

USDA RURAL DEVELOPMENT

**Statement of James M. Andrew, Administrator of the Rural Utilities Service before the
Subcommittee on Agriculture, Rural Development, Food and Drug Administration and
Related Agencies.**

Madam Chairwoman and members of the Subcommittee, thank you for the opportunity to present the President's Fiscal Year 2008 budget for USDA Rural Development utilities programs. We value the work and support you and other members of this subcommittee have provided us so that together we can provide a strong, dependable infrastructure in the rural United States.

A strong rural America is important for a strong nation and rural utilities programs are an important part of the USDA Rural Development mission. Safe, affordable, modern utility infrastructure is an investment in economic competitiveness and serves as a fundamental building block of economic development. Changes in the landscape of rural America, along with developments in technology and changes in market structure, combined with an ageing utility infrastructure, are impacting the electric, telecommunications and water sectors. Without the help of USDA Rural Development's utilities programs, rural citizens face monumental challenges in participating in today's economy, as well as maintaining and improving their quality of life.

The \$43.5 billion rural utilities loan portfolio includes investments in 8,000 small community and rural water and waste disposal systems, as well as approximately 2,000 electric and telecommunications systems serving rural America. This local/federal partnership is an ongoing success story. Eighty percent of the Nation's landmass continues to be rural, encompassing 25 percent of the population. For an economy to prosper, we need infrastructure investment to spur economic growth, create jobs and improve the quality of life in rural America.

Electric Program

The proposal for the Electric Program would provide a program level of \$4.1 billion supported by \$120,000 in budget authority. This level includes a hardship loan program of \$100 million. The FY 2008 budget proposes \$4.0 billion for direct loans made by the Federal Financing Bank (FFB) and guaranteed by the electric program. The \$4.0 billion level includes \$1.0 billion in lending currently made through the Treasury rate program. The only difference between the two sources of funding is .125 basis points. The Treasury Rate program has never been authorized by Congress and we feel some efficiency can be gained by folding the two programs together.

The FY 2008 budget proposes no lending for baseload generation plants. The Administration feels that Government should not be assisting only one segment of the electric industry and also feels there is sufficient capital for financing these plants in the capital markets. The electric program will continue to finance transmission, improvements to existing plants and environmental improvements through the FFB program.

The FY 2008 budget also proposes to eliminate the Municipal Rate program. Many of the borrowers qualifying for this program have opted to accept FFB loans rather than wait for funding from the Municipal rate program.

Telecommunications Program

One of the most dynamic and rapidly changing aspects in rural America is high speed communications. Job growth, economic development, and the quality of life in rural America are directly tied to access to today's high speed telecommunications. We administer the Broadband Loan Program, the traditional Telecommunications Infrastructure Loan Program, as well as Distance Learning and Telemedicine Loan and Grant Programs.

The Fiscal Year 2008 Broadband Loan Program budget proposes a program level of \$300 million driven by \$ 6.450 million in budget authority. The budget proposes that these funds be loaned at a rate of interest equal to the cost of money to the Federal Government.

We continue to reviewing every aspect of the program with a view toward making needed improvements. Proposed regulations to implement these improvements are working their way through the clearance process. Balancing fiduciary responsibility with mission delivery is a vital goal. Making a loan that does not succeed helps neither the borrower, the taxpayer, nor the residents of the communities to be served. A successful project helps everyone and opens the door to economic development and an improved quality of life in rural America.

In the regular Telecommunications Program, the FY 2008 budget proposes a program level of \$690 million. Included is \$145 million in direct 5 percent loans, \$250 million in direct Treasury Rate loans, and \$295 million in Federal Financing Bank (FFB) guaranteed loans. All of this is driven by \$3,620,000 in budget authority.

Rural Telephone Bank

Beginning on April 11, 2006 and ending on September 30, 2006, stock redemption funds were paid to 100 percent (737) of the stockholders of the Rural Telephone Bank (Bank). The funds paid out totaled \$1.43 billion of the private equity in the Bank. This was a part of the dissolution of the Bank called for in the President's FY 2006 budget and authorized by Congress with the passage of the FY 2006 Agriculture Appropriations Bill. This worked very well because of the cooperative work of the rural telecommunications industry, the stockholders in the Bank, members of Congress, including this subcommittee, and the Administration.

Distance Learning and Telemedicine

Distance learning and telemedicine technologies are having as dramatic an effect on the lives of rural residents as any of our programs. This program helps rural schools and learning centers to take advantage of the information age and enables rural hospitals and health care centers to have access to quality medical services only found in large hospitals. The Distance Learning and Telemedicine (DLT) program pulls together the best of Federal assistance and local leadership. The DLT grants are budgeted at \$24.75 million. The President's proposal does not request loan program funding simply because the demand for loans to schools and hospitals

has never developed and funding is available from previous years to support new loans in FY 2008.

Water and Environmental Programs

The Water and Environmental Programs provide the most basic of infrastructure needs for rural citizens: clean, safe, affordable drinking water and ecologically sound wastewater disposal. No element is more vital to human life and dignity as clean, safe water. Rural communities are challenged to provide this vital service while facing increasing regulatory requirements and persistent drought conditions across a large area of the country.

The FY 2008 budget request seeks a program level of \$1.5 billion in loans and grants, costing \$502.779 million in budget authority. The total is divided with \$1.080 billion in direct loans and \$75 million in loan guarantees for the Water and Waste Disposal programs. The direct loan program requires \$153.394 million in budget authority. The budget request also includes \$345.9 million in Water and Waste Disposal grants and \$3.4 million in Solid Waste Management Grants.

The budget request again seeks to change the method of determining the interest rates for the water and waste disposal loan program. The current method uses a fixed poverty rate of 4.5 percent and an intermediate rate halfway between the market rate and the poverty rate. In the past several years, the market rate has been below the poverty rate, so we have had in effect, one rate of interest for all borrowers.

We have proposed a method that establishes the poverty rate at 60 percent of the market rate and the intermediate rate at 80 percent of the market rate. In both methods, the market rate is indexed quarterly on the 11 GO Bond index as published by the Bond Buyer.

This increases the subsidy rate, but will lower the need for additional grant funds. With the grant funds we have left, we will be able to reach deeper to serve the most challenged communities with the least resources. It will not change the budget authority.

Summary

Rural utilities infrastructure programs are interwoven in the fabric of USDA Rural Development programs. To provide safe, clean, water; modern communications; and reliable, affordable electric power means businesses can develop, homes can have light and heat, and markets can be opened to the rest of the world.

Thank you for the opportunity to present the President's Fiscal Year 2008 Budget for USDA Rural Development utilities programs.