The original documents are located in Box 68, folder "10/21/76 HR12270 Rural Electrification Act Amendments" of the White House Records Office: Legislation Case Files at the Gerald R. Ford Presidential Library

S 10/20/76

APPROVED
OCT 20 1976

Statement issued 10/21/76

THE WHITE HOUSE

WASHINGTON

October 19, 1976

ACTION

Last Day: October 20

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: H.R. 12207 - Rural Electrification Act Amendments

Posted 10/21/76

archives 10/21/76

Attached for your consideration is H.R. 12207, sponsored by Representative Bergland and three others.

The enrolled bill amends the Rural Electrification Act of 1936 to increase the authorization of the Rural Electrification and Telephone Revolving Fund and to limit eligibility for special 2 percent financing through the fund.

A detailed explanation of the provisions of the enrolled bill is provided in OMB's enrolled bill report at Tab A.

OMB, Max Friedersdorf, Counsel's Office (Kilberg), Bill Seidman and I recommend approval of the enrolled bill and the attached signing statement which has been cleared by Doug Smith.

RECOMMENDATION

That you sign H.R. 12207 at Tab B.

That you approve the signing statement at Tab C.

Approve ______ Disapprove ______

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 12 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 12207 - Rural Electrification Act Amendments
Sponsors - Rep. Bergland (D) Minnesota and 3 others

Last Day for Action

October 20, 1976 - Wednesday

Purpose

Amends the Rural Electrification Act of 1936 to increase the authorization of the Rural Electrification and Telephone Revolving Fund and to limit eligibility for special 2 percent financing through the fund.

Agency Recommendations

Office of Management and Budget	Approval
Department of Agriculture	Approval
Farm Credit Administration	Approval
Department of the Treasury	No recommendation

Discussion

Under the Rural Electrification Act of 1936, as amended, the Secretary of Agriculture is authorized to provide insured loans from the Rural Electrification and Telephone Revolving Fund to eligible electric and telephone utilities for the purpose of furnishing electric and telephone service to persons in rural areas. Pursuant to amendments adopted in 1973, such loans may be at either a standard rate of 5 percent per annum or a special rate of 2 percent per annum. Generally, a qualified borrower is eligible for the special 2 percent rate when (a) it has an average consumer or subscriber density of two or fewer per mile, or (b) it has an average gross revenue per mile which (1) for the electric utility borrower is at least $450 below the average of all other REA-financed electric systems, or (2) for the telephone utility borrower is at least $300 below the average for other REA-financed telephone systems.

Under this formula, only 19.5 percent of all REA-financed electric systems were eligible for the special rate in 1973. Eligibility among telephone utilities was 23.4 percent. However, as a number of electric systems have been forced to seek substantial rate increases to offset sharply higher fuel costs, the average gross revenue per mile for REA-financed systems has increased significantly. As a result, a number of other utilities relying on hydroelectric power have become eligible for special 2 percent financing as their revenues have not increased in proportion to the national average. Accordingly, eligibility for the special rate among electric utilities has grown in fiscal year 1977 to 40.3 percent. Similar cost pressures have contributed to an increase in the eligibility of telephone utilities to 48.7 percent.

The enrolled bill would eliminate the gross revenue per mile test to provide for a more equitable system of allocation. Under the new formula, a telephone utility would normally become eligible for 2 percent financing only if it had an average subscriber density of three or less per mile at the end of the most recent calendar year ending at least six months prior to approval of the loan.

An electric utility would qualify for 2 percent financing if it had at the end of the most recent calendar year ending at least six months prior to approval of the loan, an average customer density of two or less per mile, or an average adjusted plant revenue ratio of over 9.0. This ratio would be computed as a rolling three year average of the value of a company's physical plant facilities divided by its net annual revenue.

Using these criteria, the number of utility borrowers eligible for the special 2 percent financing would be reduced to approximately the 1973 levels. The Department of Agriculture estimates that this would result in savings to the Federal Government of $42 million over the next five years.

In addition to revising the REA special financing criteria, the enrolled bill would transfer to the Rural Electrification and Telephone Revolving Fund, an off-budget account, approximately $455.6 million in unobligated appropriations remaining from the REA direct loan program terminated in fiscal year 1973. At that time, the prior Administration's proposal to rescind remaining unobligated budget authority was rejected by the Congress. This transfer would reduce the need to replenish the cash balances of the fund through outside borrowing.

In committee hearings on H.R. 12207, the Department of Agriculture generally supported the bill, suggesting several technical amendments to the formula used to determine electric utility eligibility for special REA financing which have been incorporated in the enrolled bill. In its attached enrolled bill letter, Agriculture recommends approval as it cites the substantial cost savings to the Federal Government that it anticipates the bill would provide.

James T. Lynn
Director

Enclosures

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

OCT 1976

Honorable James T. Lynn
Director, Office of Management
and Budget

Dear Mr. Lynn:

In reply to the request from your office, the following report is submitted on the enrolled enactment H.R. 12207, "To amend the Rural Electrification Act of 1936, as amended, to correct unintended inequities in the interest rate criteria for borrowers from the Rural Electrification Administration, and to make other technical amendments." The bill would amend sections 301(a)(4) and 305(b) of the Rural Electrification Act of 1936, as amended.

This Department recommends that the President approve the bill.

The amendment in section 301 provides for the transfer of the unobligated balance of the Rural Electrification Administration appropriation for fiscal year 1973 to the Rural Electrification and Telephone Revolving Fund. Using the Revolving Fund, an off-budget entity, for loans and advances instead of making such loans and advances under section 4 and section 201 of the Rural Electrification Act would prevent a corresponding increase in the Federal budgetary deficit without depriving REA electric and telephone borrowers of the use of these funds, subject to any limitations imposed by the Congress for loans to be made in any one year.

The amendment to section 305 will eliminate the revenue per mile criteria for electric and telephone borrowers and change the density criterion for telephone borrowers. These criteria are used to determine eligibility for 2 percent financing. The revenue per mile criteria were largely instrumental in increasing the number of electric borrowers eligible for 2 percent loans from 181, or 19.5 percent of the total in fiscal year 1973, to 373, or 40.3 percent in fiscal year 1977; and the number of telephone borrowers eligible for 2 percent financing from 191, or 23.4 percent of the total in fiscal year 1973, to 422, or 48.7 percent in fiscal year 1977. This result was not anticipated when the Rural Electrification Act was amended in 1973 to establish these criteria.

H.R. 12207 establishes new criteria to be used in this regard. A telephone borrower would qualify for 2 percent financing if it had an average subscriber density of three or fewer per mile at the end of the most recent calendar year ending at least six months before approval of the loan. An electric borrower would qualify for such financing if it had, at the end of the most recent calendar year ending at least six months before approval of the loan, an average consumer density of two or fewer per mile or an average adjusted plant revenue ratio of over 9.0. The ratio used for this purpose would be a simple average of the ratios obtained by dividing the sum of the borrower's distribution plant and general plant by its annual gross revenue less cost of power for the calendar year described above and the two immediately preceding calendar years.

This legislative proposal to correct unintended inequities arising from the 1973 amendments to the Rural Electrification Act was forwarded by the Administration to the Congress more than a year ago. Even with amendments approved by the Congress, this Department believes that enactment of this enrolled bill will have the effect of saving $42 million in interest subsidies over the five-year period of 1977-1981.

Sincerely,

William H. Walker, III

WILLIAM H. WALKER, III
Assistant Secretary

STATEMENT BY THE PRESIDENT

The Rural Electrification Administration ("REA") was established forty-one years ago. At that time only 10 percent of the farms had electricity. Now 99 percent of America's farms enjoy the convenience and use of many electric labor-saving devices in the production of food and fiber for all our citizens. Productivity increases in American agriculture and the reversal of the rural to urban migration are testimony to the beneficial change that rural America has experienced -- which to a large extent is attributable to the improved availability of electricity.

In helping to electrify rural America since 1935, REA has made and guaranteed $18 billion in loans. Significantly, during this current fiscal year REA expects to make $3.5 billion in electric loan guarantees. The fact that only $44,000 has been written off over these four decades is indicative of the conscientious effort not only to administer the program soundly but to assure that the taxpayer's money is secure.

The REA revolving fund and guaranteed loan program, established in 1973, is also being used effectively to help alleviate the energy shortage through the participation of REA borrowers along with the investor-owned utilities in the construction of new electric generation plants.

Today, I am signing H.R. 12207, the Rural Electrification Act Amendments. This Act corrects some inequities that crept into the comprehensive 1973 changes in the Rural Electrification Act. The combined efforts of my Administration, the national associations of electric and telephone borrowers and the Congress in developing badly needed corrective legislation is a demonstration of the kind of cooperation and leadership that can make a program responsive to the needs of our people and the Nation.

The bill I have signed today will save the U.S. Treasury $42 million in unnecessary interest subsidies in the five-year fiscal 1977-1981 period by changing the criteria establishing eligibility for two percent electric and telphone loans. The Act also transfers some $456 million of unobligated funds from the 1973 appropriation into the Rural Electrification and Telephone Revolving Fund where it can be used for insured loans, subject to limitations established by the Congress.

These amendments to the REA legislation will help make a good program even more effective.

10/20

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 12 1976

To: J Johnston
10-13-76
3:45 pm

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 12207 - Rural Electrification Act Amendments
Sponsors - Rep. Bergland (D) Minnesota and 3 others

Last Day for Action

October 20, 1976 - Wednesday

Purpose

Amends the Rural Electrification Act of 1936 to increase the authorization of the Rural Electrification and Telephone Revolving Fund and to limit eligibility for special 2 percent financing through the fund.

Agency Recommendations

Office of Management and Budget	Approval
Department of Agriculture	Approval
Farm Credit Administration	Approval
Department of the Treasury	No recommendation

Discussion

Under the Rural Electrification Act of 1936, as amended, the Secretary of Agriculture is authorized to provide insured loans from the Rural Electrification and Telephone Revolving Fund to eligible electric and telephone utilities for the purpose of furnishing electric and telephone service to persons in rural areas. Pursuant to amendments adopted in 1973, such loans may be at either a standard rate of 5 percent per annum or a special rate of 2 percent per annum. Generally, a

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: October 12 Time: 830pm

FOR ACTION: Paul Leach ok
Max Friedersdorf ok
Bill Seidman ok
Kilberg ok

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey

FROM THE STAFF SECRETARY

DUE: Date: October 15 Time: 500pm

SUBJECT:

H.R. 12207-Rural Electrification Act Amendments

ACTION REQUESTED:

____ For Necessary Action ____ For Your Recommendations

____ Prepare Agenda and Brief ____ Draft Reply

__X__ For Your Comments ____ Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

Bobbie Kilberg
104

insert from p. 2

STATEMENT BY THE PRESIDENT UPON SIGNING
H.R. 12207 INTO LAW

The Rural Electrification Administration ("REA") was established forty-one years ago. At that time only 10 percent of the farms had electricity. Now 99 percent of America's farms enjoy the convenience and use of many electric labor-saving devices in the production of food and fiber for all our citizens. Productivity increases in American agriculture and the reversal of the rural to urban migration are testimony to the beneficial change that rural America has experienced -- which to a large extent is attributable to the improved availability of electricity.

In helping to electrify rural America since 1935, REA has made and guaranteed $18 billion in loans. And significantly, during this current fiscal year REA expects to make $3.5 billion in electric loan guarantees. The fact that only $44,000 has been written off over these four decades is indicative of the conscientious effort ~~not only~~ to administer the program soundly but to assure that the taxpayer's money is secure.

In 1973, the REA revolving fund and guaranteed loan program were established by Public Law 93-32. The guarantee program is being used quite effectively to alleviate the energy shortage through the participation of REA borrowers along with the investor-owned utilities in the construction of new electric generation plants.

insert p. 1

Today, I am signing H.R. 12207, the Rural Electrification Act Amendments. ~~This Act~~ H.R. 12207 corrects some inequities that crept into the comprehensive 1973 changes in the Rural Electrification Act. As frequently happens in the development or revamping of programs, some areas need to be reevaluated after the law has an opportunity to be tested. ~~Public Law 93-32 enacted in May of 1973 is such a case.~~ The combined efforts of my Administration, the national associations of electric and telephone borrowers and the Congress in developing badly needed corrective legislation is a demonstration of the kind of cooperation and leadership that can make a program responsive to the needs of our people and the Nation. The bill I have signed today will save the U.S. Treasury $42 million in unnecessary interest subsidies in the next five years ~~fiscal 1977-1981 period~~ by changing the criteria for establishing eligibility for 2 percent electric and telephone loans. It ~~The Act~~ also transfers some $456 million of unobligated funds from the 1973 appropriation into the Rural Electrification and Telephone Revolving Fund where it can be used for insured loans subject to the limitations established by the Congress.

These amendments to the REA legislation will help make a good program even more effective.

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: October 13 Time: 830pm

FOR ACTION: Paul Leach
Max Friedersdorf
Bill Seidman

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey

FROM THE STAFF SECRETARY

DUE: Date: October 15 Time: 500pm

SUBJECT:

H.R. 12207-Rural Electrification Act Amendments

ACTION REQUESTED:

____ For Necessary Action

____ For Your Recommendations

____ Prepare Agenda and Brief

____ Draft Reply

__x For Your Comments

____ Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

Recommend approval.

MLF

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James M. Cannon
For the President

ACTION MEMORANDUM WASHINGTON LOG NO.:

OCT 14 [illegible]

Date: October 13 Time: 830pm

FOR ACTION: Paul Leach
Max Friedersdorf
Bill Seidman

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey

FROM THE STAFF SECRETARY

DUE: Date: October 15 Time: 500pm

SUBJECT:

H.R. 12207-Rural Electrification Act Amendments

ACTION REQUESTED:

____ For Necessary Action
____ For Your Recommendations
____ Prepare Agenda and Brief
____ Draft Reply
__x__ For Your Comments
____ Draft Remarks

REMARKS:

please return to judy johnston, ground floor west wing

APPROVE
LWS

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James M. Cannon
For the President

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: October 13

Time: 830pm

FOR ACTION: Paul Leach
Max Friedersdorf
Bill Seidman

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey

FROM THE STAFF SECRETARY

DUE: Date: October 15 Time: 500pm

SUBJECT:

H.R. 12207-Rural Electrification Act Amendments

ACTION REQUESTED:

___ For Necessary Action

___ For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

__x For Your Comments

___ Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

No objection
K. Lazarus
10/14

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James M. Cannon
For the President

FARM CREDIT ADMINISTRATION 490 L'ENFANT PLAZA, S.W. WASHINGTON, D.C. 20578

October 7, 1976

Director, Office of Management and Budget
Executive Office of the President
Washington, DC 20503

Attention: Assistant Director for
Legislative Reference

Subject: Views on enrolled bill H.R. 12207

This is in response to your request for the views of the Farm Credit Administration on enrolled bill H.R. 12207, "To amend the Rural Electrification Act of 1936, as amended, to correct unintended inequities in the interest rate criteria for borrowers from the Rural Electrification Administration, and to make other technical amendments."

H.R. 12207 would make two changes in the Rural Electrification Act of 1936. First, it would eliminate the revenue per mile criteria now in the Act, and substitute revised criteria which would be used as a basis for making insured loans to both electric and telephone borrowers at the special rate of 2 percent. Second, it would transfer the unobligated balance of the REA appropriation for fiscal year 1973 to the Rural Electrification and Telephone Revolving Fund. The bill also would insure that no electric or telephone borrower which filed an application with the Rural Electrification Administration prior to the date of enactment of the bill would be adversely affected by its enactment.

H.R. 12207 would eliminate the gross revenue per mile test and provide for a more equitable allocation of the special 2 percent rate of financing in order that it will be available only to those systems most critically in need of this kind of special assistance.

The Farm Credit Administration recommends that H.R. 12207 be approved by the President.

Sincerely,

W. M. Harding

Governor

THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

OCT 5 1976

Director, Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Attention: Assistant Director for Legislative
Reference

Sir:

This report responds to your request for the views of this Department on the enrolled enactment of H.R. 12207, "To amend the Rural Electrification Act of 1936, as amended, to correct unintended inequities in the interest rate criteria for borrowers from the Rural Electrification Administration, and to make other technical amendments."

Section 2 of the enrolled enactment would transfer the $456 million unobligated balance of the Rural Electrification Administration appropriation for fiscal year 1973 to the Rural Electrification and Telephone Revolving Fund. Section 3 would amend the eligibility requirements for 2 percent loans under section 305 of the Rural Electrification Act of 1936, as amended. We have no objection to section 3.

The Department's report to your office dated September 25, 1975 on a similar Agriculture draft bill noted that the purpose of the transfer of the unobligated balance of the REA appropriation to the fund was to exclude the $456 million from the budget and permit REA to avoid restrictions on budget outlays which would result in their relying on other funds on which they would have to pay interest. The Department is not aware of any justification for providing REA interest-free capital.

The legislative history of H.R. 12207 reflects that Agriculture supported its enactment. In the circumstances, the Department has no recommendation to make concerning the enrolled enactment.

Sincerely yours,

Richard R. Albrecht
General Counsel

O.K. - Max F.

STATEMENT BY THE PRESIDENT UPON SIGNING H.R. 12207 INTO LAW

The Rural Electrification Administration ("REA") was established forty-one years ago. At that time only 10 percent of the farms had electricity. Now 99 percent of America's farms enjoy the convenience and use of many electric labor-saving devices in the production of food and fiber for all our citizens. Productivity increases in American agriculture and the reversal of the rural to urban migration are testimony to the beneficial change that rural America has experienced -- which to a large extent is attributable to the improved availability of electricity.

In helping to electrify rural America since 1935, REA has made and guaranteed $18 billion in loans. And significantly, during this current fiscal year REA expects to make $3.5 billion in electric loan guarantees. The fact that only $44,000 has been written off over these four decades is indicative of the conscientious effort not only to administer the program soundly but to assure that the taxpayer's money is secure.

In 1973, the REA revolving fund and guaranteed loan program were established by Public Law 93-32. The guarantee program is being used quite effectively to alleviate the energy shortage through the participation of REA borrowers along with the investor-owned utilities in the construction of new electric generation plants.

10/19-76
Copy sent for researching. nm

10/19/76 - 4:50 pm
n

STATEMENT BY THE PRESIDENT UPON SIGNING
H.R. 12207 INTO LAW

The Rural Electrification Administration ("REA") was established forty-one years ago. At that time only 10 percent of the farms had electricity. Now 99 percent of America's farms enjoy the convenience and use of many electric labor-saving devices in the production of food and fiber for all our citizens. Productivity increases in American agriculture and the reversal of the rural to urban migration are testimony to the beneficial change that rural America has experienced -- which to a large extent is attributable to the improved availability of electricity.

In helping to electrify rural America since 1935, REA has made and guaranteed $18 billion in loans. ~~And~~ S~~significantly~~, during this current fiscal year REA expects to make $3.5 billion in electric loan guarantees. The fact that only $44,000 has been written off over these four decades is indicative of the conscientious effort not only to administer the program soundly but to assure that the taxpayer's money is secure.

~~In 1973,~~ The REA revolving fund and guaranteed loan program, ~~were~~ established in 1973, ~~by Public Law 93-32. The guarantee pro~~gram is also being used ~~quite~~ effectively to help alleviate the energy shortage through the participation of REA borrowers along with the investor-owned utilities in the construction of new electric generation plants.

Today, I am signing H.R. 12207, the Rural Electrification Act Amendments. This Act corrects some inequities that crept into the comprehensive 1973 changes in the Rural Electrification Act. ~~As frequently happens in the development or revamping~~ of ~~programs,~~ some areas ~~need to be reevaluated after the~~ law has an ~~opportunity to be tested.~~ Public Law ~~93-32 enacted~~ in May of 1973 is such a ~~case.~~ The combined efforts of my Administration, the national associations of electric and telephone borrowers and the Congress in developing badly needed corrective legislation is a demonstration of the kind of cooperation and leadership that can make a program responsive to the needs of our people and the Nation.

The bill I have signed today will save the U.S. Treasury $42 million in unnecessary interest subsidies in the five year fiscal 1977-1981 period by changing the criteria establishing eligibility for ~~2~~ two percent electric and telephone loans. The Act also transfers some $456 million of unobligated funds from the 1973 appropriaton into the Rural Electrification and Telephone Revolving Fund where it can be used for insured loans, subject to limitations established by the Congress.

These amendments to the REA legislation will help make a good program even more effective.

STATEMENT BY THE PRESIDENT

The Rural Electrification Administration ("REA") was established forty-one years ago. At that time only 10 percent of the farms had electricity. Now 99 percent of America's farms enjoy the convenience and use of many electric labor-saving devices in the production of food and fiber for all our citizens. Productivity increases in American agriculture and the reversal of the rural to urban migration are testimony to the beneficial change that rural America has experienced -- which to a large extent is attributable to the improved availability of electricity.

In helping to electrify rural America since 1935, REA has made and guaranteed $18 billion in loans. Significantly, during this current fiscal year REA expects to make $3.5 billion in electric loan guarantees. The fact that only $44,000 has been written off over these four decades is indicative of the conscientious effort not only to administer the program soundly but to assure that the taxpayer's money is secure.

The REA revolving fund and guaranteed loan program, established in 1973, is also being used effectively to help alleviate the energy shortage through the participation of REA borrowers along with the investor-owned utilities in the construction of new electric generation plants.

Today, I am signing H.R. 12207, the Rural Electrification Act Amendments. This Act corrects some inequities that crept into the comprehensive 1973 changes in the Rural Electrification Act. The combined efforts of my Administration, the national associations of electric and telephone borrowers and the Congress in developing badly needed corrective legislation is a demonstration of the kind of cooperation and leadership that can make a program responsive to the needs of our people and the Nation.

94TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 94-1025

RURAL ELECTRIFICATION ADMINISTRATION TECHNICAL AMENDENTS ACT OF 1976

APRIL 9, 1976.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. FOLEY, from the Committee on Agriculture, submitted the following

REPORT

[To accompany H.R. 12207]

The Committee on Agriculture, to whom was referred the bill (H.R. 12207) to amend the Rural Electrification Act of 1936, as amended, to correct unintended inequities in the interest rate criteria for borrowers from the Rural Electrification Administration, and to make other technical amendments, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Page 1, line 3, strike out all after the enacting clause and insert the following:

That this Act may be cited as the "Rural Electrification Administration Technical Amendments Act of 1976".

SEC. 2. Section 301(a)(4) of the Rural Electrification Act of 1936, as amended, is amended to strike the semicolon at the end thereof, and add the following: "and the unobligated balances of any funds made available for loans under the item 'Rural Electrification Administration' in the Department of Agriculture and Agriculture-Environmental and Consumer Protection Appropriations Act;".

SEC. 3. Section 305(b) of the Rural Electrification Act of 1936, as amended, is amended—

(1) by striking the words "meets either of the following conditions";

(2) by striking out all of paragraph (1) thereof and inserting in lieu thereof the following:

"(1) in the case of a telephone borrower, had at the end of the most recent calendar year ending at least six month before approval of the loan, an average subscriber density of three or fewer per mile; or";

(3) by striking out all of paragraph (2) thereof through and including the words "telephone borrowers" and inserting in lieu thereof the followling:

"(2) in the case of an electric borrower, had at the end of the most recent calendar year ending at least six months before approval of the loan, an average consumer density of two or fewer per mile or an average adjusted plant revenue ratio of over 9.0, such ratio being a simple average of the ratios obtained by dividing the sum of its distribution plant and general plant by its annual gross revenue less cost of power for that calendar year and the two immediately preceding calendar years. As used in this subsection the sum of distribution plant and general plant shall be the total of the amounts shown in accounts numbered 360 through and including 399 of the uniform system of accounts approved, as of the effective date of this amendment, by the Administrator, for use by Rural Electrification Administration borrowers; gross revenue shall be the amount shown in account numbered 400 of said system of accounts; and the cost of power shall be the total of amounts shown in accounts numbered 500 through and including 573 of said system of accounts as the same is constituted";

(4) by inserting the words "to a telephone or electric borrower" following the words "make a loan" in the proviso to paragraph (2) thereof.

Purpose and Need

H.R. 12207, as reported by the Committee, makes two technical changes in the Rural Electrification Act of 1936, as amended. First, it eliminates the revenue per mile criteria and substitutes revised criteria to be used as a basis for making insured loans to both electric and telephone borrowers at the special rate of 2 percent and, secondly, it transfers the unobligated balance of the REA appropriation for FY 1973 to the Rural Electrification and Telephone Revolving Fund.

Under the Rural Electrification Act, as amended in 1973, insured loans bear interest at either the special rate of 2 percent per annum or at the standard rate of 5 percent per annum. The Act requires the special rate to be made available to an electric or telephone borrower which meets either of the following conditions: (1) If it has an average consumer or subscriber density of two or fewer per mile, or (2) if it has an average gross revenue per mile which is at least $450 below the average gross revenue per mile of REA-financed systems, in the case of an electric borrower, or at least $300 below the average gross revenue per mile of REA-financed telephone systems, in the case of a telephone borrower.

At the time of enactment of the 1973 amendment, under the density and gross revenue per mile test there were eligible for 2 percent financing 181 or 19.5 percent of all electric borrowers and 191 or 23.4 percent of all telephone borrowers. The number of borrowers eligible for the special rate based on a density of two or fewer per mile has remained approximately the same since enactment of the 1973 amendments. There has, however, been a substantial increase in the number of borrowers eligible for 2 percent loans based on the revenue per mile criteria. The result has been that the number of electric borrowers eligible for the special rate has increased to 300 or approximately 32.3 percent of the total in FY 1976 and the number of telephone borrowers has increased to approximately 350 or 41.2 percent of the total in fiscal year 1976. The reason for the increase was that some systems have sharply increased their rates and their revenues, thereby increasing the national average revenue per mile while a greater number of systems have operated with significantly smaller increases in revenue, thus resulting in more systems whose revenues lack at least $405 of equaling the national average in the case of electric borrowers and $300 in the case of telephone borrowers.

Many borrowers which were above the national average in 1974 fell below that average in subsequent years despite a substantial increase in their gross revenues. Some electric cooperatives have had to double electric rates because of substantial increases in their fuel costs while other electric cooperatives obtaining wholesale power from hydroelectric plants have had no need to increase their retail rates. As a result, many electric cooperatives with low wholesale power costs have suddenly become eligible for 2 percent financing because their gross revenue per mile is so much lower than the escalating national average revenue per mile of all systems.

The Committee has acted to eliminate the gross revenue per mile test to provide for a more equitable allocation of the special 2 percent rate of financing so that it would be available only to those systems most critically in need of this kind of special assistance. It is believed that in the case of electric borrowers the ratio between revenue and investment is a more equitable type of criteria than the low revenue criteria. Under the Committee amendment, the ratio would be established by adding investment in distribution facilities and the investment in general plant to determine the investment side of the ratio and subtracting the cost of power from the operating revenue to obtain the revenue side of the ratio. An electric cooperative would be eligible if the ratio resulted in a figure higher than 9. It is believed that approximately 196 electric borrowers would be eligible for the special rate under the revised formula. This number is very near the 19.5 percent of borrowers eligible for the special rate at the time of enactment of the 1973 amendments and represents a decrease of 104 from the 300 currently eligible. This figure should not change much from year to year in view of the fact that both plant revenue ratio and consumer density are relatively stable.

In adopting the plant to revenue ratio test, the Committee provides for use of a simple average of the ratios for the three preceding years. Data supplied to the Committee indicates that the ratio may change significantly from year to year for many borrowers and that the use of a three-year average would provide a more stable test and reduce the effects of delaying warranted rate increases.

In the telephone program, a similar situation exists. Many systems have become eligible for 2 percent financing because of an increase in the national average gross reveneu per mile due to an increase in the revenues of a small number of systems in very rapid growth areas. By raising the density criteria to three or fewer subscribers per mile and deleting the revenue criteria, approximately 177 of present borrowers would be eligible for 2 percent financing—a decrease of 173 from 350 currently eligible. The number that would be eligible under the revised test would be approximately the same number eligible at the time of enactment of the 1973 amendments.

To provide adequate time for the receipt of accurate reports and at the same time avoid delays in processing applications in the pipeline, a uniform date at least six months after the close of the calendar year has been established for determining eligibility of electric and telephone borrowers based on new data.

Finally, the Act transfers to the Rural Electrification and Telephone Revolving Fund amounts appropriated by Congress which remained unobligated on December 29, 1972, when REA stopped making direct loans under the Rural Electrification Act. This amounts to a total of $455,634,525. The transfer of this sum to the Revolving Fund would reduce the need to replenish the fund through borrowings or sales of insured notes or certificates of beneficial ownership. In order that these certificates of beneficial ownership would be salable to investors they must bear interest at rates considerably higher than the 2 percent and 5 perecnt rates REA receives from its borrowers resulting in the fund incurring substantial interest subsidy costs. By transferring the balance of the 1973 appropriation to the Fund, it will be possible to suspend, for a time, the sale of beneficial ownership certificates by REA. The appropriation was made originally to fund direct loans by REA. In 1974, after the Revolving Fund was established, the President proposed that the available budget authority be rescinded but Congress refused to agree and the appropriation is still available for expenditure.

Section-by Section Analysis

Section 1. This section cites the title of the Act as the "Rural Electrification Administration Technical Amendments Act of 1967".

Section 2. This section provides for the transfer to the Rural Electrification and Telephone Revolving Fund of unobligated balances of the Rural Electrification Administration appropriation for fiscal year 1973, which is reported to be in the amount of $455,634,525. The Revolving Fund is used, among other things, for making insured loans and advances.

Section 3. This section changes the criteria for determining whether an electric or telephone borrower is eligible for an insured loan at the special rate of 2 percent per annum. A telephone borrower would qualify for 2 percent financing if it had an average subscriber density of three or fewer per mile at the end of the most recent calendar year ending at least six months before approval of the loan. An electric borrower would qualify for such financing if it had, at the end of the most recent calendar year ending at least six months before approval of the loan, an average consumer density of two or fewer per mile or an average adjusted plant revenue ratio of over 9.0. The ratio used for this purpose would be a single average of the ratios obtained by dividing the sum of the borrower's distribution plant and general plant by its annual gross revenue less cost of power for the calendar year described above and the two immediately preceding calendar years.

Committee Consideration

The Subcommittee on Conservation and Credit conducted hearings on H.R. 12207 and related legislation on March 17, 1976, at which time testimony was received from representatives of the United States Department of Agriculture, the National Rural Electric Cooperative Association, the National REA Telephone Association, and the National Telephone Cooperative Association. The witnesses unanimously supported the legislation as providing a means of allocating total resources more equitably among eligible borrowers. They recognized the need to change the criteria for 2 percent financing in view of the sharp increase in the eligible borrowers under the revenue per mile criteria as the result of events that transpired after enactment of the

1973 amendments not anticipated at the time the criteria were provided in the Act. They also supported the transfer to the Revolving Fund of unobligated balances of funds made available for direct loans under the USDA Appropriation Act for FY 1973.

The Subcommittee then proceeded to consider the bill for markup. Two amendments were adopted upon motion of a member of the Committee to incude suggestions made by the Department of Agriculture. One provides for the use of a rolling 3-year average for the plant revenue test in connection with loans to electric cooperatives. It was believed by the Subcommitte that this should provide a more stable test than the use of data for a single year. The second provides for a uniform date of six months after the close of the calendar year as a basis for determining eligibility for 2 percent financing to electric and telephone borrowers. This amendment was adopted in order to provide time for receipt of accurate reports needed for making determinations. The bill was then ordered to be reported to the Committee by a voice vote in the presence of a quorum.

The bill was considered by the full Committee on April 1, 1976, and, after discussion, voted to be reported together with the amendments adopted by the Subcommittee by a unanimous roll call vote of 33–0 in the presence of a quorum.

Administration Position

Set forth below is a letter received from the Department of Agriculture recommending enactment of H.R. 12207, and a supplement to the letter making adjustments in the projection of savings that would result from enactment of the proposed legislation. The Committee adopted two of the recommendations contained in the Department's letter as discussed in the Committee Consideration portion of this report.

Department of Agriculture,
Office of the Secretary,
Washington, D.C., March 17, 1976.

Hon. Thomas S. Foley,
Chairman, Committee on Agriculture,
House of Representatives

Dear Mr. Chairman: This is in reply to your request for a report on H.R. 12206 and H.R. 12207, bills to correct unintended inequities in the interest rate criteria for borrowers from the Rural Electrification Administration and to make other technical amendments. These bills are identical except for minor differences in the titles and in the preambles.

This Department recommends such legislation be enacted, preferably with an additional modification as discussed herein. These bills represent modifications of the legislation submitted by the Administration in September 1975 and introduced as H.R. 12195.

All three bills provide for the transfer of the unobligated balance of the Rural Electrification Administration Appropriation for fiscal year 1973 to the Rural Electrification and Telephone Revolving Fund. Using the Revolving Fund, an off-budget entity, for loans and advances instead of making such loans and advances under Sec. 4 and Sec. 201 of the Rural Electrification Act would prevent a corresponding increase in the Federal budgetary deficit without depriving REA electric and telephone borrowers of the use of these funds, subject to any limitations imposed by the Congress for loans to be made in any one year.

All three bills also eliminate the revenue per mile criteria for determining eligibility for 2 percent financing. These criteria were largely instrumental in increasing the number of electric borrowers eligible for 2 percent loans from 181, or 19.5 percent of the total in fiscal year 1973, to 300, or 32.3 percent in fiscal year 1976; and the number of telephone borrowers so eligible from 191, or 23.4 percent of the total in fiscal year 1973, to 350, or 41.2 percent in fiscal year 1976. In addition, H.R. 12206 and H.R. 12207 propose other changes in the criteria for 2 percent loans not considered in the Administration bill.

Under these bills, telephone borrowers with three or fewer subscribers per mile, instead of two or fewer per mile, would become eligible for 2 percent financing. This change would make 177 of the present borrowers eligible for such financing, a decrease of 14 from the number eligible in fiscal year 1973 and of 173 from the 350 currently eligible.

For electric borrowers, the change is in the form of an additional alternate test—the ratio of general and distribution plant investment to revenue less cost of power. A borrower would be eligible for the special rate if the ratio of this plant to revenue was greater than nine. Under either the density test, which remains at two or fewer, or the plant to revenue test, 196 electric borrowers would be eligible for 2 percent loans. This number of borrowers is very near the 19.5 percent of all borrowers eligible for the special rate at the time Congress passed the legislation creating the Revolving Fund. It represents a decrease of 104 from the 300 currently eligible.

If the plant to revenue test is enacted, we strongly recommend using a simple average of the ratio for the three preceding years to determine eligibility. We believe that this would provide a more stable test by reducing the effects of delaying rate increases.

We also believe it would be desirable to clarify the phrase "for which all such information is available." To provide adequate time for the receipt of accurate reports and at the same time avoid delays in completing the processing of applications on hand, a uniform date about six months after the close of the calendar year should be established for determining eligibility based on new annual data. Sec. 305 of the Rural Electrification Act could be further modified as indicated in the attachment to achieve this result.

Set forth below for five fiscal years is a projection of savings resulting from enactment of the proposed legislation, in millions of dollars:

	1977	1978	1979	1980	1981	Total
Electric	1.5	4.7	9.5	14.3	19.0	49.0
Telephone	1.2	3.6	6.6	9.6	10.5	31.5
Total	2.7	8.3	16.1	23.9	29.5	80.5

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

JOHN A. KNEBEL,
Acting Secretary.

Attachment.

U.S. DEPARTMENT OF AGRICULTURE,
RURAL ELECTRIFICATION ADMINISTRATION,
Washington, D.C., April 8, 1976.

Hon. THOMAS S. FOLEY,
Chairman, Committee on Agriculture,
House of Representatives.

DEAR MR. CHAIRMAN: In our March 17 letter from Acting Secretary John A. Knebel we estimated savings due to the proposed legislation discussed in that letter totaling $80.5 million over the 5-year period required. Due to an error in our calculating, which caused some duplication in the estimate, the amounts shown in that letter should be changed as follows:

	1977	1978	1979	1980	1981	Total
Electric program	$1.2	$3.5	$7.1	$10.6	$14.2	$36.5
Telephone program	.5	1.5	3.0	4.5	6.0	15.5
Total	1.7	5.0	10.1	15.1	20.2	52.0

We deeply regret this miscalculation and feel that you need the correct figures for your analysis.

Sincerely,

DAVID H. ASKEGAARD,
Acting Administrator.

CURRENT AND FIVE SUBSEQUENT FISCAL YEAR COST ESTIMATE

Pursuant to clause 7 of Rule XIII of the Rules of the House of Representatives, the Committee estimates that H.R. 12207 should reduce costs incurred by the Federal Government on insured loans to electric and telephone borrowers under the Rural Electrification Act by shifting eligibility of certain of the borrowers from loans at the special rate of 2 percent to the standard rate of 5 percent. The Congressional Budget Office has estimated that the savings will be at a level of $1.6 million in FY 1977 and should increase each year thereafter to a level of $15.1 million in FY 1981, for a total savings in the five-year period of $42 million (CBO estimate appears under the Budget Act Compliance portion of this report). The USDA has estimated even higher savings, i.e., at a level of $1.7 million in FY 1977 increasing to $20.2 million in 1981 for a saving of $52 million in the five-year period (USDA estimate appears under the Administration Position portion of this report). The Committee is of the view that the saving would not exceed the amount estimated by USDA and most probably would be closer to the figures estimated by the Congressional Budget Office.

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(l)(4) of Rule XI of the Rules of the House of Representatives, the Committee estimates that enactment of H.R. 12207 will have no inflationary impact on the economy. To the contrary, it should have a salutary effect on the economy by reducing interest costs to the Government in connection with financing of insured loans under the Rural Electrification Act.

Budget Act Compliance (Section 308 and Section 403)

The provisions of clause 2(l)(3)(B) of Rule XI of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 are not considered applicable since the bill does not provide new budget authority or new or increased tax expenditures. The estimate and comparison prepared by the Director of the Congressional Budget Officer under clause 2(l)(3)(C) of Rule XI of the Rules of the House of Representatives and section 403 of the Congressional Budget Act of 1974 submitted to the Committee prior to the filing of this report are as follows:

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 8, 1976.

1. Bill Number: H.R. 12207.

2. Bill Title: Rural Electrification Administration Technical Amendments Act of 1976.

3. Purpose of Bill: H.R. 12207 would transfer the unobligated balance of the Rural Electrification Administration appropriation for FY 1973 to the Rural Electrification and Telephone Revolving Fund, an off-budget account. In addition, the bill would make more stringent the criteria used in establishing eligibility for 2 percent financing. The legislation would replace the existing revenue per mile test with criteria related to population density or the ratio of plant investment to revenue. As a result, the proportion of REA electric and telephone loans made at 2 percent would decrease and the share carrying 5 percent interest would increase.

4. Cost Estimates: Outlays associated with the REA loan program are the difference between the cost of federal borrowing and the interest paid by the utilities receiving the loans. Because enactment of H.R. 12207 would increase the proportion of 5 percent loans relative to 2 percent loans, the level of interest repayments would rise and net outlays would decrease. The magnitude of these outlay reductions during the next five years is shown in the table below.

COST SAVINGS

[Billions of dollars]

	Fiscal year— 1977	1978	1979	1980	1981	Total
Electric	1.2	3.0	5.5	7.2	9.1	26.0
Telephone	.4	1.6	3.0	5.0	6.0	16.0
Total	1.6	4.6	8.5	12.2	15.1	42.0

5. Basis of Estimate: The most important items in this calculation are the loan levels approved, the actual loans disbursed each year, the cost of borrowing funds from the Treasury (Federal Financing Bank) and the interest paid by the utilities. In this analysis, it was assumed that the FY

1977 level of loan approvals are maintained between FY 1977 and FY 1981. The levels used for the existing system are based on the figure assumed for FY 1977 in the President's most recent budget. The loan levels for the proposed program are based on USDA estimates.[1] These estimates are presented below.

	Existing program 2 percent	5 percent	Total	Proposed program 2 percent	5 percent	Total
Electric	225	525	750	130	600	[1] 730
Telephone	130	120	250	80	170	250

[1] The $20,000,000 decrease reflects an increase in concurrent financing from nonFederal sources.

These numbers should not be confused with the actual levels of loans disbursed in any one year. According to the budget office of REA, about one-third of the total level of loans approved in any one year is disbursed in that year, one-third is paid out during the second year and one-third in the third year. In FY 1979, for example, the existing electric power program would disburse $75 million[2] of the 2 percent loans approved that year, $75 million of the loans approved in FY 1977, the $75 million of those approved in FY 1978, or a total of $225 million.

These actual loan disbursements were used in calculating the change in interest outlays under the existing system and the proposed program. The interest cost was estimated by multiplying the loan disbursement in each year by the long-term cost of Treasury borrowing (assumed to be 8.25 percent). The interest paid by the utilities was calculated by multiplying the sum of the given year's loan disbursements and all outstanding loans by the interest rates charged for the loans (2 and 5 percent). The interest outlay is the difference between the borrowing costs and interest payments. The reduction in the interest outlays under the proposed program is the cost savings associated with H.R. 12207.

6. Estimate Comparison: The budget office of the Rural Electrification Administration estimated the cost savings as follows:

[Millions of dollars]

	Fiscal year— 1977	1978	1979	1980	1981	Total
Electric	1.2	3.5	7.1	10.6	14.2	36.5
Rural	.5	1.5	3.0	4.5	6.0	15.5
Total	1.7	5.0	10.1	15.1	20.2	52.0

The USDA estimates larger cost savings in the electric program.

[1] Budget Office, Rural Electrification Administration.
[2] One-third of $225 million.

7. Previous CBO Estimate: None.
8. Estimate Prepared By: Robert M. Gordon.
9. Estimate Approved By: James L. Blum (for Assistant Director for Budget Analysis).

Oversight Statement

No summary of oversight findings and recommendations made by the Committee on Government Operations under clause 2(b)(2) of Rule X of the Rules of the House of Representatives was available to the Committee with reference to the subject matter specifically addressed by H.R. 12207, as amended.

No specific oversight activities, other than the hearings accompanying the Committee's consideration of H.R. 12207, as amended, and related bills were made by the Committee, within the definition of clause 2(b)(1) of Rule X of the House.

Changes in Existing Law

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

RURAL ELECTRIFICATION ACT OF 1936

*   *   *   *   *   *   *

Sec. 301. Rural Electrification and Telephone Revolving Fund.—(a) There is hereby established in the Treasury of the United States a fund, to be known as the Rural Electrification and Telephone Revolving Fund (hereinafter referred to as the "fund"), consisting of:

(1) all notes, bonds, obligations, liens, mortgages, and property delivered or assigned to the Administrator pursuant to loans heretofore or hereafter made under sections 4, 5, and 201 of this Act and under this title, as of the effective date of this title, as revised herein, and all proceeds from the sales hereunder of such notes, bonds, obligations, liens, mortgages, and property, which shall be transferred to and be assets of the fund;

(2) undisbursed balances of electric and telephone loans made under sections 4, 5, and 201, which as of the effective date of this title, as revised herein, shall be transferred to and be assets of the fund;

(3) notwithstanding section 3(a) of title I, all collections of principal and interest received on and after July 1, 1972, on notes, bonds, judgments, or other obligations made or held under titles I and II of this Act and under this title, except for net collection proceeds previously appropriated for the purchase of class A stock in the Rural Telephone Bank, which shall be paid into and be assets of the fund;

(4) all appropriations for interest subsidies and losses required under this title which may hereafter be made by the Congress[:] *and the unobligated balances of any funds made available for loans under the item "Rural Electrification Administration" in the Department of Agriculture and Agriculture-Environmental and Consumer Protection Appropriations Acts;*

(5) moneys borrowed from the Secretary of the Treasury pursuant to section 304(a); and

(6) shares of the capital stock of the Rural Telephone Bank purchased by the United States pursuant to section 406(a) of this Act and moneys received from said bank upon retirement of said shares of stock in accordance with the provisions of title IV of this Act, which said shares and moneys shall be assets of the fund.

Sec. 302. Liabilities and Uses of Fund.—(a) The notes of the Administrator to the Secretary of the Treasury to obtain funds for loans under sections 4, 5, and 201 of this Act, and all other liabilities against the appropriations or assets in the fund in connection with electrfication and telephone loan operations shall be liabilities of the fund, and all other obligations against such appropriations or assets in the fund arising out of electrification and telephone loan operations shall be obligations of the fund.

(b) The assets of the fund shall be available only for the following purposes:

(1) loans which could be insured under this title, and for advances in connection with such loans and loans previously made, as of the effective date of this title, as revised herein, under sections 4, 5, and 201 of this Act;

(2) payment of principal when due (without interest) on outstanding loans to the Administrator from the Secretary of the Treasury for electrification and telephone purposes pursuant to section 3(a) of this Act and payment of principal and interest when due on loans to the Administrator from the Secretary of the Treasury pursuant to section 304(a) of this title;

(3) payment of amounts to which the holder of notes is entitled on insured loans: *Provided*, That payments other than final payments need not be remitted to the holder until due or until the next agreed annual, semiannual, or quarterly remittance date;

(4) payment to the holder of insured notes of any defaulted installment or, upon assignment of the note to the Administrator at his request, the entire balance due on the note;

(5) purchase of notes in accordance with contracts of insurance not entered into by the Administrator;

(6) payment in compliance with contracts of guarantee;

(7) payment of taxes, insurance, prior liens, expenses necessary to make fiscal adjustments in connection with the application, and transmittal of collections or necessary to obtain credit reports on applicants or borrowers, expenses for necessary services, including construction inspections, commercial appraisals, loan servicing, consulting business advisory or other commercial and technical services, and other program services, and other expenses and advances authorized in section 7 of this Act in connection with insured loans. Such items may be paid in connection with guaran- including construction inspections, commercial appraisals, loan or security thereof after default, to the extent determined to be

necessary to protect the interest of the Government, or in connection with any other activity authorized in this Act;

(8) payment of the purchase price and any costs and expenses incurred in connection with the purchase, acquisition, or operation of property pursuant to section 7 of this Act.

SEC. 303. DEPOSIT OF FUND MONEYS.—Moneys in the fund shall remain on deposit in the Treasury of the United States until disbursed.

SEC. 304. FINANCIAL TRANSACTIONS OF THE FUND.—(a) The Administrator is authorized to make and issue interim notes to the Secretary of the Treasury for the purpose of obtaining funds necessary for discharging obligations of the fund and for making loans, advances and authorized expenditures out of the fund. Such notes shall be in such form and denominations and have such maturities and be subject to such terms and conditions as may be agreed upon by the Administrator and the Secretary of the Treasury. Such notes shall bear interest at a rate fixed by the Secretary of the Treasury, taking into consideration the current average market yield of outstanding marketable obligations of the United States having maturities comparable to the notes issued by the Administrator under this section. The Secretary of the Treasury is authorized and directed to purchase any notes of the Administrator issued hereunder, and, for that purpose, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which such securities may be issued under such Act, as amended, are extended to include the purchase of notes issued by the Administrator. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes shall be treated as public debt transactions of the United States: *Provided, however*, That such interim notes to the Secretary of the Treasury shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

(b) The Secretary of the Treasury is authorized and directed to purchase for resale obligations insured through the fund when offered by the Administrator. Such resales shall be upon such terms and conditions as the Secretary of the Treasury shall determine. Purchases and resales by the Secretary of the Treasury hereunder shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statutee on expenditures and net lending (budget outlays) of the United States.

(c) The Administrator may, on an insured basis or otherwise, sell and assign any notes in the fund or sell certificates of beneficial ownership therein to the Secretary of the Treasury or in the private market. Any sale by the Administrator of notes individually or in blocks shall be treated as a sale of assets for the purposes of the Budget and Accounting Act, 1921, notwithstanding the fact that the Administrator, under an agreement with the purchaser or purchasers, holds the debt instruments evidencing the loans and holds or reinvests payments thereon as trustee and custodian for the purchaser or purchasers of the

individual note or of the certificate of beneficial ownership in a number of such notes. Security instruments taken by the Administrator in connection with any notes in the fund may constitute liens running to the United States notwithstanding the fact that such notes may be thereafter held by purchasers thereof.

SEC. 305. INSURED LOANS; INTEREST RATES AND LENDING LEVELS.—(a) The Admiistrator is authorized to make insured loans under this title and at the interest rates hereinafter provided to the full extent of the assets available in the fund, subject only to limitations as to amounts authorized for loans and advances as may be from time to time imposed by the Congress of the United States for loans to be made in any one year, which amounts shall remain available until expended: *Provided*, That the Congress in the annual appropriation Act may also authorize the transfer of any excess cash in the fund for deposit into the Treasury as miscellaneous receipts: *And provided further*, That any such loans and advances shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

(b) Insured loans made under this title shall bear interest at either 2 per centum per annum (hereinafter called the "special rate"), or 5 per centum per annum (hereinafter called the "standard rate"). Loans bearing the special rate shall be available only for an electric or telephone borrower which **[**meets either of the following conditions**]**:

[(1) has an average consumer or subscriber density of two or fewer per mile, or**]**

(1) in the case of a telephone borrower, had at the end of the most recent calendar year ending at least six months before approval of the loan, an average subscriber density of three or fewer per mile; or

[(2) has an average gross revenue per mile which is at least $450 below the average gross revenue per mile of REA-financed electric systems, in the case of electric borrowers, or at least $300 below the average gross revenue per mile of REA-financed telephone systems, in the case of telephone borrowers**]**

(2) in the case of an electric borrower, had at the end of the most recent calendar year ending at least six months before approval of the loan, an average consumer density of two or fewer per mile or an average adjusted plant revenue ratio of over 9.0, such ratio being a simple average of the ratios obtained by dividing the sum of its distribution plant and general plant by its annual gross revenue less cost of power for that calendar year and the two immediately preceding calendar years. As used in this subsection the sum of distribution plant and general plant shall be the total of the amounts shown in accounts numbered 360 through and including 399 of the uniform system of accounts approved, as of the effective date of this amendment, by the Administrator, for use by Rural Electrification Administration borrowers; gross revenue shall be the amount shown in account numbered 400 of said system of accounts; and the cost of power shall be the total of amounts shown in accounts numbered 500 through and including 573 of said system of accounts as the same is constituted: Provided, however, That the Administrator may, in his sole discre-

tion, make a loan *to a telephone or electric borrower* at the special rate if he finds that the borrower:

(A) has experienced extenuating circumstances or extreme hardship; or

(B) cannot, in accordance with generally accepted management and accounting principles, produce net income or margins before interest at least equal to 150 per centum of its total interest requirements on all outstanding and proposed loans with an interest rate greater than 2 per centum per annum on the entire current loan, and still meet the objectives of the Act, or

(C) cannot, in accordance with generally accepted management and accounting principles and without an excessive increase in the rates charged by such borrowers to their consumers or subscribers, provide service consistent with the objectives of the Act.

(c) Loans made under this section shall be insured by the Administrator when purchased by a lender. As used by this Act, an insured loan is one which is made, held, and serviced by the Administrator, and sold and insured by the Administrator hereunder; such loans shall be sold and insured by the Administrator without undue delay.

* * * * * * *

H. R. 12207

Ninety-fourth Congress of the United States of America

AT THE SECOND SESSION

Begun and held at the City of Washington on Monday, the nineteenth day of January, one thousand nine hundred and seventy-six

An Act

To amend the Rural Electrification Act of 1936, as amended, to correct unintended inequities in the interest rate criteria for borrowers from the Rural Electrification Administration, and to make other technical amendments.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Rural Electrification Administration Technical Amendments Act of 1976".

SEC. 2. Section 301(a)(4) of the Rural Electrification Act of 1936, as amended, is amended to strike the semicolon at the end thereof, and add the following: "and the unobligated balances of any funds made available for loans under the item 'Rural Electrification Administration' in the Department of Agriculture and Agriculture-Environmental and Consumer Protection Appropriations Acts;".

SEC. 3. Section 305(b) of the Rural Electrification Act of 1936, as amended, is amended—

(1) by striking the words "meets either of the following conditions";

(2) by striking out all of paragraph (1) thereof and inserting in lieu thereof the following:

"(1) in the case of a telephone borrower, had at the end of the most recent calendar year ending at least six months before approval of the loan, an average subscriber density of three or fewer per mile; or";

(3) by striking out all of paragraph (2) thereof through and including the words "telephone borrowers" and inserting in lieu thereof the following:

"(2) in the case of an electric brorower, had at the end of the most recent calendar year ending at least six months before approval of the loan, an average consumer density of two or fewer per mile or an average adjusted plant revenue ratio of over 9.0, such ratio being a simple average of the ratios obtained by dividing the sum of its distribution plant and general plant by its annual gross revenue less cost of power for that calendar year and the two immediately preceding calendar years. As used in this subsection the sum of distribution plant and general plant shall be the total of the amounts shown in accounts numbered 360 through and including 399 of the uniform system of accounts approved, as of the effective date of this amendment, by the Administrator, for use by Rural Electrification Administration borrowers; gross revenue shall be the amount shown in account numbered 400 of said system of accounts; and the cost of power shall be the total of amounts shown in accounts numbered 500 through and including 573 of said system of accounts as the same is constituted";

(4) by inserting the words "to a telephone or electric borrower" following the words "make a loan" in the proviso to paragraph (2) thereof.

SEC. 4. This Act shall take effect upon enactment, except that insured loans made pursuant to applications for such loans which would otherwise lose eligibility for special rate financing upon such enactment, received by the Rural Electrification Administration and still pending on the date of enactment of this Act, shall bear interest as determined under section 305(b) of the Rural Electrification Act of 1936 before its amendment by this Act.

Speaker of the House of Representatives.

Vice President of the United States and
President of the Senate.

FOR IMMEDIATE RELEASE OCTOBER 21, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

The Rural Electrification Administration ("REA") was established forty-one years ago. At that time only 10 percent of the farms had electricity. Now 99 percent of America's farms enjoy the convenience and use of many electric labor-saving devices in the production of food and fiber for all our citizens. Productivity increases in American agriculture and the reversal of the rural to urban migration are testimony to the beneficial change that rural America has experienced -- which to a large extent is attributable to the improved availability of electricity.

In helping to electrify rural America since 1935, REA has made and guaranteed $18 billion in loans. Significantly, during this current fiscal year REA expects to make $3.5 billion in electric loan guarantees. The fact that only $44,000 has been written off over these four decades is indicative of the conscientious effort not only to administer the program soundly but to assure that the taxpayer's money is secure.

The REA revolving fund and guaranteed loan program, established in 1973, is also being used effectively to help alleviate the energy shortage through the participation of REA borrowers along with the investor-owned utilities in the construction of new electric generation plants.

I have signed H.R. 12207, the Rural Electrification Act Amendments. This Act corrects some inequities that crept into the comprehensive 1973 changes in the Rural Electrification Act. The combined efforts of my Administration, the national associations of electric and telephone borrowers and the Congress in developing badly needed corrective legislation is a demonstration of the kind of cooperation and leadership that can make a program responsive to the needs of our people and the Nation.

The bill I have signed today will save the U.S. Treasury $42 million in unnecessary interest subsidies in the five-year fiscal 1977-1981 period by changing the criteria establishing eligibility for two percent electric and telphone loans. The Act also transfers some $456 million of unobligated funds from the 1973 appropriation into the Rural Electrification and Telephone Revolving Fund where it can be used for insured loans, subject to limitations established by the Congress.

These amendments to the REA legislation will help make a good program even more effective.

# # #