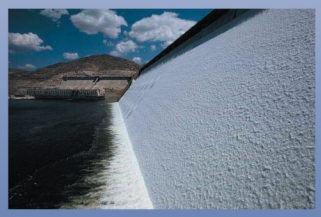
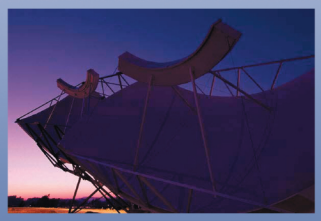
USDA Rural Development
Committed to the future of rural communities.

2003 Rural Utilities Service

Annual Report


INTRODUCTION

A Rural Utilities Service Story

In Smithtown, USA,* Mayor Bill Brown steps out of his office and heads down the street. At the corner as he waits for the light to change, he waves to kids on two school buses turning up the hill to the local elementary school. Doc Thompson's old station wagon rattles by as he heads to the diner for his first cup of coffee and Sally and Jack Reynolds' pickup passes by as they make their weekly trip into town. Mayor Brown chuckles to himself as he compares this Smithtown traffic with the rush hour traffic he experienced when he lived in the big city a few years ago.

He mops the sweat from his forehead, thinking it's going to be another scorcher of a day as summer gears up. But at least the town won't face blackouts like it did last summer. The local electric cooperative was able to secure funding from the Rural Utilities Service to upgrade an essential sub-station earlier this year. And, according to last night's issue of the Smithtown Gazette, the co-op has also been given an RUS loan to install a wind generating system near the peak of Smithtown Mountain. This will supply additional clean renewable power to its consumers and will allow the co-op to be less reliant on more expensive purchased power.

Mayor Brown pauses at the diner to share a cup of coffee with Doc Thompson and his grandson Steve. He is saddened to discover that Steve is having a farewell breakfast with his granddad before he moves away. Steve is a recent college graduate and has just accepted a job with major company in a large city. Steve says he would stay in Smithtown where he grew up, but there just aren't any jobs that are right for him. The Mayor has seen this out-migration for years and even experienced it himself as a young man.

Later, outside the Community Center, Mayor Brown runs into Melissa Alvarez as she heads inside to take a college class by videoconference from State University, 400 miles away. Melissa was going to go away to college but last winter her father got sick and she had to stay home and help her mother with her younger brothers and sisters. However, she is able to take all her classes in elementary education because through RUS' Community Connect and Distance Learning and Telemedicine grants, the town was able to get broadband technology and connect the Community Center, as well as the fire and police departments, library, city hall, schools, and the Smithtown Clinic.

Melissa explains to Mayor Brown that this has really helped her family, not only because she can get her education, but her father is also able to visit with a specialist at a large metropolitan hospital in another State via videoconference on a regular basis, eliminating a physically demanding, 8 hour roundtrip.

As he crosses the town square, Mayor Brown once again runs into Sally and Jack Reynolds as they are topping off the 100 gallon water tank on the back of their truck. The Reynolds are a retired couple who live on the lake about 20 miles away. Every few days they make a trip in for their fresh water supply since their well has become more contaminated over time. Mayor Brown wishes that the local water company was already supplying their area, and notes that the utility is working on RUS funding for an expansion project that would include the Reynolds. But, even though they have to haul their water right now, Mayor Brown is proud that, thanks to the new waste treatment plant financed by RUS, the water they haul is clean and safe.

He fills the Reynoldses in on his family and tells Mrs. Reynolds, a retired schoolteacher, that his 12-year-old daughter, Jill, is spending the afternoon in Paris at the Louvre Museum thanks to an electronic field trip that her class is taking.

As Mayor Brown heads back down the tree-lined street to his office, he reflects on his hometown and the progress that has been made since he pedaled his bike down the very same street as a boy. The town still faces many of the problems that rural towns face-lack of jobs and opportunity, struggles to maintain and build sound infrastructure, and issues of isolation. But, the beauty, friendliness, and sense of community are still apparent.

Mayor Brown hates to see young people leaving Smithtown. The community should be able to attract new jobs because of clean water, affordable electricity, and cutting-edge telecommunications. He hopes companies, like some he has spoken with recently, will make the decision to locate in Smithtown. He looks forward to the opportunities that would arise if a call center opens with 50 new jobs and if a new assembly plant were built, bringing another 30 jobs to town. Then, his daughter, Jill, will be able to make a life and raise her family in the best place on earth!

* Smithtown, USA is a fictitious town and examples used are composites of RUS success stories.

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April 2004

ADMINISTRATOR'S WELCOME

A Foundation Laid

While Smithtown, USA is a fictitious place, its stories are composites from hundreds and hundreds of real, small towns across this country. With 80 percent of the Nation's land mass and 65 million people, the success of rural America's economy is vitally important to the entire country. It is especially of vital importance to the United States Department of Agriculture (USDA), which has an entire mission area devoted to rural development. Rural America has raised some of our best sons and daughters and it is the goal of USDA's Rural Utilities Service (RUS) and its sister Rural Development (RD) agencies-Rural Business-Cooperative Service (RBS), Rural Housing Service (RHS) and the Office of Community Development (OCD)-along with the RD State Offices, to continue to build and improve the infrastructure of rural America so that those sons and daughters can continue to build lives and bring up families where they choose. For more information on RD go to www.rurdev.usda.gov.

In less than 70 years, the dreams held by men and women all across this country to see citizens of rural America given the same opportunities as their urban counterparts-opportunities for affordable electricity, clean drinking water, and the latest technologies-have been realized. These dreams have been achieved because of the teamwork of local citizens, business owners, and the employees of RUS and its predecessors. Working together we have achieved great things for rural America, but the example of Smithtown serves to illustrate that our story has not ended. A new chapter is just beginning. There is much work still to do, and together we will continue to achieve great things.

Building a Strong Rural America

In this annual report we attempt to look back at some of our achievements, and look forward to the future. We have had many successes. It seems each day brings a new story-a real story of a real life that has been touched by an RUS project.

Near Fort Defiance, Arizona, 84-year-old Ruth Woody has a new refrigerator because for the first time in 32 years she has electricity in her home. In the early 70s she and her husband Paul built a new home, only 1 mile from the nearest electric line. They wired the home and even bought a refrigerator. But three decades later, they were still waiting, and the 30-year-old refrigerator had become a kitchen cabinet. In 2002 the Navajo Tribal Utility Authority, with funds partially from RUS, began a 4 year Navajo Electrification Demonstration Project. Ruth now has her refrigerator, others have new radios, kids have lights by which to do homework, but these are small steps as more than 18,000 homes are still without electricity.

In Grants Pass, Oregon, frightened parents brought their 8-week-old baby to Rogue Valley Medical Center because they believed the baby had pneumonia. During the exam, a heart murmur was discovered. Through a telemedicine link funded by RUS' Distance Learning and Telemedicine (DLT) Loan and Grant Program, a pediatric cardiologist at a Portland Hospital was brought in to view an EEG. He decided that in order to save the baby, emergency transportation to Portland was required. The "real-time" consultation made the difference. Before the telemedicine link, tests would have been sent by ground or air, and treatment could have been delayed for hours.

In my own hometown of Columbia, Kentucky, Chris Wilson lives with his family in sight of three water tanks, but had no line to his home. After the spring near his home tested positive for fecal coli, Chris began to carry drinking water to his home in coolers. This past year, RUS funding was announced that allowed Chris to connect to the local water district's system. Now he and his family have clean drinking water.

These are only three of the thousands of lives that are touched each year through RUS funding. Pages are added daily to the RUS story.

Now more than ever we must continue to work for the "family at the end of the line," whether it is a water, telephone, or electric line. Rural America must stop exporting its best and brightest young people because they do not have the tools and the infrastructure to envision their future in the communities where they have grown up. We must continue to make rural America a vibrant place where kids don't have to leave home for the future they deserve. RUS brings rural America to life and life to rural America.

For this, community leaders must create opportunity. Recent graduates, and others, must have jobs. One cannot grow jobs or improve communities without infrastructure. RUS and our partners in USDA Rural Development-Community Development, Rural Housing, Rural Business-Cooperative Service, and our State Offices-have the programs to help rural America with infrastructure. My vision for RUS is that it will be a catalyst for rural economic development, providing infrastructure, using a holistic approach, and emphasizing local responsibility.

As Henry Ford said, "Coming together is a beginning, staying together is progress, and working together is success." Here's to continued success.

Hilda Gay Legg
Administrator
Rural Utilities Service

MISSION AND CHALLENGES AHEAD

Rural Utilities Service Vision

All people in rural America will have access to quality and affordable utility infrastructure.

Rural Utilities Service Mission

To serve a leading role in improving the quality of life in rural America by administering its electric, telecommunications, and water and waste programs in a service-oriented, forward-looking, and financially responsible manner.

Vision and Mission of Rural Development

The vision of the Rural Utilities Service (RUS), a USDA Rural Development (RD) agency, is to work to make sure that rural citizens can participate fully in the global economy - with technical assistance and programs that help rural Americans build strong economies to improve their quality of life.

The two major components for the success of RD's vision are increased economic opportunities and improved quality of life. First, increasing economic opportunities through its program efforts and that of its partnering agencies throughout rural America, RD can improve the flow of capital, hasten the use of new technology, and strengthen the infrastructure, which will increase opportunities of all types in rural America.

Second, by improving quality of life through its efforts and that of its partnering agencies, RD can improve the basic needs of adequate food and housing, essential needs of education and health care, and necessary needs of cultural and recreational experiences.

The results of these two efforts-increased economic opportunities and improved quality of life-will strengthen rural communities and enhance the prospects for all 65 million Americans residing in rural America.

Mission of RUS

The mission of RUS is to serve a leading role in improving the quality of life in rural America by administering its electric, telecommunications, and water and waste programs in a service oriented, forward looking, and financially responsible manner.

This mission continues to be dynamic due to changes in technology, circumstances, and economies. RUS takes a long-term view in defining its mission. We are concerned with all rural Americans and helping them arrive at and maintain an equivalent position with all other Americans.

The staff of RUS believes that our Vision and Mission are as relevant today as they were in the beginning.

In FY 2002 we identified four overall goals to aid us in carrying out this Vision and Mission. From the four goals, 15 projects with 110 separate tasks evolved. Many of the tasks have been successfully completed and we will continue to work to achieve these goals through FY 2004.

These goals aid us as we work to meet many of the initiatives in the President's Management Agenda.

The President's Management Agenda

1. Strategic Management of Human Capital
2. Competitive Sourcing
3. Improved Financial Performance
4. Expanded Electronic Government
5. Budget and Performance Integration
6. Faith Based Initiative

For more information about the President's Management Agenda go to: www.whitehouse.gov/omb/budintegration/pma_index.html.

The Electric, Water and Environmental, and Telecommunications Programs of RUS have a long and successful history of accomplishing RD's mission, RUS' mission, and their individual missions. However, there is still much to accomplish by this agency and its

RUS Goals

Assure That RUS Mission Continually Reflects 21st Century Needs

Optimize Communications/ Outreach Between RUS and Its Constituents and Partners

Obtain and Retain a Highly Motivated, Top-Quality Staff

Structure RUS To Best Promote Efficient and Effective Program Delivery

three financing programs. The funds and technical assistance provided by these programs enable the delivery of high-quality, state-of-the-art services.

Holistic Approach

RUS and RD follow a holistic approach to economic development. We are not interested just in infrastructure. While modern infrastructure can often draw in new businesses, it cannot guarantee the retention of existing residents. Therefore, RUS works with other departments and agencies, especially those under the USDA Rural Development umbrella-Rural Housing Service (RHS), Rural Business-Cooperative Service (RBS), and Office of Community Development (OCD)-to meet overall community needs.

Basic Structure

The Rural Utilities Service (RUS), Rural Business-Cooperative Service (RBS), Rural Housing Service (RHS), Office of Community Development (OCD) and State Offices are parts of Rural Development (RD) in the United States Department of Agriculture (USDA).

For more information on any of these programs:

- RUS - www.usda.gov/rus
- RUS organizational chart - www.usda.gov/rus/index2/RUSOrgCharts.pdf
- RBS - www.rurdev.usda.gov/rbs
- RBS organizational chart - www.rurdev.usda.gov/rbs/oa/oaorg.htm
- RHS - www.rurdev.usda. gov/rhs
- OCD - www.rurdev.usda.gov/ocd/
- State Offices - www.rurdev.usda.gov/recd_map.html
- RD - www.rurdev.usda.gov
- USDA - www.usda.gov
- USDA organizational chart - www.usda.gov/agencies/agchart.htm

RUS has three primary programs: Electric Program, Telecommunications Program, and Water and Environmental Program.

Current Mission of Each Financing Program

The Electric, Telecommunications, and Water and Environmental Programs provide financial assistance through a variety of loan and grant programs. An applicant may be eligible for a variety of loans, loan guarantees, and grants.

- The Electric Program provides assistance for electric infrastructure through: Hardship Loans, Municipal Rate Loans, Treasury Rate Loans, and Guaranteed Loans. For details go to www.usda.gov/rus/electric.
- The Telecommunications Program provides assistance for a wide variety of telecommunications needs through: Hardship Loans, RUS Cost of Money Loans, Rural Telephone Bank Loans, Guaranteed Loans, Distance Learning and Telemedicine (DLT) Loans and Grants, Broadband Loans, Community Connect Broadband Grants, Weather Radio Transmitter Grants, and Local Dial Up Internet Grants. For details go to www.usda.gov/rus/telecom.
- The Water and Environmental Program provides assistance for communities to develop drinking water, sanitary sewer, solid waste, and storm drainage facilities, plus technical assistance and training through: Water and Waste Disposal Loans and Grants, Technical Assistance and Training (TAT) Grants, Solid Waste Management Grants, Emergency Community Water Assistance Grants, and Rural Water Circuit Rider Technical Assistance. In addition, WEP provides the environmental staff support for the entire Agency. For details go to www.usda.gov/rus/ water/index.htm.

Assistance from Support Staffs

The three financial assistance programs mentioned above receive considerable assistance from the RUS Program Accounting Services Division (PASD), which is responsible for providing an independent assessment of the overall operations of these three programs. PASD makes sure that RUS has fulfilled its fiduciary responsibility to the American taxpayers by ensuring that funds loaned by RUS have been disbursed for proper purposes. PASD conducts loan fund and accounting reviews of all electric and telecommunications borrowers.

PASD is also responsible for establishing RUS' accounting and auditing policies and procedures, as well as ensuring consistency and reliability in the financial information upon which RUS' lending decisions are made. Furthermore, PASD provides technical accounting and auditing advice and assistance to RUS electric and telecommunications borrowers, their certified public accountants, and RUS staff to ensure compliance with, and the uniform application of, RUS accounting policies and procedures.

The principal function of the Financial Services Staff (FSS) is to work with RUS borrowers who are having financial difficulties or demonstrate to RUS the likelihood of financial difficulties in the near future which could jeopardize their ability to repay debt service (troubled borrowers). It is the responsibility of the FSS to maximize recovery of the Federal Government's loan funds. As of year-end 2003, FSS is fully responsible for four Electric Program borrowers (three Generation and Transmission systems and one Distribution system) and two Distance Learning and Telemedicine systems, and is engaged in a variety of "wrap up" activities involving two former troubled

borrowers. As each troubled borrower situation is unique, there are no common efficiency or effectiveness measures, and even expected outcomes often shift as circumstances change.

RUS has instituted a Risk Management (RM) Program and established a Risk Management Committee (RMC) made up of executive staff. This effort is coordinated by FSS. Priorities of the RMC include: identifying or addressing risk management issues of concern to RUS; establishing projects to resolve risk issues; creating policy guidelines; and managing the implementation and documentation of any policy, process or procedural changes required.

FSS also coordinates the majority of foreign visitors briefings conducted by the agency.

RUS Highlights

1. Assure That RUS Mission Continually Reflects 21st Century Needs

- Implemented RUS Executive Level Risk Management Program
- Completed Position Paper on Establishment of a Policy & Program Staff to Identify & Analyze Issues that Affect RUS Programs

2. Optimize Communications/Outreach Between RUS and Its Constituents and Partners

- Established Stronger Working Relationships with FERC, FCC, and NTIA
- Assigned Administrator's Staff To Assist in Liaison Efforts with Associations
- Compiled Database of 168 Relevant Trade Associations Contacts
- Interacted With All Major Trade Associations of 3 Programs
- Held State Directors' Luncheon at National Conference
- Involved State Directors for 1st Time in DLT Roll-out
- Began Notifying State Directors & Field Staff of Administrator's Travel
- Met With Each Program's Field Staff
- Developed 1st Agency-wide Annual Report
- Initiated Earlier Involvement of OGC in Program Implementation & Inclusion in Management Staff Planning Assigned Deputy Administrator To Coordinate with RD's Targeted Regional Initiatives
- Worked with Media Outlets to see RUS-Related Articles Published in Chicago Tribune, Washington Post, USA Today, Rural Telecommunications Magazine, Rural Cooperative Magazine and Others
- Provided Field Staff with VPN (Virtual Private Network)

3. Obtain and Retain a Highly Motivated, Top-Quality Staff

- Concerted effort by Administrator To Interact With All Employees To Better Understand RUS
- Embarked on Aggressive Recruitment Efforts to Fill Vacancies, Anticipating Retirements & Expanding Staff Diversity
- Implemented 2 New Strategies of Hiring Personnel-PARA began using Accounting College Co-op Program for recruitment assistance and Electric expanded use of honors list for new hires
- Made Initial Efforts Towards RUS Integrated Training Program with Examples of National Conference & Retirement Training for All Employees
- Initiated Critical Technology Improvements To Enhance Staff Efficiency and Effectiveness
- Administrator Appointed To Serve on Secretary's Diversity Council

4. Structure RUS To Best Promote Efficient and Effective Program Delivery

- Appointed RUS E-Gov Program Committee & Assigned Administrator's Office Staffer
- Appointed E-Gov Program Committee Member to RD E-Gov Steering Committee
- Hosted High-Level OMB Official Presentation at National Conference
- Upgraded RUS Web Site
- Completed Borrower Directory Management System (BDMS) Centralizing Internal Data Entry for Rural Utilities Loan Servicing System (RULSS)
- Added Reporting Mechanism to Generation and Transmission Loan Application Requiring Security Plan
- Added Security Improvements to WEP Project Funding
- Distributed Security Information to Water/Waste Systems Via Drinking Water Clearinghouse
- Developed Homeland Security Workshop Content in Collaboration with National Rural Electric Cooperatives Association (NRECA) and Presented Workshops at Several Conferences
- Worked Jointly With Outside Entities in the Development of Homeland Security Standards
- Collaborated With OGC (Office of the General Counsel) To Identify Strategies To Expedite Review Process

Accomplishments and Goals

From RUS' four goals, 15 projects with 110 tasks evolved. The boxes, marked "RUS Highlights," note some of the accomplishments we have made over the past 2 years toward completing projects and tasks that fulfill these goals.

RUS is looking at ways to streamline some of our processes and seeking ways to attract the current generation to the rewards of government service. We also want to tell our stories of lives touched and communities strengthened.

Given today's current business climate, RUS is looking at techniques to enhance risk management and efficient ways to conduct program analysis. We want to strengthen our Electric, Telecommunications, and Water and Environmental Programs by realizing that RUS is a three legged stool. The strength of each program is dependent on the others.

RUS is looking at approaches to cross-train employees and build teamwork. We are also looking at ways to work within Rural Development with our partners (RBS, RHS, OCD, and the State Offices) and across agency lines, forming working groups and meeting with other agencies that impact our constituents such as the Environmental Protection Agency (EPA), National Oceanic & Atmospheric Administration (NOAA), Federal Communications Commission (FCC), and Federal Energy Regulatory Commission (FERC).

Program Areas

RUS Electric Program

In our Electric Program we processed 197 loans and loan guarantees for almost $4 billion in FY 2003, allowing us to reduce the backlog time by approximately 3 months in some types of loans. The Electric Program helped to finance 31,294 miles of line and 390,523 new consumers for electric cooperatives. In addition, $1.024 billion for new generation and plant improvements, $630 million for transmission, and $71.5 million for renewable energy projects were approved for generation and transmission cooperatives. We also awarded $18.5 million in grant funds for one project and selected another 9 projects in 7 states totaling $14.9 million for funding as authorized under section 19 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 918a). The grant funds are used to provide, develop or improve energy services in rural areas with extremely high energy costs and will also help assure access to reliable energy services.

The Electric Program also assisted in the creation of a new cooperative in Hawaii in FY 2002, making an initial loan of $215 million for this first new cooperative in many years.

In support of the President's National Energy Policy, RUS committed $200 million in loan guarantees for renewable electric generation projects in FY 2003. A total of $71.5 million has been loaned for five renewable energy systems. This funding did not preclude other energy loan applications, but gave priority to the first $200 million in renewable applications in FY 2003. Because of the positive reaction, another $200 million has been committed for FY 2004.

In support of the President's e Gov initiative, RUS, in FY 2002, converted the filing of RUS Form 7 to an electronic version which permitted distribution borrowers to submit this form via the Internet. In FY 2003, RUS provided the generation and transmission borrowers with the ability to submit this form electronically over the Internet as well. The use of the electronic version, which is Government Paperwork Elimination Act (GPEA) compliant except for implementing electronic signatures, has received almost 100 percent acceptance by RUS electric borrowers, who are required to submit this financial and statistical report on an annual basis

Electric Highlights

Electric Program accomplishments over the past 2 years:

- Developed G&T Rapid Fire Process to Expedite Loan Process
- Created Generation & Transmission Lien Machine Process
- Held Workshops in partnership with National Rural Electric Cooperative Association to inform and train G&T personnel and their legal and financial consultants on Rapid Fire and Lien Machine Processes
- Assisted in Creation of a New Cooperative
- Drafted Regulations for New Loan Guarantee Program
- Promoted Renewable Energy Through Staff and Dollars
- Awarded $14.9 million in grant funds to 7 states to provide financial assistance to rural communities with extremely high energy costs

In FY 2003, the RUS Electric Program rolled out two programs in its endeavor to streamline the loan and lien accommodation processes for generation and transmission borrowers. The first program, Rapid Fire, streamlines the loan process by offering standardized financial documents in the loan application, thereby reducing the processing time. The second program, Lien Machine, enables financially secure electric generation and transmission borrowers to obtain quick

approval of a lien accommodation for interim or up-front financing. A similar process already exists for telecommunications borrowers.

RUS Water and Waste Program

In celebration of Earth Day 2002, our Water and Environmental Program (WEP) obligated over $108 million for 46 projects. For Earth Day 2003, the Secretary announced $105 million for 45 projects. In FY 2002 the program also made great strides to reduce its backlog of loans by creating and implementing a strategy to obligate Farm Bill funding of $668 million for 430 projects in less than 3 months. However, the demand for program funds remains strong with approximately $2.2 billion in backlog applications.

WEP Highlights

Water and Environmental Program accomplishments over the past 2 years:

- Increased Earth Day Activities - In FY 2002 announced $108 Million for 46 Projects and in FY 2003 announced $105 Million for 45 Projects
- Signed Arsenic MOA with EPA and an MOA with the Delta Regional Authority
- Created and Implemented Farm Bill Strategy in Less Than 3 Months - $668 Million
- Achieved Record-Low Delinquency Rate Through Increased Oversight
- Launched RD's Most User-Friendly Electronic Program Application Process (CPAP)
- Rated One of Top Performing Federal Programs by OMB
- Established Common Performance Measures with OMB and Other Federal Agencies-Surpassing 3 of 4 Measures
- Increased Utilization of Data Warehouse for Management Reports
- Rewrote and Streamlined 3 Major Regulations, 1 Issued, 2 Now in the Clearance Process

In the spirit of Federal cooperative efforts, a Memorandum of Agreement was signed with the EPA to designate funding for small water systems needing to upgrade because of the Arsenic ruling. In addition, a Memorandum of Agreement was signed with the Delta Regional Authority(DRA) to facilitate delivery of DRA funds in rural America.

The delinquency rate for water loans reached a near historic low of 0.52 percent. The program also graduated 454 borrowers in FY 2002, more than 14 percent of all borrowers, to commercial credit, far outreaching the goal of 5 percent. In FY 2003 the number of graduated loans grew to 500, again far surpassing our annual goal.

As part of the e Gov initiative, WEP launched Rural Development's most user-friendly electronic program application process, called CPAP (Community Programs Application Processing), in FY 2002. Through CPAP, WEP was able to place project information into the data warehouse, and in FY 2003, the data warehouse was used for 100 percent of loans and grants processed in FY 2003. In FY 2003, the Web enabled version of CPAP automatically updated a new system for obligating funds, thus eliminating double entry and improving system accuracy.

WEP anticipates an increasing demand for funding to handle difficult problems brought on by drought conditions in a wide area across the country. We also assisted, and are continuing to assist, small systems with preparation of vulnerability assessments and Emergency Response Plans and anticipate increasing demands for funds for security improvements to water systems. WEP recently issued a revision to the Emergency Community Water Assistance Grant regulations and is working to rewrite and streamline two other major regulations.

In working with the Office of Management and Budget (OMB) and other Federal agencies, OMB established common performance measures. Of the four measures developed, WEP ranked first in three of them.

RUS Telecommunications Program

The Telecommunications Program has been incredibly busy and productive over the past 2 years. Efficiency measures included the creation of an Xpress Loan program for financially strong, repeat borrowers that incorporated a streamlined application process and program review within 15 days. A short form engineering Loan Design was created to be used with Xpress loans.

Building on the success of the Broadband Pilot program, a new Broadband Loan program was implemented in FY 2003. Secretary of Agriculture Ann Veneman, along with RUS Administrator Hilda Legg, announced broadband program details in an interactive videoconference on January 29, 2003. The conference connected sites in Kansas, Mississippi, and Virginia where participants showcased practical, and sometimes life-saving, uses for broadband technology. The event was made available to the public and media outlets through Web casting. A public hearing was held to seek industry input and regulations for the loan program were published early in FY 2003. By the July 31, 2003, deadline for loan applications for FY 2003 monies, we received over $1billion in requests. Two

Telecom Highlights

Telecommunication Program accomplishments over the past 2 years:

- Drafted Broadband Loan Regulations Within 60 Days
- Announced New Broadband Program via Video Conference and Held 1st RUS Public Hearing Seeking Industry Input
- Conducted 22-Site DLT Video Conference Announcing $27 million in grants
- Created Community Connect Grant Program & awarded $31 million in grants
- Created Local Dial-Up Internet Grant Program Created Rural Public Television Digital Transition Grant Program, Developed Regs & Created Website
- Constituted New LOCAL Television Board; Hired CPA Firm
- Commissioned & Completed RTB Privatization Study which was approved by its Board
- Created Xpress Loan and Engineering Design Short Form
- Implemented Team Approach for Program Processes
- Implemented Web-Enabled Form 479
- First Time Any Federal Agency Received Mark Trail Award
- Established Federal Rural Wireless Outreach Initiative with FCC

loans, totaling $55 million, were made in FY 2003. For more information, refer to the site of Telecommunication's Broadband Program: www.usda.gov/rus/telecom/broadband.htm

In FY 2003 the Telecommunications Program also provided more than $32.4 million in funding for 84 Distance Learning and Telemedicine grants. This was the highest yearly total ever awarded.I

RUS also created a new Community Connect Grant Program to award $20 million to bring broadband services to rural areas on a community-wide basis. The program's implementing policies, application materials, and processing procedures had to be developed. More than 300 applications for funding were received by the November 5, 2002, deadline and 74 communities received grants totaling more than $32 million.

In 2002, RUS became the first government agency to receive the prestigious Mark Trail Award from the National Weather Service in recognition of its Weather Radio Transmitter Grant Program which assisted in expanding NOAA weather radio coverage across the United States by investing $5 million to fund 87 transmitter sites. During FY 2002 and 2003, we administered a newly created Local Dial-Up Internet Grant Program which brought first time Internet service to many rural communities.

Firsts continued in FY 2003 for the Telecommunications Program through establishment of the Local Television Loan Guarantee Program. Steps included constitution of the Local TV Board and collaboration with the board to develop program regulations. We also commissioned a study on the privatization of our Rural Telephone Bank, which was presented to and approved by the board of directors at its February 2003 meeting.

Program Efficiency and Effectiveness

These are just some of the ways that the RUS team has worked over the past 2 years, and will continue working in FY 2004 and into the future, for our constituents in rural America. The staff has performed with efficiency, allowing RUS to be an effective catalyst for the improvement of the quality of life for our rural families. It is the spirit of cooperation and teamwork that has allowed us to perform with efficiency and effectiveness and it is teamwork that will ensure that the infrastructure of electricity, telecommunications, and water is in place, enabling the creation of jobs and promoting economic development.

Office of Management and Budget's Performance Elements

The President has committed to a results-oriented government, one that focuses on performance rather than process. The Office of Management and Budget (OMB) has developed at least two mechanisms for measuring program performance-the Program Assessment Rating Tool (PART) and Common Performance Measures for programs with similar goals.

Pursuant to the President's performance initiative, OMB and RUS and its Water and Environmental Program (WEP) have developed Common Performance Measures that involve WEP and three other programs in the Environmental Protection Agency (EPA), the Bureau of Reclamation (Reclamation) in the Department of the Interior, and the Indian Health Service (IHS) in the Department of Health and Human Services. These measures provide a comparison of Rural Water Project Performance. While the details of this study are mentioned in the President's FY 2004 budget and can be reviewed at www.whitehouse.gov/omb/ budget/fy2004, Figure 1 summarizes the first review.

RUS has selected three programs for review in FY 2005 in conjunction with the FY 2006 budget process - the RUS Technical Assistance and Training Grants and the Solid Waste Management Grants in the Water Program, and the High Cost Energy Grants in the

Rural Water Programs - OMB Common Measures

	2001 Funding ($millions)[1]	Water Connections per $ Million		Population Served per $ Million	
		East	West	East	West
Construction Agencies					
Bureau of Reclamation	59	-	21	-	363
Indian Health Service (IHS)	762	174	212	766	933
Financing Agencies					
Rural Utilities Service	493	841	649	1989	1779
Environmental Protection Agency	823	831	764	1913	1655

Figure 1.

Electric Program. In addition, the Distance Learning and Telecommunications Loans and Grants will be included in FY 2004. The evaluation for each program selected was included in the FY 2004 Budget. For further details see:
www.whitehouse.gov/ omb/budget/ fy2004/ pdf/PMA.pdf.

Mission Remains, Strategies Change

Some argue that the original mission of RUS has been accomplished by providing rural Americans with connections to electric, telecommunications, and water utilities. Indeed, most people in rural America receive some type of electric, telephone, and indoor running water service. However, the intent of the underlying legislation for RUS programs is not connections alone. Rather, the intent is to provide Americans-no matter where they live-the opportunity for a basic standard of living and quality of life.

RUS financing allows people the choice of where to live-in rural or urban communities. Utilities are more expensive in rural areas, due both to the cost to build and the revenues needed to recoup costs. RUS still assists its loan and grant recipients in offering quality service, such as reliable electricity when and where needed, modern telecommunications, clean water, and the safe disposal of waste.

On one level, high quality infrastructure enables people to communicate, to power their homes and businesses, and to have water-to drink, use in cleaning, cool electric generation plants, and irrigate crops to feed this country and much of the world.

On another level, this infrastructure improves learning and healthcare through distance learning and telemedicine, providing light by which to explore or read. It creates jobs and allows them to be retained. The services financed by RUS provide the quality of life to help keep people secure where they live, work, learn, and relax.

However, there is still much more to do.

Much of what RUS is currently doing to accomplish its mission involves new strategies. Some of these new strategies are the result of relatively new statutes and regulations developed by other agencies, all of which have an impact on RUS. For example, the Telecommunications Act of 1996, the Communications Assistance for Law Enforcement Act (CALEA), and Federal Communications Commission regulations covering equal access and mandating RUS requirements for State Telecommunications Modernization Plans have meant that RUS has had to implement new strategies.

While changes to the RE Act and the approval of other legislation have resulted in several new financing programs for the agency, e.g., Broadband and Distance Learning and Telemedicine loan and grant programs, RUS has often changed strategies before much of this legislation was even passed. The agency also anticipates and embraces changes in the new technological world in which we operate.

RUS continues to be successful in its mission, but RUS borrowers and grant recipients must maintain their systems and continue to upgrade them. They are experiencing changing economies and circumstances. Furthermore, technology, especially in telecommunications, has changed the face of America. As telecommunications technology expands, with new and better products and services coming to urban markets, rural Americans want to be able to participate, and Federal legislation (notably the Telecommunications Act of 1996) has mandated that they be able to.

In addition, as more research on health is completed, people will no longer accept drinking water with high lead levels or unacceptable amounts of other harmful contaminants. They also understand the dangers of poor waste treatment.

Finally, new and safer ways to generate and distribute electricity are also being developed, including electricity generated from renewable resources.

Rural Americans should be able to enjoy the benefits of these changes, but they may only be able to do so with the financial assistance provided by RUS. Expanding upon the President's economic message that

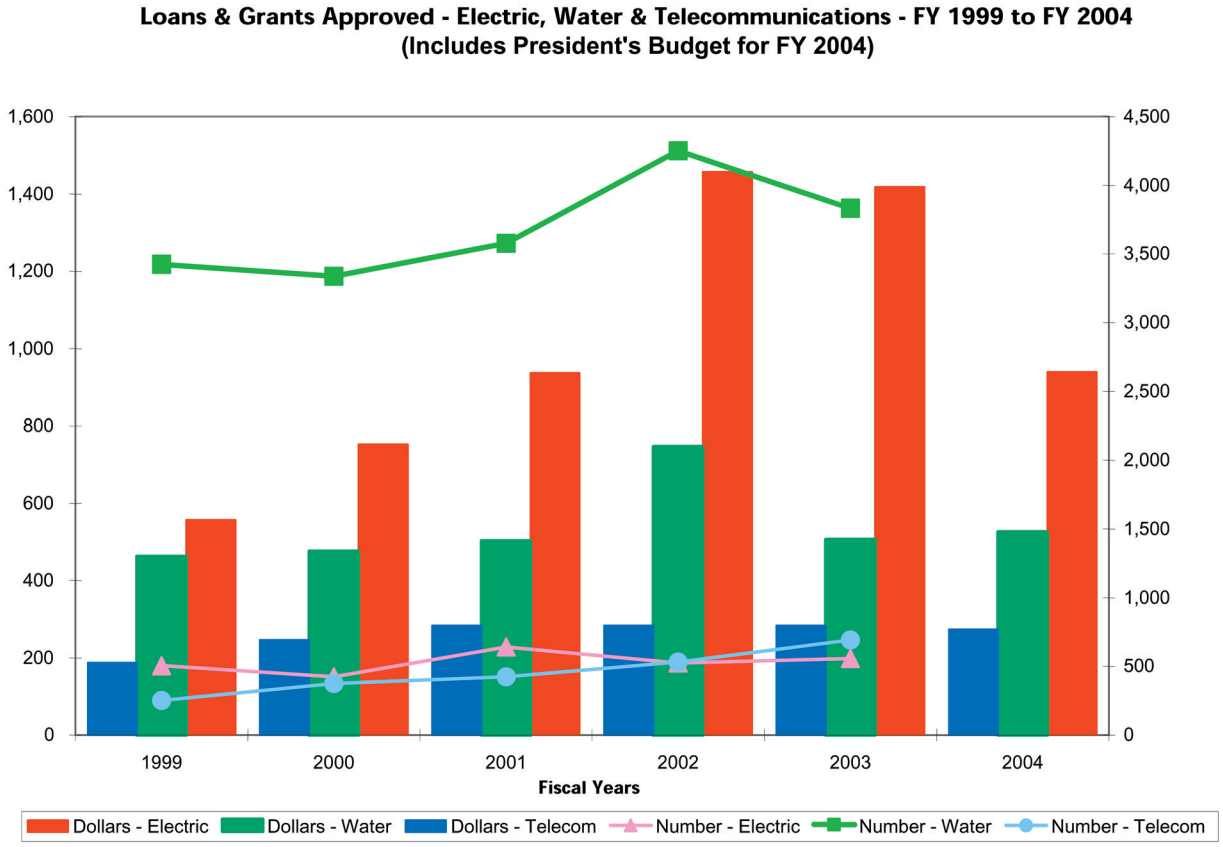
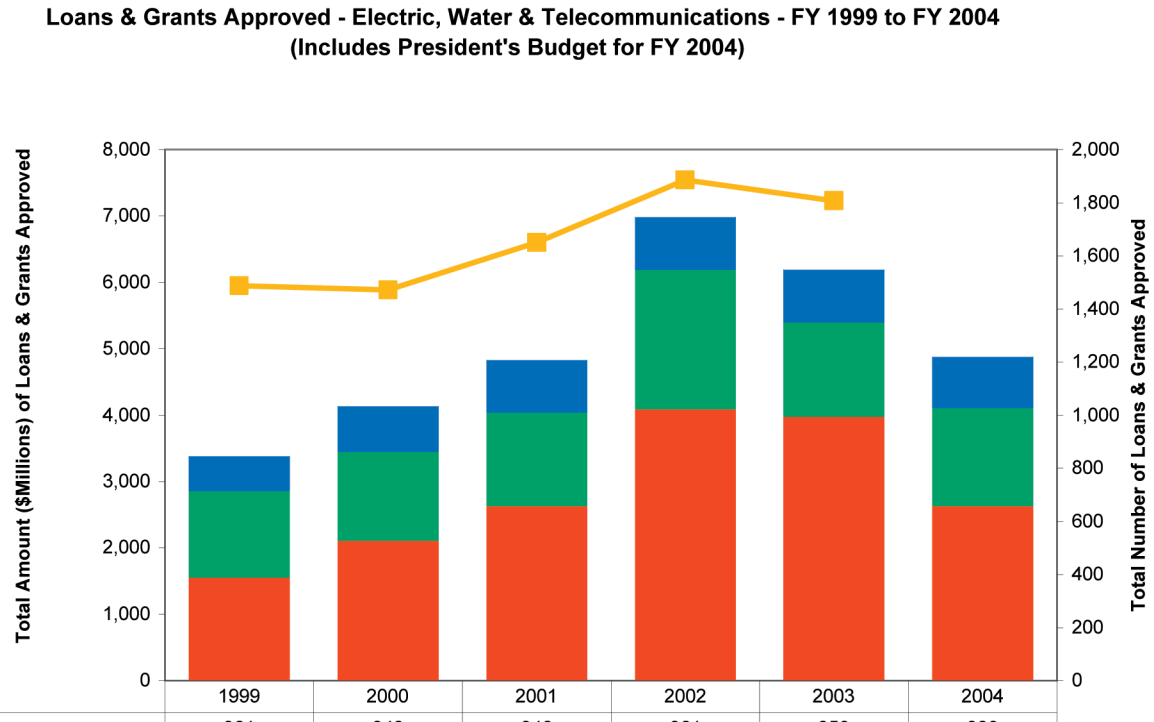


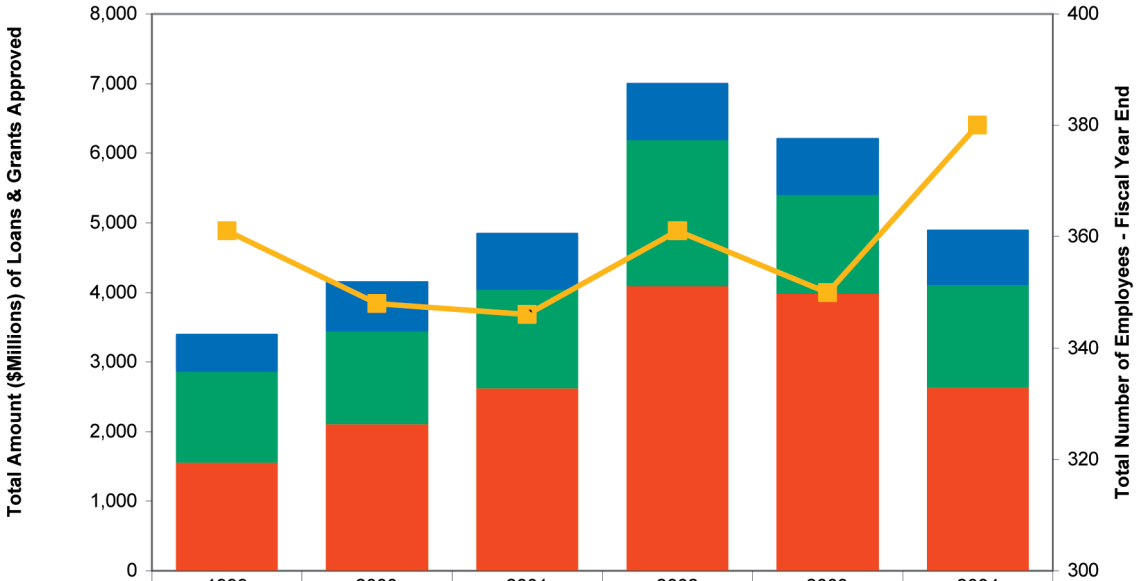
Figure 2.



	1999	2000	2001	2002	2003	2004
Employees - FY End	361	348	346	361	350	380
$ Millions - Telecom	529	695	796	798	795	769
$ Millions - Water	1,301	1,337	1,413	2,100	1,422	1,480
$ Millions - Electric	1,567	2,117	2,636	4,099	3,990	2,640
Number approved	1,487	1,471	1,651	1,886	1,808	

Figure 3.

Loans & Grants Approved - Electric, Water & Telecommunications - FY 1999 to FY 2004
(Includes President's Budget for FY 2004)



	1999	2000	2001	2002	2003	2004
$ Millions - Telecom	529	695	796	798	795	769
$ Millions - Water	1,301	1,337	1,413	2,100	1,422	1,480
$ Millions - Electric	1,567	2,117	2,636	4,099	3,990	2,640
Employees - FY End	361	348	346	361	350	380

Figure 4.

the purpose of a strong foundation is to build upon it, and in order to make sure the economy grows, RUS will again invest billions of dollars in rural America in 2004. Building upon basic, sound infrastructure that it has brought to rural America, RUS will continue to fund cutting-edge technologies by again dedicating $200 million for loans for renewable energy projects and about $1 billion for broadband related programs.

Figures 2 and 3 show the number and amount of loans made by each program for each of the last 5 fiscal years, plus the funds included for RUS in the President's FY 2004 budget and the latest Farm Bill (which adds over $1.4 billion for broadband). The significant increase in the number and dollar amounts of loans and grants approved by the Electric and Water and Environmental Programs in FY 2002 put a significant dent in the backlog of applications those programs have experienced for several years.

Figure 4 shows the consolidated amount of loans and grants made by all of RUS for each of the last 5 fiscal years, plus the funds available for RUS in the President's FY 2004 budget. It also shows the number of employees in RUS at the end of each fiscal year.

Figure 4 also shows the increased productivity of RUS in the last 2 years. In FY 2002 and FY 2003 the number of loans and grants approved increased by 27 percent and 22 percent, respectively, over FY 1999. Likewise, the dollar amounts increased 106 percent and 83 percent. All of this was accomplished with the same number of, or even fewer, employees.

While the Government views grants as a dollar-for-dollar cost, the cost of most RUS loans, since they are based on the cost of money to the Treasury (or a similar standard), is considered negligible. Thus, $104 million of budget authority allowed RUS to provide $5.5 billion in loans in FY 2003 for infrastructure development in rural America.

Through its varied loan and grant programs, RUS has shown that it can efficiently and effectively deliver financing where it is most needed. At the same time, the agency has demonstrated excellent stewardship of the American people's money and trust. Figures 5 and 6 (next page) show (1) how funds are divided among programs and (2) the extraordinary repayment record of RUS' borrowers. Each program has a special reason to be proud.

The Electric Program has demonstrated ability, with considerable assistance from the Financial Services Staff (FSS), to work with RUS borrowers who are having financial difficulties or demonstrate the likelihood of financial difficulties in the near future which could jeopardize their ability to repay debt service (troubled borrowers). It is the responsibility of the FSS to maximize recovery of the Federal Government's loan funds.

Loan and Grant Report Fiscal Year 2003
As of September 30, 2003

Program	Type	Program Level (PL) in $ Millions					Loans, Grants & Other Awards			
		Authorized PL	Obligated PL	Remaining PL	Pending PL	Unfunded PL	Recipients Obligated	Recipients Pending	Recipients Unfunded	By Type Obligated
Electric	Distribution Loans	$2,258	$2,258	$0	$706	$706	176	56	56	176
	G & T Loans	$1,714	$1,714	$0	$1,180	$1,180	21	20	20	21
	High Energy Cost Grants	$45	$19	$26	$137	$111	1	51	42	1
	Total Electric	**$4,016**	**$3,990**	**$26**	**$2,024**	**$1,998**	**198**	**127**	**118**	**198**
Water and Environmental	Total All Loans & Guarantees	$854	$783	$71	$1,422	$1,351	604	778	778	863
	Total All Grants	$643	$643	$1	$685	$684	759	588	588	1,021
	Total Water and Environmental	**$1,497**	**$1,425**	**$72**	**$2,107**	**$2,035**	**1,363**	**1,366**	**1,366**	**1,884**
Telecom	Total All Loans & Guarantees	$2,417	$728	$1,690	$915	($774)	56	82	12	102
	Total All Grants	$68	$68	$0	$70	$70	191	201	200	193
	Infrastructure Loans	$490	$483	$7	$25	$18	50	3	3	60
	RTB Loans	$172	$168	$4	$0	($4)	0	0	0	36
	Broadband Farm Bill Loans	$1,456	$56	$1,400	$853	($547)	2	68	0	2
	BB Community Connect Grants	$32	$32	$0	$15	$15	78	9	9	78
	BB Local Dial-Up Grants	$1	$1	$0	$0	$0	4	0	0	4
	DLT Loans	$300	$21	$279	$38	($241)	4	11	9	4
	DLT Grants	$34	$34	$0	$53	$53	84	160	159	86
	Weather Radio Grants	$1	$1	$0	$2	$2	25	32	32	25
	Total Telecom	**$2,485**	**$795**	**$1,690**	**$986**	**($704)**	**247**	**283**	**212**	**295**
Total Program	**Electric + WEP + Telecom**	**$7,999**	**$6,211**	**$1,788**	**$5,117**	**$3,329**	**1,808**	**1,776**	**1,696**	**2,377**
PARA	**General Support**	$4	$4	$0	$0	$0				
RD O&M	**Salaries and Benefits**	$32	$32	$0	$0	$0				
Total RUS	**Program + Sup. & Funds + S&B**	**$8,035**	**$6,247**	**$1,788**	**$5,117**	**$3,329**				

Some numbers will not add due to rounding. This chart excludes Electric Program's Guaranteed Underwriting Loans, Telecom Program's Public TV Digital Grants, and Telecom Program's LOCAL TV Guaranteed Loans. No funds were obligated for these 3 programs during FY03. See the Appendix for additional details and explanatory notes.

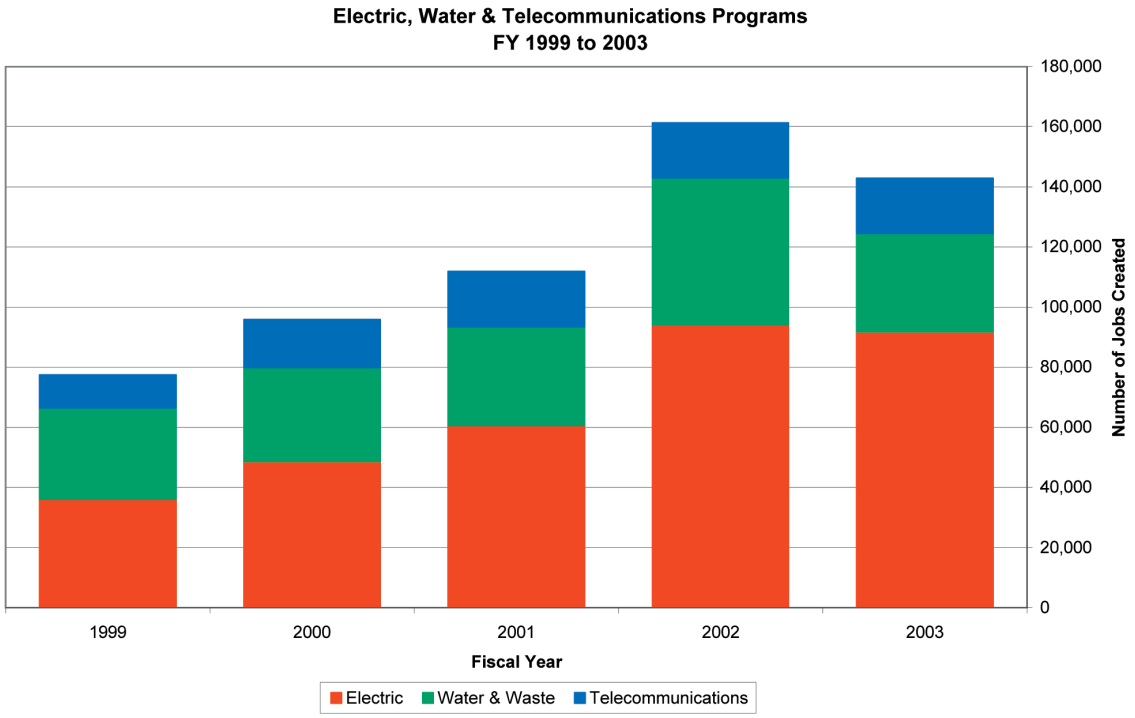
Figure 5.

Rural Utilities Loan Portfolio as of September 30, 2003

Type of Loan	Number of Loans Outstanding	Amount of Principal Outstanding - All Loans	Accelerated Delinquent Principal Balance >30 Days	% of >30 Days Delinquent to Principal Outstanding	Accelerated Delinquent Principal Balance >1 Year	% of >1 Year Delinquent to Principal Outstanding
Direct Portfolio						
Water & Waste	17,085	$7,500,216,032	$36,625,713	0.49%	$15,842,210	0.21%
Electric	7,577	$27,661,491,688	$4,855,724	0.02%	$4,855,724	0.02%
Telecommunications	2,977	$3,584,804,649	$21,430,326	0.60%	$5,044,169	0.14%
Rural Telephone Bank	702	$803,798,170	$1,697,850	0.21%	$0	0.00%
Subtotal RUS Direct	28,341	$39,550,310,539	$64,609,613	0.16%	$25,742,103	0.07%
Guaranteed Portfolio						
Water & Waste	55	$28,921,612	$0	0.00%	$0	0.00%
Electric	25	$515,589,367	$0	0.00%	$0	0.00%
Telecommunications	0	$0	$0	NA	$0	NA
Subtotal RUS Guaranteed	80	$544,510,979	$0	0.00%	$0	0.00%
Total Loan Portfolio	28,421	$40,094,821,518	$64,609,613	0.16%	$25,742,103	

1. Direct Portfolio - Electric includes all Electric Program direct loans, guaranteed FFB loans, and restructured loans.
2. Direct Portfolio - Telecommunications includes all Telecom Program direct loans & guaranteed FFB loans, including all CATV, DLT & Broadband.
3. Guaranteed Portfolio does not include guaranteed FFB loans; they are included under Direct Portfolio.
4. Accelerated Delinquent Principal Balance is the total outstanding loan amount, regardless of the amount actually delinquent.

Figure 6.



Note: The multiplier used in the calculations in this graph was developed in 1987 by the Economic Research Service, USDA. The multiplier was reconfirmed by a representative of ERS in 1996 and 2002.

Figure 7.

The Telecommunications Program has never written off a loan in its traditional infrastructure financing program.

Finally, the Water and Environmental Program has shown a remarkable decrease in delinquencies over the last several years. Figures 4 and 5 provide details.

If RUS money for a proposed loan were replaced with funds from other lenders, many borrowers would face quite a difficult financial future. To meet the extra interest costs, a utility probably would have to cut expenses or raise service rates, possibly leading to a significantly adverse impact on customers.

Cutting expenses by any significant amount invariably results in the decline of adequate service and sometimes the elimination of service. This was the situation before Government financing was available for rural utilities. The larger cities and towns received service, but the smaller towns and more rural areas were left without service. If there was any service at all, it was usually extremely poor quality and cost prohibitive. Without RUS, many places in this country would see the same mounting problem of great disparity between urban areas and rural areas. Most lenders would avoid the high cost rural areas, increasing the spiral of disparity. RUS' mission addresses these discrepancies between urban and rural America.

Changing circumstances are all around us, whether we live in urban or rural portions of the country. Homeland security deservedly is a high priority and electric, telecommunications, and water and waste disposal facilities are integral to that security.

All of the RUS Telecommunications Program's loans and grants, plus most made by the Electric and Water and Environmental Programs, can be considered to improve homeland security through such factors as improved infrastructure (including connectivity, products, and services) and redundant routing. High quality infrastructure is essential for security.

The infrastructure must remain operational. The Telecommunications Program's emphasis on buried plant and RUS' general requirement that recipients of financial assistance meet stringent equipment and construction standards are two ways of helping to assure this. With usable water, waste disposal, electric, and telecommunications systems in place and continuing to operate smoothly, recovery from a natural or manmade disaster is quicker and reduces panic and disruptions to people's lives.

When considering homeland security, one needs to understand the importance of RUS' Weather Radio Transmitter Grant Program that finances NOAA Weather Radio transmitters. While this system of the National Weather Service has long warned of serious weather, natural disasters, and emergencies related to nuclear power plants, it has become an all hazards warning system and is being used throughout the country to warn of many other manmade disasters, such as toxic spills and terrorist attacks. Plus, the system can deliver follow up reports on these situations. Much of rural America still lacks clear reception of NOAA Weather Radio signals, but RUS has been working diligently to correct this imbalance with urban America.

So, as we see significant changes in circumstances, technology, and even the economy in certain areas, the strategies employed by RUS in meeting its mission have changed, but RUS's mission remains.

BACKGROUND

We Are RUS

Modern utilities came to rural America through some of the most successful government initiatives in American history, carried out through USDA working with rural cooperatives, nonprofit associations, public bodies, and for profit utilities. Today, RUS carries on this tradition, helping rural utilities expand and keep their technology up to date, helping establish new and vital services such as distance learning and telemedicine, and assisting rural America to remain a vibrant place in which to live and work.

RUS and these utilities, along with the communities they serve, have forged public private partnerships that result in billions of dollars in rural infrastructure development. This infrastructure assists communities in creating opportunities in areas like education, health care, shopping, and telework, and creates thousands of jobs for the American economy, as shown in Figure 7.

RUS is helping to close the gaps of quality of living and opportunity between rural and urban areas. RUS financial assistance has helped build infrastructure (water and waste disposal facilities, electric service, and telecommunications services) that is modern, high-quality, accessible, reliable, and affordable. This infrastructure revitalizes rural areas and helps communities to create opportunities-in such areas as education, jobs, health care, shopping, and telework-that develop and sustain an extraordinary quality of life.

REA and FmHA Become RUS

The three major program areas within RUS-Electric, Telecommunications, and Water and Environmental-sprang from the Great Depression as New Deal programs designed to help the neediest in America.

The Rural Electrification Administration (REA) was created by Executive Order 7037 on May 11, 1935. About a year later, on May 20, 1936, the Rural Electrification Act of 1936 (RE Act) was approved, providing statutory basis for the agency. For a copy of the RE Act go to ww.usda.gov/rus/index2/rusregs.htm.

Initially an independent agency, REA became part of USDA in 1939.

In 1949, the Telephone (later Telecommunications) Program was created when the RE Act was amended to authorize REA to make loans for the purpose of furnishing and improving rural telephone service.

The RE Act was amended in 1971 to create the Rural Telephone Bank (RTB). In 1973, the RE Act again was amended to establish a revolving fund for insured and guaranteed loans. This started the long partnership with REA guaranteeing loans made by the Federal Financing Bank (FFB). The FFB is a Government corporation created by Congress in 1973 to centralize and reduce the cost of Federal and federally assisted borrowing from the public.

REA's distance learning and telemedicine financing program (refer to www.usda.gov/rus/telecom/dlt/dlt.htm) was established by law in 1990. The Rural Utilities Service was established in 1994 to carry out the electric and telephone programs authorized by the RE Act and water and waste disposal programs authorized by the Consolidated Farm and Rural Development Act.

Federal financing for water and waste disposal facilities began when Congress passed the Water Facilities Act of 1937 as a credit program under the Resettlement Administration in USDA. The law's expressed purpose was to provide loans for farm water systems in 17 Western States where drought and water shortages were chronic hardships during the Depression. The Water Facilities Program (now the Water and Waste Disposal (WWD) Program administered by the Water and Environmental Program (WEP) has come under the authority of several agencies in its history. Eventually, in 1947, the Farmers Home Administration (FmHA) took over. In 1990, the Rural Development Administration (RDA), which was split off from FmHA, began to administer WWD. In 1994, RUS assumed the functions of the water programs from the former FmHA and RDA.

The long-revered Rural Electrification Administration and Water and Waste Disposal Program are now the expanded Rural Utilities Service with the same mission as their predecessors. What started as a single loan program for electric utilities has grown over the last 69 years to include telecommunications and water and waste treatment facilities. RUS now delivers numerous loan, loan guarantee, and grant programs-all for the betterment of rural America.

RUS WILL CONTINUE TO BUILD ON A STRONG FOUNDATION

Involvement with Trade Associations and Other Partners

Each of the three RUS programs maintains good working relationships with relevant industry and trade associations. In some cases, these associations were created in response to the growing number of RUS financed organizations. The three RUS programs also maintain good, close working relationships with numerous technical assistance providers. This includes engineers, accountants, and attorneys who work with, and for, RUS financed organizations. RUS has also partnered with a number of organizations to provide

technical training, including circuit riders for WEP, and to assist in the development of rural utilities overseas. All of these relationships have enabled RUS to stretch its resources and address the needs of additional rural communities.

Borrowers/Customers and Potential Borrowers/Customers

RUS provides loans and grants to many types of organizations, such as cooperatives and other nonprofits, State and local government entities, commercial corporations, limited liability companies, public utility districts, partnerships, Indian tribes and tribal organizations, and consortia. These organizations come in all sizes, from a 50-customer water system, to a telecommunications company providing service to over 200,000 customers, to a generation and transmission cooperative ultimately serving over 3 million consumers. However, only cooperatives and other nonprofits and certain kinds of State and local government entities qualify for all types of financing.

Financial and technical advice and assistance are provided to the applicants and borrowers throughout the loan-making, construction, and system management and maintenance processes, depending upon the type of project being financed and the applicant's level of need. For many rural systems, a project financed through RUS is the first experience board members or local government representatives have with financing and managing a public utility. Due to a variety of changes in the utility industry and the economy, plus the addition of new financing programs, RUS is providing assistance to organizations involved in new ventures that would not have been encountered even 10 or 15 years ago. These ventures include renewable energy projects, such as those involving wind, solar, and biomass, and distance learning and telemedicine projects.

RUS borrowers generally serve the most rural parts of the country, serving about six customers per route mile of line. The utilities serving the rest of the country generally average at least 40 customers per route mile.

Recipients of RUS financing must serve rural areas. What is considered rural can change with the type of financing. Through its combined programs, RUS is serving nearly every rural area in the United States, plus parts of the country's territories and commonwealths (the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands), and the Freely Associated States (the Republic of the Marshall Islands, the Republic of Palau, and the Federated States of Micronesia). Because of the scope of RUS' program delivery, members of every major ethnic group in the country receive service provided through the assistance of RUS.

Potential Alternative Sources of Funds

While RUS has been the primary, and sometimes only, source of financing for many loan or grant recipients, many organizations also use other sources. Probably the most common source is an organization's own internally generated funds.

Also playing prominent roles are CoBank (www.cobank.com), the National Rural Utilities Cooperative Finance Corporation (CFC) (www.nrucfc.org) and its subsidiary, the Rural Telephone Finance Cooperative (RTFC) (www.rtfc.net), the Federal Financing Bank (FFB) (www.treas.gov/ ffb/index.html) for loans guaranteed by RUS, and occasionally other lending institutions.

Further, some RUS loan and grant programs require matching funds from non Federal sources. Additionally, some loan or grant recipients are publicly traded commercial companies that can obtain additional financing through stock sales or bonds. Finally, some State and local government entities issue bonds or use tax funds to cover part of their project costs.

The Rural Telephone Bank (RTB) is currently administered by RUS and loans from RTB are made concurrently and at a set proportion with RUS cost of money loans. RTB is studying how best to privatize and is taking action to do so. Privatization will occur when 51 percent of the maximum amount of Class A stock (stock issued to and owned by the United States) ever issued and outstanding has been fully redeemed and retired.

Aspects of Sources of Funds

One of the greatest concerns that utilities have in today's market is whether additional financing will be available when needed. Like all utilities, those in rural America often are confronted with a need for more funds to meet a sudden jump in customers, a technological breakthrough, or an emergency expansion or replacement of infrastructure. Generally, RUS has been one of the few reliable sources, if not the only source, of long term financing to cover these situations.

RUS provides the needed flexibility for rural utilities. These utilities, by the nature of the areas they serve, encounter very high construction and operating costs per customer. Many lending institutions dismiss these utilities immediately because of the risks. RUS, however, does not dismiss them, because its mandate is to assist exactly these types of utilities and the projects they build and serve. The lower interest rates, usually set at or near the U.S. Treasury rate, enable rural Americans to receive modern, safe, and reliable utility services. Plus, grants play an important role where projects would still be unfeasible even with the lower interest rates.

RUS borrowers receiving certain types of loans or loan guarantees may have additional flexibility in determining whether and when to receive advances of funds and in taking those advances for a variety of short or long terms. By making these decisions, a borrower has additional control over the interest rate on the loan or guarantee.

Finally, RUS has the resources and backing to make loans, loan guarantees, and grants in almost any size as long as they are within the annual appropriation and within certain size limitations imposed by specific financing programs. Local banks, on the other hand, often are restricted in making such loans because of their limited resources and financial restrictions.

Common Technical Standards

The traditional RUS Electric and Telecommunications Programs require borrowers to adhere to certain construction and equipment standards-the use of which has often been shown to reduce costs to borrowers. Furthermore, these standards prove to be of great value in times of natural and manmade disasters.

The standards allow crews from other organizations to quickly assist in making necessary repairs because they are already familiar with the equipment and construction methods. Not only do the crews realize time savings in getting the system operational again, but because they know what they are working with, they also are safer. All of these factors improve homeland security by ensuring quality construction and the ability to quickly address and remedy outages if and where they occur. All three RUS programs also generally require certain standard forms of contracts between loan or grant recipients and vendors, and approval of contracts by RUS.

CONCLUSION

The financing programs of RUS that have been available since the mid 1930s and the ones being added this year all show the value and vitality of what we do. RUS has helped build necessary infrastructure in rural America for decades and continues to do so. Our work has strengthened rural communities and allowed them not only to survive, but also to thrive. Through all we do, RUS, as part of USDA and Rural Development, brings rural America to life and life to rural America!

Appendix

Additional Illustrations

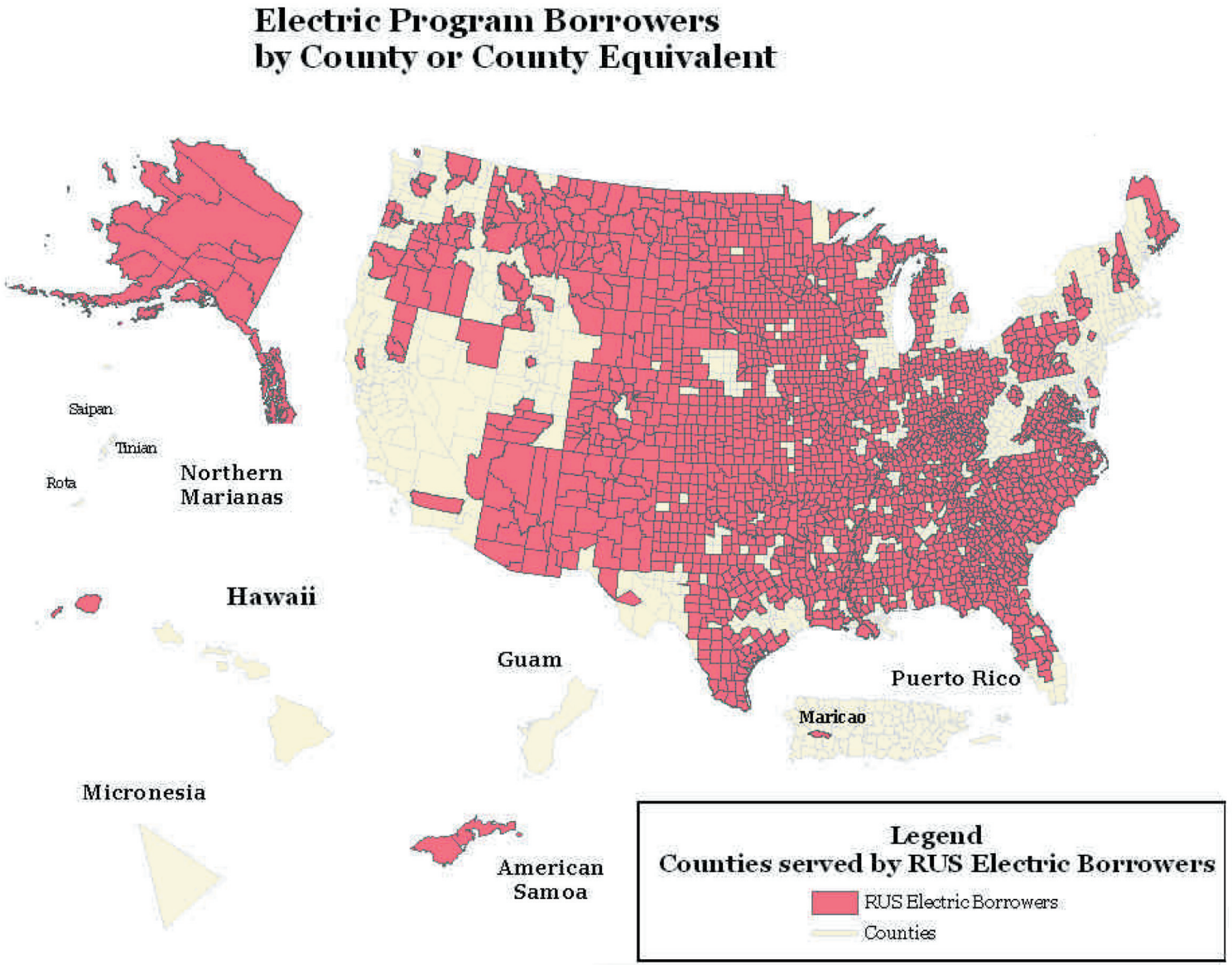
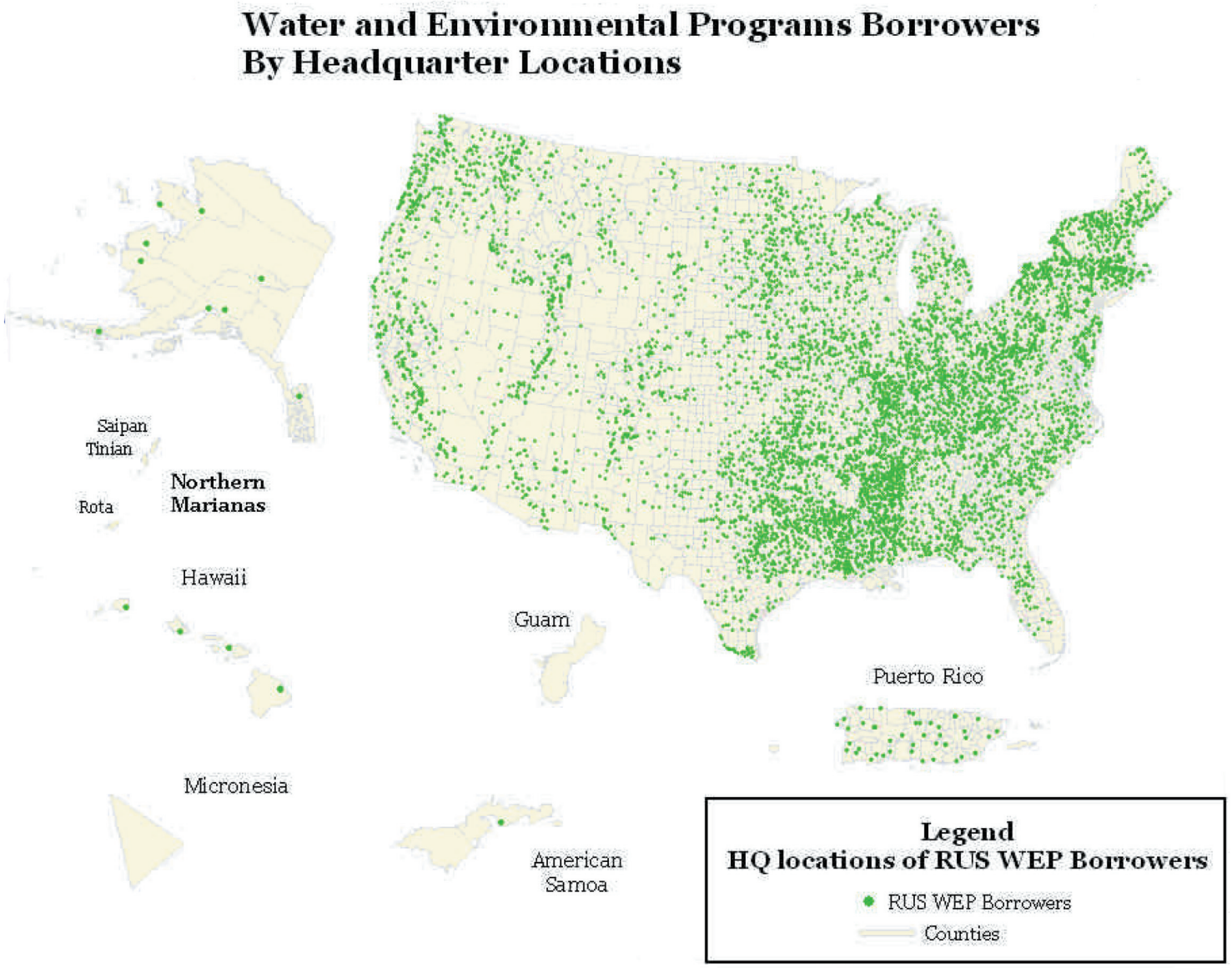

Electric Program Borrowers
by County or County Equivalent
Saipan
Tinian
Rota
Northern
Marianas
Hawaii
Guam
Puerto Rico
Maricao
Micronesia
American
Samoa
Legend
Counties served by RUS Electric Borrowers
RUS Electric Borrowers
Counties

Figure 8.

Figure 9.


Water and Environmental Programs Borrowers
By Headquarter Locations
Saipan
Tinian
Northern
Marianas
Rota
Hawaii
Guam
Puerto Rico
Micronesia
American
Samoa
Legend
HQ locations of RUS WEP Borrowers
RUS WEP Borrowers
Counties

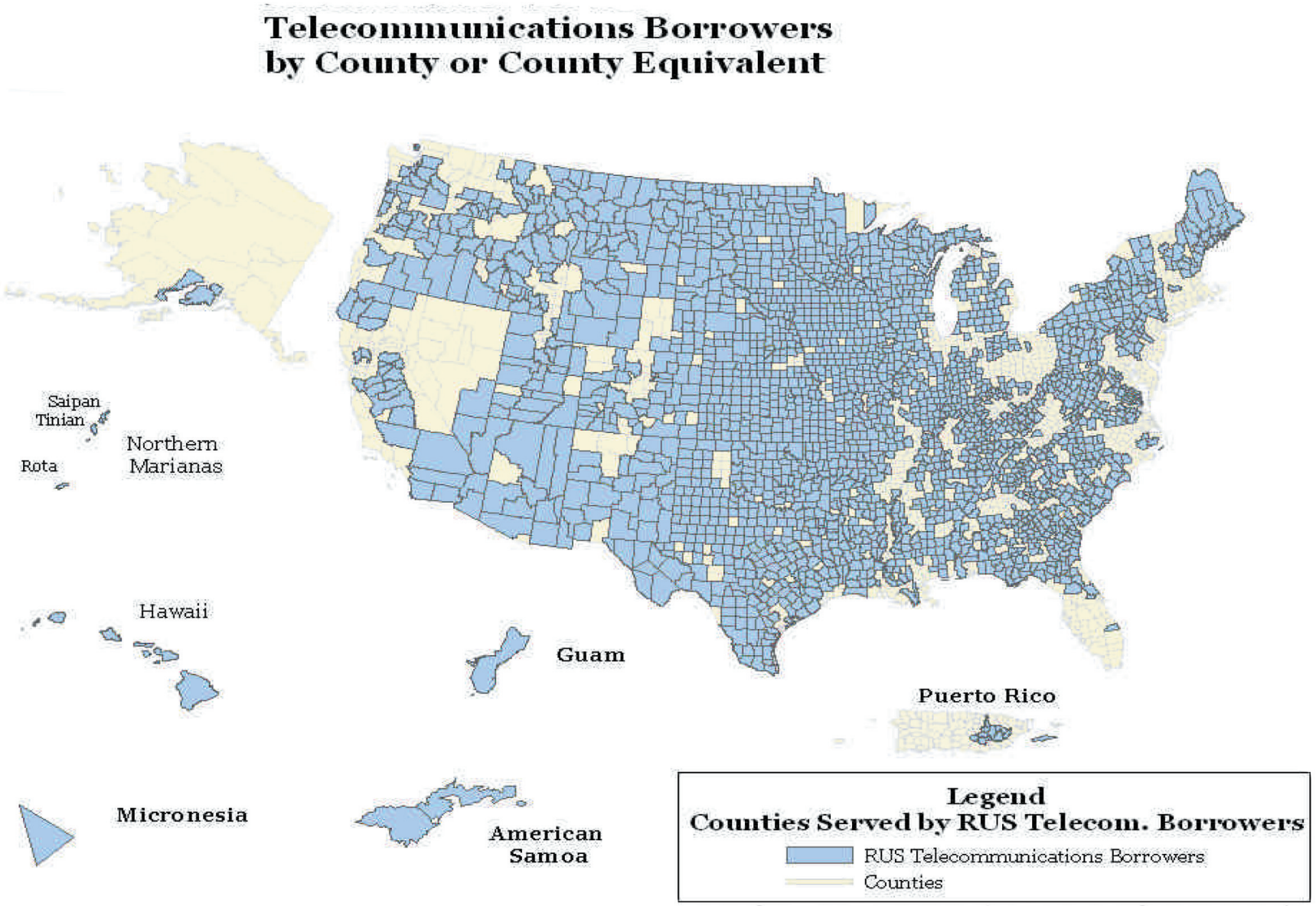

Telecommunications Borrowers
by County or County Equivalent
Saipan
Tinian
Rota
Northern
Marianas
Hawaii
Guam
Puerto Rico
Micronesia
American
Samoa
Legend
Counties Served by RUS Telecom. Borrowers
RUS Telecommunications Borrowers
Counties

Figure 10.

RUS Obligations and Expenditures, Fiscal Year 2003

Program	Type	Budget Authority (BA)						Program Level (PL)					Loans, Grants & Other Awards			
		Authorized BA	Obligated BA Dollars	Obligated BA Percent	Remaining BA	Required BA	Unfunded BA	Authorized PL	Obligated PL Dollars	Obligated PL Percent	Remaining	PLPending PL	Unfunded PL	Recipients Obligated	Recipients Pending	Recipients Unfunded	By Type Obligated
Electric	Distribution Loans	$10,953,337	$10,953,337	100.0%	$0	$9,332,531	$9,332,531	$2,257,711,356	$2,257,711,355	100.0%	$1	$706,283,000	$706,282,999	176	56	56	176
	G & T Loans	$0	$0	NA	$0	$0	$0	$1,713,927,000	$1,713,927,000	100.0%	$0	$1,180,287,000	$1,180,287,000	21	20	20	21
	High Energy Cost Grants	$44,739,000	$18,500,000	41.4%	$26,239,000	$137,345,319	$111,106,319	$44,739,000	$18,500,000	41.4%	$26,239,000	$137,345,319	$111,106,319	1	51	42	1
	Guaranteed Underwriting Loans	$0	$0	NA	$0	$0	$0	$1,000,000,000	$0	0.0%	$1,000,000,000	$0	($1,000,000,000)	0	0	0	0
	Total Electric	$55,692,337	$29,453,337	52.9%	$26,239,000	$146,677,850	$120,438,850	$5,016,377,356	$3,990,138,355	79.5%	$1,026,239,001	$2,023,915,319	$997,676,318	198	127	118	198
Water and Environmental	Total All Loans & Guarantees	$88,348,893	$88,348,893	100.0%	$0	$161,288,448	$161,288,448	$854,090,769	$782,715,768	91.6%	$71,375,001	$1,422,296,719	$1,350,921,718	604	778	778	863
	Total All Grants	$643,379,288	$642,717,932	99.9%	$661,356	$685,022,933	$684,361,577	$643,379,288	$642,717,932	99.9%	$661,356	$685,022,933	$684,361,577	759	588	588	1,021
	Total Water and Environmental	$731,728,181	$731,066,825	99.9%	$661,356	$846,311,381	$845,650,025	$1,497,470,057	$1,425,433,700	95.2%	$72,036,357	$2,107,319,652	$2,035,283,295	1,363	1,366	1,366	1,884
Telecom	Total All Loans & Guarantees	$131,793,468	$4,983,754	3.8%	$126,809,714	$19,160,827	($107,648,886)	$3,484,061,797	$727,623,347	20.9%	$2,756,438,450	$915,277,673	($1,841,160,777)	56	82	12	102
	Total All Grants	$82,877,594	$67,794,103	81.8%	$15,083,491	$70,361,131	$55,277,640	$82,877,594	$67,794,103	81.8%	$15,083,491	$70,361,131	$55,277,640	191	201	200	193
	Infrastructure Loans	$1,422,245	$1,418,801	99.8%	$3,444	$234,783	$231,339	$489,711,520	$482,823,520	98.6%	$6,888,000	$24,880,000	$17,992,000	50	3	3	60
	RTB Loans	$2,371,223	$2,315,915	97.7%	$55,308	$0	($55,308)	$171,827,754	$167,819,904	97.7%	$4,007,850	$0	($4,007,850)	0	0	0	36
	Broadband Farm Bill Loans	$40,000,000	$1,249,039	3.1%	$38,750,961	$18,926,044	($19,824,917)	$1,455,855,856	$56,263,000	3.9%	$1,399,592,856	$852,524,526	($547,068,330)	2	68	0	2
	BB Community Connect Grants	$32,140,047	$32,139,414	100.0%	$633	$14,794,152	$14,793,519	$32,140,047	$32,139,414	100.0%	$633	$14,794,152	$14,793,519	78	9	9	78
	BB Local Dial-Up Grants	$677,157	$677,157	100.0%	$0	$0	$0	$677,157	$677,157	100.0%	$0	$0	$0	4	0	0	4
	DLT Loans	$0	$0	NA	$0	$0	$0	$300,000,000	$20,716,923	6.9%	$279,283,077	$37,873,147	($241,409,930)	4	11	9	4
	DLT Grants	$33,588,176	$33,506,887	99.8%	$81,289	$53,407,346	$53,326,057	$33,588,176	$33,506,887	99.8%	$81,289	$53,407,346	$53,326,057	84	160	159	86
	Public TV Digital Grants	$15,000,000	$0	0.0%	$15,000,000	$0	($15,000,000)	$15,000,000	$0	0.0%	$15,000,000	$0	($15,000,000)	0	0	0	0
	LOCAL TV Guaranteed Loans	$88,000,000	$0	0.0%	$88,000,000	$0	($88,000,000)	$1,066,666,667	$0	0.0%	$1,066,666,667	$0	($1,066,666,667)	0	0	0	0
	Weather Radio Grants	$1,472,214	$1,470,645	99.9%	$1,569	$2,159,633	$2,158,064	$1,472,214	$1,470,645	99.9%	$1,569	$2,159,633	$2,158,064	25	32	32	25
	Total Telecom	$214,671,062	$72,777,857	33.9%	$141,893,204	$89,521,958	($52,371,246)	$3,566,939,391	$795,417,450	22.3%	$2,771,521,941	$985,638,804	($1,785,883,137)	247	283	212	295
Total Program	Electric + WEP + Telecom	$1,002,091,580	$833,298,020	83.2%	$168,793,560	$1,082,511,189	$913,717,629	$10,080,786,804	$6,210,989,505	61.6%	$3,869,797,298	$5,116,873,775	$1,247,076,477	1,808	1,776	1,696	2,377
PARA	General Support	$4,289,312	$4,257,175	99.3%	$32,137	$0	($32,137)	$4,289,312	$4,257,175	99.3%	$32,137	$0	($32,137)				
	Reimbursable Funds	$0	$0	NA	$0	$0	$0	$0	$0	NA	$0	$0	$0				
	General Support & Funds	$4,289,312	$4,257,175	99.3%	$32,137	$0	($32,137)	$4,289,312	$4,257,175	99.3%	$32,137	$0	($32,137)				
RD O&M	Salaries and Benefits	$31,959,064	$31,959,064	100.0%	$0	$0	$0	$31,959,064	$31,959,064	100.0%	$0	$0	$0				
Total RUS	**Program + Sup. & Funds + S&B**	**$1,038,339,957**	**$869,514,259**	**83.7%**	**$168,825,697**	**$1,082,511,189**	**$913,685,492**	**$10,117,035,180**	**$6,247,205,745**	**61.7%**	**$3,869,829,435**	**$5,116,873,775**	**$1,247,044,340**				

(See Notes on **following page.**)

Figure 11.

NOTES for Figure 11: **RUS Obligations and Expenditures, Fiscal Year 2003**:

1. Authorized BA is the amount appropriated by statute.

2. Obligated BA is the amount needed to support Obligated PL (the amount of loans and/or grants approved or other expenses).

3. Remaining BA is the difference between Authorized BA and Obligated BA.

4. Required BA shows how much more BA is needed to support pending loans and grants.

5. Unfunded BA is the difference between Remaining BA and Required BA. A negative number reflects a temporary excess of BA.

6. Authorized PL is the amount appropriated by statute.

7. Obligated PL is the amount of loans and/or grants approved or other expenses.

8. Remaining PL is the difference between Authorized PL and Obligated PL.

9. Pending PL shows the amount of pending loans and grants (or other expenses) that the Assistant Administrator expects could be approved. (BA may not be available.)

10. Unfunded PL is the difference between Remaining PL and Pending PL. A negative number reflects a temporary excess of PL.

11. Loans usually require little or no Budget Authority (BA); grants require BA equal to the amount of the grant.

12. Recipients Obligated are the number of loans and/or grants approved; certain approvals include more than one fund source.

13. Recipients Pending are the number of applications for loans and/or grants on hand, but not approved; they may involve more than one fund source.

14. Recipients Unfunded are the number of unapproved applications for loans and/or grants on hand, for which there is no remaining Program Level; they may involve more than one fund source.

15. Each Recipient represents an entity receiving a loan or grant. A number of fund sources may be included in a loan or grant.

16. By Type Obligated are the number of loans and/or grants approved by fund source.

17. Four WEP guaranteed water & waste loans ($3,625,000) are included on the relevant line for "Obligated PL" & "Loans, Grants & Other Awards."

18. WEP "Alaska Village Grants" includes $998,880 authorized and $516,347 obligated for administration of these grants.

19. WEP "Colonias Grants" includes $1,057,187 authorized and $958,895 obligated for grants approved by RHS for 275 recipients for wells.

20. For Total Water & Environmental - 1,363 recipients obligated, but 1,884 by type obligated (863 loans and guarantees, 1,021 grants).

21. For Telecom Infrastructure & RTB Loans - 50 recipients obligated, but 96 by type obligated (12 RUS hardship, 36 RUS cost-of-money, 12 guaranteed FFB, 36 RTB).

22. For Telecom DLT Loans - 9 recipients unfunded are loan/grant combinations; insufficient remaining PL for DLT grants to approve these combinations.

23. For Telecom DLT Grants - 84 recipients obligated, but 86 by type obligated (2 combination loan and grants show as 2 DLT loans).

24. Some numbers will not add due to rounding.