

**RURAL UTILITIES SERVICE**

**Statement of John Padalino  
Acting Administrator,  
Before the subcommittee on Agriculture, Rural Development,  
Food and Drug Administration, and Related Agencies**

Chairman Aderholt, Ranking Member Farr and Members of the Subcommittee, thank you for the opportunity to present the President's 2014 Budget for the Department of Agriculture's (USDA) Rural Utilities Service (RUS).

A strong rural America helps build a strong American economy. To meet the goal of increasing economic opportunity and enhancing the quality of life in rural communities, RUS programs fund basic infrastructure services, including electric, telecommunications and water and waste facilities. RUS infrastructure investment delivers reliable, affordable electricity to power our homes and industries, broadband to expand access to education, healthcare, business and social services in rural areas, and clean, safe water to support healthy rural communities and meet growing needs of rural America.

In Fiscal Year (FY) 2012, RUS financed projects that will provide over 8 million consumers with upgraded electric service, nearly 64,000 rural households, businesses and community institutions with improved access to telecommunications services, and 2.5 million rural residents with modern reliable water and wastewater services necessary for health, safety and economic opportunity.

Business growth in a rapidly diversifying rural economy, combined with tighter environmental standards, have significantly increased program demand. Funding requests for the Rural Broadband Access Loan and Loan Guarantee Programs were down in FY 2012 and 2013 due to the release of new regulations for the broadband program, combined with the uncertainty of proposed Federal Communication Commission changes to the Universal Service Fund. Currently, however, RUS has identified approximately \$254 million in loan applications for

broadband funding program currently in house or being prepared for submission. While the sequester and other budget challenges will affect RUS programs, we will continue to do everything we can to meet growing infrastructure needs of rural areas.

Today, our rural utilities portfolio of loans outstanding is over \$60 billion. While our portfolio balance has increased, the staff level to deliver these programs has declined. The success of these programs is in part due to our ability to work with our borrowers and leverage Federal loans to continue to spur rural economic growth.

### Electric Programs

During 2012, RUS approved 119 loans and loan guarantees for electric infrastructure totaling \$4.7 billion, which included over \$1.7 billion for new or improved distribution system facilities, almost \$1.2 million for transmission facilities, and nearly \$1.4 billion for generation plant upgrades and additions. Generation investments included over \$278 million for renewable generation, over \$175 million for environmental improvements to existing plants, and a \$480 million loan to South Mississippi Electric Power Association to purchase a 15 percent share of a new advanced integrated gas combined cycle coal plant with carbon capture and sequestration. In 2012, electric program loans also financed \$246 million in smart grid investments bringing the two year total to over \$396 million, far exceeding the Department's goal of supporting \$250 million in new smart grid investment in rural communities. USDA investment also advances the Administration's grid modernization commitment with funding for over 20,341 miles of new and/or improved transmission and distribution facilities.

RUS approved four loan guarantees totaling over \$278 million in support of USDA goal to increase use of renewable energy. Three new renewable generation plants will use woody biomass fuel to serve rural electric cooperative customers in Colorado, Hawaii, and Texas. An RUS loan of \$14.6 million to Southern Maryland Electric Cooperative's (SMECO) Solar LLC to build a 5.5 megawatt solar farm will help SMECO meet its State Renewable Energy Portfolio Standard with locally generated, customer-owned solar power.

The budget for the Electric Programs provides for \$4 billion in electric loans. Of the total, \$3 billion will be used to fund renewable energy projects or facilities using carbon sequestration.

The remaining \$1 billion will fund equipment to reduce emissions from utilities that generate power using fossil fuels.

The proposed reduction in funding reflects the demand of borrowers during the last two fiscal years due to lower rates of growth in consumer electric demands and the lingering impacts of the recession.

The budget also does not request funding for the 5 percent Hardship Loans because borrowers can access other programs at a lower rate of interest.

### Telecommunications Programs

Broadband deployment is increasingly seen as providing a path towards increased regional economic development and, in the long term, creating jobs. From our long history of working with companies in rural America and providing capital for broadband infrastructure, we know that many rural areas, due to factors such as low population density and high cost associated with difficult terrain, cannot attract the investment required for a sustainable broadband operation.

To meet the goal of increasing economic opportunity in rural America, RUS programs finances rural telecommunications infrastructure. RUS telecommunications programs, with a combined loan portfolio of \$4.6 billion, help deliver affordable, reliable advanced telecommunications services to rural communities—services comparable to that in urban and suburban areas of the United States. The National Broadband Plan in 2010 estimated that \$24 billion of further Federal investment is necessary to bring all of rural America up to an adequate level of broadband service. RUS will continue to play a major role in closing the urban rural digital divide.

RUS has focused on funding broadband through the traditional telecommunications program, the broadband program and the American Recovery and Reinvestment Act of 2009, which awarded over \$3.4 billion in funding for broadband projects and has helped extend broadband access in rural areas. As a result of the Recovery Act program, over 43,197 miles of fiber and 562 wireless access points have been deployed to serve over 99,424 households, 6,358 businesses, and 640 libraries, educational, healthcare and public service providers across rural

America. In addition, since 2009, the traditional infrastructure program has provided new or improved service for 658,000 rural subscribers.

The 2014 budget for the Telecommunications programs provides for \$690 million in traditional telecommunications infrastructure loans to finance broadband projects for rural telephone service providers and \$63 million through the broadband program authorized under the Farm Bill to fund broadband in rural areas.

The Community Connect program has provided grants to rural communities completely lacking in broadband service, and without the resources to fund access to high-speed internet. The budget requests \$10.4 million to fund these projects.

The Distance Learning and Telemedicine program provides funds to expand access to educational and health care services in rural areas. The budget requests \$24.95 million for this program. Rural areas often lack access to adequate educational and health care services, and the use of technology can deliver advanced placement classes to high school students, and expand the quality of health care through telemedicine projects.

### Water and Environmental Programs

RUS Water and Environmental programs provide the most elemental of needs—access to clean, safe water for rural communities of 10,000 or less in population.

Since 2009 USDA, RUS Water and Environmental Programs has invested more than \$8 billion in new and improved infrastructure that will benefit 4.5 million households and businesses and 12.7 million rural residents. The majority of the funds provided—nearly 70 percent—were loans. The program provides much needed financing to many rural communities, including the smallest and most economically challenged areas that often lack access to commercial credit. In fact, applicants must demonstrate that they cannot obtain financing from commercial lenders or investors to participate in the program. In FY 2012, approximately 80 percent of the projects funded proposed to serve rural populations of 5,000 or less. Approximately half of all projects funded in 2012 will serve communities of less than 1,000 people.

During FY 2012, RUS water programs invested over \$1.4 billion in 845 water and wastewater projects in rural areas nationwide that will benefit nearly 2.5 billion rural residents. RUS also continued the build-out of our Recovery Act projects. Over 395 projects are completed, and nearly all of the remaining projects are under construction, under contract, or are soliciting bids. Many of the 357 projects that are in active construction will be completed this year.

In addition, RUS funded over \$38.5 million in technical assistance and training activities that resulted in circuit riders completing nearly 100,000 technical assistance calls, training for thousands of rural water board members and system operators, and new tools and guides to assist rural water operations.

For FY 2014, the proposed budget for RUS water and waste water loan and grant programs is \$1.5 billion, and includes \$1.2 billion in loan and \$300 million in grant funds. Of that amount, \$36 million is requested for targeted funding, such as projects for Alaskan Natives, Native Americans, Hawaiian Homelands and Colonias. The budget also requests approximately \$16 million in circuit rider and technical assistance and training grant funds.

### Business Process Review and Program Streamlining

RUS programs have been in operation for more than 77 years. During this time, RUS has experienced large increases in program level while continually absorbing staff reductions through attrition. The RUS' growing portfolio includes direct and guaranteed loans and grants. These programs are administered in the field and in Washington, DC. Our staffing levels continue to decline while program levels have increased during the past five years. RUS programs are under a full effort to modernize and streamline its operations and program delivery.

As a result of these challenges, the RUS Electric and the Telecommunication programs have embarked on a business process re-engineering that will include a reorganization of the staff. Significant efforts for operation streamlining have also taken place in the Water and Environmental Programs that are primarily delivered through our State Rural Development Offices. Business process re-engineering is a primary operational goal of all RUS programs. This effort will ensure efficient program delivery, provide investments in staff development, and institutionalize a forum and process for continual process improvement.

As we consider the best way to position limited resources to serve the complex needs of rural areas, we are confident that RUS will successfully implement the programs needed for a thriving rural America. The budget proposal includes targeted investments to support long-term job creation and renewed economic expansion, while taking current economic realities into account.

RUS programs help fund reliable electric power, essential broadband service and clean safe water to help rural communities continue to grow and prosper, and contribute to a stronger economy nationwide.

Along with my colleagues from RBS and RHS, I appreciate the opportunity to testify before the Committee on how USDA Rural Development works to support American competitiveness and growth. I am happy to answer your questions at this time.