

RURAL UTILITIES SERVICE

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.

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to present the President's Fiscal Year 2007 budget for USDA Rural Development utilities programs. This is my first appearance before you and I appreciate the opportunity. 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. We consider the rural utilities programs 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 Electric Program budget proposes a program level of \$3.8 billion supported by \$2.7 billion in budget authority. This includes a hardship program level of \$99 million and a \$39.6 million program level for municipal rate loans. The Direct Treasury rate loan program level is proposed to be \$700 million. There is also \$3 billion for the guarantee of Federal Financing Bank (FFB) direct loans. The FFB loans are made at the cost of money to the Federal government plus an 1/8th of a percent. Both the President and Congress have provided very generous loan levels over the past four years and we have been able to eliminate the backlog in loan applications. I believe the President's budget request will meet the demand during the 2007 fiscal year.

To meet the demands of economic growth across our Nation, the need for transmission lines to deliver electric power where it is needed is placing new demands on cooperatives providing transmission service. Last year we predicted that because in the last twenty years no new base load capacity had been built, there would be an increasing demand for power generation and transmission. We are now seeing the first of many applications for those base load requirements. We anticipate making about \$200 million in loans for this purpose in both 2006 and 2007. However, past history has shown that base load is riskier than other projects. We intend to develop a separate subsidy rate that reflects the increased risk and incorporates a fee to offset the cost. Legislation will be necessary to allow for a fee.

Telecommunications Program

The area of rural telecommunications is the most rapidly changing aspect of rural utilities infrastructure. 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 2007 Broadband Loan Program budget proposes a program level of \$356.4 million driven by \$10.8 million in budget authority. This replaces the mandatory funding provided by the Farm Bill for the 2007 fiscal year. Moreover, as a result of decreased subsidies, the President's budget will deliver nearly the same program level as was anticipated by the Farm Bill. When the 2002 Farm Bill was enacted, the mandatory funding anticipated a program level of approximately \$400 million a year. The proposed budget is reflective of the intent of the Farm Bill and as it has turned out, more in concert with the demand in qualified loan applications.

Included in the broadband loans budget proposal is \$29.7 million in direct 4 percent loans requiring \$3 million in budget authority; \$297 million in direct Treasury Rate loans is requiring \$6.4 million in budget authority, and \$29.7 million in guaranteed loans requiring \$1.4 million in budget authority.

We are reviewing every aspect of the program with a view toward making needed improvements. We must continue to balance fiduciary responsibility with mission delivery. Making bad loans helps no one; making successful loans helps everyone.

In the regular Telecommunications Program, the 2007 budget proposes a program level of \$689 million. Included is \$143.5 million in direct 5 percent loans, \$246.7 million in direct Treasury Rate loans, and \$299 million in Federal Financing Bank (FFB) direct loans guaranteed by USDA Rural Development. All of this is driven by \$605,000 in budget authority.

I am happy to report that the dissolution of the Rural Telephone Bank is progressing on schedule. No funds are requested for that program.

Distance learning and telemedicine technologies are having a profound impact on the lives of rural residents. 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 2007.

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 budget request seeks a program level of \$1.4 billion in loans and grants, costing \$514 million in budget authority. The total is divided with \$990 million in direct loans and \$75 million in loan guarantees for the Water and Waste Disposal programs. The direct loan program requires \$164.7 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.

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. We will play our part in building communities from the ground up.

Thank you for the opportunity to present the President's Fiscal Year 2007 Budget for USDA Rural Development utilities programs.