.
- All information on the number of schools and health care providers is derived from approved DLT loan and grant applications.

Data to measure the number of loans, loan amounts, number of borrowers, and funds advanced are performance measures that will come from the Rural Utilities 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.

ELECTRIC PROGRAM

Direct and Insured Electric 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.

Hardship Loans 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, extremely high residential rates or large rate disparity, and per capita income levels. Borrowers may obtain 100 percent of their capital requirements from RUS at the fixed interest rate of five percent.

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.

Treasury Rate Loans are made at variable interest rates tied to the Treasury's cost of money.

Loan Guarantees. 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. Historically, power supply borrowers with larger capital requirements have used this program. The interest rate on FFB loans is based on the Treasury's cost of money plus 1/8 percent.

RUS provides only part of the financing needs for most rural electric distribution systems. Borrowers obtain the balance from the private sector. Generally, borrowers supply approximately 40 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.

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.

Program Activity: Electric Program	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program level	\$2.616b	\$4.074b	\$3.97b	\$2.621b

PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Provide modern, affordable electric service to rural residents and communities.				
Jobs created as a result of facilities constructed with Electric funds.	45,000	54,350	59,800	59,800
Number of rural electric systems upgraded.	220	176	187	187
Number of residential consumers benefitting from system improvements (millions).	3.5	2.9	2.9	3.3
Direct program resources to those rural communities with the greatest need.				
Electric loans (number and amount) to borrowers serving persistent poverty counties. (RUS-financed electric systems provide service in 523 of the 540 identified persistent poverty counties) (Dollars in millions).	98 \$829	69 \$893	87 \$824	95 \$810
Electric loans (number and amount) to borrowers 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).	97 \$530	70 \$560	86 \$527	94 \$515

Effectively manage the portfolio to minimize delinquencies and future losses.				
Develop internal processes which strengthen management of the portfolio of electric loans.	Revised Staff Instruction 1717-Y to better 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.	N/A

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.”

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 and 43 consumers per mile of line for municipal utilities. 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, was added to address this concern. The Electric Program staff is currently working with the Office of Management and Budget (OMB) to review current performance measures and revise/add measures that will be more focused on program outcome rather than program output. It is anticipated that any change in the performance measures will be in place for FY 2004.

Means and Strategies: Achievement of the FY 2003 and FY 2004 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. 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 the following:

- Build leveraging partnerships to expand resources going to rural areas;
- Where applicable, direct resources to the neediest projects and communities; and
- 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 that will come from the Rural Utilities 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 : ARural 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 provides 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 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ESTIMATE	FY 2004 ESTIMATE
Program level *	\$14.967m	\$14.96m	\$0m	\$0m

* Funds are appropriated through the Rural Business-Cooperative Service budget. Estimate for FY 2004 is based on the fact that the FY 2003 budget was significantly reduced because communities had not exhausted the funds appropriated. Regulations were not yet published for construction projects, delaying many projects for which funds were obligated. Regulations are now published, so spending rates are expected to significantly increase. The FY 2004 estimate is based on regular levels of funding for Round II communities and yet unfunded Round III communities, and restored funding from FY 2003.

PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Jobs created or saved in EZ/EC and REAP communities.	11,997	6,827	1,000	1,000
Ratio of non-EZ/EC grants to EZ/EC grants.	17.77:1	16.65:1	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 the following:

- 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; and
- Expand the base of knowledge and understanding of the Rural Development mission area employees in economic and community development, evaluation methods and operations, and analyze the social/economic dynamics of rural areas and communities.

Verification and Validation: Jobs created and leveraging figures are obtained through community self-reporting into the web-based automated benchmark management system. 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. Rural Development field employees track news releases and make regular visits to the community to verify project progress.

Goal 5: Effective, Efficient Service to the Public: ARural 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.

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 included under the program goals.

PERFORMANCE GOALS AND INDICATORS	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 TARGET	FY 2004 TARGET
Develop policies and practices which are employee and family friendly.				
Develop common policies with FSA and NRCS in support of the Service Center initiative.	Telecommuting policy document is in the clearance process. Leave and other common policies are on hold pending NFAC decision and guidance on future direction.	Common policies remain on hold pending NFAC guidance on future direction. All three policies had to be rewritten in RD format. All three are now in the clearance process: telecommuting in USEC office, leave and grievance in HR.	N/A	N/A
Provide fair and equitable treatment to all customers and employees.				
Provide civil rights training to employees.	93% of employees not trained in FY 2000 received	Train 100% of new employees.	Train 50% of new employees.	Train 50% of new employees.

	training.			
Reduce backlog of complaints.	36% of complaints filed were closed.	40% of complaints filed will be closed.	25% of complaints filed will be closed.	15% of complaints will be closed. EEOC is lengthening the process by holding hearings in all cases regardless of the merit of the case.
Provide efficient, timely personnel support.				
Implement CAMS.	Basic modules implemented Nationwide.	Completed (Jul-Aug, 02).	Move from client-server to web-based architecture. Implement additional CAMS modules based on NFAC approval.	Implement additional CAMS modules based on NFAC approval.
Implement an automated staffing system.	Participate in USDA evaluation team to assess alternative systems. Participation on-going.	Completed (Apr-Aug'02).	Select a system. Based on USDA guidance or based on NFAC decision and USDA approval.	Implement system.
Enhance and build information systems which support the mission area-s programs. *				
Implement the Rural Utilities Loan (RULSS).	N/A	The proof of concept and the business management requirements were	75% of defined requirements operational.	100% of defined requirements operational.

		completed.		
Implement the new Guaranteed Loan System (GLS).	GLAS System retired. Electronic Data Interchange implemented	93% of GLS web processes are now operational.	100% of GLS web processes operational.	
Develop the Program Funding Control System (PFCS).	Deferred FY 2001 targets to FY 2002.	The commercial software has been purchased. The integration and enhancements will begin in FY 2003.	Begin system changes to meet unique government requirements.	Complete unique system requirements.
Implement the provisions of the E-File legislation.	Implemented web farm. Converted existing forms to web-enabled format.	All legislative mandated dates were met during FY 2002 on schedule.	Begin expanding web-enabled processes to become more business driven and less forms driven.	Continue expanding web-enabled processes to become more business driven and less forms driven.
Manage the mission area-s financial resources efficiently and effectively.				
Percent of disbursements made electronically.	58%	58%	75%	75%
Receive an unqualified opinion on RD-s financial statement.	Received clean opinion .	Received clean opinion .	Receive clean opinion.	Receive clean opinion.
Credit Reform - % of programs with a clean opinion from OIG.	100%	100%	100%	100%
Percent of material FMFIA deficiencies corrected timely.	50%	50%	50%	50%
Reach management decision on OIG financial				

management audit recommendations within 6 months of audit report issuance.	77%	77%	90%	90%
Improve procurement process and effectiveness.				
Increase use of performance-based contracts.	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.	25% of contract dollars contain performance standards.
Expand on-line procurement.	78% were posted to FedBizOpps.	All full and open competition solicitations available on the internet. Both achieved.	Implement the Integrated Acquisition System (IAS) web-based procurement software for 90% of all contracts and orders.	Examine feasibility of using on-line catalogs.

* Accomplishment of the fiscal year 2004 targets is dependent upon funding being provided for these automation initiatives.

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 require 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 improve 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 in 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 the following:

- 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;
- Support 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; and
- 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 2003 **
(Dollars in Billions) (Available Resources)

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
Rural Business-Cooperative Service	\$0.85			\$0.014		\$0.864
Rural Housing Service		\$5.24				\$5.24
Rural Utilities Service			\$4.782			\$4.782
Total	\$0.85	\$5.24	\$4.782	\$0.014		\$10.886 7024 FTEs

SUMMARY OF RESOURCES FOR FY 2004**
(Dollars in Billions) (President's Budget)

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
Rural Business-Cooperative Service	\$			\$		\$
Rural Housing Service		\$				\$
Rural Utilities Service			\$			\$
Total	\$	\$	\$	\$		\$ FTEs

** After FY 2000 the budget proposals provide for a combined S&E budget for all Rural Development agencies. The FTE cannot be shown separately.