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INSPECTOR GENERAL  
BEFORE THE  
U.S. HOUSE COMMITTEE ON COMMERCE  
SUBCOMMITTEE ON TELECOMMUNICATIONS, TRADE,  
AND CONSUMER PROTECTION  
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Thank you, Mr. Chairman and members of the committee. I am pleased to be here today to speak with you about the Office of Inspector General's recommendations to the Rural Utilities Service (RUS). With me today is James R. Ebbitt, Assistant Inspector General for Audit. Before I begin my testimony, I would like to submit two recently issued audit reports for the record.

I share your concern that rural America be made a full partner in the information age. To that end, two reports issued by my office describe options for the RUS Administrator to stimulate rural investment and make better use of RUS loan funds. Funds made available through implementation of the reports' recommendations could be used to better connect rural communities to rapidly developing information technologies.

## **ELECTRIC BORROWER INVESTMENTS**

We audited RUS electric program borrowers to determine the extent of their investment activities and the degree to which the borrowers invested in rural America. We discovered that RUS electric borrowers have not become major players in financing America's rural infrastructure, despite the fact that these borrowers hold almost \$11 billion in total investments. Disappointingly, only

one-half of 1 percent of this amount -- about \$61 million -- is actually invested in rural America.

The Northern Virginia Electric Cooperative (NOVEC) provides a good example. NOVEC has borrowed about \$129 million from RUS and holds \$128 million in investments, none of which is classified as rural development. Among the electric coop's investments is a subsidiary called NOVASTAR – a company that is partnering with DISH Network and DIRECTTV to sell premium satellite TV services to the Northern Virginia and Metropolitan Washington, DC areas. I want to emphasize that NOVEC is not violating any laws by investing in satellite TV for a metropolitan area. However, I believe that encouraging RUS borrowers to invest more heavily in rural America makes good sense. The same dollar that provides satellite TV to the area right here on Capitol Hill could be used to bring much needed services to underserved communities in rural areas.

Unfortunately, RUS electric program borrowers, on their own, have not invested heavily in rural America. Instead, investment dollars are used for such things as money market certificates, stocks and bonds, and mutual funds. We recommended that RUS develop and implement a strategy to encourage electric borrowers to use some of their \$11 billion portfolio to make discretionary investments in rural America. RUS has agreed to develop and implement policies and procedures to strongly encourage borrowers to meet the intent of Congress. This new strategy could promote investment practices to ensure the delivery of local television programming to subscribers of satellite television in rural markets. Through increasing investments for rural access to telephones, computers and the Internet, RUS electric borrowers could help close the “digital divide.”

## **TELEPHONE BORROWERS WHO DO NOT NEED ASSISTANCE**

In another recent audit, we identified 434 RUS telephone program borrowers with loan balances totaling \$1.9 billion that appear to be in good enough financial condition to satisfy their credit needs from their own financial organizations or from other credit sources.

Our findings echo and expand on conclusions reported by the General Accounting Office in a January 1998 report that detailed options to make the RUS telephone loan program more effective and less costly. GAO reported that some borrowers may retain loans longer than needed, and are therefore able to take advantage of the favorable terms provided by the Government. RUS continues to incur interest and other administrative costs in servicing the accounts of its financially healthy borrowers.

The law requires RUS to encourage and assist rural telephone systems to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial resources or from other sources. Our trend analysis of key financial ratios showed steady improvement in the telephone loan portfolio, and that half of RUS telephone borrowers are in strong financial condition. However, RUS does not have discretion to refuse a loan because a borrower is in strong financial condition, and the Rural Electrification Act is silent regarding loan graduation – that is requiring borrowers to move to private credit when they are financially able.

We recommended that RUS work with Congress to clarify policy regarding loan graduation and requiring financially strong borrowers to obtain credit from commercial sources. RUS disagrees with our recommendation.

RUS should seek clarification about loans to borrowers who do not need Government assistance. As decisions are made about funding rural America's move into the information age, it is important to remember that over half the RUS telephone loan borrowers may not really need government assistance. The money freed up could, perhaps, be better used in other ways. For example, preserving and enhancing access to local and network television signals is important to rural America's economy. As enunciated in H.R. 3615, local television, with its mix of crop reports, local news, weather reports, public service announcements, and advertisements for local business, is vitally important for rural development efforts.

According to the National Telecommunications and Information Administration, Americans living in rural areas are lagging behind that national average in computer and Internet access, regardless of income level. At some income levels, those in urban areas are 50

percent more likely to have Internet access than those earning the same income in rural areas. The \$1.9 billion currently loaned to telephone program borrowers who do not need federal assistance could go far in closing the “digital divide.”

## **SUMMARY**

My office has identified two potentially important options for increasing the effectiveness of RUS loan programs. Electric program borrowers hold about \$11 billion in investments that could be used to build technological infrastructure for rural America. Telephone borrowers, who could likely finance their operations privately, owe the Government \$1.9 billion – money that could, with appropriate authority, be used to foster access to technology and the electronic media.

We are currently working on another audit that will address additional opportunities for RUS to increase its efficiency and, thus, its contribution to rural America. Thank you for inviting me here today to talk about our recommendations to RUS.