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AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2016

WEDNESDAY, OCTOBER 21, 2015

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:01 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Jerry Moran (chairman) presiding.

Present: Senators Moran, Blunt, Cochran, Daines, Merkley, Tester, and Udall.

A REVIEW OF RURAL DEVELOPMENT IN 21ST CENTURY AMERICA

STATEMENT OF HON. LISA MENSAH, UNDER SECRETARY FOR RURAL DEVELOPMENT

ACCOMPANIED BY:
TONY HERNANDEZ, ADMINISTRATOR, RURAL HOUSING SERVICE
BRANDON MCBRIDE, ADMINISTRATOR, RURAL UTILITIES SERVICE
SAMUEL RIKKERS, ACTING ADMINISTRATOR, RURAL BUSINESS-COOPERATIVE SERVICE

OPENING STATEMENT OF SENATOR JERRY MORAN

Senator MORAN. The subcommittee hearing will come to order. Good morning to those in front of us and to my colleague here at the dais.

Today, our hearing is one in a series in which we are focusing on the appropriations process and how it affects agencies under our jurisdiction. This one is attentive to Rural Development (RD) at the U.S. Department of Agriculture (USDA), and we are interested in the strategic investments that are being made and can be made on behalf of rural America and the people who live there.

Thank you, Under Secretary Mensah, for being here, and your three administrators. It is a pleasure to have you here, and we look forward to having a conversation with you about the nature of things that you are undertaking for the benefit of our country, but particularly the rural part of our country.

I particularly, again, would tell you in this public forum thank you very much for your visit to Kansas, and I am glad to hear you say that we treated you well. I would say that you are just being kind and polite, but I know that we did. I know my State.

Agriculture has been a bright spot and continues to be in our Nation's economy, 16 million jobs nationwide. I would say, Madam

Secretary, that one of the primary interests in my running for public office was a belief in rural America and desire to see that it prospers so that we have a chance to have our children and grandchildren raise their families in the places that we in rural America call home. It is something that we cherish, and it is something that we want to make certain is preserved and future generations have that option in their lives.

Rural Development is largely tasked with maintaining and improving that quality of life, and it can be providing loans for low-income families to own their first home, spurring economic development with grants to a small business, providing communities with financing to allow customers affordable utility rates.

Rural Development continues to serve a significant role, and we want to make certain that you have the necessary tools. I always indicate that a constituency of mine is taxpayers. We want to make certain that the money the taxpayers provide you is well-spent, and we are anxious to hear about that today.

PREPARED STATEMENT

Often, where I come from, economic development can be whether or not there is a grocery store in town. Many people in Washington, DC, do not have that experience, do not know how that could ever be an issue. But in many ways, they are some things that are very basic.

Many rural communities today are facing unique and ever-increasing issues related to urbanization and technology. Again, we want to hear what you have to say and work with you to see that good things happen.

PREPARED STATEMENT OF SENATOR JERRY MORAN

This hearing will come to order. Good morning. Today's hearing will focus on Rural Development at the Department of Agriculture and its strategic investments in rural America. Thank you Under Secretary Mensah, Administrator Hernandez, Administrator Rikkers, and Administrator McBride for being here today. Under Secretary Mensah, I enjoyed visiting with you recently in Kansas and hope you will return soon and often.

Agriculture remains one of the bright spots in our nation's economy, supporting more than 16 million jobs nationwide and forming the backbone of our rural communities. For those of us who grew up in rural areas, it is a lifestyle we cherish and hope to preserve for our children and future generations to come. Rural Development is largely tasked with maintaining and improving that quality of life. Whether it's providing loans for low-income families to own their first home, spurring economic development with grants to small businesses, or providing communities with financing to allow customers affordable utility rates,

Rural Development continues to serve a significant role in the nexus between need and opportunity.

In my home state of Kansas, we determine economic development by whether or not your town has a grocery store. Many issues facing rural communities are unique to those areas in an ever-increasing urbanized and technologically-advanced world. I look forward to discussing the Rural Development mission and other relevant topics with our witnesses today. We have a lot to cover this morning, so I will turn it over to Senator Merkley for any remarks he may wish to give.

Senator MORAN. We have a lot to cover, and I will turn to my ranking member, Senator Merkley.

STATEMENT OF SENATOR JEFF MERKLEY

Senator MERKLEY. Thank you very much, Mr. Chair. Thank you for putting together this hearing. It is a pleasure to have all of our witnesses here today.

USDA Rural Development provides a remarkable set of opportunities to improve the quality of life in rural America. Very low and low-income families can receive the assistance they need to become first-time homeowners. Affordable multifamily housing and rental assistance is provided, particularly for very low-income and elderly and disabled rural residents.

Remote rural communities can receive the help needed to construct hospitals, schools, child and elderly daycare facilities, and obtain health and safety vehicles and equipment and other essential community facilities.

Other Rural Development programs include support for clean water and sanitary waste disposal projects and the expansion of high-speed rural broadband, which is critical for our rural communities.

Rural Development is sustaining America's longstanding commitment to ensure adequate and affordable electric service. In addition, Rural Development supports opportunities for the creation and expansion of rural businesses, increasing job growth and income generation.

Here in the Senate, we see these functions of USDA Rural Development as vital. There is strong support on this subcommittee for the work that you do. Of course, not everything always goes perfectly, and this hearing is an occasion for us to make inquiries but also to have you let us know of the difficulties that you are facing and the ways that program delivery could be improved to serve rural America.

We are also pleased that we will be having a second panel, which will provide perspectives on these issues from users, advocates, and interest groups. I want to particularly thank Mr. Tony Chrisman, who came here from Oregon to offer insights from his extensive experience developing and rehabilitating affordable housing for low-income families in Oregon.

So, again, Mr. Chairman, thank you for holding this hearing. I look forward to the testimony.

Senator MORAN. Senator Merkley, thank you very much.

Under Secretary Mensah, we are delighted to have you with us, and we look forward to your testimony now.

SUMMARY STATEMENT OF HON. LISA MENSAH

Ms. MENSAH. Thank you so much, Chairman Moran, Ranking Member Merkley, and members of the subcommittee. Thank you for the opportunity to discuss the program successes and challenges of the Department of Agriculture's Rural Development mission area.

I am accompanied this morning by Mr. Brandon McBride, Mr. Sam Rikkers, and Mr. Tony Hernandez. They are the administrators for Rural Development's Utilities, Business, and Housing programs, respectively.

USDA Rural Development has a loan portfolio of more than $210 billion. Thanks to your support, in fiscal year 2015, our staff provided funding of more than $27.7 billion in rural areas throughout the United States and its territories.

Rural Development is the catalyst for rural renewal. The projects we support create jobs, attract private investment, stimulate entrepreneurship, offer new economic opportunities, and connect rural areas to the world. They ensure that our rural main streets and our rural small businesses matter.

Let me give you a few examples of what Rural Development funding does in a few States.

On my first trip to Kansas, you, Mr. Chairman, and I had the chance to meet USDA Rural Development business development grant recipients like Kansas Main Street. Our grants support locally grown business development in the downtown area of communities, which are so important to rural economies. In Kansas, I was also impressed to hear about the Kansas Fiber Network, a network of rural telephone companies, all rural utilities borrowers, that provide advanced broadband services essential to business growth and stronger rural economies.

This telephone company's network is dedicated to community outreach and business development, but it may not have been possible but for the low-interest loans we provide to rural telecommunications service providers. These affordable loan terms make financing possible for much-needed community investments.

In Montana, we have a very close partnership with private sector entities like community economic development organizations. In my visit to Big Sandy, Montana, which happens to be the hometown of Senator Tester, I had the chance to visit Big Sandy Activities, a center we financed there that helps developmentally disabled people build skills and allows them to live and work in the community. I also saw firsthand how our business and industry guaranteed loan program was used to purchase and restore the Grand Union Hotel, strengthening the tax base and bringing jobs to Fort Benton, Montana.

Rural Development support has enormous impact in small, rural towns. In my home State of Oregon, Imperial Stock Ranch in Wasco County is a family-owned and -operated business that supplied wool for Ralph Lauren designed sweaters. Supported by value-added producer grants, the Carver family has used these funds since 2008 to plan and for capital assistance.

When I asked Jeanne Carver what this program is doing, she explained that it is bringing life back to the textile industry and creating jobs in rural communities.

Our fundamental mission is to support thriving and self-sustaining and prosperous rural communities. The President's 2016 budget, which requests $38.9 billion for Rural Development, proposes to continue this good work.

Every day, nearly 5,000 Rural Development professionals work to help rural businesses provide affordable rental housing and maintain and upgrade infrastructure investments. This work is important to the modernization of rural America and makes rural communities places where young people will want to stay, start families, build businesses, and create futures.

Let me say just a little bit more about our three areas. I want to begin with housing. This is a special point of pride, our housing programs.

Our 2016 rural housing budget of $28.6 billion will continue to help people in rural America, particularly those in greatest need, put a roof over their head. The bulk of this budget, $24 billion, supports private sector lenders in rural America and turns moderate-income rural Americans into homeowners.

Let me say another bit about Rural Utilities Service. Here for over 80 years, USDA has funded basic infrastructure services, which make a significant difference in the quality of life in rural America. These investments keep electricity reliable and affordable, deliver faster Internet service to rural families, and provide clean and safe water for rural communities.

Overcoming geographic and demographic challenges to offer access to robust broadband service is among the reasons that just 50 percent of those living in rural communities have high-speed Internet service. In our fiscal year 2016 budget, the new farm bill Broadband Program proposes $44 million to fund broadband infrastructure, and the 2016 budget for the Electric Program requests $6 billion to continue to provide reliable electric service to rural consumers while making improvements to increase efficiencies.

Let me say another word about our business and cooperative programs. These continue to bring investments and jobs to rural areas. The 2016 budget of just over $1 billion will help continue rural renewal, benefiting not just our rural communities, but growing a stronger economy for the entire country through investment in rural businesses, energy, and entrepreneurial support.

Our 2016 budget requests $75.7 million to provide loans and $5 million in grants to rural small businesses, farmers, and ranchers to purchase renewable energy systems under our Rural Energy for America Program. Expanding investment in renewable energy projects improves the environment and helps create jobs.

This 2016 budget also offers funding to spur development with opportunities through the Value-Added Producer Grant Program, the Business and Industry loan program, and the Rural Business Development Grant Program.

Undergirding all these three programs is the investment we make in our people and our systems. The President's 2016 budget requests $686 million for the salaries and expenses of USDA Rural Development. This is particularly important since Rural Development's loan portfolio has grown to over $210 billion. It continues to grow each month, while staffing levels to manage this growth have not recovered from the declines of the past year.

Congress has provided significant resources to make a real impact in rural places. There is something extraordinary about rural America's ability to survive and thrive. Investments in rural America are investments in our country's future. With your continued support, we can leverage our resources to turn Rural Development's transactional work into transformational work.

I appreciate this opportunity to testify, and at this time, I am happy to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. LISA MENSAH

Chairman Moran, Ranking Member Merkley and members of the committee, thank you for the opportunity to discuss the programs, successes and challenges of the Department of Agriculture's Rural Development mission area. I am accompanied this morning by Mr. Brandon McBride, Mr. Sam Rikkers, and Mr. Tony Hernandez, Administrators for the Rural Utilities Service (RUS), Rural Business-Cooperative Service (RBS) and the Rural Housing Service, respectively.

I am pleased to represent agency mission area with the primary responsibility of creating opportunities and improving the quality of life in rural areas. The investments we make in rural America contribute to rural growth, which is essential to national economic growth. Approximately 15 percent of the population of the United States is considered rural, while nearly 72 percent of our land mass is rural. Rural Development works on a daily basis to support the needs of that 15 percent—the 46 million American citizens that provide the food, fiber and fuel that the rest of the nation—and the world—depend upon.

USDA Rural Development has a loan portfolio of more than $210 billion. In fiscal year 2015 our staff made loans, loan guarantees and grants of more than $27.7 billion in rural areas throughout the United States and its territories. Because Congress has supported our field based delivery structure, Rural Development has staff in every state to make the loans and grants that help our rural communities become stronger and more vibrant.

Rural Development assistance includes direct and guaranteed loans, grants, and technical assistance. Rural Development's work is designed to maximize taxpayer dollars. Often our support is leveraged with private sector financing or is provided as a guarantee to private banks. Recipients contribute their own resources or obtain third-party financing, expanding the level of support we provide to rural communities. During this past year, the total Rural Development leverage—our use of non-Federal funds—was $7.67 billion, or 118 percent of our $6.5 billion goal.

Rural Development is the catalyst for rural renewal: the projects we support create jobs, attract private investment and stimulate entrepreneurship. Our investments build communities, offer new economic opportunities, and connect rural areas to the world. They ensure that our rural Main Streets matter and our rural small businesses matter.

On my first trip to Kansas, I had the opportunity to visit Emporia, and along with Senator Jerry Moran, recognize USDA Rural Business Development Grant recipients. These grants will help recipients like Kansas Main Street Inc. with small business development in the downtown area of communities. The work of Rural Development supports a shared American conviction that locally-grown businesses are important to rural economies and enhance the quality-of-life for rural residents.

In Kansas I was also impressed to hear about the Kansas Fiber Network, a network of rural telephone companies—all borrowers from our Rural Utilities Service Telecommunications program—which provides advanced broadband and telecommunications services—essential to business growth and stronger rural economies. This telephone company's network, which is dedicated to community outreach and business development, might not have been possible but for the types of low-interest loans USDA provides to rural telecommunications service providers. Rural Development's affordable loan terms make financing possible for much-needed community investments.

Every day, 4,600 Rural Development professionals work to help rural business, provide affordable rural housing, and maintain and upgrade infrastructure investments. This work is so important to the modernization of rural America; it connects citizens to broadband; it builds a cleaner future through renewable power and energy efficiency; it reduces child poverty by investing in businesses; it helps manage the growing healthcare needs of an aging population; and makes rural communities places where young people will want to stay, start families, build businesses and create futures.

When I was in North Dakota, Sen. Hoeven and I discussed how critical affordable, reliable infrastructure is to rural America. Economic development investments in infrastructure, business and housing are an important part of building strong, sustainable communities. Oftenthese investments are simply not affordable. Loans and loan guarantees from Rural Development make these projects—which are so vital to rural growth—affordable to these communities.

Recovery Act funding delivered an unprecedented investment in rural areas. Broadband and water and waste infrastructure will continue to improve the quality of life in rural areas for generations to come. Our successful Recovery Act broadband projects mean that Reservation Telephone Cooperative in North Dakota can improve efficiency and security of oil production and pumping through electronic monitoring.

Baca Valley Telephone Company in New Mexico can now provide broadband across its 2,600 square mile service territory, serving some of the most remote farms and ranches in the U.S.

As a result of $3 billion water and wastewater Recovery Act investments, 820 projects are providing cleaner, safer water to 2,883,673 rural residents. This funding provided awardees like Grady County Rural Water in Oklahoma, a new source of water to serve their community. Previously, the water used to serve the district was sourced through Ft. Cobb Lake and often suffered from high iron and manganese content. In addition, several of the district's customers did not have access to a public source of water, hauling water to their homes or businesses or relying on private wells. As a result of Recovery Act funding and RUS' water and wastewater programs, Grady County now has a new water supply to provide clean, affordable water to their customers.

Access to safe, clean drinking water is essential at any time, but especially during drought. Rural Development (RD) is actively working to assist eligible communities facing severe drought conditions. In the past 2 years, RUS has awarded 48 Emergency Community Water Assistance Grants (ECWAG) totaling $18.6 million in California to assist rural communities suffering drought impacts. In fiscal year 14, RUS awarded 25 ECWAG grants totaling $9,730,570 million to rural California communities. The Agency also provided assistance to the City of San Joaquin to upgrade their systems in response to the drought. In fiscal year 15, RUS awarded 23 ECWAG grants totaling $8,870,944 for projects in the state. In addition the Agency awarded four Household Water Well Grants totaling $730,461 to three California non-profits to provide low interest loans to rural residents for individual water wells, particularly in drought- impacted areas.

Rural Development also finances large, long-term loans to develop communities and grow businesses. We invest in smaller, specific projects targeted at the smallest producers. Weprovide financial support for underlying utility, housing and community facility needs of rural communities. These investments are the building blocks for economic development that is so critical to the future of rural areas.

Our Rural Business and Cooperatives Service (RBS), in partnership with other public and private sector stakeholders, promotes rural business and employment opportunities and supports key energy investments that grow rural Americans' ability to compete in the global economy.

One of the foundations of our work here in Rural Development is the close partnership we've developed with private sector entities like community and economic development organizations. Senator Tester and I visited several Rural Development projects, including Big Sandy Activities—a center that helps developmentally disabled people build skills to allow them to live and work in the community. I saw firsthand how our Business and Industry Guaranteed Loan program was used to purchase and restore the Grand Union Hotel in Fort Benton. This loan helped restore the Hotel, built in 1882, strengthening the tax base and bringing jobs to Fort Benton. Rural Development support has an enormous impact in this rural town.

The same B&I program provided DeVilbiss Healthcare, LLC with a loan to purchase equipment and machinery and to transfer manufacturing operations from China back to the United States. DeVilbiss manufactures and distributes respiratory medical devices and products such as nebulizers, oxygen concentrators, and continuous positive airway pressure equipment. The financial assistance preserves 92 jobs and creates 20 new jobs in rural Pennsylvania. These projects not only help rural businesses grow, but help reverse recent rural outmigration trends.

Loans and grants from our Rural Housing Service and Community Facilities Programs (RHS and CF) support rural residents and the communities in which they live. Congress has defined for us a powerful set of housing and community development programs to ensure that rural families can live in safe, affordable homes and thriving communities.

Rural housing programs anchor communities and play a key role in creating and sustaining wealth through home ownership. When a mobile home park in Shelburne, Vermont went up for sale, community leaders came together to ensure affordable housing would still exist downtown. Thanks to a $1 million RHS loan, the Shelburne Vermont community now has the Wright House —one of five apartment buildings in Harrington Village, an affordable housing community that is home to over 36 senior citizens and persons with disabilities.

Our tribal investments support a wide range of needs in Native American areas. At the beginning of October, I was in North Dakota on the Spirit Lake Reservation to announce Rural Business Development Grants to create a business incubator in a renovated mall that would provide jobs and entrepreneurial opportunities. Rural Alaskan Village Grants are building water and waste systems, making communities safer and increasing the quality of life in remote Alaskan communities. High Energy

Cost Grants deliver cleaner and more cost effective energy sources across the country. Projects announced in September will benefit a number of Alaskan Natives and Native American areas, such as the project to install wind turbines in the St. Francis community of the Rosebud Sioux in South Dakota.

These are just a few of the many projects in which Rural Development is proud to invest. Our fundamental mission is to support thriving, self-sustaining and prosperous rural communities. Without RD funding, many rural communities could not make the investments to help them grow and prosper in the years ahead. Without these programs, rural communities would lack access to basic housing, safe water, broadband, and support for rural small business. Yet we know we have more to do.

We are committed to working with partners to best serve rural areas. We understand that solid public-private partnerships and well-placed intentional investments can—quite literally—mean life or death for some communities.Because of the funding you provide to us—$38.3 billion in 2015—people who live in rural places today see historic opportunities in sectors such as local and regional food systems, emerging markets, the bio-economy, and manufacturing.

The President's 2016 budget, which requests $38.9 billion for Rural Development—proposes to continue that work by giving priority to investment in rural businesses that want to take advantage of emerging markets as well as focus resources in areas of greatest need. Rural Business- Cooperative Service—A Force for Rural Jobs and Revitalization.

USDA's Rural Business-Cooperative Service (RBS) continues to bring investments and jobs to rural areas. The 2016 budget requests over $1 billion to help continue this rural renewal—benefitting not just our rural communities, but growing a stronger economy for the entire country through investment in rural business, energy, and entrepreneurial support.

The 2016 budget requests $75.7 million to provide loans and $5 million in grants to rural small businesses, farmers and ranchers to purchase renewable energy systems and increase energy efficiency through the Rural Energy for America program. Expanding investment in renewable energy projects improves the environment and helps create jobs, ultimately offering opportunities to enhance prosperity in rural areas.

Today, we are using lessons learned from our lengthy experience in rural America to help communities capitalize on emerging opportunities in the 21st Century economy. Consider our work in the rapidly expanding area of local and regional food systems. USDA's "Know Your Farmer, Know Your Food" initiative provides tools and resources to farm and food businesses, including those run by women, people of color, and veterans as they tap into the growing market for local food. Rural Development is helping connect these rural businesses to new market opportunities with business planning assistance, infrastructure development and our boots on the ground to leverage resources and get the deals done for these businesses. In the last 3 years alone, we have supported over 600 local food businesses as they diversify and reach new markets.

For example, a Poplarville, Mississippi resident and veteran of the wars in Iraq and Afghanistan, launched a hydroponic agriculture operation. Funded in part by RBS, an "Armed to Farm" workshop helped this new farmer better manage the business side of his operation. After shadowing other agribusinesses, he says he now feels more confident about the future of his company, SmithPonics.

This 2016 budget offers funding to spur development of products and opportunities for rural business innovation with the Value Added Producer Grant Program, the Business and Industry loan program and the Rural Business Development Grant Program.

Throughout my travels to rural communities, it was clear that addressing the challenge of outmigration and giving our rural children opportunities to stay and use their skills to earn a living in their communities was extremely important to local community leaders, family members and businesses. I know this can be done. Imperial Stock Ranch in Wasco County, Oregon is a family-owned and operated business that supplied wool for Ralph Lauren-designed sweaters worn by United States athletes at the Sochi Winter Olympics. They also launched a "ranch-to-runway" line of clothing with award-winning fashion designer Anna Cohen. They did all of this nearly three thousand miles removed from the frenetic pace of New York City's fashion district. The Carvers have benefitted from USDA's Value-Added Producer Grant (VAPG) program since 2008, using funds for planning and capital assistance. Our VAPG program—one of nearly 50 programs and services administered by Rural Development—is breathing life back into the textile industry and creating jobs here in the United States.

RURAL HOUSING SERVICES—ANCHORING COMMUNITIES WITH HOMES AND ESSENTIAL FACILITIES

A special point of pride for Rural Development is our housing programs. Since 2009, Rural Development has helped more than 900,000 rural families buy, repair or refinance a home and provided funding for 3,000 multi-family housing developments. Access to safe, modest, affordable housing is vitally important to the health and growth of rural areas. Helping to make the American Dream a reality is a tremendous responsibility. I am delighted that through our housing programs are often stepping stones on the journey to homeownership which will help build wealth and security for rural families. We offer one of the best home mortgages in the United States and boast a low default rate.

The 2016 Rural Housing budget of $28.6 billion will continue to help people in rural America, particularly those in greatest need, put a roof over their heads. The bulk of this budget—$24 billion—supports private sector lenders in rural America by guaranteeing the mortgages they make to help moderate income rural Americans become homeowners. Another vital part of our housing program provides rental assistance to low-income people who live in USDA-financed multi-family housing. In fiscal year 2016, Rental Assistance of nearly $1.2 billion will help create a sustainable program to offer rural residents—most of whom are seniors with fixed incomes—the security and peace of mind of a safe and affordable place to live. We have worked hard to address challenges of providing sustainable rental assistance to those who rely on this program, and I am optimistic that continued efforts and investment will lead to a stronger program to better serve rural residents.

In this, the 50th year of Rural Development's Mutual Self-Help Housing Program, we also completed 50,000 homes through partnerships and sweat equity. In fact, several Members of Congress and congressional staff participated in self-help builds this year to help us mark this important milestone.

Rural Development is committed to continually testing new ways to address housing needs in rural America. The USDA Energy Efficiency Manufactured Home Pilot Program was introduced this summer in New Hampshire and Vermont. A low-income home buyer interested in purchasing a high-performance modular home and placing it in a mobile home park would be eligible for a 30-year mortgage at a 3.25 percent interest rate. Very low-income home buyers may be eligible for an interest subsidy down to 1 percent. The mortgage is the first of its kind for residents of mobile home parks, where home buyers face high interest rates, short loan terms and high energy costs.

The Rural Housing Service (RHS) continues to make tremendous gains to its systems and processes—and recently took on a decade of needed upgrades. As of this spring, our guaranteed Single Family Housing loan program is now paperless. Not only are we saving 37,500 reams of paper every year, we've lowered postage costs, saved printer ink, and are moving loan guarantees out the door much more quickly and making our programs easier for our customers to use.

We are also in the process of modernizing the delivery of the Single Family Housing direct loan program through automation. Beginning fiscal year 2016, RHS will implement an automated underwriting system nationwide, permit third parties to submit applications electronically, and move from paper-based to electronic customer files. These improvements will provide underwriting consistency nationwide, additional security features, and the ability to seamlessly transfer work when states experience increases in applications.

The men and women of USDA take seriously the responsibility of supporting those who live and work in small towns and rural communities. They have worked hard to reduce backlogs, increase efficiencies and reduce program costs. These successes include the Single Family Housing Guaranteed Loan Program, which significantly decreased the amount of time staff spends processing a guaranteed loan request and save millions of dollars in cumulative operational and administrative cost each year. These time and cost-saving processes make it possible for government programs to continue manage a growing portfolio and meet mission goals with smaller operating budgets and reduced workforce.

From fiscal year 2012 to fiscal year 2014, Rural Development invested in 335 Public Private Partnership community infrastructure projects across rural America in 49 states. RHS leveraged over $3.5 billion in community facilities direct loan funds from 2012 to 2014, with $1.2 billion from institutional investors and the capital credit markets to strengthen investment in critical infrastructure projects, spurring economic growth and job creation, and increasing access to healthcare, education and other critical services. The 2016 budget request of $2.3 billion for the Community Facilities (CF) program would enable 13.7 million residents to benefit from improved health, safety and educational facilities. Services such as those provided by

Pikeville Medical Center in Kentucky, which offers healthcare to patients from persistently poor areas, can grow. Pikeville Medical Center used the CF program to construct a new medical office building containing research facilities, outpatient surgery suites, endoscopy facilities, physical exam space, labs and lecture halls.

Building on this success, and working with others to understanding the needs of the region, Rural Development partnered with the University of Pikeville, the Appalachian Regional Commission, and the U.S. Economic Development Administration by providing a $40 million Community Facilities loan for the construction of a health professions education building to provide instruction and demonstration for the new College of Optometry, School of Nursing, and other student support services. This funding enabled USDA to establish a Public-Private partnership for the new facility.This partnership resulted in a facility that added 75 jobs to the local economy and created a distributed community-based clinic model that added an additional 25 to 30 jobs in local clinics. In addition, the facility brought new services to the region, as previously there was no College of Optometry serving that state or many of its neighbors.

In communities like Pikeville, public private partnerships have bought together critical resources, innovative capacity, financial expertise, project development skills and technical assistance, to large complex community infrastructure projects at a time when RHS staff resources have been reduced. They have strengthened underwriting with another set of eyes, reducing RHS credit risk and providing a long-term partnership for servicing loans and communication with the borrower. Most importantly, these partnerships allow USDA to assist more rural communities, invest in vital community facilities, and help more rural residents.

In other rural areas, we are supporting organizations that are addressing more basic needs and on the front lines of the fight to alleviate poverty. Second Harvest of South Georgia is a non-profit that feeds hungry people in 30 Georgia counties and is the largest in Georgia outside of the Atlanta metro area. USDA provided funding through a $5.2 million Community Facilities loan to build a distribution facility in Thomasville that produce up to 10,000 meals a day for South Georgia residents in need.

THE RURAL UTILITIES SERVICE—INVESTING IN INFRASTRUCTURE FOR A MODERN RURAL AMERICA

For over 80 years USDA has funded basic infrastructure services, which make a significant difference in the quality of life in rural America. Rural Utilities Service (RUS) investments keep electricity reliable and affordable and deliver faster Internet service to rural families and to businesses, allowing them to compete in the global economy. Our water and wastewater programs provide clean, safe water to help healthy rural communities grow and prosper.

We are proud of the work of RUS to deliver much needed broadband infrastructure in the past 5 years. Because of the Recovery Act Broadband Improvement Program, RUS was able to successfully invest nearly $3 billion in 254 projects in 45 states and territories to deliver high speed Internet to rural areas unable to draw competitive for private service. As companies build out these services 260,000 rural households, 17,500 businesses and 1,900 schools, libraries and healthcare facilities have new service with potential for exponential growth in the future. Loans under this program have been extremely successful.

We know we still have work to do. Overcoming geographic and demographic challenges to offer access to robust broadband service is difficult and among the reasons that just 50 percent of those living in rural communities have high speed Internet service. The fiscal year 2016 budget request for the Farm Bill broadband program seeks $44 million to fund broadband infrastructure in rural areas. RUS received 15 requests for $118 million in funding for a $55 million program, demonstrating the need to bring high-speed Internet to rural areas.

The White House in September released a report on ways to continue to bring broadband to unserved areas. We are beginning work on those important next steps of getting robust broadband service available to all who live in rural areas, not just the 50 percent who currently benefit from access to high-speed Internet.

We believe that all RUS programs that fund broadband will be an important resource in this effort, which is why the 2016 budget is requesting $65 million, an increase of $30.2 million over fiscal year 2015, for broadband access in rural communities that are least likely to have broadband infrastructure needed for economic development.

The 2016 budget request for the RUS electric programs is requesting $6 billion to continue to provide reliable electric service to rural consumers.

INVESTING IN THE PEOPLE AND CORE SERVICES THAT MAKE RURAL DEVELOPMENT INVESTMENTS POSSIBLE

All of the good work of Rural Development is only possible because of the people who do this work. After years of retrenchment we are carefully rebuilding or staff and making sure they have the right tools to be strong partners in rural America. The President's 2016 budget requests $686 million for the salaries and expenses of USDA Rural Development to support the delivery of the direct and guaranteed loans and grants, technical assistance and economic development strategies outlined above. In addition, this investment in our people will help us continue to provide quality service not just in our national office, but in the field, where staff know rural communities because they are part of those communities. New employee hires will fill mission-critical skill shortages resulting from a two-year hiring freeze. This is particularly important since Rural Development's loan portfolio has grown to more than $210 billion, while staffing levels to manage this growth have not recovered from declines of the past few years. This level of funding also includes information technology investments to the Comprehensive Loan Program, which safeguards the portfolio from cyber threats and improves management capabilities.

Over the course of the last several years, we have chosen to be proactive in identifying and assisting areas of greatest need in rural America, rather than waiting for those places to find us. StrikeForce, Promise Zones, Stronger Economies Together and other initiatives are just a few of the many reasons that I am so fiercely proud of the 4,600 Rural Development professionals nationwide. Our Agency and its partners are willing to help us move assistance to the places that need it most.

Congress has provided significant resources to make a real impact in rural places. Yet the opportunities and the challenges of rural America make it clear to all of us that more needs to be done. I am deeply moved by seeing taxpayer dollars at work in rural communities. There is something extraordinary about rural America's ability to survive and thrive. It is a place where values count and where stewardship is a meaningful obligation. Working to address rural challenges is an amazing privilege.

In the time that I've been with USDA, I've witnessed rural resiliency on a very personal level. I watched the town of Floresville, Texas turn out in force to launch their improved water treatment system. I visited the Peoples Rural Telephone Cooperative in Jackson County, Kentucky which built a state-of-the-art, fiber-to-the-premise network that offers isolated rural residents the same economic, educational and social opportunities available to residents in urban areas. I toured a condiment manufacturer in Brundidge, Alabama that is expanding its business and market share with support from Rural Development. Each of these investments made in rural communities is an investment in our country's future.

I appreciate your continued interest and support of Rural Development programs. When countries cannot make rural infrastructure work, it impedes not only their rural places and people; it holds back the growth of the entire Nation. USDA Rural Development and our partners address the unique needs of communities often lacking large populations or other support mechanisms. Together, we can coordinate and leverage our resources to turn Rural Development's transactional work into transformational work.

I appreciate the opportunity to testify before the Senate Agriculture Appropriations Committee. At this time, I am happy to answer your questions.

Senator MORAN. Under Secretary, thank you very much.

We will turn to the gentleman from Montana and recognize him.

RURAL DEVELPMENT VISIBILITY

Senator TESTER. Thank you, Mr. Chairman. Thank you for having this hearing, and thank you for your generosity in giving me a first crack at this, because I have another meeting.

Thank you all for being here. I appreciate it very, very much.

I am going to go a couple different directions here. I am also a product of rural America. You saw my hometown, Lisa, and it was good to have you there. You guys do a lot of good work.

You talked about the Rural Utilities Service (RUS). Quite frankly, I do not think we would have power to this day if it was not for RUS. The same thing could be said for telephone, and we will get to broadband in a minute.

But the question is now. I mean, that was in the days of my grandfather and father and mother and grandmother. So they knew it. They knew they would not have power unless we had the cooperative movement and government support. We would not have been able to cut the ribbon on that water processing plant in Big Sandy without Federal Government support.

Yet, when I go talk to my neighbors, I am not sure that they think the Federal Government had anything to do with any of these projects. What can be done about that? Quite frankly, we have to do something with the budget. We have to do things that are smart to move forward. I think pulling investment from rural America would be a mistake, but there are some who want to do that, and some of them are my neighbors who get full advantage of these programs.

So the question is, what can we do to educate people about these projects that would not be done, whether it is a water project in Big Sandy, whether it is Big Sandy activities, the second biggest employer in the town—by the way, the first biggest employer is the public schools, both government agencies, both government entities, in a sense—or whether it is revamping the private sector like the Grand Union Hotel that you talked about, which is a jewel and brings in a lot of business to that area. What can we do to inform people? What can you do to inform people?

Ms. MENSAH. Senator, I appreciate your passion about our almost invisibility in some ways, and I think there are a couple things we can do.

In part, we need our private partners to also explain our role in supporting them. So this is a partnership. When we come in and we do a renovation, we do it in partnership with our private partners. So we need some help from the people whose loans we guarantee to also say this message.

Senator TESTER. Okay.

Ms. MENSAH. And the other thing is the way we ourselves get out the word. One of the best things that I think you have done in this budget is to allow us to be a field-based agency. We are not invisible. We have staff in all of our 50 States that are the neighbors of these people. The more we can be the neighbors, I think we have a special advantage in a way other Federal agencies do not.

So I would say those two things.

Senator TESTER. Thank you. It is maybe not this way all over the country, but we have probably come off the best 6 years in agriculture we have ever had where I live. We have had incredibly good crops and high prices. That does not happen very often. Yet starting at about the mid-1980s, it has happened progressively along since the homestead days, but starting about the mid-1980s, we have seen a mass exodus off the land, an incredible mass exodus.

My farm, for example, we are 1,800 acres. People go, wow, that is big. No, that is about a third the size of the average farm in Montana. And, quite frankly, because of that consolidation both in the marketplace on inputs and the marketplace on where we sell our products because it is very limited, we have seen a lot of consolidation on the ground, a lot fewer farms, a lot less people, a lot bigger farms.

The chairman could probably say it in Kansas. I mean, rural America is de-populating in a big, big, big way. The rural population is declining across-the-board.

So when we talk about economic recovery, and we talk about your programs that are very important, we talk about the farm bill, we have to look and say, are we really doing economic development in rural America the best we can do? It could be argued, and it is argued by some with some merit, that these programs have all failed because the population is getting less, it is not getting more.

We are not seeing economic growth in rural America like we are in urban areas. We are not seeing people staying in rural America like they once did. As that swirl keeps happening, it gets worse. It does not get better, until we turn it around.

Now I will tell you that I appreciate the work you do, and I support your programs. And I think we need to be doing all we can do to empower you because I think you are the key, more than any other thing we do in rural America, whether it is in housing, broadband, whatever it might be, to bring it back.

BROADBAND ACCESS

But in Montana, and I would bet it is the same in eastern Oregon, and I would bet it is the same in Kansas, our broadband is not where it needs to be. I was going to say another word, but I am not. It is not where it needs to be. We have a lot of folks here being left out of the 21st century economy.

By the way, when you live in rural America, there are not a lot of customers, so broadband gives you that ability to get to those customers.

We just had Wheeler out, Chairman of the Federal Communications Commission (FCC), last week. Great guy, by the way.

Do you talk to him, Mr. McBride?

Mr. MCBRIDE. I have, yes.

Senator TESTER. Do you talk about what can be done in rural America, as far as utilizing your dollars, public-private partnerships, or however you want to do it, to maximize those dollars to get broadband to houses and businesses in rural America?

Mr. MCBRIDE. Yes, sir. Thank you for the question.

The President appointed a Broadband Opportunity Council earlier this year. What that council encouraged us to do more than anything else was to communicate more amongst agencies, know what other folks were working on in terms of expanding broadband access and how we can do that. That has helped us at RUS in terms of having regular weekly meetings with other agencies, including the FCC, and talking about what we can do to support the expansion of broadband access.

Senator TESTER. So what does that really mean? I mean, I got you. You are talking. And by the way, communication is important, and we need to break down the silos, and we need to go down that whole line. But what does that really mean as far as getting projects on the ground to get Montana wired up?

I would bet you a dollar to a doughnut, Chairman Moran can say the same thing about Kansas, and Heidi Heitkamp can say the same thing about North Dakota. So this isn't just Montana.

What are we doing? What are we actually doing to be more effective with the programs that we have, so that we know, when we fight like hell to get you extra dollars, that that money is actually getting to the ground and it is not getting ate up in administration, and it is actually doing what it needs to do to get these folks connected up?

Mr. MCBRIDE. Yes, sir. At the President's direction, what we have done is we have looked at each of our existing authorities and each of our programs.

Senator TESTER. How do you to determine need?

Mr. MCBRIDE. I am sorry?

Senator TESTER. How do you determine need?

Mr. MCBRIDE. Determine need?

Senator TESTER. How do you make that call, whether that money goes to north-central Montana, whether it goes to a place that is a little bit more populated, or whether it goes to an urban area?

Mr. MCBRIDE. Well, for our programs at RUS, there are loan applications. So we try to get the word out, go to conferences and visit with potential borrowers and the groups that are interested in expanding broadband. But then we work with them to see whether a loan application is possible and what would make sense for their business case.

Senator TESTER. I am not making a judgment here—and I am sorry for going way over time. I will wrap this up.

Do you feel that you are getting that information out so that your partners on the ground in remote frontier areas know their options?

Mr. MCBRIDE. Yes, sir. We can always do better, but we are doing the best that we can.

As the Under Secretary mentioned, we have a great field operation, and they do a lot of work in terms of letting people know about our programs. So we are doing the best that we can to spread that message.

But you are correct. Less than 50 percent of rural America has access to the same high-speed Internet.

Senator TESTER. And I will tell you, just in closing, it breaks my heart to see what is going on in rural America. It really does. I mean, in my hometown, we have lost both hardware stores. We have lost two of the three grocery stores.

We have even lost three of the five bars. That's how bad it's getting. I mean, now we have a crisis situation.

We have to be more effective. I am not going to be here for the second panel, but I really hope that the folks who are going to be on these panels address the kind of communication that you need to make sure we are doing it right from the top end, and, quite frankly, talk about the need that is out there, actually, if we met the need of your partners, if it would actually do any good at keeping people around or if this is just the trend and it is going to happen and we cannot do a damn thing about it.

I personally do not believe that. I do not think it is just on your shoulders, by the way. I think there are a lot of other things that we need to be doing about developing capitalism and the marketplace for the inputs and for our sales and all that kind of stuff, because it is a highly noncompetitive market in my opinion.

So thank you, Mr. Chairman. I appreciate the courtesy, and I apologize for taking too much time.

Senator MORAN. Thank you for joining us, Senator.

Senator Merkley.

PROGRAM DUPLICATION

Senator MERKLEY. Thank you very much, Mr. Chairman.

Thank you for your testimony.

Under Rural Development, there are approximately 50 programs. So if you were to identify two or three that need to be looked at very closely, as perhaps ones that are weakest or duplicates, what would you point to and say we should take a close look at this for potential consolidation? Or perhaps there is a more cost-effective way to achieve the same mission?

Ms. MENSAH. That is a hard question, making us choose between our children.

Senator MERKLEY. Yes, I know, choosing between your 50 children.

Ms. MENSAH. What I can say without—speaking impromptu here—is that there are 50 programs. Some are in statute that are very close to each other, so there are many specifics that tell us to work in particular areas, Alaska villages, colonias. I think there is a reason why we were asked to look specifically at those, even though it is broadly in the same area.

What I really think is that our three core areas, each have dominant players. There is no question that the Single-Family Housing Guarantee program dominates in our housing program. There is no question that the Business and Industry Guaranteed Loan Program dominates in our business program. There is no question in our Rural Utilities program, the size and scale of our electric programs and our new farm bill broadband.

What I have seen is that our administrators know how to get the most out of these programs. I don't feel that there is waste and costly duplication. What I feel is that every grant program that we have, and some of those are grant programs, there is a group of people who take so seriously how we get these dollars in rural America. So I would ask you not to look at the number of those programs, but look at their impact.

Some of our programs, even modest, like the self-help housing program of $17 million, that is just such a critical program in the way it builds self-help housing. We have done our 50,000th house this year.

PARTNERSHIPS

Senator MERKLEY. Okay, so let's take that for a moment. Thank you very much for coming out to Oregon to visit a self-help housing program. Of course, it is wonderful that you come from Oregon. I was hearing the stories about Kansas and Montana and getting a little jealous, but I knew you would come to Oregon, and we are delighted you did.

But let's take that for example. That model of sweat equity, build your own house, low-cost loan, is very similar to the Habitat for Humanity model. Have we looked at whether that model makes sense to do independently or to do through subsidies to groups like

Habitat for Humanity? Is there a more cost-effective way to undertake it?

Ms. MENSAH. Well, I will ask Tony Hernandez. I know I will say that, actually, we have partnered with Habitat. I, in fact, saw a property this spring where we were direct partners with Habitat.

But, Mr. Hernandez, would you speak to our partnership with others?

Mr. HERNANDEZ. Thank you very much.

Senator, we are very excited to partner with lots of organizations. What we do best is that we are a mortgage company. We also provide technical assistance grants to help those nonprofits.

What we are doing with Habitat is trying to get them to use our product, which is the 502 direct loan, to help them build more homes. They are trying to become a mortgage company as well. We are a larger mortgage company. We can actually help them acquire more lots and use our product so they can build more homes.

So we are in the homeownership business, not just building and financing. What we are trying to do is partner with other groups, just like Habitat, across the country. We have met with the national Habitat organization and smaller groups to say, how can we help you do more if you use our product?

Senator MERKLEY. Thank you. I am going to cut you off there, because you are talking about the partnerships, which are wonderful.

I want to turn to another question, but I appreciate that.

RURAL ENERGY SAVING PROGRAM

The Rural Energy Savings Program is one that was authorized in the farm bill. Secretary Vilsack pledged to implement it. We understand that Rural Development, there is an existing program, energy efficiency and conservation loan program, which is similar to Rural Energy Savings Program in that it is basically low-cost loans to do energy-saving retrofits to buildings. However, it has not been taken up because interest rates are higher.

Has there been any progress that can be reported at this point in actually implementing the Rural Energy Savings Program?

Ms. MENSAH. Thank you, Senator.

I will say that you are correct that there is a similar program, but let me ask, since the Rural Energy Savings does work closely with our Rural Economic Development Loans and Grants (REDLG) program. Let me ask Acting Administrator Rikkers to tell you where we are in the process of implementing this.

Senator MERKLEY. Great.

Mr. RIKKERS. Senator Merkley, the RESPA (Rural Energy Savings Program Act) program, as it is referred to, we stand with you. You have been an advocate for cost-savings through energy efficiency both for small businesses and consumers that RESPA is targeted toward.

We are encouraged that the Senate mark on this year's appropriation bill provides funding for that RESPA program. With that funding, we believe that that will help clear a path and really help us continue to work with your staff to make and implement that program.

[The information follows:]

Rural Energy Savings Program Act (RESPA) is a voluntary program that will create jobs and lower energy bills for families, farms, and small businesses by promoting energy-saving improvements to homes and buildings in rural communities. The program will assist rural electric co-operatives in offering low-interest loans to their consumer-members for efficiency improvements, allowing repayment of the loan through savings on monthly electric bills. Individual co-ops or State-based groups of co-ops will apply to the Rural Utilities Service (RUS) within the USDA for loans to fund local energy efficiency programs. RUS loans to the co-op for efficiency programs will bear a zero percent interest rate. The co-op can re-lend to consumer-members for efficiency improvements at low-interest to defray the cost of administrating the program.

Rural Development has developed a work plan and is currently assessing how to best implement the program in the loan portfolio of the Rural Economic Development Loan and Grant program.

Senator MERKLEY. Okay, I will look forward to future reports. Please keep me apprised.

My time is up. Thank you so much.

Senator MORAN. Senator Merkley, thank you.

RENTAL ASSISTANCE PROGRAM

Let me ask about housing, Mr. Hernandez or Madam Secretary. Over the last 3 years, appropriations for rural rental assistance have grown by $336 million. Yet we have indications that the amount requested for rental assistance renewals for fiscal year 2016 will not be adequate.

We have worried about that. In fact, our appropriation bill language criticizes the administration, the program, and the ability of Rural Housing Services to provide accurate information on the amount needed to renew those existing rental assistance agreements.

Can you provide detailed information on the amount necessary to renew all the expiring rental assistance agreements for fiscal year 2016?

Ms. MENSAH. Thank you, Senator, for the question about rental assistance. As you know, this drives our ability to be in the affordable housing business in rural America, 14,000 properties, and rental assistance is crucial to it.

There is no question financing this program is a challenge for us. We continue to be in conversation with you because it is a challenge. Our estimates are made 2 years in advance. And yes, they are often off.

So we acknowledge this challenge. We acknowledge that, yes, we will likely need more than we had estimated. I do not have a precise number for you today.

Senator MORAN. We, certainly, would like that information. Obviously, the appropriation bill requires that information be provided. You need it to manage the program. We need it to make certain that we do our job in a fiscally responsible way, so there are no surprises.

With a fixed amount of money that we have to spend within this budget, that number helps determine what other programs within USDA, including Rural Development, might receive. That requires us to have the best information possible to make those decisions.

So I reiterate that request, and we look forward to having a conversation with you to get those numbers.

Ms. MENSAH. Thank you. I look forward to that as well. We take it seriously.

[The information follows:]

When formulating its budget request, RHS uses the best estimates of local tax, utilities, and other operating expenses. However, these items may change and cause fluctuations above the estimate. To help moderate the impact of cost fluctuations that the agency can account for, RHS implemented an updated method for obligating rental assistance (RA) in October 2015. This tool provides more accurate estimates of future property-level funding needs. It also processes rental assistance contract renewals more quickly and efficiently. The updated RA obligation tool estimates RA needs on a per property basis, with the objective of improving accuracy by using more timely data and reducing the incidence of second renewals. The obligation tool provides as near-real time data as possible, and the built-in inflation factor adjusts for the time lag between budget development and receipt of the appropriation. The revised estimate for fiscal year 2016 is $1,389,695,000, which is $217,795,000 above the fiscal year 2016 President's budget request. The revised estimate assumes that the re-renewal prohibition carried in the fiscal year 2015 law will not be in the fiscal year 2016 law, including for the units with contracts renewed during the current continuing resolution which carries the fiscal year 2015 prohibition.

UNIVERSAL SERVICE FUND

Senator MORAN. Let me ask, this could be for you Secretary Mensah or Administrator McBride, the issues related to RUS and the FCC, it was raised a bit by the Senator from Montana. But it seems to me that we have set the stage in which the FCC has made decisions related to revenues that are going to be received that then affect the ability to repay loans.

So I have been worried for a long time, going back to the original order of the FCC particularly related to the Universal Service Fund, whether or not companies across Kansas and around the country will have the necessary revenues, first of all, to provide the service, but secondly, in the absence of adequate compensation for the Universal Service Fund, the ability to repay RUS.

You indicated conversations have taken place. I have tried to get Rural Development and the FCC chairman in the same room to have these conversations. It seems to me that there was an unwillingness to have that occur.

So what I am looking for is I guess the degree of coordination that is taking place. I heard you indicate to Senator Tester that meetings occur, but can you assure me in pretty definite terms about the assistance that RUS is making known, the problems and challenges that will arise to your borrowers should orders affecting the Universal Service Fund continue down the path that they have been on.

Mr. McBride or Secretary.

Ms. MENSAH. I think I will ask Administrator McBride to speak to this issue of coordination.

And you have asked for an assurance? I can tell you we will assure you that we will be in dialogue with our Federal partners on this.

Senator MORAN. In that regard, how serious is the issue? Am I raising something that is relevant?

Mr. MCBRIDE. Any time that you are talking about something that will impact one of our borrowers, I have concerns, because we

want to make sure that our portfolio is strong, and we believe that it is.

In terms of what is happening with FCC, we do communicate with them regularly. As they develop their proposals, we provide some feedback. But they are a regulatory agency, so there is a little bit of separation there. But we do try to discuss the potential impacts of their rulemaking.

Senator MORAN. They are a regulatory agency, and they are an independent agency, but you are part of an administration. What I am looking for is that there is an assurance that at a higher level within the administration that the position that Rural Utility Services is in and will be in as a result of decisions at the FCC related to Universal Service Fund is being communicated to the FCC.

I guess I am also interested in—you tell me that you communicate with them, what do they say? Have you seen any evidence that they are doing anything different, as a result of you raising these issues?

Mr. MCBRIDE. Yes, sir. They have heard our concerns, and I know that they have tried to take that into consideration. We have communicated that at a high level with them.

Senator MORAN. Let me go at this one more time. Fortunately, as the chair, I get to have as many rounds as I like, so I will see if I can ask this question perhaps for the last time on this topic. But tell me what your concerns are. How dramatic of a consequence could changing the Universal Service Fund be to the ability of your borrowers to pay back their loans they have borrowed? And what is the contingent or possible liabilities that will accrue to your agency as a result of FCC orders?

Mr. MCBRIDE. I do not have the answer to your second question, because I do not know exactly how they will make final changes to the Universal Service Fund (USF). I know that they are aware that we are concerned about their modeling and how that might impact our program. We have shared that information with them and had those conversations with them.

Senator MORAN. In another round, I would like to explore further why perhaps rural telephone companies and others, potential borrowers, are not seeking loans from RUS. My guess is that there is a causal relationship because we do not know what the FCC is going to do in regard to the Universal Service Fund, so there is not only the fear of, "Can I repay my loan?" but there is also the fear that I should not take out a loan. The consequence there is that fewer Americans in rural America will be served by broadband.

Mr. MCBRIDE. You are correct that there were some concerns in recent years. Actually, this year, we did see a slight increase in terms of the loan dollars that we were able to put out from our traditional infrastructure program. We also saw an increase in applications for our farm bill broadband loan program. So there is an increase in interest in our programs.

Senator MORAN. I look forward to exploring that. Thank you, Mr. McBride.

The Senator from Montana, Senator Daines.

Senator DAINES. Thank you, Mr. Chairman.

BROADBAND AND UNDERSERVED COMMUNITIES

I spent decades in the private sector before coming to Washington, DC. I was, for 12 years, part of a cloud computing company we started up in Boozman, Montana. We took the company public. Oracle acquired us a couple years ago.

In fact, if I were to ask you where Oracle was going to put their North America cloud command operation center for the entire Oracle cloud, if I said, is it going to be in Silicon Valley, Boston, New York, perhaps even Tel Aviv or Singapore, if I told you it was the Boozman, Montana, it wouldn't have been your first guess, anyway.

I think this is showing what is going on in technology today, where technology has removed geography as a constraint and this nexus of a quality of life of rural America that we have, where the millennials say, "I want to have my cake and eat it, too. I don't want to have to sit in traffic for 2 hours. I want to be able to get to a trout fishing stream, get to the mountains, and so forth. But I want a world-class career, best in class, that relates to my business experience, too." We have that now, thanks to technology.

So I've lived it. I've breathed it. I'm passionate about ensuring that we provide connectivity here for all of America, including rural America.

That also translates to our ag communities, where our farmers and ranchers are now high-tech operators, in terms of what they do. It is amazing what is going on there. Certainly, in agriculture, we improve productivity and we not only feed our country, we feed the world.

So a question for Under Secretary Mensah. In your testimony, you highlight the need for more work to be done in expanding rural access to broadband and that just 50 percent of those living in rural communities have high-speed Internet service.

Despite this fact, the administration's Broadband Opportunity Council recently released a report on increasing broadband employment and directed RUS to make funding available in areas that already have a broadband provider.

Many communities in Montana, and I know I can speak—Senator Tester was just here earlier and made his comments from a Montanan's perspective.

By the way, we had Chairman Wheeler, Senator Tester and I did, last week in Montana. It was great to have him there to see what is going on in rural America.

But many Montanans do not have access to broadband, not even one provider, let alone thinking about having two. We should be focusing dollars, I think, on unserved communities, not just improving speeds for those who already have connectivity.

So the question is, how is RUS going to avoid duplicative investment and make sure that funding is given to those who need it, who virtually have no connectivity at the moment?

Ms. MENSAH. Thank you, Senator, for raising this issue. Thank you. It is, certainly, our intention to serve rural America with broadband services and to reach those areas which are beyond the last mile. So I want to share your seriousness about this.

Let me ask, though, Administrator McBride to explain what it is like within the Rural Broadband program and RUS, and explain

how we look at applications in our already-oversubscribed farm bill Broadband Program, so that we do not have a duplicative situation.

MR. MCBRIDE. Thank you for the question, Senator.

What the Broadband Opportunity Council overall was trying to look at was that there are some differences between broadband availability in rural America versus urban, in terms of high-speed Internet. So that was one of the issues that the council looked at.

In terms of how we administer our programs at RUS, in the 2014 farm bill, Congress included language directing us to require at least 15 percent of a potential application area be unserved. So we have direction from Congress to include that percentage of unserved residents.

And also the farm bill sets the standard in terms of how many incumbent providers can already be there. So if there are already three providers in a proposed service territory, that application would be ineligible.

BROADBAND SERVICE IN TRIBAL AREAS

Senator DAINES. Let me ask a follow-up on that, pivoting over to our tribal lands. Montana is home to 12 federally recognized tribes, plus one State-recognized tribe, the Little Shell. Thanks to the dedication of Montana companies, like Triangle Communications, residents of the Rocky Boy and the Fort Belknap Indian reservations have access to broadband for the very first time.

However, the broadband access on tribal lands continues to be an issue. In fact, high-speed broadband on most tribal lands in Montana is virtually nonexistent.

Since 2009, USDA has awarded nearly $20 million in funding to provide broadband service in tribal areas. So the question is, what does RUS plan to do going forward to connect tribal communities?

MR. MCBRIDE. Thank you for the question, Senator.

We are trying to expand our outreach to tribal areas and help them understand the programs that are available to them and potential applications.

Earlier this year, we funded our first substantially underserved tribal area telecom application in New Mexico. That was a great project there that brought fiber to the homes in that area. So we are, certainly, open to this and would be happy to work with your constituents on this.

Senator DAINES. I am out of time, but the last comment, I think these investments in broadband infrastructure are really investments in innovation. This is really an opportunity what we are seeing around our country that we can lead globally here.

When I was running businesses there in Boozman, Montana, I had an office in Tokyo and one in Sydney, but I could do it right there from Montana. This is really the wave of the future for our country. Thank you.

Senator MORAN. Senator Daines, thank you very much.

The Senator from Mississippi, Mr. Chairman, welcome.

STATEMENT BY SENATOR THAD COCHRAN

Senator COCHRAN. Mr. Chairman, thank you. I am pleased to join you in reviewing what the status of these programs are that are administered by this panel of witnesses.

Thank you for the good work that you do and the outreach that you undertake to help acquaint organizations out there in the small towns and communities of rural America that there are Federal programs that are designed to make available fundamental ways of enjoying living out in the country, as they say, and yet having some of the modern conveniences that so many of us take for granted. So thank you for being here today and helping us review and implement ways that this subcommittee can be helpful through either legislative language suggested for adoption by Congress or regulatory action that you would like to modify.

We want to work with you and be helpful to you.

We are from the government. We are here to help you.

Senator MORAN. Mr. Chairman, thank you. Thanks for joining us.

The Senator from Missouri, Senator Blunt.

BROADBAND ACCESS

Senator BLUNT. One other topic on the connectedness issue, which I think we all understand is really important that we get this done so that everybody does have capacity to compete and to offer products and to communicate.

Mr. McBride, you mentioned a couple times unserved and underserved, and I wondered what programs you have that address both of those things. Frankly, several of us are on the Commerce Committee as well, and I am much more interested in assisting unserved areas than I am assisting a second competitor where there is already somebody there that might meet some definition of underserved.

So do you want to talk about that a little bit, the difference in unserved and underserved, and what programs you might have, what areas, in both those categories?

Mr. MCBRIDE. Yes, sir. Thank you for the question.

We have four primary programs were we fund the expansion of broadband access. The first is our traditional infrastructure loan program, which is targeted to communities of under 5,000. We have a farm bill broadband loan program, which the population goes up to 20,000.

Then we have two grant programs. One is the distance-learning and telemedicine program, which helps improve health care access and educational opportunities. That is a grant program.

The program that we have that actually targets unserved areas is called Community Connect. The subcommittee gives us around $10 million to $15 million a year, I believe, to make small grant awards to communities that do not have existing broadband service. That is our primary tool in terms of getting to communities that do not have access.

Senator BLUNT. Are the other three available to both underserved as well as unserved communities?

Mr. MCBRIDE. Yes, sir.

Senator BLUNT. Then you look at those applications and decide where you are gaining the most new service?

Mr. MCBRIDE. Yes, sir.

In terms of the distance-learning and telemedicine, and the farm bill loan program, both of those programs are oversubscribed, so

the competition is quite difficult for both. So certainly for the loan program, we are looking at areas where there is not much service or it needs to be improved.

Senator BLUNT. Thank you, Mr. Chairman.

Senator MORAN. Thank you, Senator Blunt.

We are going to do another round of questioning. I am going to try to limit mine to perhaps one area, and it is back to you, Mr. McBride.

Mr. Rikkers, do you feel left out? Or pleased?

Mr. RIKKERS. Happy to be here, sir.

Senator MORAN. All right.

BROADBAND OPPORTUNITY COUNCIL RECOMMENDATIONS

Senator Daines talked about this, Senator Blunt talked about this, underserved and no service. We have seen examples of that in our State. I noticed that in the development of your rules, you are headed toward the direction of not making loans when there is a loan to another company who already has and is providing service in the area, another RUS loan recipient.

Mr. MCBRIDE. Yes, sir.

Senator MORAN. I did not say that very well.

Mr. MCBRIDE. I understood.

Senator MORAN. Thank you for understanding. You have made the decision that you are not going to make loans to companies who want to provide service to a place that there is already a company providing service with an RUS loan. Is that accurate?

Mr. MCBRIDE. Yes, sir.

Senator MORAN. And the part that caught my attention was the Broadband Opportunity Council's recent report. It seems to go the other direction. It is an August report that says, broadband loan eligibility should be expanded to different providers "even though an incumbent exists."

How do you square what RUS's policy is versus what the broader group of people is saying is the goal?

Mr. MCBRIDE. Certainly, with the Broadband Opportunity Council, the good thing about the council and its recommendations is that we were looking at all of our suite of programs to see what we could do to support broadband access. The council's actions would not require additional funding or additional legislation. It was just simply to look at our programs to see what we could possibly do.

In terms of the issue that you raised, of course, we will have to follow what is in statute and what Congress has directed us to do, in terms of looking at potential applicants where there are already service providers. So that will be our lead focus.

Senator MORAN. Tell me once again what you understand Congress' direction to be in that regard.

Mr. MCBRIDE. Well, in terms of the farm bill loan program, if there are three existing service providers, then an application to serve that service territory would be ineligible.

Senator MORAN. Okay. When you make a determination about an RUS loan to provide broadband services, the subsidy that is provided by RUS, is it what is designed to be the sufficient amount of additional revenue to make the service available to make it

work? The question I have is, do you bring in other territories that already have incumbent providers, a larger community, for example, and allow a loan recipient—duplicate service is not the right phrase, but add additional service when there is already service being provided as part of the revenue source, so that areas that have no service get that additional revenue?

I will try one more time. My question is this, is the subsidy sufficient to make this work, or do you need to have larger population areas within that territory to further subsidize the ability for that carrier to provide broadband?

Mr. MCBRIDE. The three basic things that we would look at for new application are: Is the population of the area that they want to serve under 20,000? Did they include at least 15 percent of an unserved area in their application? And then, how will their finances work?

So we want to look at all those things to see what they do. Some of the applications that we received in the most recent round, they were proposing to serve up to 50 percent unserved. So we want to make sure that there are fewer than three existing service providers, and that they meet that target in terms of unserved population.

Senator MORAN. Fifteen percent of the proposed area of service is the requirement for the loan? Your application is based upon an area that has no service, that has to equal at least 15 percent of what they are applying to serve? Is that what you are telling me?

Mr. MCBRIDE. Yes.

Senator MORAN. The other 85 percent could have an additional provider already providing the service.

Mr. MCBRIDE. Yes.

Senator MORAN. Okay.

Mr. MCBRIDE. As long as they do not have more than three.

Senator MORAN. And the revenue that is generated from that 85 percent may be taken into account to determine your final criteria of whether or not this is fiscally, financially possible.

Mr. MCBRIDE. Yes. We have to make sure that any loan that we make, that they will be able to repay us and be successful.

Senator MORAN. Okay. Thank you.

Senator Merkley.

Senator MERKLEY. Thank you, Mr. Chairman.

RENTAL ASSISTANCE 2015 SHORTFALL

I want to go to rental assistance in more detail. The chairman asked about the shortfall, and the numbers that we have been provided for the shortfall for fiscal year 2015 was, very precisely, we're talking basically $101.5 million, precisely, is the number provided by your department.

In the second panel, Tony Chrisman is going to present his story, which is typical of what has happened with that fiscal year 2015 shortfall, which is that the individuals who are operating multifamily projects, who own these projects, they are paid for each unit. Each unit, the family pays 30 percent of their income and then the balance is paid through this rental assistance program.

But in August, mid-August, the money ran out. So the folks who have these multifamily projects stopped receiving payments.

For example, for Mr. Chrisman, the total amount of rental assistance not paid to date is $365,000. That is that share of that $101.5 million shortfall.

We provided authority for those shortfalls in fiscal year 2015 to be filled back in, but the owners have not received any notice that they are going to be compensated for that shortfall. Are you planning to fill in the shortfall in 2015? Or are we going to leave these owners across America just hanging out there suffering this loss?

Ms. MENSAH. Thank you, Senator Merkley. That is, certainly, not our intention to leave owners hanging.

I am going to ask Administrator Hernandez to speak to your specific question about how we want to catch up the shortfall that we had in fiscal year 2015 as we head into fiscal year 2016.

We are thankful that we were able to limp across the line into September, into our new fiscal year, and we do want to bring that whole again.

Mr. HERNANDEZ. Great. Thank you very much.

Senator, our goal is to try to help as many of those property owners as we can. First of all, we are going to use the allocation that you have given us for appropriation this year for the continuing resolution (CR). We will fund those property owners who have run out of money and they are into the new fiscal year.

Senator MERKLEY. So be specific. Are we going to backfill the missing payments from fiscal year 2015, the August and September payments that we failed to pay?

Mr. HERNANDEZ. We are trying to figure out how we can do that, sir. Right now, we cannot use the CR money to do that by statute, so we are trying to figure out——

Senator MERKLEY. My understanding is that we did enable that to be done, but that there is reticence to do so. Is there a legal question? This has not come back to my attention. This is an issue we have been raising continuously. Can you please get us exact details on how that is the case? That was fully the intention that this was to be able to be backfilled.

Mr. HERNANDEZ. I will find out how we can do that.

[The information follows:]

The USDA is committed to delivering a sustainable rental assistance program and has made significant progress in addressing the challenges in managing the statutory and funding cycles of this important program. The fiscal year 2015 appropriations law prohibited a property from receiving a second renewal of fiscal year 2015 Rental Assistance (RA) agreement funding within a 12-month period. Because of this, the agency was prohibited from providing a second renewal in fiscal year 2015 to 44 properties. Rural Development (RD) advised borrowers about steps that could be taken in order to leave operating funds in project accounts to pay project expenses, to the extent possible. The prohibition on second renewals was lifted by the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2016 (Continuing Resolution) for properties that were renewed in fiscal year 2015. However, there is no additional language in the Continuing Resolution that allows USDA to reimburse the properties that did not receive the needed RA funding in fiscal year 2015. Funding made available during the Continuing Resolution (CR) period allowed USDA to renew all the RA Agreements that needed a renewal as of October 1, 2015, under the same terms and conditions as previously authorized in fiscal year 2015 and it also included being able to renew the contracts for those properties that were prohibited from a second renewal in 2015. However, that prohibition remains in place for the 2016 contracts written under the CR authority per the same terms and conditions requirement.

Senator MERKLEY. Okay. Because otherwise, you have all these owners who we made a contract with, we left them hanging. That can bankrupt a company very, very, very quickly.

Furthermore, it sets up a real dilemma, because when someone leaves one of these units, the owner is required to take the family on the list who has the greatest need, which means their 30 percent of their personal income is going to be very little. If they're facing a situation where they are supposed to take a family who can pay very little rent, but then the U.S. Government is going to fail at the end of the year to complete their contracts, that is unacceptable, isn't it?

Mr. HERNANDEZ. Sir, we are working with your team to try to make sure we have more predictability, increased accuracy in the way we do the funding, to try to understand the costs of the buildings. That is why we have implemented new tools to have better accuracy in forecasting what it will cost.

Senator MERKLEY. This is what I want to know. I want you to come back to us, and we will work together. This is rural affordable housing across America. We are talking about 260,000 units, 14,000 projects, which got shortchanged.

I don't think it is the intention of any of us that we should not fulfill the vision that we laid out.

This is going to have huge repercussions for future willingness for developers and owners to participate in this program. Let's get this fixed.

Madam Secretary, you didn't have a number for fiscal year 2016, but the numbers that we have been provided is that we are $120 million short by best estimates on top of the $101.5 million for fiscal year 2015. That is a huge issue.

So if we are going to be running out again this coming August, we have to fix this. We need you all to come to us with a proposal so we can have this subcommittee really chew on it and say, okay, well, my understanding is it was fixed in the continuing resolution so it could be backfilled, and then for the start of fiscal year 2016, the authority was to be able to kind of forward load the funds. So we still had a problem, but at least we had fixed it for our owners for fiscal year 2015.

I am hearing it has not been fixed. When I hear that there isn't a precise number for fiscal year 2016, I am afraid we are going to have this crisis again at the end of this year.

Now that I have eaten up all my time, I just want to say, let's get to the bottom of this. Propose to us plans A, B, and C, and let's figure out how to resolve this.

Mr. HERNANDEZ. I look forward to the partnership, sir.

Senator MERKLEY. Thank you.

Senator MORAN. Senator Merkley describes my understanding of the situation as well, that this was fixed, the backfill should occur. If there is a problem within the agency, we need to know that. My understanding is that your general counsel is trying to figure out how to do it. We believe we gave you the authority to do it.

That does not solve the problem at the end of the next fiscal year, but it solves the problem at the moment. And it reduces exacerbating the circumstances we face in the future.

Senator Blunt.

Senator BLUNT. Secretary Mensah, several questions on what the FCC might do that impacts what your agency is trying to do.

EPA RULES

On other rules and regulations, the Environmental Protection Agency (EPA) has a couple rules now that have real impact in rural America, the power rule, I think about 75 percent of the landmass of the country is served by rural electric co-ops. They are more heavily coal than the rest of the utility providers in the country. For the water rule, lots of concern in rural America about how that jurisdiction, if expanded as the EPA suggested, will impact what happens in agriculture and other areas.

Some sense of your level of engagement, not necessarily the FCC rule that we already talked about quite a bit, but are these agencies reaching out to you in a way that you feel is adequate to get your engagement in these important discussions that impact rural America?

Ms. MENSAH. Senator Blunt, thank you for your question.

Yes, I do feel that we are in a dialogue with our sister agencies. You mentioned both clean power and the water rule. We have a strong dialogue. We argue for rural communities. And we feel that when new rules are proposed, we are going to be there for our borrowers to help make any adjustments. So I am happy to answer more specific questions on power or water.

Senator BLUNT. Well, on power, I will ask one. On power, they have now come up with what is the proposed final rule. Has either USDA or your part of USDA taken a position on that final rule?

Ms. MENSAH. Let me ask Administrator McBride to describe to you how we have been working since the final rule has been proposed.

Senator BLUNT. So back to you, Mr. McBride.

Mr. MCBRIDE. Thank you for the question, Senator.

As EPA was developing its rule, we did have conversations with them and let them know our thoughts and how it might impact our programs. In terms of what the final result was from EPA, we do believe that they gave cooperatives additional time and additional flexibility to respond to the rule, so we do feel like they were responsive to the issues that we raised with them. Of course, we do not know the final result until the States developed their own plans. But we do believe that the EPA provided additional time and additional flexibility that will help our borrowers meet the new rule.

Senator BLUNT. At the Secretary level, at Secretary Vilsack's level, are he and the department supportive both of that rule and the other rule I mentioned, the water rule?

Mr. MCBRIDE. The Secretary has been in contact with Administrator McCarthy and others, and believes that we will be able to help our borrowers meet the rules. So the Secretary has been very engaged, and we are working to help our borrowers meet the new requirements.

Senator BLUNT. You do not know whether he has personally endorsed the two new rules or not?

Mr. MCBRIDE. I have not spoken to him directly about that.

Senator BLUNT. All right. I have not either, and I will.

Thank you.

Senator MORAN. Senator Cochran, anything further?

Senator COCHRAN. No, but I want to thank the panel for helping bring life and energy and imagination and hard work to the challenge of improving opportunities for happy and healthy lives in rural America. That is what the Rural Development Act sought to do when Congress adopted it. You are on the frontlines now in carrying out those ideas and suggestions when that act was first approved by Congress.

Thank you for your good efforts.

Senator MORAN. Senator Udall.

Senator UDALL. Thank you, Mr. Chairman.

SEQUESTRATIONS IMPACT

Last week, I had the opportunity to travel New Mexico and do some rural economic development meetings. Our State USDA Rural Development State director named Terry Brunner was there and announced some of the grants that go out. I cannot tell you how important those grants are in terms of supporting rural communities, supporting economic development, and really pushing the envelope in terms of helping people be more connected in rural communities with the rest of the State. So we really appreciate what you are doing.

We know that the folks in rural New Mexico need support, need budget certainty, and need adequate resources to fund basic things like water infrastructure, housing, and high-speed Internet, which is not a luxury nowadays. It is actually a necessity.

So let me ask you, Madam Secretary, the USDA Rural Development program is essential for addressing these unique needs, and I am worried that sequestration and the proposed cuts will further obstruct recovery and development. The Committee-passed bill provides $83 million less for Rural Development compared to the administration's request, and over $300 million less than was provided in 2010 due to unequal sequestration limits on domestic programs.

What impact will these lower numbers have on your programs and, more importantly, on the families that rely on them?

Ms. MENSAH. Thank you, Senator Udall.

Senator UDALL. You bet.

Ms. MENSAH. I, too, share the concern. Any reduction in our programs hurts rural America. I see these programs. I am out almost every week somewhere with State directors, like you have seen. Every grant dollar that we are able to have the privilege to spend in rural America, I feel we can do it well.

Similarly, the program levels, the loan levels, are being spent very, very carefully. It is a strong portfolio.

So we appreciate anything you can do for our budget request. This is just essential funding for the development of our rural communities.

And I would also say for the kind of State operation we have, you mentioned our State directors, you are supporting a field-based organization in Rural Development. We are not just a Washington organization. That layer of support in every State makes us so

unique, and it is just essential dollars for us. So I thank you for your concern. I share it.

Senator UDALL. Thank you. And you are absolutely right. One of the things that I think really works is, with these State directors, they work creatively with rural communities in order to do the things that they need done, to become better communities, to get people more hooked up, whatever it is. It is a good program, and it is a dramatic example of why we should be out of the sequester.

I mean, sequester hurts these rural communities, and we need to get back to adequate funding for these important programs.

SUSTANTIALLY UNDERSERVED TRIBAL AREAS PROGRAM

Now, Administrator McBride, I applaud your efforts in moving forward with the Substantially Underserved Tribal Areas (SUTA) loan program provisions in the farm bill. Thanks to this program, the Mescalero Apache Telecom company was a recipient of a $5.4 million loan to make telecommunication improvements for thousands of rural customers.

This type of investment is critical to ending the digital divide in tribal communities.

I will never forget, on this digital divide in tribal communities, when President Clinton tried to show the digital divide, he started out one day in Silicon Valley and ended up the day in Shiprock, New Mexico. In Silicon, they are obviously wired. In Shiprock, he was introduced by a young lady who was a top student in the school in Shiprock, and she had won a computer, but she was unable to even have access with that computer to the Internet. So that highlighted the digital divide in this country.

So that is why this program is so important, the Substantially Underserved Tribal Areas program. I think we need to keep that strong.

Can you describe for us the importance of loan programs such as SUTA and provide suggestions on ways we can expand on efforts to bring modern broadband infrastructure to tribal communities?

Mr. MCBRIDE. Thank you for the question. I was in Mescalero in August. Terry Brunner, your State director, took me around. It was a great project, and they are doing great work there.

We are trying to increase our outreach efforts. It is, certainly, a priority for us to make sure that the tribal areas know about our programs and their availability. It is, certainly, a challenge, expanding broadband into the most rural, most remote areas, but we believe that our partnership with the groups that we worked with before is strong, and there may be ways that we can share some lessons learned that might help other tribal areas expand their access.

Senator UDALL. Thank you very much.

Thank you, Mr. Chairman.

Senator MORAN. Thank you, Senator Udall.

Secretary Mensah, thank you very much for joining us.

Mr. Hernandez, Mr. McBride, Mr. Rikkers, thank you very much.

We will turn to our second panel.

Madam Secretary, there are a couple things we want to follow up with you.

Ms. MENSAH. Yes, I look forward to that.

Senator MORAN. I would invite Mr. Simpson, Mr. Lowry, Mr. Boisvert, Mr. Chrisman, to the table.

We have four experts from across the country with us today. We are delighted to have you here. I will defer in a moment to the Senator from Mississippi, Senator Cochran, to introduce one of our panelists. But I would welcome them all, including Mr. Simpson.

But, Mr. Lowry, thank you very much for joining us. Mr. Lowry is the president and chief executive officer of Sunflower Electric Power Association in Hays, Kansas.

Brian Boisvert is the president and general manager of Wilson Communications in Wilson, Kansas.

And Mr. Tony Chrisman is the vice president and owner of Chrisman Development, Inc., Enterprise, Oregon.

The Senator from Mississippi.

Senator COCHRAN. Mr. Chairman, I am pleased to join you in welcoming our panelists, particularly Bill Simpson, who is a friend of longstanding. His father was legendary for getting things done in Washington as a member of the staff for Senator Jim Eastland, who I replaced in the U.S. Senate when he retired.

So this is a chain of command operation here. And if it looks like we are double-teaming you, we are, because in our State of Mississippi, I do not know of any piece of legislation or Federal program that has been more helpful and enriched the lives of so many as the Rural Development Act. I mentioned it in my questions and observations to the previous panel, when they were here.

But this is also an indication of Congress' response and willingness to help in a positive way enrich the lives of people and create opportunities for economic growth and development, and generally the well-being of those who live in the small towns and rural communities of our great country.

So thank you for helping carry on this great tradition, and we appreciate your good efforts. Thanks.

Senator MORAN. Thank you, Senator Cochran.

We will work our way across the table, and we will begin with the testimony of Mr. Simpson. Thank you.

STATEMENT OF WILLIAM SIMPSON, DIRECTOR OF LEGISLATIVE AND REGULATORY AFFAIRS, NATIONAL RURAL WATER ASSOCIATION

Mr. SIMPSON. Thank you, Chairman Cochran, Chairman Moran, Ranking Member Merkley. I am delighted to be here. Good morning. It is an honor to testify before the Subcommittee on Agriculture, water and waste programs, and the associated technical assistance that benefit the small rural communities that chairman Cochran referred to.

As a native Mississippian, I am also extremely proud that this Rural Development title has helped my home State. From the top of the State to the bottom, you can see the tangible effects. Thank you for that.

Before I get started, I wanted to offer a personal note about the subcommittee. One of the great honors in my life was to serve on this subcommittee. I was trained by a former clerk named Galen Fountain, a brilliant, kind, and decent man. He told me in the very beginning working on this subcommittee, you will work in a bipartisan fashion. You will sit at the table with the entire staff. Every

word, every policy, every dollar will be jointly agreed upon. It made the Senate bill stronger, in my humble opinion, and it really made a difference.

In a time when people criticize Congress for not adhering to their duties, I think that this subcommittee, in particular, needs to get the recognition they deserve in taking that stance and, throughout the leadership changes of this subcommittee, continuing on that path. I think this subcommittee should be recognized, commended, and duplicated for that activity.

We have witnessed the reduction and restructuring of Rural Development, and its predecessor Farmers Home, field structure. Under Secretary Mensah mentioned it. I want to reinforce her comments. I know this budget climate is extraordinary difficult, but that is what I saw always as one of the strengths of Rural Development over Federal agencies is that they are out there in the communities. They live and work there to carry out the programs that you appropriate here, and the policies, including the farm bill. I know that really makes a difference.

We share a mission with our Rural Development partner. It is a shared mission that every rural community, regardless of income and location, deserves to be served. And no one in Rural Development should be left behind.

Our seasoned employees at the Rural Water Association have 23 years of experience working in water and wastewater industry. Many of these folks could get other jobs that do not require extensive travel away from their home, but their passion and their love for this industry, and the work, and they get great satisfaction out of helping these rural communities. And the communities we help, quite frankly, do not have a lot of the capacity or expertise to do this activity without this experienced personnel.

We accomplish this mission under three titles under the Rural Development title program with three programs.

First is the Circuit Rider program. I hope you have all heard about that. Since 1980, this on-the-ground assistance to rural communities for water, wastewater infrastructure, it is across the myriad of issues they have, complying with State and Federal regulations, disaster response, rate studies, operations and management. We have 117 circuit riders throughout the country. As you all know, they also do emergency response.

We believe there is a direct correlation with the work that our folks do and the extraordinarily low default and delinquency rate of the water and waste program that you appropriate.

The second is the Wastewater Technical Assistance Program, similar to the Circuit Rider, but it is concentrated on wastewater treatment facilities. We help with design, upgrades, daily operation, maintenance. We have 70 technicians around the country in that area.

Third, we have to commend the Rural Utilities Service for this. They started up a new energy efficiency program. The cost of electricity for a rural utility is the second highest cost behind labor. We started that as a demonstration. We are up to nine States now. We have had really good results in the beginning. We are returning $4.36 for every $1 of Federal investment to pay for our expertise, our person out there in the field doing this.

I close with a suggestion for the subcommittee, and it is the current underlying statutory authority for 10,000 population for eligibility for this program. In the past, this subcommittee could put these communities, if they had slightly grown or exceeded the limit, in a general provision. So now we are looking at the demographic change in rural America, people moving out, going into suburbanized areas that are ineligible, but these communities are still rural in characteristic. We would suggest that this subcommittee take a serious look at that.

In summary, rural America has been strengthened by the work and the vision of this subcommittee. No community can grow without sustainable resources, water and wastewater services. We stand with our Rural Development partner to work in this arena and do anything that you ask us to do.

Thank you, Chairman Moran, Ranking Member Merkley, Chairman Cochran. I will answer any questions that you may have.

[The statement follows:]

PREPARED STATEMENT OF WILLIAM SIMPSON

Good Morning Chairman Moran, ranking Member Merkley and members of the Subcommittee. It is an honor to testify before you on the Department of Agriculture's Water and Wastewater programs and the associated technical assistance programs that directly benefit small rural communities. As a native Mississippian, I am proud of the work of this Committee and specifically the impact of the Rural Development programs that have lifted-up the quality of life for so many of the residents in my home State from the Gulf of Mexico to our northern border with Tennessee. Thank you.

Before I get started I would like to offer a personal note. One of the great honors in my life was to serve on this Subcommittee. I was trained by a former clerk named Galen Fountain who is a brilliant, kind and decent man. I learned early on that this Subcommittee, regardless if you are in the majority or minority, is tasked to work as a team in a true bipartisan manner to draft and establish the policy and funding levels within your annual allocation—with everyone at the table throughout the entire process, every word, every policy, every dollar would be mutually agreed upon.

In a time where it is popular to criticize Congress on their lack of progress or inability to perform their duties, this Subcommittee is a shining example of how Congress meets those challenges and responsibilities even through difficult times. The entire staff, majority and minority, are recognized as capable, approachable, intelligent and true professionals. The fact that this tradition continues throughout the changes in the leadership of this Subcommittee over the years should be recognized, commended and duplicated.

The Rural Development mission area has a wide and holistic approach necessary to enhance and protect the health and vitality of rural America. We look at these USDA investments, especially in water and wastewater infrastructure, and witness their tangible impact on the quality of life in these rural communities. People take it for granted that their water is always safe and uninterrupted. This is not just about digging trenches and putting pipes in the ground. These investments are the catalyst for economic and community growth. They provide direct benefits like employment opportunities for residents. They also provide indirect benefits like increasing the tax base to attract new businesses and housing developments. Without the advantage of water and wastewater services these foundations of a community would never be put in a position to succeed.

The current water and waste disposal grant and loan programs operated by the Department of Agriculture's Rural Utilities Service have a long and successful history of providing critical infrastructure assistance to meet one of the most basic needs in rural America—providing safe and affordable water and wastewater assistance to low and moderate-income communities. This is one of the highest rated government programs in history, and one with a default rate that is almost non-existent with a greater than 30 day delinquency rate of .42 percent and greater than 1 year delinquency rate of .17 percent. The portfolio consists of over 16,000 loans that are valued at approximately $12.5 billion dollars. We believe the technical assistance provided by this Subcommittee to organizations like the National Rural

Water Association and others has a direct correlation with the stability and health of this portfolio and protects the government and community's investment.

All communities have elected and/or non-elected leaders that want to improve the quality of life where they work and live so their family and friends can benefit. The Rural Development staff lives and works in many of these same communities. They are part of the fabric of that community and also a vital Federal partner. This partnership has tremendous benefits, whether it's by providing critical infrastructure, securing affordable rental housing, providing broadband, telemedicine, constructing a heath care or child care facility or attracting and creating new businesses, it has and continues to impact lives.

We have witnessed the restructuring and reduction of employees and offices in Rural Development and its predecessor, the Farmers Home Administration. I know it is difficult in this budget climate, however any efforts to preserve or enhance this field structure will make a difference in serving remote rural areas especially ones that experience pervasive poverty. You can see diminishing Rural Development housing, water infrastructure and other loan and grant activities in areas where staff and offices have been reduced, relocated or eliminated.

The National Rural Water Association also shares a mission with our Rural Development partner. A shared mission to serve every rural community in need regardless of income or location. Like Rural Development, we want to ensure no community in rural America is left behind. Our seasoned field employees have an average of 23 years of experience working in the water and Wastewater industry. Many could find higher paying jobs and positions that did not require extensive travel, but they are on a mission and receive great personal satisfaction from their work. Many of the communities we serve simply can't afford the individual expertise necessary to operate and maintain their utility systems.

We accomplish this mission by using three existing programs under the Rural Development Title.

—First, the Circuit Rider program. Since 1980, Circuit Riders have provided onsite technical assistance to small rural communities for water infrastructure development, compliance, training, certification, operations, management, rate studies, disaster response, public health protection—all necessary to encourage local responsibility and local solutions for protecting and enhancing water resources. This mission is simple. At the grassroots level we deliver on-the-ground assistance to communities in need by providing safe, affordable and sustainable water service. We currently have 117 Circuit Riders throughout the country. From Dec 1, 2014 to September 30, 2015, Circuit Riders directly assisted 22,143 rural water systems through 40,788 direct contacts totaling 207,607 hours of work. This work performed by NRWA far exceeds our contract requirements. Rural communities also rely on our circuit riders in emergency situations. When flooding, extreme freezing, tornados or hurricanes hit, the circuit riders reach out to rural systems with generators, and technical help and assistance to get systems back online and safe water flowing to their customers.

—Second, is the Wastewater Technical Assistance program. This initiative provides on-the ground technical assistance directly to communities for wastewater treatment facilities. Assistance includes design and upgrade recommendations, daily operation and maintenance advice, assisting with permit renewals and helping these systems meet compliance requirements from state and Federal regulations. We currently have 70 wastewater Technicians throughout the nation. The wastewater Technicians, from July 1, 2014 to June 30, 2015, provided 147,571 hours of work directly contacting systems 35,969 times to assist 7,746 wastewater systems.

—Third, we are in our 2nd year with a new energy efficiency program created by the Rural Utilities Service (RUS). With electricity as the second leading operational cost after labor for a utility, reducing this expense provides increased stability and frees up revenue to address upgrades or deferred maintenance and at the same time reduces the burden to shift ever increasing operational costs to the moderate or low-income customers. We started this initiative last year with seven states and expanded to nine states this fiscal year. From July 1, 2014 to June 30 2015, 240 assessments were completed with a combined energy savings of $2,615,809. This initiative returns $4.36 in savings to the utility for every $1 of Federal investment.

I will close with a suggestion for the Subcommittee- The current underlying statutory authority for the Rural Development Water and Wastewater programs is set at a 10,000 population limit. The Secretary has little flexibility or waiver authority to address communities that have grown or slightly exceed that limit. In the past, this Committee was able to list these communities in general provisions in order to continue to be eligible for the RUS Water and Wastewater programs.

With the changing demographics of rural America, we believe that increasing the population limit to 20,000, with a priority given to smaller communities, would provide a benefit to rural America. We also believe this will increase the utilization rate for the Water and Wastewater Guaranteed program especially for communities with more resources and capacity necessary to debt service a commercial market rate loan.

In summary, rural America has been strengthened from the work and vision of this Subcommittee. No community can grow and improve without the sustaining resources of water and wastewater services. Rural Water stands willing and able to work with you and our partners at Rural Development to accomplish this goal.

Thank you Chairman Moran and Ranking Member Merkley for allowing me to testify and I would be happy to answers any questions that you may have at this time.

Senator MORAN. Mr. Simpson, thank you.

Mr. Lowry, before you testify, on behalf of my colleagues, I want express my care and concern for the president and CEO of the National Rural Electric Cooperative, Jo Ann Emerson. Her health is a very challenging circumstance. I served in the House of Representatives where classmates and many of my colleagues are great friends of Jo Ann. And we express, on behalf of all of us, to her and her family and the folks at the Rural Electric Cooperative Association, our love and compassion for Jo Ann.

Mr. LOWRY. We will be certain to pass that on to her. I know that it will be welcomed and well-received. Thank you very much.

Senator MORAN. Thank you.

STATEMENT OF STUART LOWRY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SUNFLOWER ELECTRIC POWER ASSOCIATION

Mr. LOWRY. Mr. Chairman, thank you for allowing me to be here today. Ranking Member Merkley, Senator Cochran, I appreciate the opportunity to be here to talk about 21st century rural development.

As Chairman Moran mentioned, my name is Stuart Lowry. I am the president and CEO of Sunflower Electric Power Corporation in Hays, Kansas. We are a generation and transmission cooperative, much like PNGC would be in the State of Oregon, or South Mississippi would be in the State of Mississippi. We provide wholesale services to over 350,000 Kansans.

I am also here representing the National Rural Electric Cooperative Association, the organization that Jo Ann Emerson heads up. That is the service organization for over 900 not-for-profit electric cooperatives in over 47 States that provide electricity to roughly 11 percent of the Nation's population. The development of the electric co-ops is really a perfect example of fostering rural economic development.

The story of the Rural Electrification Administration (REA) effort to electrify rural America via electric cooperatives is well-known to everybody by now. The agency is now known as the Rural Utilities Service, and this agency and its programs have allowed electric cooperatives to become champions for strengthening rural America beyond just providing electric service.

The Rural Economic Development Loan and Grant program, commonly referred to as REDLG, is an excellent example of a tool used by cooperatives to promote rural development.

The loan program provides zero-interest loans to local utilities that they then pass through to small businesses for projects that generate local revenue and jobs. The grant program allows local co-

operatives to establish revolving loan programs for other community projects.

In 2015, the loan program directed loans to 29 cooperatives for energy efficiency projects, rail offloading equipment, ambulances, and renovations for retirement communities. In addition, 27 grants went to 18 cooperatives, which renovated schools, hospitals, financed fire equipment, purchased medical equipment, and updated 911 communications equipment.

Kansas has many examples of REDLG success stories, but recently, two Kansas cooperatives well-known to Chairman Moran, Prairie Land Electric and Western Cooperative Electric, both used their revolving loan funds to purchase a CT scanner for the Sheridan County Health Complex. This adds a tremendous health benefit to a community of roughly 1,200 people. Similar examples exist in many other States, as well as the State of Kansas.

REDLG's successes have generated a greater demand for funding. We greatly appreciate the chairman and subcommittee for recognizing this challenge.

One critical source of funding for the REDLG program are the fees paid by cooperative lenders under the guaranteed underwriter program. The fees currently deliver $13 million annually. Two very important lenders to electric cooperatives, the National Rural Utilities Cooperative Finance Corporation, or CFC, and CoBank, have accessed funding through the Guaranteed Underwriter Program and have used these funds to help finance electric cooperatives investment in rural utility infrastructure projects. Fees from these transactions help fund the REDLG program.

Additionally, rural America is increasingly capitalizing on programs for energy efficiency. Over 96 percent of cooperatives already provide these programs to their consumer members. Both the 2008 and 2014 farm bills included programs for RUS to help cooperatives increase energy efficiency for the benefit of their customers.

Much credit is owed to this subcommittee, particularly Ranking Member Merkley, for his leadership to enact the Rural Energy Savings Program Act.

A robust regulatory agenda in recent years, and increased bureaucracy, have admittedly been burdensome and challenging. In the Great Plains region Sunflower serves, we are concerned about recent regulatory initiatives, including those under the Endangered Species Act and the lesser prairie chicken.

While the courts are considering various appeals, we continue to study the cost implications of listing the bird as threatened or endangered. Costs imposed on utilities via regulation are passed on to ratepayers, thus increasing the affordability of the service that we provide.

This is just one more example of how rural cooperatives must pass costs on to our members in the face of overregulation.

RUS finances future and improved distribution, transmission, and generating systems. We are particularly concerned that as a result of overregulation we will be required to spend more of these dollars on regulatory compliance costs. As such, it is vital that utilities spend their time providing safe, affordable, reliable electricity and using REDLG programs to contribute to a better rural America.

Sunflower, NRECA, and the cooperatives across the country greatly appreciate this subcommittee and the full committee support for funding the RUS electric loan program at the $6 billion level for fiscal year 2016.

Thank you also for recognizing the value that these programs provide the rural communities we serve.

Thank you for inviting me here to testify. I look forward to any questions you may have.

[The statement follows:]

PREPARED STATEMENT OF STUART LOWRY

INTRODUCTION

Thank you, Chairman Moran, Ranking Member Merkley, and members of this subcommittee for inviting me to testify today at your hearing on the Importance of Rural Development and, more specifically, on USDA's Rural Economic Development Loan and Grant (REDLG) program.

I am Stuart Lowry, president and CEO of Sunflower Electric Corporation in Hays, Kansas. Sunflower is a not-for-profit, wholesale electric generation and transmission utility, commonly known as a G&T. Based on the cooperative business model, Sunflower is owned and democratically governed by its member-owners, six distribution cooperatives serving more than 350,000 members in central and western Kansas. Sunflower and its Distribution Cooperative Members provide more than 800 jobs in communities located in the western half of Kansas.

I am also here today representing the National Rural Electric Cooperative Association (NRECA). NRECA is the service organization for more than 900 not-for-profit electric utilities serving over 42 million people in 47 states. NRECA's members include 67 G&T cooperatives that generate and transmit power to 66 of the 838 distribution cooperatives across the nation. Electric cooperative service territory makes up 75 percent of the nation's land mass. Kilowatt-hour sales by rural electric cooperatives account for approximately 11 percent of all electric energy sold in the United States. NRECA member cooperatives serve over 42 million Americans, including more than 8 million member owners and 11,839 jobs in the 12 states represented on this subcommittee.

I would like to thank the Chairman, Ranking Member, and the entire subcommittee on behalf of Sunflower and NRECA for their long-standing support of rural electric co-ops and their consumer-members. We are also grateful for Administrator McBride's leadership and service to cooperatives.

ELECTRIC CO-OPERATIVES AND RURAL DEVELOPMENT

The development of electric co-ops is a perfect example of rural development. As many of you know, well into the 1900s, a lack of economic incentives left much of rural America literally "in the dark"—unserved by private power companies. This led to President Roosevelt's forming the Rural Electrification Administration, then known as the REA, in 1935 to establish programs that would lead to the electrification of rural America via electric cooperatives. Now restructured as the Rural Utilities Service to include other rural utilities—such as those represented on this panel—RUS continues to operate programs that benefit rural America under the umbrella of Rural Development at USDA. Combined, these programs have allowed electric co-ops to play a major role in strengthening small communities that are essential not only to the nation's economy, but also to the way of life valued by many.

Electric co-ops continue to take seriously the seventh cooperative principle: Concern for community. The economic development work in Rural America is not done and we appreciate the Subcommittee focusing its attention on this important topic.

In June, NRECA convened a Rural Summit here in Washington. The event gathered rural experts from the Administration in various Federal departments, nonprofit groups, academia, and other rural leaders to hold a positive conversation about how to tackle the toughest issues facing rural communities and main street economies. The next steps are to take the Summit on Rural America into regional discussions around the country and to populate a guidance group that can collect and share best practices and ideas and explore a number of themes.

One theme is harnessing the value of the multiple profiles and changing demographics of rural America. Another is growing interest in the assets in rural America and investing in the infrastructure and technology to connect rural America with the world. Participants also highlighted the need for new ways of doing business

and developing educational opportunities and a workforce to conduct that business. Other panelists highlighted the quality of rural life and the need to address the public's perception of "rural." These regional gatherings are expected to focus on growth and diversification of the local economies, the expanded role for technology in the rural economy, and the need to focus on collaboration and communication.

Twenty-five years ago, NRECA was instrumental in forming the National Rural Economic Developers Association, an organization that provides education and networking for professionals who work to grow our rural communities. NREDA has been very active promoting and providing education for USDA programs, especially the Rural Economic Development Loan and Grant Program.

REDLG is one of the programs that co-ops have utilized to help enhance small-town America, and Kansas is just one of the many success stories. REDLG is a $33 million loan and $10 million grant program available to co-ops for economic development activities. The loan program provides zero interest loans to local utilities that serve as a pass through to small businesses for projects that create and generate new jobs and revenue. The grant program provides funds to local cooperatives that use the dollars to establish revolving loan programs for specific projects. Once the loan is repaid to the revolving loan fund, the cooperative continues to deploy the funds for additional rural development projects.

In 2015, the loan program directed $32.5 million in loans to 29 coops that created 288 jobs and saved 436 more. These dollars enabled energy efficiency projects, purchased rail offloading equipment, ambulances, a library expansion and retirement communities. In addition, 27 grants went to 18 co-ops for $7.1 million, which renovated schools and hospitals, financed fire equipment, built fire halls, purchased medical equipment, and updated 911 communications equipment. The grant program saved 151 jobs and added 112 more.

A specific example of the ways Kansas cooperatives have used this program includes

Prairie Land Electric, headquartered in Norton, Kansas, and Western CooperativeElectric, headquartered in WaKeeney, Kansas, using funds from their revolving loan funds for the Sheridan County Health Complex, located in Hoxie, Kansas (population 11,201). The funds are being used for hospital upgrades, including the addition of a CT scanner, so this small community can enjoy improved access to healthcare. Together the cooperatives loaned $575,000 to the health complex for this project.

Recently, Twin Valley Electric Cooperative from Altamont, Kansas, was awarded a $200,000 REDLG loan for RBK Manufacturing LLC in Coffeyville, Kansas (population 10,295). This successful manufacturer of aftermarket auto parts and equipment will purchase additional tooling equipment for expansion. The four additional jobs provided by this expansion are important in small communities like Coffeyville.

These are excellent examples of how the REDLG program continues to provide benefit to rural America. Kansas cooperatives are in good company with the many other electric cooperatives that have used this program to improve their community.

In Iowa, Corn Belt Power Cooperative and Butler County REC each loaned $60,000 from their respective Revolving Loan Funds to assist Allison Family Dental. Dr. Travis Harbaugh had just graduated dental school and purchased the existing dental practice in Allison, Iowa (population 1,025) from a retiring dentist. The purchase allowed a dental practice to remain open in a rural community, retain three jobs, and create four more.

Sioux Valley Energy in South Dakota provided funding for the Lake Area Improvement Corporation to construct the Heartland Technology Center in the Hueners Technology Park. The technology park is in Madison, South Dakota,—(population 6,474). The Center has office space designed to meet the needs of businesses needing a high-tech setting and is located adjacent to nationally recognized Dakota State University to provide immediate access to some of the best qualified baccalaureate and masters graduates in computer science and information systems.

An expansion for Brownmed Inc., headquartered in Spirit Lake, Iowa, (population 14,952), allowed the company to more than double its existing manufacturing facility of 30,000 square feet by constructing an additional 51,000 square feet. The company manufactures more than 85 products for medical purposes, including the Seal Tight Cast, Plastalume finger splint and IMAK arthritis compression products. Total expansion costs were over $3.6 million. Iowa Lakes Electric Cooperative received a $1,000,000 Rural Economic Development Loan through USDA for the project, while loaning an additional $250,000 from their REDLG revolving loan fund. Corn Belt Power loaned $150,000 from their Intermediary Relending Program (IRP) Revolving Loan Fund toward the project as well. Brownmed employs 66 people, 50 of whom are in the Spirit Lake location. This is an excellent example of cooperatives using multiple USDA programs to create jobs in their communities.

Recently, the list of entities eligible for the program has expanded, which has placed more demand on the funds. The Administration requested a budget of $60 million, and we would like to see the REDLG program funded as close to this recommendation as possible. We support reducing the maximum loan level to $1 million as this approach will allow more projects to be funded in rural areas— where a little funding can go a long way.

In recent years past, the REDLG program benefited from millions of dollars in unused funds carried over from previous years, dwindling dramatically from $57.9 million in fiscal year 15 to only $8.2 million in fiscal year 14. We appreciate the Subcommittee's efforts to make these funds available after the year in which they were appropriated. Unfortunately, given the high demand on the program, all funds have been used during the fiscal year. If in the future, any funds remain unused at the end of the year, we hope the Subcommittee will provide the opportunity to carry-over funds to the following year in support of the REDLG program.

GUARANTEED UNDERWRITER PROGRAM

One critical source of funding for the REDLG program is the fees paid by cooperative lenders under the Guaranteed Underwriter Program. The level of fees is currently at $13 million.

We appreciate this subcommittee's work to increase the Guaranteed Underwriter Program to $750 million in the fiscal year 16 bill. This increase supports electric cooperatives by helping cooperative lenders maintain a balanced portfolio to provide loans at attractive rates as well as increasing the level of fees paid to support the REDLG program.

Since 2005, the National Rural Utilities Cooperative Finance Corporation (Cooperative Finance Corporation) has accessed funding through the Guaranteed Underwriter Program and used the funds to help finance electric cooperatives' investment in rural utility infrastructure projects such as poles, wires and substations. As part of its long term commitment to the Guaranteed Underwriter Program, CFC also pays fees to help fund the REDLG program. Recently, another lender, CoBank has also utilized this program.

ENERGY EFFICIENCY

RUS has recognized energy efficiency as an integral component of electric cooperatives' energy resources. Co-ops have long been leaders among utilities in the area of energy efficiency with 96 percent of co-ops already providing some energy efficiency program to its consumer-members.

Both the 2008 and 2014 Farm Bills included ways that RUS could help co-ops increase energy efficiency for the benefit of their consumers. The Energy Efficiency and Conservation Loan Program (EECLP) and the Rural Energy Savings Program (RESP) are designed to help co-ops promote energy efficiency and renewable energy to their consumers, saving energy while also saving consumers money on their energy bills. One such example is Midwest Energy Cooperative, located in Hays, Kansas, which was among the first co-ops in the country to provide on-bill financing for energy efficiency improvements for their consumer-members.

These energy efficiency programs have a positive financial impact on communities because they create jobs in rural areas and increase economic activity due to savings resulting from energy efficiency improvements.

Much credit is owed to Ranking Member Merkley for his leadership on the Rural Energy Savings Program Act (RESPA), and we look forward to working with him and other members of this subcommittee on ways to make these programs most successful.

CONCERNS GOING FORWARD

A robust regulatory agenda in recent years and subsequent increased bureaucracy have admittedly been burdensome. Electric co-ops are concerned about having to spend more time figuring out how to comply with new costly regulations and how to avoid passing those costs onto our consumer-owners, all of which leave less time and resources available for innovation and strengthening our existing services.

For example, in the Great Plains region where Sunflower serves, we are concerned about recent developments with the Endangered Species Act and the Lesser Prairie Chicken. While the courts are considering various appeals, we continue to study the cost implications of listing the bird as threatened or endangered. This is just one more example of how rural cooperatives—averaging 7.4 consumers per mile of line and collecting annual revenue of approximately $15,000 per mile of line versus investor-owned utilities averaging 34 customers per mile of line and collecting $75,500 per mile—must pass costs to our members. Rural cooperative mem-

bers are older, less financially stable, and fewer in number and thus have limited ability to pay higher electric rates created by the increased regulatory burdens.

The RUS allows co-ops to finance future and improved electric distribution, transmission and generating systems. We are concerned that, as the result of overregulation, we will be required to spend more of these dollars on compliance costs. As such, it is important that RUS is adequately funded so that utilities can spend less time crunching numbers related to compliance costs for providing electricity and more time engaging in other activities and programs, such as REDLG, that contribute to an improved economy and a better quality of life for our members.

Sunflower, NRECA, and co-ops across the country greatly appreciate this subcommittee and the full committee's support for funding the RUS electric loan program at the $6 billion level for fiscal year 16. Thank you for recognizing the value that the electric program and co-ops provide to approximately 42 million people every day.

We look forward to providing any information that would be helpful to the committee and improving the opportunities or addressing the challenges that face rural America. I thank you for inviting me to testify and look forward to any questions you may have.

Senator MORAN. Mr. Lowry, thank you very much.

We now turn to Mr. Brian Boisvert. Welcome.

STATEMENT OF BRIAN BOISVERT, CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER, WILSON COMMUNICATIONS

Mr. BOISVERT. Good morning. Thank you, Chairman Moran, Ranking Member Merkley, and Senator Cochran. Thank you for this opportunity to testify before you about rural telecommunications and its impact on rural development.

I am Brian Boisvert, CEO and general manager at Wilson communications in Wilson, Kansas. I have been part of the rural telecom industry for 37 years and with Wilson for the past 15.

Wilson communications is a local telecommunications provider serving 1,500 rural Kansans over a 1,000-square-mile area. We have 17 employees. We provide wireline voice, high-speed broadband, and video services over a fiber-optic-based network. We have been an REA, RUS borrower since 1956, and we have a current loan for our fiber to the home build.

Broadband is an integral element in the 21st century and beyond for rural development. Well-built and maintained broadband networks make it possible to live anywhere and obtain a college degree, be economically successful, receive specialized medical care, and have access to entertainment and shopping not generally available in rural communities.

So-called smart devices are appearing every day. In the home, they monitor and help manage energy consumption, and they can also alert the homeowners that the kids have arrived safely home from school. Rural farming can be more efficient and safe with bin monitors, heat sensors, and fuel tank level alerts.

Regardless of whether it is consumer-based for business or emergency services, it all relies on a well-built broadband network.

As an illustration of the scale of rural broadband build networks, the Kansas rural telecommunication companies serve approximately 10 percent of the population, but our service areas cover 50 percent of the State's land mass. This is typical of rural telecommunication providers all across the Nation.

A business model does not exist for these low-population density areas. This is why a predictable, sufficient, and sustainable Universal Service Fund is critical for rural development. Updated for

broadband-capable networks, USF could have the same successful impact it had when bringing telephone service to every American.

The FCC issued its transformation order in 2011 with the goal to modernize the Universal Service Fund. However, the order created uncertainty throughout the rural telecommunications industry, adversely impacting investments in broadband-capable infrastructure throughout areas served by rate-of-return carriers.

Even as I sit before you today, the rural telecommunications providers still lack certainty for a sufficient, predictable, and sustainable Universal Service Fund. A USF that includes support for standalone broadband service will be a cornerstone in bringing economic benefit for rural development in small communities across the Nation.

We see an ever-increasing connection, an interdependence between rural and urban areas. This relationship can be seen by considering the Nation's farms. The bulk of the Nation's food supply is produced in rural America, but their products supply the entire Nation.

Agriculture, Kansas's dominant economic activity, can benefit greatly from broadband-enabled services. Ag operations can monitor grain prices online to optimize their revenues. And if they are in the cattle business, they can bring their herd to a local sale barn that is now utilizing online auctions. This expands their market to beyond buyers who could only drive to the sale.

The rural telecom industry contributes both to rural and urban economies. Even at the height of the recent recession in 2009, the rural telecom industry contributed $14.5 billion to the economies in States where they operated. The majority of this economic activity, 66 percent, went to the benefit of urban areas. Jobs supported exceeded 70,000, with 54.3 percent in rural areas and 45.7 percent of these jobs in urban areas.

Building and maintaining these networks is clearly important, but so too is broadband adoption. Combined, I believe it will not only enhance rural development, but is critical to rural community survival.

How do we achieve this? One important factor is the continued availability of RUS loans. Making capital available to small companies at competitive rates is critical for the continued investment in modern infrastructure. The ability to keep rural consumer rates reasonably comparable to urban rates is a key goal of universal service.

Taken together, the availability to capital and ongoing USF support will help ensure rural development in a stronger and connected Nation.

Thank you, Mr. Chairman, Ranking Member Merkley. I am happy to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF BRIAN BOISVERT

INTRODUCTION

The Rural Telecommunications Industry

Chairman Moran, Ranking member Merkley, and members of the subcommittee, thank you for this opportunity to testify before you about rural telecommunications and its impact on rural development. I am Brian Boisvert, CEO/General Manager

at Wilson Communications. My remarks today are on behalf of Wilson Communications, as well as NTCA—The Rural Broadband Association and their several hundred small community-based members that provide a variety of communications services throughout the rural far reaches of the nation.

I have been part of the rural telecommunications industry for 37 years and with Wilson for the past 15 years. Wilson Communications is a local telecommunications provider serving 1,500 rural Kansans over a 11,000 square-mile area. Wilson has 17 employees. We provide wireline voice, high-speed broadband and video services over a fiber optic-based network. We have been REA/RUS borrowers since 1956 and have a current loan for our FTTH build.

Small, rural telecom providers connect rural Americans to the world. Moreover, these rural network operators have been at the forefront of the broadband and Internet Protocol ("IP") evolution for years, making every innovative effort to deploy advanced networks that respond to consumer and business demands for cutting-edge services. In rural America, that translates into economic development that produces jobs, not only in agriculture, energy and other industries with a strong rural presence, but in the healthcare sector, and just about any other retail industry that requires broadband to operate in this day and age. Broadband has become essential to delivering healthcare and securing the public safety. And much of the business world is already demanding higher broadband speeds to help it interact with and sell to customers near and far. Broadband and other services provided by the rural telecom industry serve as an incubator for small business ideas in rural America to be implemented and to flourish.

Fixed and mobile broadband, video and voice are among the numerous telecom services that rural Americans can access thanks to the rural industry's commitment to serving sparsely populated areas—and the rural development and other essential governmental programs that make it possible to carry out this commitment. Broadband-capable networks facilitate greater interconnection of the community's resources and can enable citizens' participation in the global economy, blue-ribbon education, first-rate healthcare, cutting-edge government services, robust security and more efficient energy distribution and use.

The rural telecom industry has always been at the forefront of technological innovation, being the first segment of the industry to completely convert to digital switched systems, provide wireless options to their hardest to reach customers, offer distance learning and tele-health applications, provide cable-based video, then satellite video, and now IP video to their markets, and it was a member of the RLEC community that first deployed an all-fiber system. The rural industry continues to lead in the deployment of broadband capable infrastructure.

RURAL BROADBAND BENEFITS THE ENTIRE U.S. ECONOMY

A series of studies confirms that significant benefits flow from rural broadband investment to broader urban and statewide populations. For example, the Hudson Institute has found that investment in rural telecommunications delivers real payback for the entire nation, generating $14.4 billion annually in economic activity as of 2011—$9.6 billion of which accrued to the benefit of urban areas, and more than 70,000 jobs, 45 percent of which were placed in urban areas.[1] In Colorado, rural telecom helped create 428 jobs, adding over $21 million per year to state payrolls.[2] North Dakota saw an additional $18 million in Federal tax revenue and $31 million in state tax revenue arising out 1,100 direct jobs and 800 secondary jobs generated by rural telecommunications activity.[3]

The converse holds true, however, from adverse changes—"reforms" that depress or cut investment in rural broadband hurt state economies. In Kansas, for example, potential cuts in Federal rural telecom programs were projected to result in $1.4

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[1] Kuttner, Hanns, The Economic Impact of Rural Telecommunications: The Greater Gains, Hudson Institute, at 6, 8 (2011).

[2] Shields, Martin, Cutler, Harvey, and Marturana, Michael, The Impacts of Colorado Telecommunications Association Members on the Colorado Economy, Regional Economics Institute, Colorado State University, at 9 (Oct. 26, 2011).

[3] McKee, Gregory, The Effect of Changes in Universal Service Funding on the Economic Contribution of Rural Local Exchange Carriers to the North Dakota State Economy, Department of Agribusiness and Applied Economics, Agricultural Experiment Station, North Dakota State University, at 16–19 (Dec. 2011) ("Like other RLECs, North Dakota RLECs buy many specialized products and services not available in state economies. National and international markets typically provide these products and services.").

million in personal income tax losses and $1.3 million in retail sales tax losses.[4] A personal income loss of $14.1 million was projected for 2012 alone in New Mexico from the same proposed cuts.[5] Studies examining the impact of rural communications activity—including purchasing, employment figures, and projected tax revenues—confirm rural communications to be a powerful generator of urban economic growth and Federal and state tax revenue. In short, rural broadband is an investment with real benefit and returns for the nation as a whole.

To not have access to high-speed Internet in this day and age is unimaginable to most people, yet millions of Americans live in areas—mostly in rural territory served by carriers other than small, rate-of-return providers similar to Wilson—where there is no robust broadband that enables meaningful access to the countless economic and educational opportunities available through the Internet. These people have small business ideas that need broadband to succeed and they need jobs that small businesses can provide. Yet, as important as it is to deliver broadband to the unserved, it's equally vital that those already receiving broadband remain served—the benefits that flow from broadband are ongoing. If a network is built in a rural area but then becomes unsustainable or the services over it unaffordable or of poor quality, such developments deny the benefits of broadband for small businesses and all consumers. Thus, the mission of universal service—and the economic benefits it delivers locally and to the nation as a whole—require ongoing operations, effort, and support to be realized.

RURAL UTILITIES SERVICE FINANCING

RUS Role in Rural Telecom Deployment

USDA's Rural Utilities Service (RUS) plays a crucial role in rural broadband deployment through its telecommunications programs that finance network upgrades and deployment in rural areas. RUS has been lending for broadband capable plant since the early 1990s. RUS lending and Universal Service Fund (USF) support are inextricably linked as more than 99 percent of RUS Telecommunications Infrastructure borrowers receive high cost USF support. The presence of high cost recovery through USF support is therefore crucial to the RUS telecom and broadband loan calculus. RUS programs have helped rural providers deploy modern networks in many rural areas where the market would otherwise not support investment. Reliable access to capital helps rural carriers meet the broadband needs of rural consumers at affordable rates.

Unfortunately, the success, momentum, and economic development achieved from the RUS's telecommunication programs were put at risk as a result of the regulatory uncertainty arising out of USF reforms—some enacted, some revoked, and some still pending consideration—which are discussed in greater detail below. It will be all the more important to continue providing RUS with the resources it needs to lend to the rural telecom industry as demand for financing should increase when reforms are improved and small carriers are given certainty, hopefully through targeted updates to the existing USF programs designed to re-establish clarity and promote broadband investment. As Congress continues to grapple with where to best direct scarce resources, it's important to note that the RUS Broadband Loan Program and the traditional Telecommunication Infrastructure Loan Program make loans that must be paid back with interest—creating a win/win situation for rural broadband consumers and taxpayers. Rural providers look forward to building on an already successful partnership with RUS.

Appropriations

We appreciate the Appropriations Committee's efforts to ensure the FCC continues to receive direction with respect to USF cost recovery support and making sure that the RUS Telecommunications Program is adequately funded. The committee agreed as well with NTCA's request to extend the prohibition on the FCC from subjecting USF to the Federal Anti-Deficiency Act through December 31, 2017, and to extend the long-running prohibition on any sort of primary-line restriction on USF support through the end of fiscal year 2016. The committee further agreed to reject the Administration's budget request to divert $25 million in USF funds for additional unnecessary reviews and investigations in the wake of a series of earlier costly audits that identified no noteworthy program issues to begin with. This sub-

[4] Kansas Rural Local Exchange Carriers: Assessing the Impact of the National Broadband Plan, W. Frank Barton School of Business, Center for Economic Development and Business Research, Wichita State University, at 11, 12 (2011).

[5] Peach, James, Popp, Anthony V., and Delgado, Leo, The Potential Economic Impact of the National Broadband Plan on the New Mexico Exchange Carriers Group, Office of Policy Analysis, Arrowhead Center, New Mexico State University, at 18 (2011)).

committee also favorably responded to NTCA's request for report language directing the FCC to complete the development of a fully functional, broadband-oriented USF program for rural rate-of-return carriers. Mirroring language was also included in both the FCC bill and the RUS appropriations bills directing the two agencies to work together to ensure that the USF and RUS programs operate in a coordinated fashion rather than to the possible detriment of one another. Clearly this subcommittee played an integral role in developing each of these initiatives and ensuring they were a part of the package agreed to by the full committee, and we applaud your leadership.

UNIVERSAL SERVICE

The FCC's Universal Service Fund Reforms

RUS programs represent one important side of the coin—governmental programs intended to provide capital to enable investment in infrastructure in rural areas. As mentioned earlier, however, there is another, equally important side of that coin—governmental programs intended to ensure that networks, once deployed, can be maintained and upgraded, and that services offered atop those networks will remain affordable and of high-quality for consumer adoption and use.

No issue is perhaps more important to the fundamental capability of small telcos to deliver services in high-cost, sparsely populated rural markets than the availability of sufficient and predictable universal service support. The ongoing availability of USF support is essential to ensure that rural telcos can make the business case to invest in robust advanced networks, to enable the operation of those networks over many years, and to facilitate consumer use of services at affordable rates. (USF support is, in this regard, an essential complement to RUS programs that only serve to finance network construction in the first instance.) NTCA has made substantial efforts to restore regulatory certainty to the USF program, and has sought thoughtful upgrades to the USF mechanism consistent with a broadband-oriented world.

For rural areas like those served by Wilson Communications and other NTCA members, FCC rules still require customers to purchase landline voice telephone service in order for their connection to receive USF support. The customer is thus effectively denied the option of cutting the landline-voice cord and purchasing only broadband. Such outdated rules that undermine consumer freedom and inhibit technological evolution present an obstacle to the technology transition that consumers and industry are making and the FCC is working to expedite and facilitate in other contexts. While Universal Service programs should certainly support and require the offering of voice services, it should not compel consumers to buy voice to obtain affordable broadband. The FCC should move forward immediately to adopt and implement a carefully tailored update of USF that will provide sufficient and predictable support for broadband-capable networks in areas served by smaller rural carriers. Earlier this year, over 175 members of Congress (including 61 senators) wrote to FCC Chairman Wheeler, urging him to make targeted fixes to the existing USF mechanism to solve "the standalone broadband problem."[6]

The FCC is in the midst of considering such reforms now, and has made commitments to many in Congress to take action on "the standalone broadband problem" by year's end. We have been working closely as an industry with the FCC and other stakeholders to make this a reality. It is key, however, to ensure at the same time that these reforms are undertaken thoughtfully, with an understanding of the consequences of specific changes on investment incentives, access to capital, and ultimately consumers. As an industry that lived through a series of reforms in 2011 that created confusion and uncertainty and ultimately only depressed investment—until Congress helped to push the FCC to roll back some of the worst parts of that reform—it is essential to rural telcos that reform both gets done quickly and gets done right. We hope that the FCC will find a way to deliver on the requests of Congress to fix the standalone broadband problem, and we are committed to staying at the table to come up with a solution that responds to that call, fulfills shared principles for reform, and ultimately comports with the statutory mandates for a sufficient and predictable support mechanism that enables the offering of reasonably comparable services at reasonably comparable rates in rural and urban America both.

The broadband revolution presents major opportunities for small businesses to innovate and grow, but the business (or entrepreneur with an idea) must have

[6] See US Senate letter led by Senators Thune and Klobuchar dated May 11, 2015 and US House letter led by Representative Kevin Cramer dated May 12, 2015, both sent to FCC Chairman Wheeler.

broadband access to take full advantage. Markets will ensure many consumers realize the full benefits of innovation at the lowest possible prices, but in rural areas there are often no such markets to speak of. Though small, rural providers have been leaders in broadband investment under the current statutory and regulatory regime, further law and policy changes will be necessary to ensure high cost rural areas remain served. A faithful and disciplined approach to the core Communications Act principle of universal service must therefore ensure that, even in the event of any statutory or regulatory update, those areas served through support from Federal and state USF mechanisms not only "become" served in the first instance, but that they "remain" served, and that consumers and businesses everywhere can make full use of sustainable advanced communications services at affordable rates.

Finally, Congress should consider an express directive to the FCC to ensure that all who use our nation's networks—by whatever service or technology—are responsible to contribute to the universal well-being and availability of those networks on an equitable basis. USF is still funded by assessing interstate and international long distance telephone service. The pool of assessable telecommunications service revenues is shrinking even as overall communications-related revenues grow. As a result, the USF program effectively has an artificial funding ceiling that lowers a bit each day due to the failure to broaden the contribution base. This de facto cap on the USF program will handicap severely our nation's ability to fulfill the statutory core principles unless changes are made. Indeed, broadening the contribution base to include the services that USF already supports has previously received bipartisan backing in the US House.[7]

CONCLUSION

Entrepreneurial small rural carriers have leveraged public and private capital, universal service support, and public-private partnerships to lead the ongoing IP Evolution. These small businesses play an essential role in deploying broadband to rural areas, and the services enabled by broadband are essential to the startup, operation, and growth of other rural small businesses. Rural America has a bright future powered by smart technologies that promote affordability, sustainability, and efficiency in the operation of rural industry and the delivery of essential services such as healthcare, education, and public safety—all key to rural population growth. The benefits that some rural communities are already experiencing will only be possible for all if robust broadband is available, affordable and sustainable. Rural telecom providers and lenders such as RUS must have regulatory certainty before they can make greater investments in the networks of the future. One important key to regulatory certainty is a broadband- oriented support mechanism for small, rate-of-return carriers that gives rural consumers options in selecting the services that best fit their needs on the networks that the mechanism helps to enable and sustain.

Senator MORAN. Thank you very much.

Mr. Chrisman, before you testify, let me recognize the Senator from Oregon, Senator Merkley.

Senator MERKLEY. I am delighted that Mr. Chrisman has been able to come and share his experience, and to be accompanied by his wife, Julie.

Mr. Chrisman is from Enterprise, Oregon. Along with his brother, Doug, he has been working to provide affordable housing to Oregonians for 25 years. They have developed over 50 affordable housing projects and manage an additional 50, serving more than 3,000 households across rural Oregon and Washington. Their business employs about 200 people.

Mr. Chrisman is a valuable and successful user of Rural Development programs, specifically multifamily housing programs and USDA's rental assistance program. His insight and experience from the frontline will point to a substantial challenge that we have right now that needs to be addressed urgently.

I am so delighted you could come and share your testimony.

Senator MORAN. Mr. Chrisman.

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[7] See H.R. 5828 § 102(a), 111th Cong., 2d Sess. (2010).

STATEMENT OF TONY CHRISMAN, VICE PRESIDENT AND OWNER, CHRISMAN DEVELOPMENT INC.

Mr. CHRISMAN. Thank you. Good morning, Chairman Moran, Ranking Member Merkley. My name is Tony Chrisman. I am a rural housing developer and property manager from Enterprise, Oregon.

It is pretty interesting to hear all the stories about rural America. The town I live in does not even have a stoplight. But we have been able to develop a business even in that small community.

It is an honor to appear before you today to discuss the urgent situation involving the USDA Rural Development Multifamily Housing Rental Assistance Program. My company has developed, owned, and managed affordable housing complexes for 26 years. We developed over 50 affordable housing projects and manage an additional 50 projects, representing over 3,000 households across Oregon and Washington. We have 200 employees.

Seventy-five percent of the projects that we own and manage have been funded through the USDA Rural Development Multifamily Housing Program and receive project-based rental assistance directly from USDA Rural Development. That is the payment that is made on behalf of the low-income tenants, which pays part or all of their monthly rent and utilities.

I am here to bring your attention to the current crisis that has occurred. This summer, we were alerted to the fact that the rental assistance program faced a shortfall of funding due to language that was included in the Consolidated and Further Continuing Appropriations Act of 2015. We received one notice in the mail from Rural Development that one of the projects we manage would no longer be receiving rental assistance for the next 5 months.

We were very concerned about that. We began doing additional research and realized the balance of our Rural Development properties were also going to be affected.

What we discovered was alarming. Due to a change apparently requested by USDA Rural Development, rental assistance contracts could no longer be renewed as they had been in previous years. In addition, due to the fact that USDA RD budgeted each project's rental assistance based on a statewide average and not their actual use, any project with a higher than statewide average of rental assistance faced a shortfall.

In August of this year, Rural Development failed to provide rental assistance to many of our properties. As of last Friday, 17 projects representing 770 low-income households have not received rental assistance for at least 1 month. The amount of rental assistance not paid to date is $365,000.

For a small company such as ours, the consequences of this situation could bring an end to our business. We received no official notice or any indication from Rural Development that payments would not be made with one exception. These payments generally represent about 80 percent of the monthly revenue for each affected property.

We have no idea when payments may resume. Unfortunately, just listening to Administrator Hernandez, it appears that they still have not decided whether they are going to pay the back payments or not, even after the continuing resolution.

We are left in a no-win situation with low-income tenants who are unable to afford their rent and Rural Development unwilling or unable to pay rental assistance on their behalf.

What is happening with our company and tenants is playing out across the country. There are 272,000 units of affordable housing and 14,900 properties across the United States that receive Rural Development rental assistance.

We have talked to other affordable housing owners and managers across the country and discovered they are experiencing the same thing, and payments of rental assistance are not being made. Many owners and managers of these properties were giving the low-income tenants notice that they need to pay much higher rents as a result of rental assistance not being paid on their behalf.

If this situation is not remedied, significant impacts will occur. First, without regular rental assistance payments, most tenants cannot afford the full rent on their own. As a result, they face displacement and possibly homelessness. The average income of our portfolio of the tenants who receive rental assistance is approximately $10,000. The average household income of the families who live in the USDA Rural Development properties is extremely low, and these tenants represent some of the most vulnerable members of our society.

The way USDA Rural Development has dealt with this matter will result in tenants with the lowest incomes and greatest needs being displaced from housing that many of them have lived in for years.

Second, the 14,900 existing USDA-funded properties across the country will face foreclosure, bankruptcy, and possibly default on their financial obligations.

The third consequence of the situation is that many jobs across rural America will be in jeopardy as these projects fail and managers, contractors, and support staff are terminated.

I am here today to ask for your help to resolve this situation. Thank you.

[The statement follows:]

PREPARED STATEMENT OF TONY CHRISMAN

Good morning, Chairman Moran, Ranking Member Merkley, and distinguished Members of the Subcommittee. My name is Tony Chrisman and I am a Rural Housing Developer and Property Manager from Enterprise, Oregon. It is an honor to appear before you today to discuss an urgent situation involving the USDA Rural Development Multifamily Housing Rental Assistance Program.

My companies have developed, owned, and managed affordable housing complexes for 26 years. We have developed over 50 affordable housing projects and manage an additional 50 projects representing over 3000 households across rural Oregon and Washington. We currently employ approximately 200 people.

75 percent of our housing projects have been funded through USDA Rural Development multifamily housing programs and receive Project Based Rental Assistance directly from USDA Rural Development. Rental Assistance is a payment made on behalf of low income tenants which pays part or all of their monthly rent and utilities based upon the tenants' income.

I am here to bring your attention to the current crisis that has occurred in the USDA Rental Assistance program. This summer, we were alerted to the fact that the Rental Assistance Program faced a shortfall in funding due to new language that was included in the "Consolidated and Further Continuing Appropriations Act, 2015." We received a single notice from USDA Rural Development that one project we managed was going to run out of Rental Assistance in 30 days and would not be eligible for further payments for 5 months. We were very concerned. We began

doing additional research on the balance of our USDA Rural Development properties to determine if other projects would be affected. What we discovered was alarming. Due to a change, apparently requested by USDA Rural Development, in the language of the "Consolidated and Further Continuing Appropriations Act, 2015" Rental Assistance contracts could no longer be renewed as they had been in previous years. In addition, due to the fact that USDA RD budgeted each project's Rental Assistance based upon a state-wide average and not their actual budgets, any projects which had higher than the state-wide average of Rental Assistance faced a shortage.

In August of this year, USDA Rural Development failed to provide Rental Assistance to many of our properties. As of October 15, our companies have 17 projects representing 770 low income households that have not received Rental Assistance for at least 1 month. The amount of the Rental Assistance not paid to date is $365,000. For a small companies such as ours, the consequences of this situation could bring an end to our business. We received no official notice or any indication from USDA Rural Development that payments would not be made with one exception. These payments generally represent about 80 percent of the total monthly revenue for each affected property.

We have no idea when payments may resume and if payments will be made in arrears. Virtually no communication has been forthcoming from USDA Rural Development. We are left in a no win situation with tenants who are unable to afford their rent and USDA Rural Development unwilling or unable to pay rental assistance on their behalf.

What is happening with our companies and tenants is playing out in other parts of the country right now. USDA RD Rental Assistance supports 272,322 units of affordable housing in 14,900 properties across the United States. We have talked to other affordable housing owners and managers across the country and have discovered that they are experiencing the same thing and payments of Rental Assistance are not being made. Many owners and managers of these properties have given the low income tenants notice that they need to pay the much higher rents that result from the USDA Rental Assistance not being paid on their behalf. Several newspapers across rural America have documented that low income tenants are now being asked that their portion of the rent increase dramatically.

If this situation is not remedied significant impacts will occur. First, without regular Rental Assistance payments, most tenants cannot afford the full rent on their own and as a result, they face being displaced and possibly homeless. The average household income in our portfolio is less than $10,000 per year. The average household incomes of the families that live in USDA Rural Development properties is extremely low and these tenants represent some of the most vulnerable members of our society. The way USDA Rural Development has dealt with this matter will result in tenants with the lowest incomes and the greatest needs being displaced from housing that many of them have lived in for years.

Second, the 14,900 existing USDA funded properties across the country will face foreclosure, bankruptcy, and will default on their financial obligations. In our case, since many of our projects have been funded with Federal Low Income Housing Tax Credits and additional funding sources such as State low income housing loans and commercial loans, serious financial outcomes will result.

Our companies' business has primarily been to preserve older affordable housing projects by acquiring the properties and using a multitude of State and Federal funding mechanisms to recapitalize, rehabilitate, and preserve the properties in order to keep the valuable federally funded rental assistance. The state of Oregon and Washington have funded and invested in numerous projects specifically to preserve projects like these across rural areas. The shortage of Rental Assistance puts all of this work at risk. State and Commercial financing will dry up if the availability of the Rental Assistance is lost. Banks and Investors will stop investing in the low income housing tax credits that have been used to fund these properties. Losses will be large.

Finally, the third consequence of this situation is that many jobs across rural America will be in jeopardy as these projects fail and the managers, contractors, and support staff will be terminated.

It is our understanding that several things need to happen to in order to remedy this current situation.

First, language limiting the ability of USDA Rural Development to renew contracts only once a year must be removed from next year's budget. The recently passed Continuing Resolution addresses this issue until December, but unfortunately it does not deal with the longer term issue. We need this language removed from future budgets.

Second, according to industry groups, it appears that the USDA RD Rental Assistance Budget is not sufficient to meet the requirements of the program. Although the USDA has repeatedly insisted that their budget was sufficient, it clearly was not sufficient and USDA ran out of rental assistance funds this past summer for many projects. Industry groups believe the budget is short by approximately $220 million. USDA Rural Development has not been forthcoming about the exact amount of the shortfall.

There are numerous other proposals that could make this program more effective and return the focus to managing the properties and supplying housing for low income rural families. However, if the current Rental Assistance Crisis is not fixed none of these proposals will matter.

Thank you for allowing me to testify and I look forward to answering any questions you might have.

Senator MORAN. Mr. Chrisman, thank you very much.

I thank all of our panel. We are going to take some time now and have a conversation and ask you questions and solicit your answers.

I would start with you, Mr. Chrisman. You heard the conversation earlier between Senator Merkley and Rural Development, between me and Rural Development. I would indicate that today's hearing is the first indication that we have had from Rural Development that the language that was included in the omnibus bill, the legislation that you described, was insufficient to backfill the rental assistance.

We will continue to press Rural Development for more clarity, because we believe they have the authority to do what needs to be done. It does not solve the problem permanently, but it certainly solves the immediate problem. We will continue our efforts, and I look forward to working with your Senator, Senator Merkley, in that regard.

What is the authority by which tenants can be required to pay additional rent in this circumstance? Is that carte blanche? Are there restrictions? One, I understand the financial circumstances that most if not all of those tenants are in, so it is not a practical solution. But what is the legal ability to raise rents in the absence of the rental assistance?

Mr. CHRISMAN. In our portfolio, our lease agreement specifically lays out, if Rural Development does not pay the tenant's portion of the rent, it is not really a rent increase. The rents are set by Rural Development, and then they pay a certain percentage of the rent. So we would just go to our lease agreement. When the rental assistance payments stop, we are allowed to raise the rent to the level that the rent is set at with the difference.

Senator MORAN. So you have the legal ability under your rental agreement to raise the rents. You do not have an ability to actually accomplish those increased rents being paid.

Mr. CHRISMAN. The reality is most of the tenants could not pay them even if you raised the rent on them. So what do you do? We have been in the business of serving this population for 25 years. Now we are in a situation where, no matter what happens, we are going to make the wrong decision. Tenant advocates will sue us if we start charging them the additional rent. The tenants, if we do evict them, because that is really where you are going with this, they have no other place to turn.

Senator MORAN. Are your rental agreements approved in advance by USDA?

Mr. CHRISMAN. They are.

Senator MORAN. So the authority that you described, the legal authority that you described, an ability to raise the rent in the absence of rental assistance, is something that USDA has approved in your rental agreement?

Mr. CHRISMAN. That is right.

Senator MORAN. Okay. I would tell you, Mr. Chrisman, in Kansas, the most common conversation I have with a Chamber of Commerce executive, an economic developer, a mayor, a city councilmember, when you are visiting a community and you want to talk about what is going on in the community, almost without exception the conversation turns to lack of housing.

Do you avail yourself, does your company avail yourself to programs outside Rural Development, outside USDA? Are you involved in the Department of Housing and Urban Development (HUD) programs or others? And can you tell me, the Rural Development programs, why they are useful to you? What the problems are? Is there someplace else you could go that would be a better source of assistance to accomplish the goal of housing for low-income people across the country, in particular rural America?

Mr. CHRISMAN. We use the HUD programs, low-income housing tax credit programs. But the unique characteristic of the Rural Development program is the portfolio of properties that were built in the 1970s and 1980s that have the rental assistance, there is just no substitute for that. These serve the lowest income families and the most needy people in our whole communities.

I would say most of our properties are probably 25 percent chronically mentally ill tenants who have no alternative. They get a disability payment and that is their only option. So there is no substitute for these programs because rental assistance does not exist in any other format except the Rural Development program.

Senator MORAN. Thank you.

My time has expired. We will have another round.

Senator Merkley.

Senator MERKLEY. I want to continue this conversation, because this is so important.

During the more than 2.5 decades that you have been involved, has there been another situation, another year, when suddenly you were at the end of the fiscal year and payments were going to stop?

Mr. CHRISMAN. This has never happened in the Rural Development program. There was a short period during the sequestration when there was a question. But in that situation, Rural Development was notifying us, telling us what was going on. We have never had a situation where we did not receive any notice.

I mean, you can imagine running a business, you have lawn mowers and people working at the project, and you get no notice and you have no rent. Eighty percent of the revenue for that month does not come in.

Senator MERKLEY. So even though there is a clause in the contract that says, if Rural Development stops paying, the tenant is responsible for the full amount of the rent, no one anticipated that clause would ever have to be used. In fact, no one would think that it could be used because these tenants could not possibly pay the full rent.

Mr. CHRISMAN. That is right.

Senator MERKLEY. So now you are in this difficult situation. Different owners have probably taken different approaches. At this point, have you notified tenants that they are responsible for the full rent? Are you holding out for us to get a successful response from Rural Development to backfill the hole?

Mr. CHRISMAN. We have not notified the tenants. We spent a lot of time talking about it. But these are the people who we have been serving for 25 years. These are mothers of people I went to high school with, friends I went to high school with. I know a lot of the tenants. I just cannot see us doing it, unless it is the very darkest end.

We thought the continuing resolution had temporarily resolved it, but the testimony I just heard sounds like that may not be the case. So some of these projects that have shortages, it looks like, according to Administrator Hernandez, may not be getting paid.

So I am a little frustrated to hear that.

Senator MERKLEY. I am so glad you are here. Because of this hearing, we learned for the first time today that the language that we worked out with bipartisan staff involved, with Rural Development involved, signing off on the language, that they have some legal concern, a legal concern that we have not heard the details of. We did not know until today that they had run into an obstacle here.

We are going to push very hard to get to the bottom of it.

If you were to follow the contract and ask for the full rent and your tenants would not then would not be able to pay it, then there is just no good answer. An eviction results in homelessness. As you put it, there is no option. We would be putting people into the street across rural America, because there are thousands of projects involved here. That is just unacceptable.

You are nodding your head. I will just record that for the record.

Mr. CHRISMAN. Yes.

You are telling me things I have been thinking about all summer. It is a very frustrating situation to be in.

Senator MERKLEY. There are clearly changes in the way that this program was administered internally that led to this as well. And when I say that, you refer in your testimony to the fact that the projects were assigned an average. Any project, any multifamily housing complex that has very low-income tenants who are below the average, then that average is going to result in a shortfall at the end of the year.

Then we have the bigger issue of the missed estimate for what the program would cost across America. That is the $110 million or so shortfall or $100 million shortfall that we referred to earlier.

So we are going to push very, very hard to get this program backfilled and to resolve the issue for this coming year, so that we are not in this situation come August or July of next year. The estimates that we have show an even larger deficit.

So I think there are mechanics that have to be fixed in the way that funds are assigned to individual projects, and an overall deficit that has to be addressed. My hope is that common sense will quickly prevail and that we will get to the bottom of this. We have been trying to. We thought we had.

Let me just say, this is a 100-percent absolutely unacceptable way to treat the owners of these complexes who are administering these in partnership with the U.S. Government. But it is absolutely unacceptable that the tenants be on the receiving end of these missteps.

So thank you so much for shedding a personal spotlight on the problem. I think it will have helped a great deal that we have had this conversation in public today.

Mr. CHRISMAN. Yes. It is my pleasure to be here.

Can I respond?

Senator MORAN. You may.

Mr. CHRISMAN. It is hard for me to believe that the agency cannot calculate the amount of rental assistance. This program is a very stable program. I mean, I am terrible at math, but I think I could do it.

The fact that they could be off by hundreds of millions of dollars, listening to that was just unbelievable to me.

Senator MORAN. Thank you for responding. I share the same sentiments. We have never been officially notified of a shortfall to begin with. We have never been notified that the language in the continuing resolution designed to temporarily resolve this issue is insufficient. And only, again, today did I learn that there is no capability of telling us what that number is.

So thank you for your testimony. We are glad we had this hearing so that we now know this. Although I would assume we would begin hearing from you and others in your circumstance as your representatives. This would not have been something that would go on much longer.

My impression is from your testimony is you were expecting this problem to be resolved. You have not taken the effort to try to collect money from tenants. You apparently had not notified Washington, DC, us, of a problem because you assumed that was being taken care of.

Mr. CHRISMAN. Well, we have actually been contacting Washington, DC, all summer because once we found out there was a shortage, we were so shocked, because for all these years, the budgets that you get may be inaccurate, but the rental assistance has always been paid. So we did not really believe it until the first payments just stopped.

Like I said, 17 properties, only one of them received any written notice or anyone at RD telling us that there is no rental assistance.

Senator MORAN. Tell me again, those payments stopped when?

Mr. CHRISMAN. In August.

Senator MORAN. August.

Mr. CHRISMAN. We have a whole bunch more properties, and it's our calculation they are just going to keep on stacking up until about 75 percent of our Rural Development portfolio will not be getting payments.

Senator MORAN. Thank you very much.

Mr. Boisvert, does Wilson, Kansas, have a stoplight?

Mr. BOISVERT. No, we do not.

Senator MORAN. I just want to make sure that we were not out-Kansaned the gentleman from Oregon.

Senator MORAN. There has always been an excess, Mr. Boisvert, in the demand for RUS telecommunication loan programs. There has always been more demand than dollars available. But that is not so true anymore.

Recently, I would say in the last 3 years, the demand for RUS loans no longer exceeds the supply. I wonder if you could explain why that is.

My impression would be the uncertainty that your company or others in similar circumstances face, not knowing what the Universal Service Fund requirements are going to be, what revenue is going to be generated from that fund for your company and others, means that there is less demand for the loan program at RUS.

Does that assumption have any validity?

Mr. BOISVERT. Mr. Chairman, yes, it does. I think we would see that demand correlate to the 2011 FCC order on the Universal Service Fund.

As you know, when we take out RUS loans, those are long-term loans. Those are done with a certain understanding of what is in place for universal service, consumer rates, all the things that a company would use to operate and repay its debt.

So when the order came out, a great amount of uncertainty did occur with the changes that were there. As I mentioned in my comments, the new mechanism known as Connect America Fund, or CAF, there is still not one for the rate-of-return part of the industry, which Wilson is part of.

So clearly, I think the demand is still there. If you look at rural companies, we are in probably one of three phases of building out our networks to bring broadband to rural Kansans and others across the country. They are built with debt to repay and costs operate. They are partially built, which is our case. But I have not felt comfortable completing the build. And there are those who have yet make that next step in the investment but want to and plan to, as soon as certainty does resume with universal service.

Senator MORAN. Maybe a way of saying what I was attempting to ask is not that there is less demand, but there are less applications for that money, waiting for certainty to arrive, similar to Mr. Chrisman waiting for certainty to occur.

The point I would make, and ask you to agree or disagree, is I often think of this issue of the order of 2011 as an impediment toward a telephone company's ability to repay loans that already are in existence to RUS. So less revenue means that our ability to repay the loan is diminished. What you just said reminds me of another aspect of this. With that uncertainty or the belief that there is going to be less revenue coming following the order of 2011, there are areas of the country in which the desire to serve still exists. But the ability, the uncertainty of whether or not there is going to be the revenue, diminishes the chances.

So initially, I thought the topic of this hearing in part would be about whether or not a phone company has the ability to repay an existing loan. There is another damaging aspect of FCC decisions, which is that we may not even ask for the loan because of either the uncertainty or the revenue stream is insufficient, which means a significant number—I do not know what it is—hundreds, thou-

sands of people across Kansas and across the country will have less ability to access broadband.

Does that make sense to you?

Mr. BOISVERT. Yes, it does, Mr. Chairman. I would agree with your assessment.

Without that predictable and sufficient and sustainable universal service, that demand may not materialize in the form of taking our infrastructure loans to bring broadband to rural Kansans.

Senator MORAN. You indicated, in your company's circumstance, that has occurred on two or three exchanges in which you were prepared to borrow money to expand broadband but as a result of that order have not made that loan application?

Mr. BOISVERT. I actually have the loan but I have not drawn the funds, resulting in the same thing. That is correct.

Senator MORAN. Okay. Now, the order was modified, the FCC modified their original 2011 order. Did that make a difference in the types of issues that we are discussing today?

Mr. BOISVERT. Well, there have been seven orders on reconsideration since the original order. There was a good step forward in removing one of the formulas that was very troublesome. But as we speak, we still do not have resolution to that. So the work is not done.

I know the industry and the National Telecommunications Cooperative Association (NTCA), which we are part of, are working very hard with FCC to come to a truly workable, sustainable Universal Service Fund that will allow this work to continue.

Senator MORAN. The topic of today's hearing is Rural Development. The concerns that you and I are talking about may be more directed at the FCC than Rural Development, but the consequences exist to Rural Development's ability to either have their loans repaid or the demand necessary to provide more money to expand broadband in rural America.

Mr. BOISVERT. There is clearly a connection, yes.

Senator MORAN. Let me turn to others. Now that we are down to just me, we may have a series of rounds of questions.

I will go back to you, Brian. Is there any indication of when that certainty may become known? When does this problem go away? Or is it just with us for the foreseeable future?

Mr. BOISVERT. We hope there is an end.

And we do thank this subcommittee and others for reaching out to the FCC to talk about the standalone broadband. All five commissioners I believe have made the commitment to resolve this by the end of the year. That is rapidly approaching. So I am still hopeful that a resolution can be made.

But as part of the industry and the association, as we work toward this, it is really important that, essentially, we get it right. This is a long-term solution that we are seeking, not just trying to hit a deadline. So it really is important to us to stay at the table to work to make sure that all things are tried.

So if there is a potential recommendation to go to a certain method, we want to make sure there is an opportunity for everybody to work that method to make sure it is sustainable and provides the resources that are needed for rural Kansans.

Senator MORAN. Do you have any sense that Rural Development is advocating for a position beneficial to the repayment of their loans and to the continued expansion of broadband availability with the FCC?

Mr. BOISVERT. I am not personally aware of conversations. I do believe they are very supportive. They have a large portfolio out there that could be at risk. They are a great organization to work with, the RUS. So I believe they, certainly, would like to see a successful resolution to this as well.

Senator MORAN. Thank you.

Mr. Lowry, your testimony focused significantly on REDLG. I just want to ask you the broad question, is there any proposal, any suggestions of needed changes to the program? Or are you satisfied with the way it works and the way it is administered?

Mr. LOWRY. Overall, I think that there is satisfaction with the way the program is working. There is a proposal for a $1 million limit on individual loans, which would make more loan funds available to more people. We think that is a positive change. But overall, we are satisfied with the program.

Senator MORAN. Do you know what the average loan amount is?

Mr. LOWRY. I do not, but we can get that information and pass it on to you.

Senator MORAN. We talked a bit and you talked about environmental or endangered species issues that impact the bottom line of a utility company. You might highlight, and I am reluctant to raise this topic because for a few days here I was known as the lesser prairie chicken Senator, but you might highlight for me, for my benefit and for the record, the consequences of the listing as a threatened species to your company or to utilities in Kansas or the region. That is five States, generally.

Mr. LOWRY. Within the context of this hearing, what it essentially does is undermine the good work that RUS Rural Development is doing. Those programs are all about making services to rural residents affordable. When you have a regulatory initiative, the lesser prairie chicken being a good example, that layers additional costs on the service providers, say an electric service provider, that impacts affordability.

So the needle moves in one direction with RUS program; it moves in the other direction in a negative way with initiatives such as the lesser prairie chicken initiative.

To that initiative specifically, there are proposals that line construction be completed underground. Underground construction adds, in some cases, a tenfold cost to the construction of electric facilities. Those costs can only be recovered from ratepayers.

So again, you are taking what would otherwise be an affordable service and you are impacting that affordability by requiring compliance with regulations that have, in most cases, dubious benefits.

Senator MORAN. This issue of the lesser prairie chicken or endangered species, and now the more recent clean power plan, what is wrong with those whose suggestion is just have the utility companies raise the rates?

Mr. LOWRY. Well, we see all the time that the two primary drivers for an electric customer will be reliability and price. We know, as was said earlier in this hearing, that the cost of electricity is a

key driver in determining where people locate their business. So yes, you can have the price of electricity go up. There will be some people, a household, who won't not find that objectionable. But business and industry will find it as a driving factor in their decision about where they locate. It affects their overall profitability.

Senator MORAN. I suppose, in a broad sense, today's hearing is about rural development. I would suggest that our ability to attract and retain business, manufacturing and others, to rural America is in part determined by utility rates. Is that fair?

Mr. LOWRY. That is a fair statement. You know, the customer density in rural America is much, much lower than it is in urban America, meaning we have fewer consumers per mile of line from which we can recover our costs than do our city brethren. So additional costs recovered from a much, much smaller pool of ratepayers means higher rates for those ratepayers. That is a big concern of ours.

Senator MORAN. A point I would make is that while you testify about the value of the REDLG program, which would be assistance to an individual, generally small business and its location or expansion in your consumers' territory, if your rates are significantly higher than other utilities, businesses will make decisions about where to locate.

So your REDLG is important in the micro sense, but what your rates are is important in the macro sense to rural America.

Mr. LOWRY. You are undermining the benefit of the REDLG program with other policies that would increase electric costs.

Senator MORAN. Let me ask specifically the consequences to Rural Development and their loan portfolio. Does that loan just get paid? Regardless of the regulatory environment in which you operate, you are required to pay the loan to RUS, right?

Mr. LOWRY. Are you talking about on the electric side?

Senator MORAN. Yes, on the electric side.

Mr. LOWRY. Yes. RUS borrowers borrow money to complete projects and construction work plans. The clean power plan is a good example where you are making investments that are decades long investments, and they are enormously expensive. When you have a regulatory initiative that essentially says, for example, we will generate less if at all from a coal resource and instead we will generate more from some other resource.

Well, at the start, you have a power plan. And if EPA, through the clean power plan, essentially says you cannot utilize that power plan, then you have to have a second power plan to provide service. So the ratepayer, instead of paying for one plant, is now paying for two.

The loans do not go away. They are still going to be due and owing.

So when you hear the term "stranded investment" used in the context of clean power plan, that is one element of stranded investment. You have an asset that you cannot utilize.

Senator MORAN. So RUS made a loan to a utility company expecting the life—they loaned the money to build a power plant or to improve a power plant. They expected the life of that plant or its improvements to be a certain amount of time. And potential changes that are now on the horizon would mean that the value

of that plant is diminished. So the asset for which they have made the loan is diminished in its value, and the revenue that it will generate to repay the loan is less.

Mr. LOWRY. That is true.

Senator MORAN. Okay. And that does not affect necessarily the portfolio of RUS until there are defaults. Is that true?

Mr. LOWRY. Yes, that would be true. They are going to expect repayment, as they should. But the ability to repay is going to be hampered.

Senator MORAN. A utility company cannot renegotiate their loan with RUS based upon changing circumstances of a new clean power plan. Is that right?

Mr. LOWRY. Well, that probably remains to be seen. There is no requirement that RUS renegotiate loans. So it would be another example of a regulatory uncertainty.

Senator MORAN. Just for the same reason that there is assistance to utility companies serving rural America, that is because the ability to get a return necessary to build the plant and provide the service is less, that would mean that any changes in the economic circumstances surrounding that plant is all the more important because it already is so fragile, so marginal to begin with.

We would not be making loans to rural America if it was easy to get a sufficient return on investment in utilities. We make those loans because it is difficult. And the change, therefore, would be the most damaging or dramatic in a rural setting. Does that make sense?

Mr. LOWRY. Yes, that does make sense. Again, it goes back to customer density. It is all about the taxpayer or, in our case, the ratepayer. We have fewer of those in rural America than our city brethren. So it is a more fragile environment.

Senator MORAN. I co-chair a caucus in the Senate with one of my Democrat colleagues. It is about competitiveness. It is about reintroducing additional manufacturing opportunities to the country, not just in rural America. But I would tell you, in so many circumstances in which you look at a reason a company has brought their employees home, bringing more manufacturing jobs back to the United States, has had a significant amount to with the cost of utilities. If you can provide the utility structure, including water, at a rate that is more affordable, the chances of manufacturing returning to the U.S. from someplace abroad is enhanced.

Then you add that to we can never afford to have a competitive disadvantage in the territory that you serve.

Mr. LOWRY. Yes.

Senator MORAN. Mr. Simpson, the way I look at this, kind of related to this environmental issue, is that there are lots of rules and regulations involving the quality of water, rightfully so. We want clean water. I represent lots of communities in which there are not enough ratepayers. You cannot raise the water rates sufficient to raise the money necessary to comply with regulations.

One comes to mind. There are 99 ratepayers in the community, but they have these standards they have to meet. They cannot raise the rates on 99 people to get the money necessary to accomplish the requirements, to accomplish the goal of that standard for clean water.

Therefore, the programs that help a community become even more important, again, in rural America because you cannot finance it with the people who are paying their water bills each month.

I assume that that is, in a sense, your mission, how we help people who cannot afford to do all the things that need to be done to provide clean water in a sufficient quantity.

What works? What is the most important thing to you?

Mr. SIMPSON. I think the Rural Utilities Service with right now the historically low interest rates, even with the 40-year term, when it is coupled with the grant portion, it can make it affordable.

You are right, Mr. Chairman, a lot of these small communities, you are looking at a little trailer park. In my home State, they do not meet the capacity. Or the unpaid mayor you have to go find at his real job in the casino——

Senator MORAN. We have no casinos in Kansas. That is almost true. Not exactly.

Mr. SIMPSON. They do not have the capacity and the resources to hire someone to operate the system. A lot of times, you will have a part-time person that does several systems.

That is where our folks that have this vast amount of experience being former water operators and training with all the certifications can come in and fill that void for these communities that simply do not have the expertise and cannot afford it.

But we think that Rural Development program with that grant component is very unique and can make it so these low-income communities can have affordable, clean water.

Senator MORAN. I know the National Rural Water Association well enough to know that I assume that your request would be additional dollars put into those programs. That is a standard reply that we would get in this subcommittee or to me as a member of the Senate.

But I would ask you, are there program efficiencies, program management, in addition to more money, are there ways that we can formulate the programs to work better?

Mr. SIMPSON. Yes, sir, Mr. Chairman.

First of all, we are very appreciative to the Senate mark for our programs. It was very gracious.

Senator MORAN. I was fishing for a compliment. Thank you.

Mr. SIMPSON. You are right. I think I have to give former Under Secretary and Administrator McBride credit. They have done something pretty smart called RD Apply, which is really bring in Rural Utilities Service into the modern century as far as IT and technology is concerned, where, literally, you can take a smart phone, your iPhone, a laptop, and you can access their application process.

They trained our folks a couple weeks ago in Oklahoma City. It was honestly very easy.

And another thing, why this is so good, you heard about delays from RUS and the inconsistency with some of the programs, the staff that got reduced during the last 5 years. It is transparent and accountable, too. So you know your water specialists, the program director, the State director, everybody can see this process. I think that that is a smart way that they are going ahead to use easy, off-the-shelf technology to do the program more efficiently.

Senator MORAN. Thank you.

There is at least talk about the existing water and waste disposal loan program involved in a portfolio sale.

Mr. SIMPSON. Yes, sir.

Senator MORAN. Anything that I should know about that? I would guess we will have some specific questions to address to you in writing.

Mr. SIMPSON. Yes, sir. Let me be clear. A lot of what I am basing my response on, I do not have anything in writing from the Department. I have had some conversations. We would be delighted to review or comment or add our suggestions.

Yes, there have been several ideas about how you bring the private sector in to complement the Rural Development mission with their limited loan and grant dollars. We are for that. We think that the guarantee program that is not very utilized, only made a handful of guarantees last year, the private sector can play an important role there, especially for communities that have more capacity and resources to debt service a private-sector loan.

That said, we do have some concerns. There are discussions about doing a partial prepayment or participating loan to where a utility in Kansas that has this 40-year loan, they are in year 20 and the private sector can come in and pre-pay 50 percent of that outstanding balance to the Treasury. I would imagine the private sector is going to look at that value, what they think it is worth, and how the Treasury is going to look at it, because you are cutting off that stream of payment for the remaining 20 years, with the interest. And then the utility in Kansas, for example, would still make their standard payment. Nothing would change. They are making a $10,000 or whatever it is monthly payment. But half of that would be diverted to the private entity, the investor.

I cannot understand the public policy of that. It does not benefit the utility. It does not impact the end-user. I do not understand that thought process.

We have some concerns with that. Also, we would want our utility bar common with rural folks and how they operate business to have knowledge about their loans being modified, to have the right to say we have to check off on it or the right for first refusal. If there is a concern about some of the loans that are 20 years old or longer, that they are paying a higher interest rate, you might want to look what this subcommittee did before as an option, the 502 guarantee program, when you established a separate refinancing category for the 502 guarantee program, which was at a cheaper subsidy rate to give these existing rural utility bars the opportunity to refinance if the direct loan rate was lower. It was a benefit for the business model.

That I think would be a better policy because it would lower the rate for the utility so you free up some money to do some deferred maintenance and not pass on the cost to the user.

So, yes, sir. We do have some concerns about the public policy benefit of an action like a partial prepaid loan.

Senator MORAN. Water utilities have access to funds besides Rural Development in what ways? The public financing of water infrastructure, going to the bond market and the utility issuing rev-

enue bonds to be repaid from the revenue of sale of water and treatment of wastewater?

Mr. SIMPSON. Yes, sir. A lot of them are municipalities, quasi-governmental entities. They have a wide variety. A lot of them will use the SRF, the EPA revolving loan fund. That varies from State to State how they administer it.

A lot of them will use bond money. Our Kentucky entity has their own bank, basically. There is a wide variety of different programs they could use. The guarantee program, in my opinion, has not been utilized very often.

Senator MORAN. So the two options that a water utility in Kansas would have would be Rural Development and the EPA, as far as public sources of support?

Mr. SIMPSON. Yes, sir.

Senator MORAN. Okay.

I appreciate your comments in regard to the nature of Congress working in a bipartisan effort. I would use this as an opportunity to highlight that the Agriculture Appropriations Subcommittee report was passed by the full committee 28–2, the best of any appropriation bill that worked its way through subcommittee and into the full committee.

We welcome you back to the subcommittee. I suppose it is significantly unusual for the circumstance to have come full circle and you are on that side of the table.

Mr. SIMPSON. Yes, sir.

Senator MORAN. We are glad to have you, and we appreciate your expertise.

I think we are about ready to conclude. I would just ask any of the witnesses if they have a point, an issue, that they wanted to make certain that they clarify, raise, something they want us to know before we close the hearing?

Mr. BOISVERT. Mr. Chairman, I want to thank you for this opportunity. I never want to lose sight, and we don't, that, in the end, we want to keep consumer rates reasonable and provide this opportunity for every rural Kansan and every rural American. So that is why we work as hard as we do to do the things we do. It is for that benefit, to keep our country connected. There is so much benefit to be gained from the rural-urban connection and very much a focus of that are consumer rates. Thank you.

Senator MORAN. Never wanting to have somebody have the last word but me, I would say, I intended to ask you this earlier, in the absence of Wilson Telephone Company, what difference does it make to the people who you serve?

Mr. BOISVERT. Well, I would like to believe we make a lot of difference. We are very much a part of the community. Not only do we provide state-of-the-art communication services, but we also are members of the community. We live where we work. We support our youth. We do scholarships.

Getting those millennials to come back to rural Kansas is very much a priority. We think with some of the modern networks and the services that they offer and the opportunities that they offer, we hope this will be appealing, and once the younger generation goes off to college, that they will return back home to help on the family farms, to start new businesses, to create new opportunities.

We think that is part of it. That is part of what we try to do as well.

Senator MORAN. Mr. Boisvert, is it safe to say that, in the absence of a company like yours and those telephone companies similar to yours across the country, that the services that you provide would not be provided or would not be provided at a rate that was affordable?

Mr. BOISVERT. I would agree with that. That is really how these companies came to be in the first place. The market is not there that the large companies are going to enter into. We are very rural, very low population density. So I do fear that if these companies were not there, that void would not be filled.

Senator MORAN. Thank you.

Anyone else?

I appreciate your testimony. Thank you for joining us today. I consider it an informative hearing, and it is because of your willingness to come and talk to us today.

ADDITIONAL COMMITTEE QUESTIONS

Senator MORAN. For my colleagues on the subcommittee, any question that they would like to submit for the hearing record should be turned into our subcommittee staff within 1 week, which is Wednesday, October 28.

If a question is directed to you or to Rural Development, we would appreciate if we could have a response back within 4 weeks.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO HON. LISA MENSAH

QUESTIONS SUBMITTED BY SENATOR JERRY MORAN

SECTION 515 RURAL RENTAL HOUSING

Question. A 2004 USDA report (Rural Rental Housing Comprehensive Property Assessment and Portfolio Analysis) indicated a 20 year $2.6 billion cost to maintain the section 515 rural rental housing portfolio.

We are 10 years into that timeframe, how much progress has been made?

Answer. Rural Development has been actively engaged in the preservation of its Section 515 portfolio, but more work needs to be done. As a result of the 2004 Comprehensive Property Assessment, Congress authorized a demonstration program through annual appropriations language providing RD with more flexible tools to encourage the revitalization of its Section 515 and Farm Labor Housing properties. The demonstration program is known as the Multi-Family Preservation and Revitalization program (MPR). Through the end of fiscal year 2015, RD has obligated $1.051 billion for the rehabilitation of 982 properties and more than 33,000 units of affordable housing. MPR has also facilitated a high level of cooperation with state housing finance authorities by leveraging billions of dollars in tax credits to stretch our limited appropriation dollars.

In order to continue making progress in our revitalization efforts, RD has requested that Congress authorize the MPR program permanently. If the program was permanently authorized, the Agency could create regulations to institutionalize the program's benefits and signal to potential program participants that both the Executive and Legislative branches of the Federal government are committed to the revitalization of our affordable housing.

Question. What improvements have you made in procedures or regulations to ensure that these housing developments are in adequate condition?

Answer. MFH has made significant changes in its oversight and monitoring of borrower compliance with program regulations.

Information technology advances have assisted the MFH field staff in conducting more focused and comprehensive physical inspections at properties, including the ability to obtain immediate feedback from borrowers and management agents on corrective action timetables. The use of a hand-held device to record, capture, and deliver results of both physical and management oversight reviews have improved turn-around time for follow-up to ensure that corrections are made.

MFH also uses an automated budget analysis tool that flags high project expenses and high rent increases; such flags cause field staff to analyze more closely repair and maintenance activities, and proposal capital improvements to be paid for through higher rents. The availability of field staff to be within reach of the properties financed by the Direct Loan programs expands the agency's capability to ensure the improvements planned are properly executed.

MFH participates in the White House Physical Inspection Alignment Initiative, which encourages Federal housing assistance programs to work cooperatively in areas of overlap. Physical inspections are one such area, where properties financed by MFH may also have Low Income Housing Tax Credits or Section 8 rent assistance support. In these instances, the Alignment Initiative targets these joint properties to share physical inspection information among the affected agencies—which serves to reduce duplication while also focusing oversight on properties with higher Federal investment dollars.

RURAL HOUSING MATURING MORTGAGES

Question. Over the next several years most of the section 515 loans outstanding will mature. By 2020, close to 75 percent of section 515 loans, totaling over 400,000 units, will have reached the end of the loan term. Rental assistance is limited to tenants living in projects financed with section 514 and 515 loans. As property owners pay off the loans for the projects, the tenants lose eligibility for rental assistance. Most of these rural rental housing projects are in small communities and their only market is affordable housing.

What steps has USDA taken thus far to address this issue and is there a long term plan to ensure that this housing continues to be available for the low income and elderly households?

Answer. Rural Development is very concerned with the potential loss of affordable housing as our Section 515 direct loans mature, because that housing could be lost in the community and the rental assistance support would no longer be available to the families in that property. If that RD housing is lost, the very low income families living there may have no other affordable housing in which to live.

In response, RD has provided a number of options for owners to keep their RD loan and protect the families living there.

—The borrower can apply through RD's Preservation NOFA for a deferral of their maturing mortgage for up to 20 years;

—The borrower can receive priority points if they choose to apply for both the deferral and additional RD funding for rehabilitation of property;

—The borrower can request a re-amortization and modification of the maturing loan to extend the loan term up to 20 years;

—If owners go through the prepayment process to allow their tenants may be eligible to receive housing vouchers.

In addition to these steps, the Department has also offered Letters of Priority Entitlement to tenants in maturing mortgages. Holding this Letter will allow the tenant to be placed at the top of the waiting list for any RD property in order to continue living in affordable housing. The Agency may be authorized to transfer the unused rental assistance to a new RD property in limited circumstances. The Department has also included in the fiscal year 2016 President's Budget a legislative proposal to allow Rural Development housing vouchers to be used by tenants in these maturing mortgage properties.

Current voucher program appropriations language limits use to tenants in situations where the owner is prepaying the RD mortgage.

RURAL HOUSING 502 DIRECT LOANS

Question. In fiscal year 2014, approximately $100 million in the 502 direct home ownership loan program was unspent. In fiscal year 2015 USDA obligated all the funds available.

Please explain the steps you have taken to improve processing of direct homeownership loans.

Answer. In fiscal year 2015, delivery of the 502 direct home ownership loan program was a high priority for USDA. That priority continues in fiscal year 2016, and will be reinforced with automated underwriting, streamlining of the credit report

process, and additional program training. A certified packager program final rule will be implemented provided that prohibitory "pilot" language is removed from the final USDA fiscal year 2016 appropriations bill. This regulation will enhance our partnership with certified loan packagers and further enhance program delivery.

RURAL HOUSING SECTION 502 GUARANTEED

Question. The President's Budget requests authority to allow RHS to allow direct endorsement for lenders rather than processing all guaranteed loans in-house.

Please provide additional information on how this authority would work.

Answer. The agency will reserve delegated underwriting authority for select lenders meeting established criteria. Lenders will not qualify for consideration unless they have strong loan performance characteristics as an approved program lender for a period of 2 years or more. Additional prerequisites will be established by the Secretary to further determine a lender's eligibility for delegated authority. For example, the lender would need to demonstrate a proven history of delinquency rates below the national average for all approved lenders. Lenders granted this authority will be required to maintain certain credentials and training requirements to retain such status.

To implement delegated underwriting authority the Agency will need to enhance its lender monitoring and reporting capabilities in its Guaranteed Underwriting System. Once the agency secures funding, the necessary IT development will take approximately 2 years.

Question. In fiscal year 15 RHS obligated roughly 78 percent of Section 502 Guaranteed, yet managed to obligate 99 percent of 502 direct.

Please provide background on this discrepancy.

Answer. The observed discrepancy is more reflective of operational differences than performance disparity between the Direct and Guaranteed programs. The $24 billion program level Congress has established for the Single Family Housing Guaranteed Loan Program (SFHG) provides the program the capacity needed to accommodate fluctuating market demand, which can be significantly affected by the macro-economic environment, as in 2007. Should program funding be exhausted, thousands of lenders and potentially tens of thousands of prospective borrowers could be negatively affected. This would have a tremendously detrimental effect on program credibility. The lending capacity of this negative-subsidy program ensures that USDA can meet the mortgage credit needs of low and moderate income borrowers during periods of unexpected market volatility. It thereby provides a very valuable safeguard, preserving the viability of the program for future generations of rural Americans.

The successful obligation of all Section 502 Direct funding, reflects the strong demand for the program's affordable financing terms, which enable low and very-low income borrowers without access to alternative sources of mortgage credit an opportunity for homeownership. This program, whose funding totals approximately 3.8 percent of the guaranteed program, is vitally important to rural America.

RURAL HOUSING SECTION 538 ELIGIBILITY FOR HOUSING COOPERATIVES

Question. USDA Rural Development has a long history of supporting agricultural cooperatives and cooperative businesses. Yet, there has been some confusion on why Rural Development does not provide financing for housing cooperatives. For many consumers in rural communities, especially seniors, a housing cooperative can be an affordable option to owning a home.

It is the Committee's understanding that housing cooperatives are eligible for the 515 multi housing program, but not the 538 program, which is the more ideal program for financing.

Can you explain why the 538 program is not accessible to the financing of cooperatives? Can you provide to this Committee a solution to this issue?

Answer. RD has determined that under Section 538 of the Housing Act of 1949 (42 USC 1490p–2), loan guarantees under the Guaranteed Rural Rental Housing Program are not permitted for cooperative housing. An amendment to that section of the Act by Congress could permit an extension of guarantees to cooperative housing.

RURAL IN CHARACTER

Question. We understand your agency is working on guidance regarding the definition of "rural in character"—can you tell us where you are in that process, and what it means for homebuyers in rural communities?

Answer. RHS is continuing to refine the agency's guidance with respect to the definition of "rural in character" in order to clarify the rural in character requirement

in a manner that is sufficiently practical for application in diverse towns and counties throughout rural America. The agency has reviewed the matter extensively and is currently evaluating the data and potential eligibility criteria necessary to achieve this purpose.

In response to public concern Rural in Character determinations were suspended. The suspension is allowing USDA Rural Development (RD) to review the public engagement and decisionmaking processes for 'rural in character' determinations. We are communicating with stakeholders and policy-makers about how best to ensure USDA rural housing programs serve communities with limited access to credit and few housing options. The temporary suspension of new RIC-related designations will remain in effect until this evaluation process is completed.

RURAL UTILITY SERVICE—EXISTING WATER AND WASTE DISPOSAL LOAN PORTFOLIO

Question. There are reports that the Department is considering a possible portfolio sale, similar to the one that took place in 1987. Given that the Department has not requested this authority, before considering such an action, the Subcommittee would request the following information:

Does the Department plan to discount any portion of an existing Water or Waste Water loan to the private sector and charge the difference to the mandatory account?

Answer. USDA is considering a participation transaction that would offer private entities a participation interest and would not discount any portion of existing RUS loans. The Department is working with the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) on how to bring such a transaction to market that will have no impact on the program's borrowers and protects the taxpayers' investment in USDA's program.

Question. Will the current borrower be allowed the same treatment to have their remaining balance discounted at the same level of the private investor?

Answer. USDA would not discount any portion of its existing loans.

Question. Will this impact the subsidy rate on the discretionary Water and Waste Water Direct loan?

Answer. We do not anticipate any impact on the future subsidy rate.

Question. Will the current RUS borrowers have to sign off on any modification or participating loan sale or prepayment?

Answer. A participation transaction would not require sign-off from the program's current borrowers.

Question. Will utility borrowers have a right for first refusal?

Answer. The transaction would have no impact on the program's borrowers, who would retain all the rights and protections that they currently have under the terms of their loan agreements.

Question. Is this is considered a modification; the current appropriation bill language does not include "modification" authority for this portfolio?

Answer. While the transaction would constitute a Government action, USDA is working with OMB on determining the cost of the transaction under the Federal Credit Reform Act of 1990.

Question. If this is considered a modification where the government takes an action to change the loan terms or conditions, wouldn't this be paid for by the discretionary account and require approval from Congress and most likely additional budget authority?

Answer. While the transaction would constitute a Government action, USDA is working with OMB on determining the cost of the transaction under the Federal Credit Reform Act of 1990.

Question. Why is the Department considering such a change without input of organizations that represent current borrowers or though consultations with Congress?

Answer. USDA has reached out to the National Rural Water Association (NRWA) and looks forward to briefing Congressional staff at the appropriate time once a proposal is completed. Secretary Vilsack met with NRWA leadership in November 2015; NRWA supports these efforts to bring infrastructure funding to rural America and is committed to working with USDA as the transaction moves forward.

Question. The Department has the authority to currently leverage loans, for example, couple a direct loan with a guarantee or private loan. Are you pursuing this activity?

Answer. Through existing business practices, USDA is leveraging private sector investment in this portfolio through bridge loans and interim financing as well as with guaranteed loan authority.

The proposed transaction discussed in previous answers incentivizes a forward commitment from the private sector to invest in rural water and waste infrastructure in rural communities with populations of more than 10,000, which are beyond the statutory reach of USDA's current water program, but are served by other USDA rural loan and grant programs. The target communities would also include those that became ineligible for USDA's water loans when their population level exceeded the 10,000 limit in the 2010 census.

Question. What happens in a disaster situation like with a hurricane where a community might lose half of their customer base and couldn't pay their full note? The Federal portion has some tools including deferring payments that provided relief to this borrower. Can the payment portion to the private investors be altered or deferred at the time of a disaster?

Answer. USDA would retain all of its current tools in providing relief to borrowers under duress. The investor would be made aware of these tools and would be subject to the same repayment risks as the Government in the transaction. Any losses would be shared by the investor and the Government.

STRATEGIC ECONOMIC AND COMMUNITY DEVELOPMENT INTERIM RULE

Question. In May, the USDA—RD published the "Strategic Economic and Community Development" Interim Rule for public comment. The Interim Rule implements the "Strategic Economic and Community Development" provision (Section 6025) of the Agricultural Act of 2014. To implement Section 6025, RD will reserve 10 percent of the funds appropriated to select RD programs each fiscal year to fund projects that support the implementation of strategic economic and community development plans across multi-jurisdictional areas.

Please provide an update on the implementation process for Section 6025, with emphasis on how RD has implemented the Community Economic Development team and what the next steps are.

Answer. In fiscal year 15, CF, WEP, B&I, and RBDG did not have set aside funds for 6025 due to time constraints. Instead, RD developed a Regional Development Priority (RDP) policy that offered an opportunity for project proposals submitted under the aforementioned underlying programs which are supportive of multi-jurisdictional plan to receive additional points. These project proposals were reviewed first and foremost based on the underlying program's regulation and policies. If a project was deemed eligible for the underlying program, it was then reviewed for 6025 requirements if the applicant submitted the required documentation for requesting RDP points.

RD received 47 total applications requesting RDP points broken down as follows:

—By program
  —28 from CF
  —6 from WEP
  —13 from RBDG
  —0 from B&I
—By State
  —CF: 18 from AR, 1 from IA, 2 from MN, 1 from NH, 1 from NJ, 1 from NJ, 2 from SC, 2 from VT
  —WEP: 2 from MN, 2 from NH, 1 from SC, 1 from VT
  —RBDG: 2 from AR, 1 from AZ, 1 from HI, 1 from MA, 1 from MD, 1 from MO, 1 from NC, 2 from NH, 1 from VA, 2 from VT

RD is in the process of making final awards for fiscal year 15. Among those awards from the CF, WEP, and RBDG, 26 awards will be to projects that received RDP points as follows:

—By program
  —16 from CF
  —3 from WEP
  —7 from RBDG
—By State
  —CF: 15 from AR, 1 from VT
  —WEP: 1 from MN, 1 from NH, 1 from SC
  —RBDG: 1 from AR, 1 from AZ, 1 from MA, 1 from MO, 1 from NH, 1 from VA, 1 from VT

During fiscal year 16, RD is working to implement Section 6025 as a set aside. RD's Community Economic Development (CED) Team will help build capacity to ensure areas of high needs have multi-jurisdictional plans in place. This would enable these areas to identify needs, economic development priorities, partners, and projects needing assistance which are potential pipelines for CF, WEP, B&I, and RBDG. Once these areas have the plans in place, they can access the 6025 set

asides from these programs in fiscal year 16. Furthermore, the CED Team is reaching out to communities that have developed multijurisdictional plans in place to raise awareness about 6025 set asides.

Question. The Interim Rule defines 'Plan' as, "a comprehensive economic development or community development strategy that outlines a region's vision for shaping its economy." Do HUD's Sustainable Communities Plan, USDA's Stronger Economies Together Plans, and other Regional Comprehensive Plans fit into that definition? More specifically, what is covered under the Interim Rule's definition of "plan"?

Answer. RD intends the definition of "plan" be inclusive rather than exclusive, but at the same time require the plan to address certain minimum elements in order to be effective in improving the economies of the region addressed by the plan.

The Rule defines Plan as follows: For the purposes of this subpart, a plan is a comprehensive economic development or community development strategy that outlines a region's vision for shaping its economy. This strategy would cover, as appropriate and necessary, a wide range of aspects such as natural resources, land use, transportation, and housing. Such plans bring together key community stakeholders to create a roadmap to diversify and strengthen their communities and to build a foundation to create the environment for regional economic prosperity.

To be an acceptable plan for the purposes of the subpart, the plan must be supported by the jurisdictions affected by the plan and must address each of the following elements:

—The economic conditions of the region;

—the economic and community strengths, weaknesses, opportunities, and threats for the region, to include consideration of such aspects as the environmental and social conditions;

—strategies and implementation plan that build upon the region's strengths and opportunities and resolve the weaknesses and threats facing the region;

—performance measures to evaluate the successful implementation of the plan; and

—support of key community stakeholders.

RD notes that inclusion of each of the five elements does not speak to the quality of the plan or to whether the plan has been adopted.

Generally, HUD's Sustainable Communities Plans, USDA's Stronger Economies Together Plans, and other Regional Comprehensive Plans fit into that definition. Additionally, EDA's Community Economic Development Strategy plans generally fit into the definition of a plan as well. RD is actively reaching out to agencies and organizations which administer these plans to communicate the Section 6025 opportunity to their stakeholders with plans in place.

Question. In the scoring section of the Interim Rule, RD proposed to award two points for projects that utilize contributions from other Federal agencies. Are points awarded when state and local agencies provide similar investments? If not, why are they not calculated as part of the score for applications under the interim rule?

Answer. Points are not awarded for state and local agencies because of the language in the authorizing statute only refers to Federal agencies in 6025(c)(1)(C).

Question. Please explain how the implementation of Section 6025 will make it easier for rural communities to access targeted resources to invest in long-term economic and community development efforts?

Answer. Recognizing that rural communities have limited resources and myriad unique challenges to creating sustainable communities, Section 6025 of the 2014 Farm Bill is an opportunity to prioritize projects that support the implementation of a regional economic development plan. Rural communities who engage in regional collaboration plan and build strategically already increase their efficiencies and outcomes. As such, these communities who have a regional plan will further be able to utilize Section 6025 to access set aside funding that rewards regionalism and leverage CF, WEP, RBDG, and B&I programs—programs which provide resources which are fundamental to creating strong and sustainable communities—for the benefit of multiple jurisdictions.

QUESTIONS SUBMITTED BY SENATOR JOHN HOEVEN

RURAL UTILITIES ADMINISTRATOR BRANDON MCBRIDE

Question. The newly-created Broadband Opportunity Council which has been tasked with producing specific recommendations and guidance to increase broadband deployment recently released its report with recommendations that address regulatory barriers and encourage investment and training.

To what extent are you following the Council's recommendations?

Answer. The main recommendation to RUS in the report asks RUS to evaluate the long-standing Telecommunications Program to see if it could be expanded to include companies that traditionally have not qualified for the program.Today, the program is primarily structured for an Independent Local Exchange Carrier, so RUS will explore whether others, including cable companies, Competitive Local Exchange Carriers, and wireless providers could qualify under the statutory requirements.

Question. I believe that investment in broadband connectivity is vital to the development of our rural communities, and that streamlining and eliminating duplicative programs is a step in the right direction towards increased access. That being said, what specific actions are you pursuing to break down regulatory barriers and increase rural broadband investment?

Answer. In addition to the items mentioned above, RUS is working with sister Rural Development Agencies to explore any synergies between programs and make applying for broadband funding to be a one-stop-shop for all RD programs. In addition, we are in discussions with the FCC to be better prepared for the changes that they are making to the telecom industry and will make modifications to our financing programs that are in line with these changes.

Question. As well, I think it is especially important that the regulatory processes initiated by the Council's recommendations are transparent, fair, and open. To this extent, what steps are you taking to improve your collaboration with the private sector and State, Local, and Tribal governments in the rulemaking process?

Answer. Prior to new regulations being published, RUS conducts Tribal consultations to get their input and make sure that their concerns are addressed in any new regulation.

In addition, RUS is holding regional workshops with the focus not only on the RUS financing program but also on how to use broadband services for rural economic development. Attendees to these events in Tribal representatives, local and state government, private companies and others.

Question. How do you plan on leveraging public private partnerships to maximize the Federal government's investment in rural broadband services?

Answer. RUS will work with private investors to leverage the amounts that are available for funding.Strong local support is required for a broadband service provider to succeed.

The Broadband Opportunity Council included a proposal from the Rural Utility Service that would provide the Secretary of the Department of Agriculture with greater flexibility to approve financing under the Rural Utility Service's Telecommunications Infrastructure Loan Program for entities in areas that are determined to be underserved or unserved.

Question. What steps will be taken with regard to this recommendation to prevent duplication or other forms of unnecessary overbuilding?

Answer. The Broadband Program statute and regulations already address overbuilding within the eligibility requirements, and the Infrastructure Program statute and regulations already require a finding of non-duplication of facilities before a loan can be made.

QUESTIONS SUBMITTED BY SENATOR JEFF MERKLEY

RURAL ENERGY SAVINGS PROGRAM (RESP)

Question. At the fiscal year 16 USDA budget hearing, Secretary Vilsack pledged to implement the Rural Energy Savings Program (RESP) that was authorized in the Farm Bill.We understand that Rural Development already offers an Energy Efficiency and Conservation Loan Program, which is similar to RESP in several respects. However, there are key advantages to the RESP program that we believe will cause it to be much more effective.

What progress has Rural Development made to fulfill the Secretary's commitment to establish this program?

Answer. The Energy Efficiency and Conservation Loan Program (EECLP) was inspired by efforts to enact the Rural Energy Savings Program (RESP). RUS has worked to identify how we might implement RESP. The key difference between EECLP and RESP is that EECLP offers very low interest rates to utilities while RESP provides for a zero interest rate. A zero interest rate would require budget authority to cover the costs of the program. EECLP loans do not require budget authority for the cost of the loan because of the electric program's negative subsidy rate. RD will continue to work with the Committee to further advance energy efficiency.

Question. When do you expect regulations to be published?

Answer. We do not have a set timeline, but we will continue to keep the Subcommittee informed as we move forward. We will continue to work with USDA staff and the Committee to determine how to best implement energy efficiency programs.

Question. Please let us know if there is anything this Subcommittee can do to help you expedite this process.

Answer. We will continue to keep the Subcommittee informed as we work to advance energy efficiency programs for rural areas.

PRIVATE INVESTMENT IN RURAL INFRASTRUCTURE

Question. Secretary Vilsack has long expressed an interest in promoting private sector investment in rural infrastructure. It is believed that private sector markets neglect rural investment opportunities due to unfamiliarity and the relatively smaller project sizes. He has viewed the Water and Waste Disposal direct loan portfolio as a vehicle to educate the private sector on the excellent prospects that can be available.

Please describe, in very specific terms, the current initiative that is under consideration.

Answer. The United States faces costly upgrades to aging and deteriorating drinking and wastewater infrastructure.Given the stress on public budgets, governments are unlikely to have the capacity to fill this funding gap. The gap is particularly problematic for rural communities that often depend on Federal and state grant and loan programs to finance their water infrastructure projects. While larger, urban areas can issue public bonds to pay for major improvements, rural communities have limited access to these financial markets, restricting their ability to independently finance projects.

USDA recognizes the need for additional investment in rural water infrastructure and is exploring how institutional investors (e.g. pension funds) could play a role in filling some of the gap. The challenge we face is that loan amounts needed to support rural water projects are often too small for institutional investors to consider making on a one-off basis, especially for those without prior experience in rural water lending.

To incentivize institutional investors to enter the lending market for rural water projects, USDA is considering offering an investor a participation interest in a small portion of the Department's water loan portfolio. In exchange, the investor would make a forward commitment to a certain amount of new loans in support of rural water projects. The policy goal of such a transaction is to create an initial investment of scale suitable for institutional investors to consider entering the market.

In fulfilling its forward commitment, the investor would target rural communities with populations of more than 10,000, but less than 20,000 which are beyond the statutory reach of USDA's current water program, but are served by other USDA rural loan and grant programs. The target communities would also include those that became ineligible for USDA's water loans when their population level exceeded the 10,000 limit in the 2010 decennial census.

Question. What are the administrative burdens, and how much will they cost, to implement this initiative?

Answer. There will be no material administrative burdens as a result of the transaction.

Question. Will Rural Development continue to be responsible for servicing the loans?

Answer. Yes.

Question. Will Rural Development be responsible for outreach and promotion of the initiative, and finding new projects that might be funded?

Answer. No.

Question. What are the current and future Credit Reform costs of this initiative? That is, what will be required in terms of current budget authority and what will be the future effects on the program subsidy rate?

Answer. While the transaction would constitute a Government action, USDA is working with OMB on determining the cost of the transaction under the Federal Credit Reform Act of 1990 (FCRA). USDA is planning to structure this transaction to have no cost under FCRA. We do not anticipate any impact on future subsidy rates for the water and waste disposal loan program.

Question. Will private sector participants receive a discount on the loans involved?

Answer. USDA would not discount any portion of its existing loans.

Question. Will current borrowers be offered the right of first refusal, if their loan is being sold or participated out? If not, why not?

Answer. No. At this time USDA does not anticipate offering borrowers the right of first refusal. The transaction would have no impact on the program's borrowers, who would retain all the rights and protections that they currently have under the terms of their loan agreements.

Question. Will current borrowers retain servicing options they currently are entitled to?

Answer. Yes.

Question. Will this initiative reduce the debt burden on borrowers?

Answer. No, borrowers will continue to be responsible for their current obligations.

Question. How many water and waste projects go to poverty areas or areas in dire need of these services?

Answer. In fiscal year 2015 RUS funded 340 water and waste projects, totaling $676 million, in persistent poverty counties and rural areas where twenty percent or more of its residents are living in poverty. These investments are part of a continuing USDA focus on addressing the needs of market poverty communities in rural America.

RENTAL ASSISTANCE

Question. We understand that funding to renew Rental Assistance agreements in fiscal year 15 was exhausted in August. For those projects that did not get renewed, what protection did you provide to the tenants against unaffordable rent increases?

Answer. Approximately 44 properties out of RD's 14,600 Multi-Family Housing portfolio (about 0.3 percent) were affected by the prohibition against a second renewal of Rental Assistance in fiscal year 15. RD's field staff worked with the property owners to develop "relief plans" intended to keep as much money in the property's operating account as possible, so that no change in tenant contribution would be necessary. In our discussions with borrowers, we urged them to use all the relief tools available, to mitigate the need for an increase in tenants' contribution towards rent. Forty-one owners of MFH properties elected to utilize the tools we offered (defer RD mortgage payment; suspend deposits to reserve account; use the reserve account for operating expenses; allow over income tenants to fill vacant units; allow for a borrower loan to the property).

Question. Did any tenants suffer substantial rent increases?

Answer. RD did not approve any rent increases as a result of the inability to renew these RA agreements. A few owners did notify their tenants that their portion of the rent payment would increase. At this time, we do not have quantified figures as properties report on a monthly basis; however, we can get that information for you.

Question. What assistance are you providing to project owners until Rental Assistance agreements are renewed under the Continuing Resolution?

Answer. RA funds were received under the Continuing Resolution and an Exception Apportionment. These funds were immediately made available to renew Rental Assistance agreements. As of November 4, more than $478 million has been used to renew RA agreements. For properties that ran out of funding in October or earlier, their RA agreements will provide funds effective October 1.

Question. When a Rental Assistance unit becomes vacant, regulations require that the unit be offered to the lowest income applicant on the waiting list. With this requirement, how do you accurately estimate future Rental Assistance needs?

Answer. We believe very strongly that our mission is to serve the needs of the most vulnerable residents in rural communities. In doing so we acknowledge the difficulty in accurately estimating future rental assistance needs, in an effort to address the issue Rural Development has taken the initiative to improve the accuracy of its estimation process by updating the methodology RD has been using to calculate the dollar amounts needed on an RA Agreement.

Question. What is the magnitude of the fiscal year 15 Rental Assistance shortfall?

Answer. As indicated during the hearing, RD did not have sufficient funding for the RA Agreements due for renewal in September of 2015. There were 905 properties that requested RA that had less than a full month's RA payment remaining in their agreement. Consequently, the RA shortfall in September was $3,873,518. The shortfall was due to: more RA units than expected needing renewal; and an increase in per unit costs. The higher than expected number of renewals occurred in part due to the need to fund a second renewal for properties that were not subject to the re-renewal prohibition. The higher than expected per unit costs reflected inflationary increases not anticipated in 2013 when the fiscal year 2015 budget was prepared. Harvard's Joint Center for Housing Studies' analysis of the consumer price index (CPI) for contract rents (a broad and therefore conservative measure) indicates that rents are climbing at an accelerating rate. Nominal rents were up 3.5

percent during the 12 months ending September 2015, which is considerably higher than the 1.6 percent provided by budget guidance in 2013.

Question. What is the amount that is needed in fiscal year 16 to fund all expiring Rental Assistance contracts?

Answer. The current appropriation of $1,389,695,000 is sufficient to fund all expiring Rental Assistance contracts in fiscal year 16.

Question. What internal changes are you making to your estimation process to ensure more accurate budget requests in the future?

Answer. The development of the "Rental Assistance Obligation Tool" in 2015 represents a huge step forward in the RA estimation process. The Obligation Tool will calculate properties' estimated needs based on each individual property's RA history rather than the former method of using a state-wide estimation process. The Tool includes an updated calculation methodology for forecasting that is based on:

—The average amount of RA the property used during the most recent 12 months;
—Higher weighting of the more recent months' RA use to reflect the most current tenant characteristics;
—Adjustments for any implemented and planned rent increases;
—An inflation factor to adjust for any time lag between the estimate and when funds will be needed.

The Tool became effective October 1. We are confident that this new methodology will significantly increase the accuracy of our estimation process.

Question. Can you assure this Subcommittee that the fiscal year 17 budget request will not understate the need to renew expiring Rental Assistance agreements?

Answer. We are confident that the new RA Obligation Tool will substantially reflect the most current needs of the property.

MATURING MORTGAGES

Question. The number of Rural Development-financed multi-family housing loans maturing each year is increasing and will reach 1,100 projects per year in 2019. When these loans are paid off, the projects will no longer be in USDA's affordable housing program, and will not have access to Rental Assistance or loan servicing options that Rural Development can offer.

What is Rural Development doing to keep these projects in the affordable housing program?

Answer. RD is very concerned with the potential loss of affordable housing as our Section 515 direct loans mature, because that housing may be lost in the community and the rental assistance support would no longer be available to the families in that property. If that RD housing is lost, the very low income families living there may have no other affordable housing in which to live.

In response, RD has provided a number of options for owners to keep their RD loan and protect the families living there.

—The borrower can apply through RD's Preservation NOFA for a deferral of their maturing mortgage for up to 20 years;
—The borrower can receive priority points if they choose to apply for both the deferral and additional RD funding for rehabilitation of property;
—The borrower can request a re-amortization and modification of the maturing loan to extend the loan term up to 20 years;
—If owners go through the prepayment process, their tenants may be eligible to receive housing vouchers.
—RD has also proposed legislation in the 2016 budget to extend housing voucher protection to tenants in properties with a mortgage that matures and the owner is not willing to extend the affordable housing feature of that property.

Question. Do current project owners generally want to remain in the program or graduate out?

Answer. We believe that most owners wish to remain in the program, because of the stability that the rental assistance benefit provides and the favorable financing available through our 515 and Preservation and Revitalization programs. Many of these owners also share our commitment to provide affordable housing to the low income residents that we both serve. We thank them for their continued commitment.

Question. Have you surveyed project owners to determine what number would like to remain in the program and where those projects are located?

Answer. RD has not performed a survey of all of the owners of approximately 11,500 properties with mortgages maturing through 2024. However, RD field staff do contact individual owners of properties with mortgages maturing in the next few years to learn those owners' plans for the property, and to explain the options the owners may have to keep the affordable housing in the program. RD has also had

numerous discussions with organizations active in this issue to get a general sense about the industry's interest in opportunities to retain this critically needed affordable housing.

Question. How are you working with owners and housing advocates to develop new options to retain properties in the affordable housing program?

Answer. RD recognizes the importance of our non-profit partners in retaining our affordable housing. We have looked for ways to encourage non-profits to take over this housing; one option that we have used is to promote the use of Section 515 loans to finance the acquisition of a maturing mortgage property from the existing owner. The new 515 loan extends the availability of that housing by another 30 years.

MULTI-FAMILY HOUSING PRESERVATION PILOT

Question. Over 14,000 affordable multi-family housing projects in rural America have been financed using USDA loans.These projects include over 475,000 housing units for low and very low income rural households. However, the average age of these projects exceeds 25 years.

With projects this old, what is Rural Development doing under the Rural Housing Preservation Pilot to improve their physical condition and to mitigate issues of deferred maintenance?

Answer. Since its authorization as a demonstration program in 2006, RD has been actively engaged in the preservation of its Section 515 portfolio through its Multi-Family Preservation and Revitalization (MPR) program. Through the end of fiscal year 2015, RD has obligated $1.051 billion for the rehabilitation of 982 properties and more than 33,000 units of affordable housing. MPR has also facilitated a high level of cooperation with state housing finance authorities by leveraging billions of dollars in tax credits to stretch our limited appropriation dollars.As part of the application process for MPR funding, RD requires the property owner to address any immediate or near term property physical condition issues, including deferred maintenance. In addition, RD underwrites the loan application to ensure sufficient funds will be available to long-term physical issues as they arise.

In order to continue making progress in our revitalization efforts, RD has requested that Congress authorize the MPR program permanently. If the program was permanently authorized, the Agency could create regulations to institutionalize the program's benefits and signal to potential program participants that both the Executive and Legislative branches of the Federal government are committed to the revitalization of our affordable housing.

Question. How is Rural Development working with housing advocates, owners, and other interested parties to develop new options to preserve this valuable affordable housing stock.

Answer. RD recognizes the importance of our non-profit partners in retaining our affordable housing. We have looked for ways to encourage non-profits to take over this housing; one option that we have used is to promote the use of Section 515 loans to finance the acquisition of a maturing mortgage property from the existing owner. The new 515 loan extends the availability of that housing by another 30 years.

Question. One concern we frequently hear is that Rural Development is unable to expedite the transfer of a property from the current owner to a non-profit purchaser. These transactions typically take 18 months or more, which places incredible burdens on the buyers in terms of holding together financial packages. What are you doing to streamline and accelerate this process?

Answer. Stakeholders have expressed concerns about property transfer processing times. Based on those concerns, RD undertook a business process improvement to streamline the transfer process, reduce processing times, and increase consistency and transparency in the transfer process. In the spring of 2015, RD rolled out a transfer assessment tool. This tool was provided to stakeholders, including property owners, and training was provided to ease the use of the tool. The tool created consistency in underwriting transfer applications and increased transparency by ensuring all parties in the transfer have access to the same review tool. In addition, RD adopted several industry standards into its transfer policies, to ensure more consistent approval standards that are used by all funders in the transfer financial package.

Question. What is the average time required now to execute a property transfer?

Answer. Based on preliminary data, the average time to process, approve, and close a transfer from the date of receipt of a complete application package in fiscal year 2015 was 126 days. This is a reduction of 31 days, or nearly 20 percent, from

prior years. As we continue to make improvements to the process, we expect transfer processing to continue to improve.

SINGLE FAMILY HOUSING DIRECT LOAN PROGRAM

Question. The single family housing direct loan program is Rural Development's flagship program providing homeownership opportunities to low and very low income rural households. For years this program has offered the chance for successful homeownership to thousands of rural households who otherwise would be denied this opportunity. This has always been one of the most popular programs of this Subcommittee and ample funding is provided each year.

Were you able to obligate all of the funds available in fiscal year 15?

Answer. Yes, fiscal year 2015 funds were fully utilized on September 21, 2015.

Question. What changes are you putting in place for fiscal year 2016 to ensure that the funding provided will be entirely utilized, and not require the extraordinary efforts that were necessary in fiscal year 2015?

Answer. In fiscal year 2015, delivery of the 502 direct home ownership loan program was a high priority for USDA. That priority continues in fiscal year 2016, and will be reinforced with automated underwriting, streamlining of the credit report process, and additional program training. A certified packager program final rule will be implemented provided that prohibitory "pilot" language is removed from the final USDA fiscal year 2016 appropriations bill. This regulation will enhance our partnership with certified loan packagers and further enhance program delivery.

NEW POVERTY PILOT PROGRAM

Question. Recently the Administration announced a new multi-agency anti-poverty initiative, the "Rural IMPACT" demonstration project. Ten rural communities were selected to receive special technical assistance for 6 months, to develop plans to address the problems of poverty in their communities.

Please describe the Rural IMPACT initiative and what is expected to be accomplished.

Answer. Recognizing that every child, no matter where she is born, should have an opportunity to succeed, the White House Rural Council launched "Rural Impact", a cross-agency effort to combat poverty and improve upward mobility in rural and tribal places. And in August, HHS announced a new demonstration project, Rural Integration Models for Parents and Children to Thrive (IMPACT), to help communities adopt a two-generation approach to addressing the needs of both vulnerable children and their parents, with the goal of increasing parents' employment and education and improving the health and well-being of their children and families. Often, programs are structured to serve either adults or children, rather than focusing on the entire family to improve outcomes. The Rural IMPACT Demonstration helps communities adopt a comprehensive, whole-family framework for addressing child poverty, such as through facilitating physical colocation of services, universal "no wrong door" intake, referral networks, shared measurement systems, and use of technology to deliver services.

Question. How were the ten rural communities selected?

Answer. A process was led by HHS that included communities submitting letters of interest in participation in the demonstration.The Demonstration is administered by HHS with support from the Community Action Partnership and the American Academy of Pediatrics, and implemented in collaboration with the U.S. Departments of Agriculture, Education, and Labor, Appalachian Regional Commission, Delta Regional Authority, and the Corporation for National and Community Service (CNCS).

Question. Why do you think 6 months to develop local plans and then 6 months to implement those plans is adequate to produce visible results?

Answer. We believe that with intensive technical assistance, including individualized expert coaching, site visits, and peer learning, as well as increased capacity in the form of AmeriCorps VISTA volunteers, rural communities can make important program and system adjustments to intentionally align intensive, high-quality, adult-focused services with intensive, high-quality, child-focused programs.

Question. How will success be measured?

Answer. Over the long term, key outcomes would include: increased enrollment in quality early childhood programs; increased high school/GED and post-secondary credentials for parents; increased parental employment; and increased child and family well-being. Recognizing that we are limited in the outcomes we can expect within just 1 year, a process evaluation will empirically describe the Rural IMPACT intervention, its processes, the site- level activities that resulted, and the experiences of key individuals and teams involved.

Question. What will this demonstration project cost and from where are the funds coming?

Answer. USDA Rural Development has contributed $250,000 for AmeriCorps VISTA volunteers to better coordinate rural development programs of Federal, state and local governments in the designated rural areas. The remaining resources are contributions from other participating agencies.

LOAN PORTFOLIO CREDIT QUALITY

Question. Rural Development has the difficult task of providing loans to rural individuals, organizations, and communities that have limited means and often cannot obtain commercial credit. The outstanding loan portfolio now exceeds $210 billion.

Please discuss the credit quality of the portfolio, and whether or not delinquencies and loan losses are remaining steady or declining.

Answer. In looking at Rural Development's portfolio in its entirety, one measure that is tracked is the percentage of delinquent principal greater than 1 year. For fiscal year-end 2012, 2013, 2014, and 2015, those figures were 2.19 percent, 1.91 percent, 1.96 percent and 2.00 percent respectively. Therefore the portfolio as a whole has been fairly consistent at the 2 percent range.

Rural Development does, however, have a vast array of programs as represented in the portfolio reports that follow. Four years have been provided for comparison purposes of each program.

Loan loss data has also remained consistent during the last 4 years. For 2012, 2013, 2014, and through June of 2015, percentages have been .51 percent, .61 percent, .53 percent, and .46 percent respectively.

The information is submitted for the record.

[The information follows:]

RURAL DEVELOPMENT LOAN PORTFOLIO AS OF SEPTEMBER 30, 2012

Loan Portfolio	# of Loans	Amount of Principal Outstanding	Delinquent Loans > 30 days				Delinquent Loans > 1 Year			
			# Loan Delinq.	% Loan Delinq.	Delinquent Principal balance	% Delq. Prin.	# Loan Delinq.	% Loan Delinq.	Delinquent Principal balance	% Delq. Prin.
Direct Portfolio										
Housing and Community Facilities										
Single Family Housing	307,883	$15,776,794,078	70,151	22.78	$3,860,545,020	24.47	20,612	6.69	$1,075,339,610	6.82
Multi-Family Housing	25,488	$11,161,277,000	*321	**2.11	$206,782,018	1.85	*184	**1.21	$126,938,039	1.14
Community Facility	6,164	$4,165,281,000	144	2.34	$180,241,446	4.33	66	1.07	$85,471,316	2.05
Total Housing & Community Fac.	339,535	$31,103,352,078	***70,295	***22.38	$4,247,568,484	13.66	***20,678	***6.58	$1,287,748,965	4.14
Utilities										
Water & Waste	17,836	$12,004,297,000	93	0.52	$125,725,161	1.05	57	0.32	$80,159,255	0.67
Electric	3,203	$43,087,376,196	1	0.03	$1,447,861	0.00	1	0.03	$1,447,861	0.00
Telecommunications	1,975	$4,656,650,125	31	1.57	$267,219,531	5.74	26	1.32	$233,892,463	5.02
Total Utilities	23,014	$59,748,323,321	125	0.54	$394,392,553	0.66	84	0.36	$315,499,579	0.53
Business and Cooperative										
Business and Industry	55	29,854,000	23	41.82	$22,212,832	74.40	17	30.91	$20,987,391	70.30
RMAP	142	14,914,045	10	0.00	$0	0.00	0	0.00	$0	0.00
Intermediary Relending Prog/HHS	1,028	$453,693,800	12	1.17	$5,253,101	1.16	5	0.49	$3,575,574	0.79
Rural Economic Development	352	$112,564,484	2	0.57	$400,371	0.36	0	0.00	$0	0.00
Total Business & Cooperative	1,577	$611,026,329	37	2.35	$27,866,304	4.56	22	1.40	$24,562,965	4.02
Total Direct Portfolio	364,126	$91,462,701,728	***70,457	***20.81	4,669,827,341	5.11	***20,784	***6.14	1,627,811,509	1.78
Guaranteed Portfolio										
Housing and Community Facilities										
Single Family Housing	671,274	$75,683,366,487	88,532	13.19	$9,628,542,279	12.72	16,930	2.52	$1,883,300,769	2.49
Multi-Family Housing	550	$668,204,431	3	0.55	$6,006,470	0.90	2	0.36	$4,278,232	0.64
Community Facility	713	$1,173,174,000	21	2.95	$49,050,168	4.18	9	1.26	$22,274,686	1.90
Total Housing & Community Fac.	672,537	$77,524,744,918	88,556	13.17	$9,683,598,917	12.49	16,941	2.52	$1,909,853,687	2.46
Utilities										
Water & Waste	69	$90,699,867	0	0.00	$0	0.00	0	0.00	$0	0.00
Electric/Other	17	$289,496,096	0	0.00	$0	0.00	0	0.00	$0	0.00
Total Utilities	86	$380,195,963	0	0.00	$0	0.00	0	0.00	$0	0.00
Business and Cooperative										
Business and Industry	3,752	$7,089,217,252	263	7.01	$549,965,422	7.76	175	4.66	$329,952,765	4.65
Total Business & Cooperative	3,752	$7,089,217,252	263	7.01	$549,965,422	7.76	175	4.66	$329,952,765	4.65
Total Guaranteed Portfolio	676,375	$84,994,158,133	88,819	13.13	10,233,564,339	12.04	17,116	2.53	2,239,806,452	2.64
Total Loan Portfolio	1,040,501	$176,456,859,861	***159,276	***15.69	$14,903,391,680	8.45	***37,900	***3.73	$3,867,617,961	2.19

RURAL DEVELOPMENT LOAN PORTFOLIO AS OF SEPTEMBER 30, 2013

Loan Portfolio	# of Loans	Amount of Principal Outstanding	Delinquent Loans > 30 days				Delinquent Loans > 1 Year			
			# Loan Delinq.	% Loan Delinq.	Delinquent Principal balance	% Delq. Prin.	# Loan Delinq.	% Loan Delinq.	Delinquent Principal balance	% Delq. Prin.
Direct Portfolio										
Housing and Community Facilities										
Single Family Housing	299,935	$15,593,598,443	72,565	24.19	$4,044,744,331	25.94	24,517	8.17	$1,276,738,913	8.19
Multi-Family Housing	24,973	$11,060,153,000	*279	**1.87	$182,852,919	1.65	*194	**1.30	$139,950,212	1.27
Community Facility	6,121	$4,708,785,000	130	2.12	$141,414,500	3.00	75	1.23	$83,623,935	1.78
Total Housing & Community Fac.	331,029	$31,362,536,443	***72,695	***23.75	$4,369,011,750	13.93	***24,592	***8.04	$1,500,313,060	4.78
Utilities										
Water & Waste	17,005	$12,080,703,000	66	0.39	$86,502,160	0.72	15	0.09	$27,727,916	0.23
Electric	3,086	$45,790,844,797	12	0.06	$19,663,035	0.04	1	0.03	$1,403,971	0.00
Telecommunications	1,822	$4,576,769,673	30	1.65	$292,421,343	6.39	21	1.15	$146,904,096	3.21
Total Utilities	21,913	$62,448,317,470	98	0.45	$398,586,538	0.64	37	0.17	$176,035,983	0.28
Business and Cooperative										
Business and Industry	46	$24,954,000	18	39.13	$18,933,059	75.87	12	26.09	$18,017,166	72.20
RMAP	85	$20,331,259	3	3.53	$119,478	0.59	0	0.00	$0	0.00
Intermediary Relending Prog/HHS	1,048	$440,390,800	15	1.43	$6,535,033	1.48	5	0.48	$2,716,201	0.62
Rural Economic Development	361	$123,615,495	1	0.28	$175,000	0.14	0	0.00	$0	0.00
Total Business & Cooperative	1,540	$609,291,554	37	2.40	$25,762,570	4.23	17	1.10	$20,733,367	3.40
Total Direct Portfolio	354,482	$94,420,145,467	***72,830	***22.10	$4,793,360,858	5.08	***24,646	***7.48	$1,697,082,410	1.80
Guaranteed Portfolio										
Housing and Community Facilities										
Single Family Housing	775,355	$89,742,912,407	91,808	11.84	$10,210,728,503	11.38	14,048	1.81	$1,674,113,500	1.87
Multi-Family Housing	615	$750,593,362	1	0.16	$294,890	0.04	0	0.00	$0	0.00
Community Facility	701	$1,242,806,021	17	2.43	$27,568,610	2.22	12	1.71	$24,730,405	1.99
Total Housing & Community Fac.	776,671	$91,736,311,790	91,826	11.82	$10,238,592,003	11.16	14,060	1.81	$1,698,843,905	1.85
Utilities										
Water & Waste	68	$78,665,770	0	0.00	$0	0.00	0	0.00	$0	0.00
Electric/Other	17	$273,519,135	0	0.00	$0	0.00	0	0.00	$0	0.00
Total Utilities	85	$352,184,905	0	0.00	$0	0.00	0	0.00	$0	0.00
Business and Cooperative										
Business and Industry	3,516	$6,706,971,282	219	6.23	$476,680,469	7.11	143	4.07	$299,493,509	4.47
Total Business & Cooperative	3,516	$6,706,971,282	219	6.23	$476,680,469	7.11	143	4.07	$299,493,509	4.47
Total Guaranteed Portfolio	780,272	$98,795,467,977	92,045	11.80	$10,715,272,472	10.85	14,203	1.82	$1,998,337,414	2.02
Total Loan Portfolio	1,134,754	$193,215,613,444	***164,875	***14.86	$15,508,633,330	8.03	***38,849	***3.50	$3,695,419,824	1.91

RURAL DEVELOPMENT LOAN PORTFOLIO AS OF SEPTEMBER 30, 2014

Loan Portfolio	# of Loans	Amount of Principal Outstanding	Delinquent Loans > 30 days				Delinquent Loans > 1 Year			
			# Loan Delinq.	% Loan Delinq.	Delinquent Principal balance	% Delq. Prin.	# Loan Delinq.	% Loan Delinq.	Delinquent Principal balance	% Delq. Prin.
Direct Portfolio										
Housing and Community Facilities										
Single Family Housing	291,968	$15,415,802,962	75,432	25.84	$4,239,911,528	27.50	28,851	9.88	$1,507,234,605	9.78
Multi-Family Housing	24,716	$10,914,281,000	*287	**1.94	$197,524,047	1.81	*65	**1.12	$123,347,225	1.13
Community Facility	5,970	$5,049,715,000	118	1.98	$145,378,338	2.88	67	1.12	$75,895,343	1.50
Total Housing & Community Fac.	322,654	$31,379,798,962	***75,550	***25.36	$4,582,813,913	14.60	***28,918	***9.71	$1,706,477,173	5.44
Utilities										
Water & Waste	16,676	$12,425,766,000	64	0.38	$82,595,959	0.66	20	0.12	$30,337,162	0.24
Electric	2,978	$46,431,536,087	3	0.10	$21,547,566	0.05	3	0.10	$21,547,566	0.05
Telecommunications	1,525	$4,411,669,475	51	3.34	$369,748,850	8.38	30	1.97	$243,883,830	5.53
Total Utilities	21,179	$63,268,971,562	118	0.56	$473,892,375	0.75	53	0.25	$295,768,558	0.47
Business and Cooperative										
Business and Industry	40	$23,569,000	17	42.50	$18,952,098	80.41	14	35.00	$18,064,832	76.65
RMAP	84	$23,914,016	4	4.76	$131,710	0.55	0	0.00	$0	0.00
Intermediary Relending Program	1,061	$422,227,000	11	1.04	$3,959,006	0.94	4	0.38	$2,160,790	0.51
Rural Economic Development	379	$158,214,456	6	1.58	$2,745,655	1.74	0	0.00	$0	0.00
Total Business & Cooperative	1,564	$627,924,472	38	2.43	$25,788,469	4.11	18	1.15	$20,225,622	3.22
Total Direct Portfolio	345,397	$95,276,694,996	***75,706	***23.61	$5,082,494,757	5.33	***28,989	***9.04	$2,022,471,353	2.12
Guaranteed Portfolio										
Housing and Community Facilities										
Single Family Housing	873,186	$102,281,768,559	97,688	11.19	$10,985,775,598	10.74	14,573	1.67	$1,736,154,464	1.70
Multi-Family	648	$785,939,681	1	0.15	$294,890	0.04	1	0.15	$294,890	0.04
Housing Community Facility	684	$1,247,462,398	15	2.19	$51,969,241	4.17	8	1.17	$18,610,338	1.49
Total Housing & Community Fac.	874,518	$104,315,170,638	97,704	11.17	$11,038,039,729	10.58	14,582	1.67	$1,755,059,692	1.68
Utilities										
Water & Waste	74	$96,223,011	0	0.00	$0	0.00	0	0.00	$0	0.00
Electric/Other	17	$247,912,430	0	0.00	$0	0.00	0	0.00	$0	0.00
Total Utilities	91	$344,135,441	0	0.00	$0	0.00	0	0.00	$0	0.00
Business and Cooperative										
Business and Industry	3,331	$6,298,413,586	194	5.82	$416,411,396	6.61	117	3.51	$264,421,512	4.20
Total Business & Cooperative	3,331	$6,298,413,586	194	5.82	$416,411,396	6.61	117	3.51	$264,421,512	4.20
Total Guaranteed Portfolio	877,940	$110,957,719,665	97,898	11.15	$11,454,451,125	10.32	14,699	1.67	$2,019,481,204	1.82

RURAL DEVELOPMENT LOAN PORTFOLIO AS OF SEPTEMBER 30, 2014—Continued

Loan Portfolio	# of Loans	Amount of Principal Outstanding	Delinquent Loans > 30 days				Delinquent Loans > 1 Year			
			# Loan Delinq.	% Loan Delinq.	Delinquent Principal balance	% Delq. Prin.	# Loan Delinq.	% Loan Delinq.	Delinquent Principal balance	% Delq. Prin.
Total Loan Portfolio	1,223,337	$206,234,414,661	***173,604	***14.48	$16,536,945,882	8.02	***43,688	***3.64	$4,041,952,557	1.96

* Number of projects delinquent.
** The percent of projects delinquent: Number of projects delinquent divided by number of projects outstanding. There are 14,771 projects outstanding as of September 30, 2014.
*** Exclude Multi-Family Housing Projects (Direct)

BROADBAND

Question. Rural Development has had the responsibility for some years of expanding access to high speed broadband services across rural America.

How successful has Rural Development been in expanding rural access to high speed broadband?

Answer. RUS has been very successful in expanding broadband service in rural areas.

Over 1.9 million Rural Subscribers since 2009. Based on projections from the project applicants in all RUS programs, 1.9 million rural households, businesses, farms, factories, schools, libraries, and healthcare facilities are anticipated to receive new or improved broadband services as a result of RUS funding.

Over $6.7 Billion since 2009. RUS has provided over $6.7 billion in loans and grants for wireline, wireless, and satellite broadband deployment through the Infrastructure Loan program, the ARRA Broadband Initiatives Program, and the Farm Bill Broadband Program.

Unserved Rural Communities Receive Broadband through RUS's Community Connect Program. Since 2009, RUS has awarded over $77 million in grants to 74 unserved communities to provide broadband service at residences, businesses, and community centers.

Question. The fiscal year 14 Farm Bill required changes to the USDA loan program. Please describe the significant program changes.

Answer. The Farm Bill required the following changes to be incorporated into 7 CFR part 1738 which governs the Broadband Loan Program.

—Evaluation Periods—establishes at least 2 evaluation periods each year.

—Priority—requires the Agency to prioritize applications that offer service to the greatest proportion of unserved households.

—Minimum acceptable level of broadband service—establishes a minimum level for which Broadband Service is defined (4 Mbps down and 1 Mbps up) and requires the Secretary to review that definition at least once every 2 years.

—Eligible Service Area—changes the current 25 percent underserved requirement and replaces it with a 15 percent unserved requirement. Availability of service in an applicant's service territory is to be validated by the National Broadband Map and any other sources the Secretary may obtain. Determining Priority of Applications—existing service in an applicant's service territory is to be validated by one of three resources: (1) information certified by the affected community, city or county, or (2) demonstrated by the state broadband map or (3) as shown on the National Broadband Map.

—Public Notice Regarding Applications—requires the Agency to establish a fully searchable database that includes a notice regarding each application for funding which includes the applicant identity, description of proposed service area, the amount and type of support requested, the status of the application, the estimated number of households without broadband service, and a listing of the census blocks that will be served or service area map.

—Public Notice Regarding Awardees—requires the Agency to establish a fully searchable database that includes a notice of each entity receiving funding, including the name of the entity, the type of assistance received, the purpose of the funding, and a copy of the awardees semiannual report (redacting any proprietary info).

—Semiannual Awardee Reporting—borrowers are to submit a semiannual report for 3 years after the completion of the project which describes the use of the assistance, the estimated number of end users using or forecasted to use the new or upgraded system, and the borrowers progress towards fulfilling the objectives for which the assistance was provided (the number and location of residents and businesses receiving new and improved service, the speed of the broadband service, the average price of service along with any changes to the adoption rates).

—Term—if the project is serving an unserved area, the Agency may establish a limited initial deferral period or other term necessary to achieve financial feasibility and long-term sustainability of the project.

Question. Have any loans been made under the new program?

Answer. At the end of July 2015, RUS published the new regulation and opened up the first application window that is now required.The application window closed on September 30, 2015 and 15 applications were submitted for approximately $118 million.RUS is currently reviewing the applications.

Question. What does the demand look like for the new program?

Answer. Based on the number of applications received for only a 2-month application window, demand for the program appears to be strong. RUS is also hearing

from many potential applicants that they are working on submitting applications during the next application window.

Question. Do you consider the BIP program a success? Why?

Answer. We consider the BIP program very successful. BIP funded 254 projects that are now providing broadband service to some of the hardest to reach rural areas. Over $2.9 billion was expended to bring broadband service to rural America.

Question. Rural Development has funded a lot of "smart grid" projects.What is smart grid technology?

Answer. Smart grid technology facilitates communications and remote control of electric utility systems and business and residential consumers. Smart grid technology allows utilities to better manage loads and locate outages. Smart grid technology offers consumers the ability to remotely control heating and air conditioning systems. For instance, a consumer could have their AC unit connected to a smart grid service provider and could remotely lower the temperature in the house before they get home.

RURAL ENERGY FOR AMERICA PROGRAM (REAP)

Question. The REAP program can and is used by individual farmers and ranchers, and certain agricultural cooperatives, to increase the efficiency of their operations or generate renewable energy on farm. Irrigation districts apparently are not eligible to apply. However, at least in Oregon, when irrigation districts pipe canals they are often interested in doing renewable in-pipe hydropower generation and other types of energy efficiency improvements for their members.

Does USDA have the ability to adjust the REAP program to allow irrigation districts to apply, and is this something you have considered doing? This could be an additional way to assist drought affected communities, which is something we should all be working on.

Answer. Most irrigation districts are quasi-public districts that were formed under State statute and would not qualify for funding under REAP. A regulatory change would be required to make these entities eligible recipients under REAP. There are a handful of districts, however, that have formed irrigation cooperatives as an operating entity. These cooperatives could be considered eligible for REAP.

To be eligible for REAP, the applicant must be a small business or an agriculture producer, and non-profits and other public entities are not eligible to participate in REAP.

Question. The fiscal year 14 Farm Bill provided the REAP Program with $50 million in mandatory funding yearly. Please provide an update on how REAP is doing.

Answer. Fiscal year 2015 Program level included $83 million of grant funding and $208 million of guaranteed loan funding, which came from two fiscal years of 2014 Farm Bill Funding and fiscal year 2014 Appropriations.The program utilized all of the grant funding and 75 percent of the guaranteed loan funds. The guaranteed loan funds was twice the amount of the previous historical record which was quite a feat as almost half the year was gone before guaranteed loans could be obligated. Unused guaranteed loan funds will be carried over into fiscal year 2016 and made available for lenders to access project financing shortly after October 1st, which will continue to make the program more accessible to applicants needing the funding.

On December 29, 2014 RD published a final rule that took into account the 2014 Farm Bill provisions as well as comments received on the REAP interim rule published in 2011 and the proposed rule published in 2013.

RD has developed a new suite of outreach materials and is currently engaged in an extensive outreach effort to potential applicants and lenders.

RURAL BUSINESS-COOPERATIVE SERVICE

Question. What is the status of the Biorefinery Assistance Program (Sec. 9003)?

Answer. RD published an Interim Final Rule on June 24, 2015 implementing the 2014 Farm Bill provisions. The new rule makes the program more accessible to facilities producing renewable chemicals and to facilities manufacturing renewable chemicals and other biobased outputs of biorefineries into end-user products. It also requires the Agency to ensure diversity in the types of projects approved. A cap on the amount of funding is provided for promoting biobased product manufacturing (no more than 15 percent of fiscal year 2014 and fiscal year 2015 mandatory funds). In addition to addressing the Farm Bill provisions, the Interim Final Rule makes other programmatic changes including an improved application process, enabling the flexibility to assess an application on a commercial lending framework or a project finance-based framework, simplifying the application scoring process, and improving a number of loan guarantee terms and conditions.

RD published a Notice of Solicitation for Applications on July 6, 2015 announcing the first application cycle with a deadline of October 1, 2015. The NOSA requires all persons who intend to file an application by October 1, 2015 to submit a Letter of Intent no later than September 1, 2015. Application cycles are every 6 months with applications deadlines of October 1 and April 1, which are preceded by Letters of Intent by September 1 and March 1.

RD received letters from 23 potential applicants expressing their intent to file an application for the application cycle ending October 1, 2015, requesting loan totaling $900 million and project costs totaling $1 billion. Of these 23, six submitted applications by the October 1 deadline while 11 potential applicants notified RD that they will submit their application for the April 1, 2016 application cycle because their lender was unable to complete the application by the October 1, 2015 deadline.

10/01/2015 Application Cycle:

—Six applications—six Biorefineries and no Biobased Product Manufacturing facilities.

—Loans requested range from $9 million to $250 million and total $588 million

—Projects costs range from $12 million to $340 million and total $895 million

—Three biorefineries will primarily produce advanced biofuels and three will primarily produce biobased products including renewable chemicals.

Between fiscal years 2009 and 2014, 42 applications were received. Of these 142 applications, 30 applications were either withdrawn by the applicant/borrower, determined by RD to be ineligible, or have had funds deobligated. Of the remaining 12 applications, RD has issued 11 conditional commitments,—of which two loans have gone into default and one loan was repaid in full—and one application is pending for which RD is preparing to enter into a conditional commitment in fiscal year 2016.

Question. How do RBS programs leverage private-public partnerships and outside funding?

Answer. While the Federal budget has increasingly been strained by competing funding priorities, demand for RBS programs continues to grow. Leveraging of program funds with outside (non-Federal funds) is an important tool that RBS uses to stretch Federal funds in improving conditions in the rural American communities that RBS serves.

RBS' success in this leveraging is enhanced by promoting partnerships between the public and private sectors. RBS efforts to leverage program funding includes Rural Development State and National Office outreach efforts to discuss the equity or matching requirements of RBS programs to stakeholders, and participation in regional and local listening sessions, one on one meetings with stakeholders and eligible entities, and interagency meetings or forums with other Federal and state agencies, community development organizations, and private foundations or investors.

In addition, at the individual project level, leveraging additional funding sources demonstrates that others believe in the project, and it contributes to the sustainability of a project, because those who sign on as partners at the beginning have an incentive to continue supporting the project after the RBS loan or grant is fully dispersed.

The following table summarizes RBS' success in leveraging from fiscal year 2009 through fiscal year 2015.

Programs	Fiscal year 2009–2014		2015	
	Total Funding	Leverage	Obligations	Leverage
B&I Guaranteed Loans	$8,712.99	$5,743.90	$1,044.52	$460.00
REAP	568.36	1,498.23	244.26	680.38
Biorefinery Assistance Program (9003)	1,037.68	1,198.96	80.00	70.48
RBOG	23.69	18.31		(see RBDG)
VAPG	108.49	47.88	44.48	50.24
RCDG	42.09	15.28	6.05	2.32
IRP	140.80	873.81	18.89	9.42
REDLoans	268.62	1,560.34	38.65	196.89
REDGrants	54.24	431.54	9.21	57.63
RBDG	223.65	283.32	27.84	29.61
RMAP	74.86	49.66	5.02	1143.71
Total RBS	11,255.46	11,721.25	1,518.92	1,600.68

NOTE: All figures are in $ millions.

Question. What is the status of the REDLG program? Why have you not awarded funds since March?

Answer. We obligated all of the available RED loan funds by the end of March 2015.The program is oversubscribed, and experienced a dramatic funding cut from 2014 to 2015. In 2014, $85.6 million in loans and $9.2 million in grants were available and awarded.In 2015, less than half, or $38.6 million in loans and $9.2 million in grants were available.

Question. How do RBS programs support local food initiatives?

Answer. Local and regional food is the strongest food trend in decades and USDA and Rural Development are looking to build on this trend and facilitate consumer interest in reconnecting with all American agriculture and bridge the rural-urban divide. While limited by geographic borders, RD has sought to identify projects that while located in rural areas, can be used to support needs in urban and suburban areas. For example, working to link a rural produce marketing cooperative with an urban food retailer or market where there is a lack of affordable fresh produce. RD has also been active in the Know Your Farmer, Know Your Food initiative which emphasizes the need for a fundamental and critical reconnection between producers and consumers. RD continues to work to align existing programs with the needs of local and regional food systems; conducting outreach activities so that the linkages are understood; helping communities build local food systems by providing new initiatives; and engaging the American public in conversation about local and regional agriculture. RD has been engaged with other Mission Areas within USDA as well as other Federal agencies to collaborate and leverage resources and overcome these geographic and administrative issues.

While Rural Development does not have a specific emphasis for local food initiatives historically, the authorities governing many programs within RD have supported local food activities. Examples of existing programs and authorities within Rural Development currently support the objectives of local food initiatives include: Community Facilities Program (CF), Rural Business Development Grant (RBDG), Value Added Producer Grant (VAPG), Rural Cooperative Development Grant (RCDG), Small Socially Disadvantage Group Grant (SDGG), Rural Cooperative Development Grant (RCDG), Renewable Energy for America Program (REAP), and the Business and Industry Loan Guarantee (B&I) program.

These programs have funded a wide array of community and local food projects. Examples include the development and implementation of food hubs, mobile slaughter units, farm-to-school programs, farmers markets, food banks, food cooperatives, food innovation centers, and value added agricultural products. RD promotes a range of interventions that expand the supply of and demand for nutritious foods, including increasing the distribution of agricultural products, developing and equipping grocery stores and strengthening the producer-to-consumer relationship.

Rural Development has actively promoted local and regionally produced agricultural food products. National Office staff regularly provide Field Office staff with information and guidance on how to apply programs to support this effort. Rural Development has worked to create an awareness of programs that can be used to support local and regional food projects. Further, RD has collaborated with both Agricultural Marketing Service and Food Safety Inspection Service to host webinars, produce articles and reports, and make presentations highlighting how programs can support local and regional food system efforts across Mission Areas. Staff has participated in numerous partner, stakeholder, and customer meetings whereprogram information is shared and local and regional food success stories and replicable models are discussed. RD's Rural Cooperatives magazine has also been used to highlight multiple examples of local and regional food projects and how RD programs were used to support them.

Question. How do RBS programs provide opportunities for socially-disadvantaged farmers and groups?

Answer. RBS works to ensure that all eligible, rural residents are afforded access to the business, cooperative and energy program opportunities available through the agency.

RBS seeks to work with and assist socially disadvantaged farmers and groups. The Socially Disadvantaged Groups Grant (SDGG) program provides funding for cooperatives, groups of cooperatives and cooperative development centers whose governing board is comprised of at least 51 percent socially-disadvantaged members and whose primary focus is to provide technical assistance to socially-disadvantage farmers and groups. Program funds are used for developing business plans, conducting feasibility studies, developing marketing plans and training. For example, World Farmers Inc. (WFI) located in Lancaster, Massachusetts, received a SDGG award to help a group of African immigrant farmers form a food cooperative for food production, marketing, and distribution. WFI is a nonprofit organization that provides technical assistance to small, socially disadvantaged and immigrant farmers. Client farmers are taught sustainable farming production, fair marketing principles,

and are mentored in the creation and operation of independent farming enterprises. WFI partners with the Flats Mentor Farm, also located in Lancaster, which acts as a farming incubator and who provides individual farm plots for the farmers to work on. At the farm, hands-on training is given in the technical aspects of farming, including farm safety and pest, weed and irrigation management among other farming issues.

The Value Added Producer Grant (VAPG) program also provides priority for beginning and socially-disadvantaged agricultural producers. The VAPG program provides planning and working capital grants to eligible producers for marketing value-added agricultural products. For example, Verdant Resources, Inc. in Duluth, Georgia used VAPG funds assist producers in the processing of ginger into various products. This VAPG project was designed to expand on an un-tapped locally grown market. Verdant Kitchen is processing and marketing products made from ginger and used VAPG funds to expand their base with a mass market retail campaign. They have a commercial processing facility in place and are working to expand the U.S. retail base for ginger products that currently are about 95 percent imported.

While not having specific focus or priority for socially-disadvantaged farmers and groups, RBS programs like the Rural Cooperative Development Grant, Rural Business Development Grant, Renewable Energy for America Program, and Delta Health Care Services have all been used to support and assist socially-disadvantaged producers and groups create or expand economic opportunities.

Question. How does RBS support start-up businesses, and small and mid-sized businesses?

Answer. As we know, entrepreneurs and small businesses are the engines of American innovation and our economic success. To maximize our competitive advantage as a nation, we must ensure that, with hard work, American entrepreneurs have the opportunity to find the capital, training, and market access they need to start and grow their businesses.

The Rural Business-Cooperative Service (RBS) supports startup, small, and mid-sized businesses through a number of programs. For example, the Value Added Producer Grant (VAPG) program provides priority for operators of small or medium sized farms or ranches structured as family farms and the Rural Microentrepreneur Assistance Program provides assistance to businesses with 110 or fewer employees. These and other RBS programs assisting start-ups and small to mid-sized businesses include:

—Intermediary Relending Program
—Rural Microentrepreneur Assistance Program
—Small Disadvantaged Groups Grant program
—Rural Business Development Grant program
—Rural Economic Development Loan and Grant program
—Rural Energy for America Program
—Value-Added Producer Grant program
—Business and Industry Guaranteed Loan program

Through such programs as these, RBS provides increased access to capital, job training, business development opportunities, strategic community planning, and other resources. In addition to the direct assistance we provide these businesses, our financial support is creating lasting economic development opportunities in the rural communities where the projects are located. Our programs, in other words, have made, and continue to make, a significant impact on rural communities. For example, since 2009, through over $10.9 billion in investments, RBS programs are estimated to have helped over 103,000 rural businesses (over 60 percent of which are small businesses) start or expand their operations with over 440,000 jobs created or saved. In Fiscal Year 2015 alone, RBS programs are estimated to have helped over 12,500 rural businesses through $1.5 billion in loans, loan guarantees, and grants.

Question. How does RBS support cooperatives?

Answer. Rural Development's Cooperative Programs has over 80 years of experience successfully working with the cooperative sector and remains the only Federal agency charged with that responsibility. Cooperative Programs currently works to support the 2,238 U.S. farmer, rancher, and fishery cooperatives who reported gross sales of $235 billion in 2012.

When possible, RBS staff works to deliver direct cooperative development assistance. RBS has been also been effective in leveraging investments through the Rural Cooperative Development Grant (RCDG) program to build cooperative development capacity throughout the nation. For example, the Foundation for Agriculture, Innovation and Rural Sustainability (FAIRS) in Richmond, Virginia provides support to cooperatives and producers in developing and advancing their agricultural, economic and social interests to enhance their quality of life. Virginia FAIRS has received

funding from the Rural Cooperative Development Grant program to assist individuals, cooperatives, small businesses and other similar entities in rural areas to enable and assist cooperative and business development. For example, the Kohala Center, Inc. in Hawaii received a grant of $200,000 to provide cooperative and business development technical assistance to rural areas throughout Hawaii to combat the physical isolation and dependence on imported food and energy. Funds will be used to provide technical assistance to agricultural producers, emerging food hubs, and local food distributors and linking them to local institutional buyers.

RBS continues to support Rural Cooperatives magazine, a bi-monthly USDA publication that continues to be an important communication tool with the cooperative community. The magazine regularly highlights successful cooperative operations and -examples of cooperatives using Rural Development in addition to discussing current issues and opportunities for cooperatives.

RBS maintains a library of approximately 200 information, education and research publications on the cooperative business model. In addition, RBS remains the sole provider of statistics on U.S. agricultural cooperatives. An annual survey of cooperatives allows RBS to maintain historic data and information and supports the production of the Directory of Cooperatives, Annual Cooperative Statistics Report and The Top 100 Agricultural Cooperatives. Additionally, RBS staff will regularly meet with international visitors to provide information and discuss cooperatives in the U.S.

In October 2015, Rural Development launched the Interagency Working Group on Cooperative Development (IWGCD). The IWGCD is comprised of representatives from Federal departments and agencies that support programs and services focusing on or, working with, cooperatives. The IWGCD will address programs affecting cooperatives and their development. The IWGCD will identify and engage key government, private, and non-profit organizations that play a role in improving the coordination and effectiveness of programs serving cooperative sectors. These partnerships and collaborations provide mechanisms to obtain feedback on how Federal initiatives are understood at the local level; keep organizations informed about Federal funding opportunities; and provide the IWGCD with communication channels to regional, state, and local programs.

QUESTIONS SUBMITTED BY SENATOR TOM UDALL

Question. Describe the role of your department Chief Information Officer (CIO) in the development and oversight of the IT budget for your department. How is the CIO involved in the decision to make an IT investment, determine its scope, oversee its contract, and oversee continued operation and maintenance?

Answer. The USDA CIO works closely with senior leadership both at the Department level and within the Bureaus and Staff Offices to consistently align USDA's budget, finance, acquisitions, human resources, and IT communities.

In addition, the USDA CIO ensures IT budget requests are approved by all agencies CFOs and CIOs.

The budget formulation process is focused on resource allocation decisions which may affect current and future acquisition programs. In order to be effective with this process, the CIO and Budget Officer will continue to work with senior policy officials, including the Secretary's Office, to identify resource needs in support of existing policy priorities and the Department's strategic goals and objectives. In addition, early engagement with the USDA Mission Areas, understanding their lines of business (LOBs) in order to have a cohesive synergy with the information technology communities and incorporating the CIO into the pre-planning process along with the CFO, and Budget Officer will ensure clear visibility into the prioritization of programs before any final decisions are submitted to start the approval of any budget formulation requests.

Question. Describe the existing authorities, organizational structure, and reporting relationship of the Chief Information Officer. Note and explain any variance from that prescribed in the newly-enacted Federal Information Technology and Acquisition Reform Act of 2014 (FITARA, PL 113–291) for the above.

Answer. Currently the Office of the Chief Information Officer (OCIO) is located within USDA's Departmental Management organization under the Assistant Secretary for Administration. The Department's CIO also reports to the Deputy Secretary in the management and oversight of USDA's Enterprise Information Technology Investment Review Board (E-Board) and also provides regular updates to the Secretary concerning USDA's IT portfolio.

Question. What formal or informal mechanisms exist in your department/agency to ensure coordination and alignment within the CXO community (i.e., the Chief In-

formation Officer, the Chief Acquisition Officer, the Chief Finance Officer, the Chief Human Capital Officer, and so on)?

Answer. USDA has developed a FITARA Common Baseline Plan that identifies CXO roles and responsibilities, process, procedures and policies focused on coordination and alignment within the CXO community. USDA has diagramed these procedures and processes, identified touch points between the CIO and existing CXO processes and procedures and worked with the CXOs to ensure CIO involvement. The revised processes and procedures are being captured and placed in existing departmental regulations, departmental notices, policies memorandums, etc.

Question. According to the Office of Personnel Management, 46 percent of the more than 80,000 Federal IT workers are 50 years of age or older, and more than 10 percent are 60 or older. Just 4 percent of the Federal IT workforce is under 30 years of age. Does your department have such demographic imbalances? How is it addressing them?

Answer. Yes. The CIO, in consultation with USDA's Chief Human Capital Officer (CHCO), is developing competency requirements and is enhancing its workforce planning framework for the recruitment and retention of all IT professionals.

Question. How much of the department's budget goes to Demonstration, Modernization, and Enhancement of IT systems as opposed to supporting existing and ongoing programs and infrastructure? How has this changed in the last 5 years?

Answer. Over the past 5 years USDA's IT budget has not significantly changed and as such the distribution of the IT budget between Development, Modernization, and Enhancements (DME) to Operations and Maintenance (O&M) has not seen a significant change. Based upon USDA's report to OMB via the IT Portfolio Summary DME is at 14 percent and O&M is at 86 percent.

Question. What are the 10 highest priority IT investment projects that are under development in your department? Of these, which ones are being developed using an "agile" or incremental approach, such as delivering working functionality in smaller increments and completing initial deployment to end-users in short, six-month timeframes?

Answer. USDA considers an IT investment as high priority if it has one or more of the following attributes: (1) Mandated by legislation or Executive Order; (2) Requires a common infrastructure investment; (3) Considered strategic or mandatory-use investments; (4) Differ from or greatly impact the Department's infrastructure, enterprise architecture or standards guidance; and (5) Involves multiple-agency funding. However as priorities evolve and other factors enter the equation or become mission-critical, additional attributes could become important in our definition.

Investment Name	Short Description	Agile or Incremental Development?
APHIS-Certification, Accreditation, Registration, Permitting, and Other Licensing (CARPOL).	To ensure that the certification, accreditation, registration, permitting, and other licensing strategies and operations of APHIS to make the best use of existing and emerging technologies, technology support, and end-user education.	Yes, an agile methodology is being leveraged.
DM-OCIO-Optimized Computing Environment (OCE).	OCE revitalizes the Service Center Agency (SCA) IT infrastructure. This multi-year initiative focuses on technological enhancements on all levels of the IT architecture (e.g., network and servers) with the purpose of supporting SCA modernization projects. The successful implementation of the projects within the investment will provide a more highly secure computing environment and platform allowing USDA to monitor events and protect against potential cyber threats.	No, as it is not a system development program but replaces hardware.
DM-OCIO-USDA Security Operations Center (SOC).	Investment to maintain USDA IT Security Operations Center (SOC) focused on achieving USDA Security Strategy: Achieve proactive security through actionable insight. A successful SOC relies upon continuous investment to ensure that its capabilities evolve in responseto the evolving cyber threat environment. A SOC is a major cornerstone of a cybersecurity program. This investment is in place to upgrade, modernize the capabilities of the USDA SOC.	No agile methodology is being leveraged at this time.

Investment Name	Short Description	Agile or Incremental Development?
FSA-0111 Common Farm Programs Systems.	The purpose of this investment is to support the development and maintenance of a portfolio of core Farm Program applications and services used by Farm Programs, Farm Loans and Commodity Operations as well as other USDA Agencies. These systems include Acreage Reporting & Compliance Systems, Farms Programs Management Systems, Customer Name/Address Systems (including SCIMS), Representative Link Manager System, Subsidiary Systems and Common Payment Program.	Yes, an iterative methodology is beingleveraged.
FSA-103	Consolidated Farm Loan Program Information & Delivery Systems This investment supports FSA's Farm Loan Program (FLP) and its goal of providing capital to American farmers and ranchers by providing them with ownership, operating, and emergency loans through streamlined and modernized processes and systems.	Yes, an iterative methodology is beingleveraged.
FSIS-Public Health Information System (PHIS).	PHIS established to develop an effective food safety system that can collect, assess and provide information enabling a response to food safety hazards. FSIS adopted the public health-based approach that is in line with the core food safety principles of the President's Food Safety Working Group. PHIS is a modern, coordinated food safety system which helps prevents harm to consumers and uses good data and analysis for effective food safety inspections and enforcements.	Yes, an iterative methodology is beingleveraged.
NRCS-Conservation Delivery Streamline Initiative (CDSI).	NRCS has initiated CDSI with the purpose of implementing a more effective, efficient and sustainable business model for delivering conservation assistance across the Nation. This initiative has three objectives: 1) Simplify Conservation Delivery for customers and employees; 2) Streamline Business Processes to increase efficiency and integration across business lines; and 3) Ensure Science-based Assistance to reinforce the delivery of technically sound products and services.	Yes, an agile methodology is beingleveraged.
RD-Comprehensive Loan Program.	The CLP initiative was launched to modernize and streamline the application delivery portfolio in order to better serve RD's citizen beneficiaries, and to provide RD employees with the technology and tools they need to pursue RD's mission. RD offers a variety of direct and guaranteed loan programs for Single Family (SF) and Multi-Family (MF) Housing, Business, Community Facilities, and Utilities programs.	Yes, an incremental methodology is beingleveraged.
RMA-13 Emerging Information Technology Architecture (EITA).	This investment houses RMA's financial, insurance, risk management, and actuarial applications. This investment is essential to mission critical to the Federal Crop Insurance Corporation and the Risk Management Program.This investment supports the reengineering of all business & financial systems associated with delivery of the crop insurance program.	Yes, an agile methodology is being leveraged.

Investment Name	Short Description	Agile or Incremental Development?
FNS-Supplemental Nutrition Assistance Program (SNAP) Support.	This investment consists of following systems/applications: (a) Systems SNAP Quality Control System (SNAPQCS) supports FNS efforts to determine the error rate by each State, to monitor and reduce State error rates for SNAP, and minimize erroneous payments. Error rate determination is required by legislative requirements. (b) Electronic Disqualified Recipient Subsystem (e-DRS) is used to store information on disqualified recipients of SNAP benefits. The function of e-DRS is mandated by legislative requirements. Every state must ensure that disqualified recipients are not let back into the program. (c) SNAP Workflow and Information Management (SWIM)—SWIM is a new system that is currently under development. It will automate the SNAP key business functions of waiver processing and policy clarifications. The ability to submit SNAP related waiver requests, policy clarifications, manage work related to submitted requests/clarification, search for information, and report on information in a user-friendly and intuitive interface. (d) Treasury Offset Program (TOP)—is a centralized offset program, administered by the Bureau of the Fiscal Service's (Fiscal Service) Debt Management Services (DMS), to collect delinquent debts owed to Federal agencies and states. (e) Retailer File Solution (RFS) (f) SNAP Retailer Locator (g) Healthy Access Locator (h) SNAP Policy WIKI.	Yes, an agile methodology is being leveraged.

Question. To ensure that steady state investments continue to meet agency needs, OMB has a longstanding policy for agencies to annually review, evaluate, and report on their legacy IT infrastructure through Operational Assessments. What Operational Assessments have you conducted and what were the results?

Answer. The USDA Capital Planning and Investment Control (CPIC) process assesses each investment's impact on mission performance, to identify any needed investment changes or modifications, and to revise the investment management process based on lessons learned. An Operational Analysis (OA) is performed by the Program/Project Manager after a year of the investment being in operations, and updated on an annual basis. The results from these activities determine the investment's efficiency and effectiveness in meeting performance and financial objectives. Additionally, OCIO conducts annual portfolio reviews on the agencies and staff offices to evaluate their portfolio to provide further insight into legacy IT infrastructure and IT systems.

Question. What are the 10 oldest IT systems or infrastructures in your department? How old are they? Would it be cost-effective to replace them with newer IT investments?

Answer.

Investment Title	Year
Initiated FS-Automated Timber Sale Accounting	1980
FSA-107 Consolidated General Sales Manager (CGSM)	1982
FS-Forest Service Computer Base	1983
FSA-105 Conservation Systems	1985
FSIS-USDA Meat & Poultry Hotline (Hotline)	1985
FSA-0100 Commodity Management Systems	1987
FSA-0101 Price Support Systems	1987
FSA-106 Consolidated Financial Management Information Systems (CFMIS)	1987
FSA-009 Cotton Management System (CMS)	1988
DM-OC-Ongoing IT Support	1993

USDA manages multiple systems in program investments and tracks which systems are scheduled to be decommissioned as new capability becomes available. When USDA makes modernization decisions, we look for opportunities to create investments that will modernize or consolidate a number of related systems. The Animal and Plant Health Inspection Service (APHIS) CARPOL (Certificates, Accredita-

tions, Registrations, Permits, and Other Licenses) system, for example, will consolidate more than eight separate systems that support the safe introduction and movement of regulated agricultural products.

Question. How does your department's IT governance process allow for your department to terminate or "off ramp" IT investments that are critically over budget, over schedule, or failing to meet performance goals? Similarly, how does your department's IT governance process allow for your department to replace or "on-ramp" new solutions after terminating a failing IT investment?

Answer. The USDA's Integrated Information Technology Governance Framework (IITGF) is a holistic set of processes, procedures, and guidelines that assist the Office of the Chief Information Officer's (OCIO's) customers to improve mission delivery. Through this framework the CIO actively engages with all key stakeholders involved in the governance structure consisting of an Integrated Advisory Board that makes recommendations on IT investments to the executive-level E-Board, chaired by the USDA's Deputy Secretary. Composed of the Department's senior leaders, the E-Board ensures that existing and proposed IT investments contribute to the Secretary's strategic vision and mission requirements, employ sound IT investment methodologies, comply with Departmental enterprise architecture, employ sound security measures, and provide the highest return on the investment or acceptable project risk. The E-Board provides the Secretary with recommendations for review and decision authority. These recommendations, based on whether an investment is meeting value (cost), schedule, strategic alignment, risk management, and performance goals, may well precipitate that an investment is "off ramped", paused, or terminated. Similarly, this governance structure provides the flexibility to "on ramp" new, innovative solutions that are replacing investments that have been paused or terminated.

Question. What IT projects has your department decommissioned in the last year? What are your department's plans to decommission IT projects this year?

Answer. The Department does not conduct decommissioning plans on IT projects. We conduct decommissioning plans at the IT system level and investment level. USDA has decommissioned twenty-three (23) investments. During USDA annual portfolio reviews, it is discussed what investments/projects will be decommissioned for the next OMB budget year submission. All investments that will be decommissioned, complete a Decommission Plan and get approval from the Associate Chief Information Officer of Information Resource Management. This process is built within our Integrated IT Governance Framework.

Question. The newly-enacted Federal Information Technology and Acquisition Reform Act of 2014 (FITARA, PL 113–291) directs CIOs to conduct annual reviews of their department's IT portfolio. Please describe your department's efforts to identify and reduce wasteful, low-value or duplicative information technology (IT) investments as part of these portfolio reviews.

Answer. USDA currently has been annually reviewing the USDA portfolio and all of the component portfolios for the past 3 years. The Department's enterprise information technology governance program, portfolio reviews, and Enterprise Architect programidentify and reduce wasteful, low value, or duplicate information technology investments.

Question. In 2011, the Office of Management and Budget (OMB) issued a "Cloud First" policy that required agency Chief Information Officers to implement a cloud-based service whenever there was a secure, reliable, and cost-effective option. How many of the department's IT investments are cloud-based services (Infrastructure as a Service, Platform as a Service, Software as a Service, etc.)? What percentage of the department's overall IT investments are cloud-based services? How has this changed since 2011?

Answer. The Department has an investment process to support assessment of Cloud capability. In the recent months the USDA CIO has promoted more adoption of Cloud solutions and movement towards a more innovative approach leveraging the capabilities of Cloud technologies. Of the current 202 investments, approximately 23 or 11 percent are currently leveraging a cloud-based service and an additional 26 investments evaluated a cloud-based solution an alternative. USDA did not track this information in 2011, but during infiscal year 2012, USDA's percentage of investments that leverage a cloud-based solution was 13 percent of the 308 investments.

Question. Provide short summaries of three recent IT program successes—projects that were delivered on time, within budget, and delivered the promised functionality and benefits to the end user. How does your department define "success" in IT program management? What "best practices" have emerged and been adopted from these recent IT program successes? What have proven to be the most significant barriers encountered to more common or frequent IT program successes?

Answer. The USDA OCIO defines "successful" IT projects or investments as those that 1) meet business requirements, 2) are delivered and maintained on schedule, 3) are delivered and maintained within budget, and 4) deliver the expected business value and return on investment. The USDA OCIO notes that many factors contribute to a successful project or investment, but the USDA has found that effective project management and governance practices are particularly crucial. The USDA differentiates between "project management success" (i.e. delivering in accordance with the agreed project objectives) and "product success" (i.e. the amount of value the project's deliverables bring once the project is over). USDA believes that some key factors or barriers to success often contribute to the failure of a project, such as:

—Lack of stakeholder/user input
—Incomplete and/or vaguely defined requirements or specifications
—Changing requirements or specifications
—Lack of executive support
—Insufficient planning
—Underestimated time and/or resources allocated for design, development, quality assurance, and/or quality control
—Technological incompetence
—Insufficient resources
—Unrealistic expectations
—Unclear objectives
—Unrealistic timeframes
—New or untested technology

However, the USDA notes several factors that are crucial to the success of any IT project or investment, such as:

—Clear and clearly articulated goals
—Comprehensive, long-term, and detailed planning
—Early definition of deliverable quality criteria
—Active executive support with a shared vision throughout the project's life
—Carefully planned implementation
—Concise, consistent, complete, and unambiguous business and technical requirements
—Realistic estimates and schedules
—Early risk analysis and ongoing risk management
—Planning for business process change management
—Adherence to a formalized IT governance approach and framework
—Proactive issue resolution
—Stakeholder involvement throughout the life cycle
—Defined and consistently executed change management to minimize scope increases
—A skilled, certified Project Manager experienced in the execution of project management best practices
—Execution of a formal system development methodology (such as the Agriculture's System Development Life Cycle, AgSDLC)
—A commitment to success

These three successful investments are still continuing with their implementations and have released incremental functionality to their customers:

1. Animal, Plant and Health Inspection Service (APHIS) Certification, Accreditation, Registration, Permitting and Other Licenses (CARPOL)

a. APHIS CARPOL successfully delivered a single system, cloud-based platform to support permitting live dog imports that is required by a Congressional amendment to the Animal Welfare Act. The tool reduces the processing time from days to hours and will allow anyone to apply for a permit to bring a live dog(s) into the continental U.S. or Hawaii, for the purpose(s) of research, resale, or veterinary treatment.

2. Natural Resource and Conservation Service (NRCS) Conversation Delivery Streamlining Initiative (CDSI)

a. NRCS CDSI successfully released one of three modules using the agile methodology called Conservation Client Gateway (CCG). Conservation Client Gateway is a new NRCS public website that provides individual landowners and land users the option to request conservation technical and financial assistance from NRCS.

3. OCIO Identity Credential Access Management (ICAM).

a. OCIO ICAM successfully implemented the personal identification verification (PIV) initiative by securing our applications behind the identity access tool to enable customers to access multiple applications with a single credential. The implementation of the PIV provides for the use of multi-factor authentication, a key tool in our cybersecurity program.

Question. A June 2015 Government Accountability Office (GAO) report found that USDA spent about $423 million since 2004 to modernize IT systems through Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) before halting the program due to poor performance and uncertainty regarding future plans. GAO made five recommendations to the USDA Farm Service Agency (FSA), including establishing and implementing a plan for adopting recognized best practices for program management. Has FSA fully implemented these five recommendations? Please explain how USDA implemented each GAO recommendation.

Answer. GAO provided five interrelated recommendations to improve the selection, planning, and control of IT projects results. FSA has taken immediate steps to improve IT internal controls in the areas of integrated capital planning, IT governance, risk management, project management, Cybersecurity and other IT oversight initiatives. FSA created an Investment Review Board, an executive level governance board that meets regularly to assess and prioritize IT investments. In addition, an external contractor has been engaged to perform an independent third-party assessment to determine if the current enterprise solution provides the necessary functionality and is the most cost effective modernization solution.

Question. The Federal IT Dashboard is a website that allows the general public to view details of Federal information technology investments. This transparency tool shows that the USDA "NFC Shared Services—IT Systems" investment as rated "red" or high risk. Since August 2014, various Chief Information Officer comments published on the Dashboard have indicated that USDA is conducting a baseline review to improve this investment's cost and schedule performance. What actions has USDA taken to remediate the NFC Shared Services—IT Systems investment's troubled performance? Have these steps improved this investment's cost and schedule performance to a point where it can be rated "green?"

Answer. Since June 2015, the NFC Shared Service Investments has been rated RED due to numerous issues based on the criteria established by OMB which is used to rate all Major Investments. The issues include lack of program management artifacts, lack of EVM reporting, and DM&E reporting.

On June 24, 2015, the USDA CIO and Senior Executives held a Portfolio Review with OCFO-NFC, which included in depth analysis of the NFC Shared Service Investments. In the portfolio review it was determined that the USDA CIO designees would travel to New Orleans to discuss the requirements of Earned Value Management (EVM), Capital Planning and Investment Control (CPIC) requirements and Information Technology Governance process. OCIO worked with the NFC Investment team to capture performance data regarding their projects and activities that are a part of the NFC Shared Service Investments. From 16 through 18 September 2015, the Capital Planning & IT Governance Division (CPIGD) Director and CPIGD Analyst met with all NFC Senior Executives and the NFC Program/Project Managers (PPMs). During the meetings the USDA OCIO team identified the abovestated issues and developed a corrective action plan (CAP), which was provided to the OCFO-NFC Investment team. Once the OCFO-NFC Investment team accomplishes the corrective actions, USDA OCIO will reevaluate the NFC Shared Service Investments.

Since the three days of meetings, OCFO-NFC Investment team started the following actions to improve their score to yellow for the November 2015 monthly on the Federal IT Dashboard:

1. Reporting all projects, activities, and risks within their business case.
2. Updated the business case contract table.
3. Identified and is now reporting the line of funding for all shared services agencies and staff offices.
4. Provided an updated Risk Management Plan and is in the process of updating investment Acquisition Plan and Investment Charter.

On October 27, 2015 the USDA OCIO EVM Manager and CPIGD Analyst have met with NFC Investment team to discuss how they can conduct EVM and rebaseline the investment. USDA OCIO scheduled a series of follow-up meetings with OCFO-NFC team to finalize and have NFC complete this process, which include monthly major investments to discuss IT Dashboard scores and outstanding issues in order to improve the performance of the NFC investments and eventually achieve a green status.

NFC will be undergoing a reorganization within their office to better serve the mission and support of their functions. A new CIO has now been assigned to NFC that will ensure the investment will be better managed. NFC will be executing a Request For Proposal (RFP) thatwill include an EVM clause for support and assist with them reporting EVM to the USDA OCIO Department. Once EVM is being reported and they have finalized the updates to the investment artifacts as well as

continuing to manage, monitor, track and update their projects, activities, risks and performance metric they should be able to move to a green status.

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY

Question. In many ways, Vermont highlights both the successes and challenges of ensuring that rural America has access to affordable and quality broadband service. Burlington has a vibrant start-up community and is home to successful online businesses like Dealer.com. Traditional small businesses like the Vermont Country Store have augmented their reach and built meaningful 21st Century brands by operating popular online stores. Unfortunately, I still hear too often from Vermonters who lack access to broadband service and the transformative opportunities that it brings. I worry that without aggressive action to spur investment in rural areas, we will leave these Americans even further behind as the next generation of broadband service is deployed.

Do you agree that access to quality and affordable broadband is no longer a luxury but a necessity in rural America?

Answer. Yes, we agree that broadband is now a necessity. Children in rural America as well as children everywhere must have broadband access to do homework and their lessons. Without easy access rural children will fall way behind their counterparts in urban and suburban areas as well as the rest of the world.

In addition, rural America is doing more and more ecommerce and broadband service is necessary to facilitate this.

Farmers now use the Internet to sell their crops and auction their cattle worldwide. They also use broadband to control how their trackers plow and when and how much to water their fields.

The Federal Communications Commission's (FCC) 2015 broadband progress report found that rural America is underserved at every broadband speed, with 20 percent lacking access even to the minimum acceptable level of broadband service Congress set for the Farm Bill Loan Program in 2014.In contrast, the FCC's report found that 92 percent of urban Americans have access to speeds that are more than 6 times higher than that minimum standard.

Question. What more can we do to close this rural/urban broadband divide?

Answer. Utilizing programs like the RUS Community Connect Grant Program is one way to get broadband service to the neediest areas. The areas with no service today are some of the most rural, low density areas in the country. It is difficult to support a business plan in these areas a grant funding could be a key component. We must also work with existing service providers and help them understand that there are ways to serve these rural areas and still make a profit.

As we have done in the past to support universal service for voice services, we must now refocus our efforts and support mechanisms to fully support the deployment of broadband service to every person in the country.

QUESTIONS SUBMITTED TO ADMINISTRATOR TONY HERNANDEZ

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY

SECTION 515 MULTIFAMILY LOAN PROGRAM

Question. Throughout the country, thousands of properties participating in the Section 515 Multifamily Loan Program are approaching their 40-year terms, resulting in maturing mortgages that will no longer guarantee rent subsidies, threatening many low-income tenant households with drastic rent increases. This year, the affordability of 60 properties across the country, totaling more than 700 units, are threatened.

In my home state of Vermont, there are 79 active Section 515 properties containing 1,842 units that will expire within the next 10 years. Meanwhile, the statewide vacancy rate rests at one percent, making every unit assuring affordability even more critical to our housing stock.

This year, Lebanon, New Hampshire, is faced with losing 50 units of local affordable housing due to mortgage expiration at the end of the year. Twin Pines Housing Trust, a local affordable housing nonprofit organization serving Vermont and New Hampshire, was committed to continuing to serve the need for affordable housing in that area. Thankfully, with the help of the VT-NH State Rural Development Office, Twin Pines was able to successfully negotiate a purchase of the 50 units from the property owner, ensuring perpetual affordability to its residents.

I commend our Vermont-based partners for their commitment to this mission, but recognize that not all states and communities have motivated local housing providers with the necessary tools to preserve this critical housing stock. Looking ahead to the remaining contracts, there is an urgent need to address the potential loss of thousands of affordable housing units and provide necessary protections for low-income populations at risk of homelessness.

What plan does the Department currently have in place to address maturing mortgages in the immediate future, and over the next several years?

Answer. RD is very concerned with the potential loss of affordable housing as our Section 515 direct loans mature, because that housing may be lost in the community and the rental assistance support will no longer be available to the families in that property. If that RD housing is lost, the very low income families living there may have no other affordable housing in which to live.

In response, RD has provided a number of options for owners to keep their RD loan and protect the families living there.

—The borrower can apply through RD's Preservation NOFA for a deferral of their maturing mortgage for up to 20 years;

—The borrower can receive priority points if they choose to apply for both the deferral and additional RD funding for rehabilitation of property;

—The borrower can request a re-amortization and modification of the maturing loan to extend the loan term up to 20 years;

—If owners go through the prepayment process, their tenants may be eligible to receive housing vouchers.

—RD has also proposed legislation in the 2016 budget to extend housing voucher protection to tenants in properties with a mortgage that matures and the owner is not willing to extend the affordable housing feature of that property.

Question. When should housing providers and nonprofit partners expect to receive a plan from the Department so that they may properly plan for necessary purchase and sales agreements?

Answer. Throughout 2015, RD has participated in a series of public meetings with all stakeholders, including housing providers and nonprofit partners, to inform them of our efforts to retain our affordable housing. These sessions have included information regarding the use of Section 515 funds to finance the nonprofit acquisition of Section 515 properties in danger of being lost through mortgage maturity or prepayment. Our communications with stakeholders have begun to generate results—for example, late in fiscal year 2015, RD provided a $6.7 million Section 515 loan to a nonprofit in New Hampshire to retain 100 units of affordable housing.

Question. What additional resources is the Department currently dedicating to address the immediate needs? And, will the Department be including funding requests in future budgets to address this issue?

Answer. In fiscal year 2015, RD made the decision to prioritize the use of Section 515 funds to finance the acquisition of Section 515 properties at risk of leaving the program through either prepayment or maturity of the existing mortgage.In fiscal year 2015, RD received an appropriation of $28 million. Of this amount, RD used more than $11 million to assist nonprofits in the acquisition of Section 515 properties in California, New Hampshire, and Pennsylvania. The remainder was used for the Multi-family Preservation and Revitalization program. RD's fiscal year 2016 proposed budget includes a request for an additional $15 million in Section 515 funding for the preservation or construction of affordable housing; one of the purposes of the additional funding would be to retain existing affordable housing through the nonprofit acquisition process.

Question. In instances when mortgages expire and properties no longer guarantee rentals subsidies, is the Department considering options that would allow residents to remain in their homes and maintain the affordability, similar to the enhanced vouchers utilized by the Department of Housing and Urban Development? If not, why?

Answer. In addition to the steps the Department has taken to encourage property owners to remain in the RD portfolio through loan re-amortization and modification, and use of the MPR tools, the Department has also offered Letters of Priority Entitlement to tenants in maturing mortgages. Holding this Letter will allow the tenant to be placed at the top of the waiting list for any RD property in order to continue living in affordable housing. The Agency may be authorized to transfer the unused rental assistance to a new RDproperty in limited circumstances. The Department has also included in the fiscal year2016 President's Budget a legislative proposal to allow Rural Development housing vouchers to be used by tenants in these maturing mortgage properties. Current voucher program appropriations language limits use to tenants in situations where the owner is prepaying the RD mortgage.

CONCLUSION OF HEARINGS

Senator MORAN. With that, I thank, again, everyone for their attendance, and bring this hearing to a conclusion.

We are adjourned.

[Whereupon, at 12:15 p.m., Wednesday, October 21, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]