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A Brief History of the Rural Electric and Telephone Programs



United States
Department
of Agriculture

Rural
Electrification
Administration

Washington
D.C.
20250

April 19, 1982

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Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In connection with the hearings on the 1983 appropriation bill, you requested REA to prepare a history of the accomplishments of the Rural Electrification Administration similar to the one the Committee requires the Farmers Home Administration to prepare each year.

Pursuant to your request, we are pleased to submit a "Brief History of the Rural Electrification and Telephone Programs" for the use of the Committee.

Sincerely,

HAROLD V. HUNTER
Administrator

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A BRIEF HISTORY OF THE RURAL ELECTRIFICATION
AND TELEPHONE PROGRAMS

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HISTORY

The Rural Electrification Administration (REA) is a credit agency of the U.S. Department of Agriculture which assists rural electric and telephone organizations in obtaining the financing required to provide electric and telephone service in rural areas. These essential services help improve the quality of life for people who live, work, or do business throughout rural America. Financial assistance may include (a) loans from REA, (b) guarantees of loans made by others, and (c) REA approval of security arrangements which permit the borrower to obtain financing from other lenders without a guarantee.

REA was first established by Executive Order 7037 on May 11, 1935, as part of a general program of unemployment relief. It soon became clear, however, that the task of extending central station electric service to rural areas required very specialized skills (engineering, management, etc.) that would be difficult to attract if REA operated under the constraints of the unemployment relief authorization. REA was given its own statutory authorization by the Rural Electrification Act of May 20, 1936. It became part of the U.S. Department of Agriculture on July 1, 1939.

Federal support was needed to electrify rural America because most of the established utilities served high density areas and did not extend lines to farmers and other rural residents because such investments were not considered to be feasible.

When Congress established REA, its purpose was to assure that funds would be available for rural electrification. Loans were made at interest rates that fluctuated with the cost of money to the Government. It was not until 1944 that Congress established a fixed interest rate of two percent, which, at that time, was the approximate cost of money to the Government. As time went by and interest rates rose, the subsidy associated with REA loans grew. The difficult tasks involved with the initial organizing and constructing of rural electric systems was made possible by the availability of capital from REA, innovative construction techniques and the establishment of cooperatives, not by subsidized interest rates.

The purpose of REA was expanded in 1949 when REA was authorized to loan funds for telephone service in rural areas. As in the case of electricity, it became clear that rural residents would not have access to adequate and dependable telephone service unless Federal support was provided. Both the rural telephone and rural electric programs of REA have been very successful in achieving their goals.

During the late 1960s and early 1970s, rural electric and telephone leaders came to realize that (a) their capital needs were growing at a very rapid rate and would very likely continue to grow, (b) it was no longer reasonable to expect the Government to meet all of their growing capital needs and (c) they had developed sufficient financial strength to obtain a portion of their capital needs from private sources. For these reasons, supplemental sources of financing were developed for both rural electric and telephone utilities.

The National Rural Utilities Cooperative Finance Corporation (CFC) was formed in 1969 by the rural electric cooperatives. It obtains funds from the private credit markets for its loans to electric systems. As of December 31, 1981, CFC had provided more than \$1.9 billion in long-term loans to its membership, which includes 862 systems. In addition to CFC, rural electric systems obtain loan funds from the Banks for Cooperatives and other private sources.

The Rural Telephone Bank (RTB) was established in 1971 by Public Law 92-12 which amended the Rural Electrification Act. It is the primary supplemental source of financing for the growing capital needs of rural telephone systems.

The Rural Telephone Bank is managed by a 13-member board of directors. The Administrator of REA serves as Governor of the Bank until conversion to private ownership, control, and operation. This will take place when 51 percent of the Class A stock issued to the United States and outstanding at any time after September 30, 1995, has been fully redeemed and retired. The Bank board holds at least four regularly scheduled meetings a year. Activities of the Bank are carried out by REA employees and the Office of the General Counsel of the U.S. Department of Agriculture.

In 1973, a major amendment to the Rural Electrification Act established the "Rural Electrification and Telephone Revolving Fund" (RETRF) for the purpose of making loans to REA electric and telephone borrowers. The amended Act established that loans to be made from the RETRF would be at a standard rate of five percent instead of the two percent rate at which REA loans had previously been made. The two percent rate was retained as a special rate for borrowers that met criteria specified in the Act. It was also available, at the Administrator's discretion, for hardship cases.

In addition to establishing the RETRF, and increasing the interest rate on REA loans, the 1973 amendment authorized REA to guarantee loans made by other lenders. Today these loan guarantees account for most of the loan funds obtained by electrification borrowers.

The 1973 Amendment to the Act states it is the policy of the Congress that "rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources."

In 1981, Congress further amended the RE Act by eliminating the special two percent interest rate on loans to rural electric and telephone systems. Such utilities now receive loans at five percent from the RETRF, as do other borrowers. Exceptions to the five percent rate may still be made at the discretion of the REA Administrator where there is a finding of hardship.

CHRONOLOGY OF LEGISLATIVE CHANGES

RURAL ELECTRIFICATION ACT OF 1936 7 U.S.C. 901-950b

1935. The Rural Electrification Administration was created by Executive Order 7037 of May 11 under authority of the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, (49 Stat. 115).
1936. Statutory provision for the agency was made in the Rural Electrification Act (RE Act) of 1936, approved May 20 (49 Stat. 1363; 7 U.S. Code, Chapter 31).
1938. Title IV of the Work Relief and Public Works Appropriation Act of 1938, approved June 21 ("RE Act of 1938," 52 Stat. 818) authorized further borrowing from the Reconstruction Finance Corporation and added a requirement that borrowers from REA agree to use materials and supplies produced in the United States.
1939. REA became a part of the Department of Agriculture under Reorganization Plan II, effective July 1.
1944. Title V of the Department of Agriculture Organic Act of 1944, approved September 21 (58 Stat. 739) liberalized the terms of REA loans and removed the time limitation from its lending program.
1944. On December 23, the Rural Electrification Act was further amended to authorize REA to refinance certain rural electrification obligations owed to the Tennessee Valley Authority (58 Stat. 925).
1947. The Department of Agriculture Appropriation Act, 1948, approved July 30, (61 Stat. 546) further amended the Rural Electrification Act by transferring from the Reconstruction Finance Corporation to the Secretary of the Treasury the authority to make loans to REA.
1948. On June 29, the Rural Electrification Act was again amended to authorize REA to refinance certain additional rural electrification obligations owed to the Tennessee Valley Authority (62 Stat. 1070).
1949. On October 28, the Rural Electrification Act was further amended to authorize REA to make loans for the purpose of furnishing and improving rural telephone service (63 Stat. 948).
1955. On June 15, the Rural Electrification Act was amended by revising the formula governing the allotment of electrification loan funds (69 Stat. 131).
1962. On October 23, the Rural Electrification Act was amended by broadening the definition of telephone service (76 Stat. 1140).

1971. On May 7, the Rural Electrification Act was amended to establish a Rural Telephone Account and the Rural Telephone Bank (85 Stat. 29; 7 U.S.C. 931-950b).
1972. On June 30, the Rural Electrification Act was amended to authorize the Secretary of the Treasury to purchase Telephone Bank debentures (86 Stat. 390; 7 U.S.C. 921b.)
1973. On May 11, the Rural Electrification Act was amended to establish a revolving fund for insured and guaranteed loans under Title III (87 Stat. 65; 7 U.S.C. 931-940.)
1975. On November 4, the Rural Electrification Act was amended to expressly authorize the assignment of REA guarantees to the extent provided in contract of guarantee, to clarify the incontestability of the Government guarantee, and to specifically require justification of budget estimates. (89 Stat. 677; 7 U.S.C. 936; 938; and 906.)
1976. On April 21, the "Fiscal Year Adjustment Act," amended the Rural Electrification Act to reflect necessary changes in laws because of the October-September fiscal year. (90 Stat. 375; 31 U.S.C. 701 note.)
1976. On October 20, the Rural Electrification Act was amended to correct unintended inequities in the interest rate criteria and to transfer the unobligated balance of the 1973 loan authorizations to the Rural Electrification and Telephone Revolving Fund. (90 Stat. 2701; 7 U.S.C. 931; 935.)
1977. On August 4, the "Department of Energy Organization Act," added section 16 to title 1, to require the Administrator when making or guaranteeing generation or transmission loans to consider general criteria published by the Secretary of Energy. (91 Stat. 608; 7 U.S.C. 916.)
1981. On August 13, the "Omnibus Budget Reconciliation Act of 1981," amended the Rural Electrification Act: (1) to establish a five percent interest rate, with certain exceptions, for loans from the revolving fund, and (2) to require the Federal Financing Bank to make a loan under an REA guarantee if requested by a borrower with such a guarantee. (95 Stat. 379; 7 U.S.C. 935, 936.)
1981. On December 22, the "Agriculture and Food Act of 1981," amended the Rural Electrification Act to extend for another ten years the authorization for Federal stock purchase in the Rural Telephone Bank. (95 Stat. 1347; 7 U.S.C. 946.)

Public Law 97-35
97th Congress

An Act

To provide for reconciliation pursuant to section 301 of the first concurrent resolution on the budget for the fiscal year 1982.

Aug. 13, 1981
[H.R. 3982]

SHORT TITLE

SECTION 1. This Act may be cited as the "Omnibus Budget Reconciliation Act of 1981".

Omnibus Budget
Reconciliation
Act of 1981.

PART 4—RURAL ELECTRIFICATION ADMINISTRATION
PROGRAMS

RURAL ELECTRIFICATION ACT AMENDMENTS

SEC. 165. (a) Section 305(b) of the Rural Electrification Act of 1936 (7 U.S.C. 935(b)) is amended to read as follows:

"(b) Insured loans made under this title shall bear interest at 5 per centum per annum, except that the Administrator may make insured loans to electric or telephone borrowers at a lesser interest rate, but not less than 2 per centum per annum, if, in the Administrator's sole discretion, the Administrator finds that the borrower—

Insured loans,
interest rates.

"(1) has experienced extreme financial hardship; or

"(2) cannot, in accordance with generally accepted management and accounting principles and without charging rates to its customers or subscribers so high as to create a substantial disparity between such rates and the rates charged for similar service in the same or nearby areas by other suppliers, provide service consistent with the objectives of this Act."

(b) Section 306 of the Rural Electrification Act of 1936 (7 U.S.C. 936) is amended by—

(1) inserting immediately after the second sentence the following: "With respect to guarantees issued by the Administrator under this section, on the request of the borrower of any such loan so guaranteed, the loan shall be made by the Federal Financing Bank and at a rate of interest that is not more than the rate of interest applicable to other similar loans then being made or purchased by the Bank."; and

(2) striking out "a loan insured at the standard rate" in the fourth sentence and inserting in lieu thereof "an insured loan".

(c) Section 307 of the Rural Electrification Act of 1936 (7 U.S.C. 937) is amended by striking out "a loan insured at the standard rate" and inserting in lieu thereof "an insured loan".

(d) The amendments made by subsection (a) of this section shall apply to loans the applications for which are received by the Rural Electrification Administration after July 24, 1981.

7 USC 935 note.

PUBLIC LAW 97-98—DEC. 22, 1981

95 STAT. 1213

Public Law 97-98
97th Congress

An Act

To provide price and income protection for farmers, assure consumers an abundance of food and fiber at reasonable prices, continue food assistance to low-income households, and for other purposes.

Dec. 22, 1981
[S. 884]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following table of contents, may be cited as the "Agriculture and Food Act of 1981".

Agriculture and
Food Act of 1981.
7 USC 1281 note.

RURAL TELEPHONE BANK AMENDMENT

SEC. 1607. Section 406 of the Rural Electrification Act of 1936 (7 U.S.C. 946) is amended by—

(1) inserting in the second sentence of subsection (a) "but not later than fiscal year 1991" after "thereafter", and striking out "\$300,000,000" and inserting in lieu thereof "\$600,000,000"; and

(2) striking out in the first sentence of subsection (c) "September 30, 1985" and inserting in lieu thereof "September 30, 1995", and striking out "and after the amount of class A and class B stock issued totals \$400,000,000,".

PROGRAM ACCOMPLISHMENTS

Extending and Improving Service

REA's programs have been very successful in extending electric and telephone service to persons in rural areas. By 1953 more than 90 percent of all farms in the U.S. had electricity; for telephone service, the 90 percent mark was passed in 1976.

CHART C-1

PERCENT OF FARMS WITH ELECTRIC AND TELEPHONE SERVICE
U. S. TOTALS

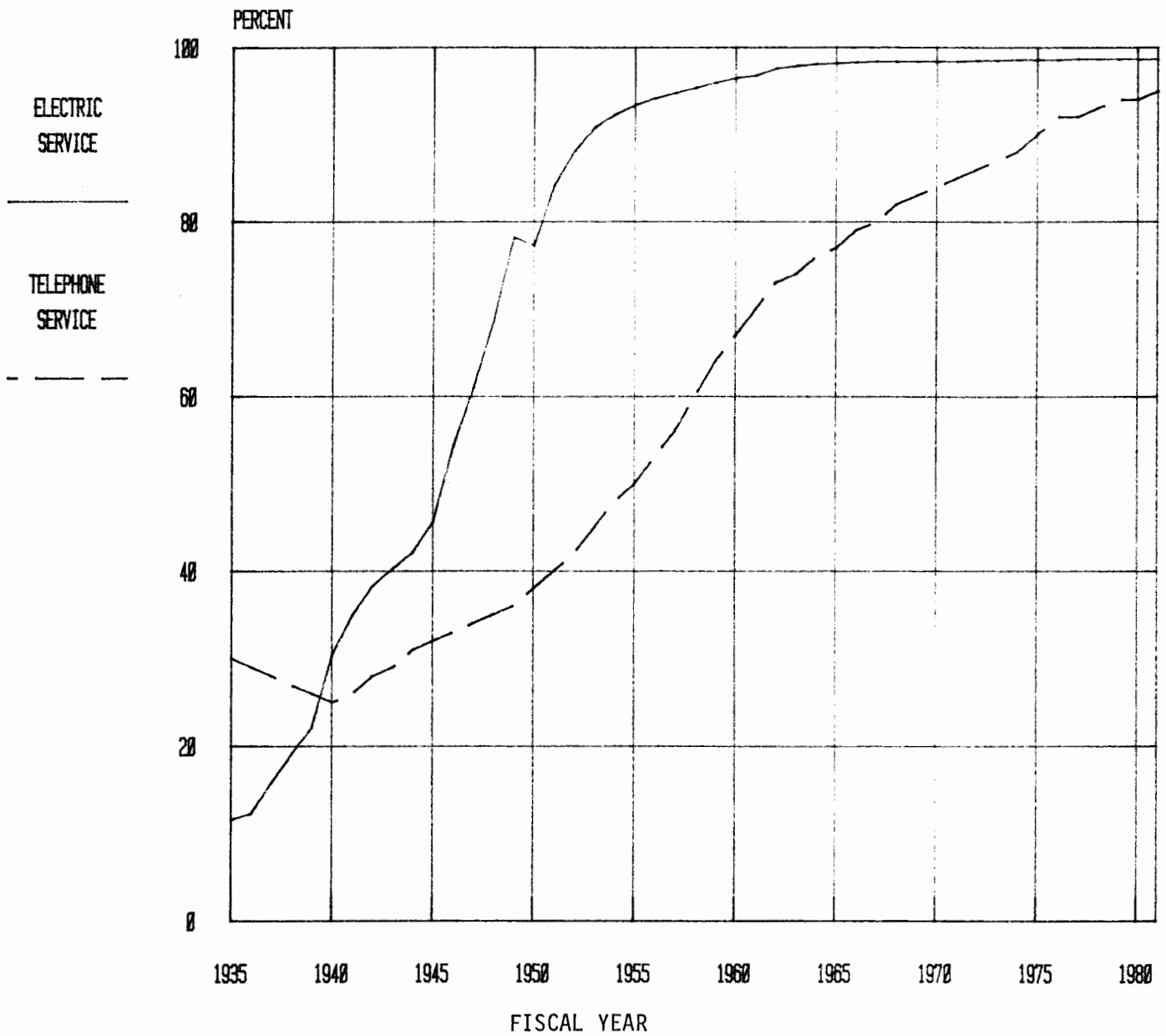


CHART C-1Percent of Farms with Electric and Telephone Service

<u>Fiscal Year</u>	<u>Electricity</u>	<u>Telephone</u>
1935	11.6	---
1936	12.3	---
1937	15.8	---
1938	19.1	---
1939	22.1	---
1940	30.4	25%
1941	34.9	---
1942	38.3	---
1943	40.3	---
1944	42.2	---
1945	45.7	32%
1946	54.3	---
1947	61.0	34%
1948	68.6	35%
1949	78.2	36%
1950	77.2	38%
1951	84.2	40%
1952	88.1	42%
1953	90.8	45%
1954	92.3	48%
1955	93.4	50%
1956	94.2	53%
1957	94.8	56%
1958	95.4	60%
1959	96.0	64%
1960	96.5	67%
1961	96.8	70%
1962	97.6	73%
1963	97.9	74%
1964	98.1	76%
1965	98.2	77%
1966	98.3	79%
1967	98.4	80%
1968	98.4	82%
1969	98.4	83%
1970	98.4	84%
1971	98.4	85%
1972	98.5	86%
1973	98.5	87%
1974	98.6	88%
1975	98.6	90%
1976	98.6	92%
1977	98.7	92%
1978	98.7	93%
1979	98.7	94%
1980	98.7	94%
1981	98.7	95%

In addition to financing the extension of electric and telephone service to rural areas, REA has provided credit to rural telephone utilities for system improvements that have dramatically upgraded the quality of telephone service in rural America.

Before the REA telephone program, rural telephone service was often antiquated and unreliable--even where it was available.

Today modern and reliable telephone service is available for people who live, work or do business in rural areas. The availability of modern communications systems has improved the quality of life of rural people and has strengthened their local economies. Improvement continues as more rural residents receive single party service.

GRADES OF SERVICE PROVIDED TO SUBSCRIBERS SERVED BY REA TELEPHONE BORROWERS
 CHART C-2

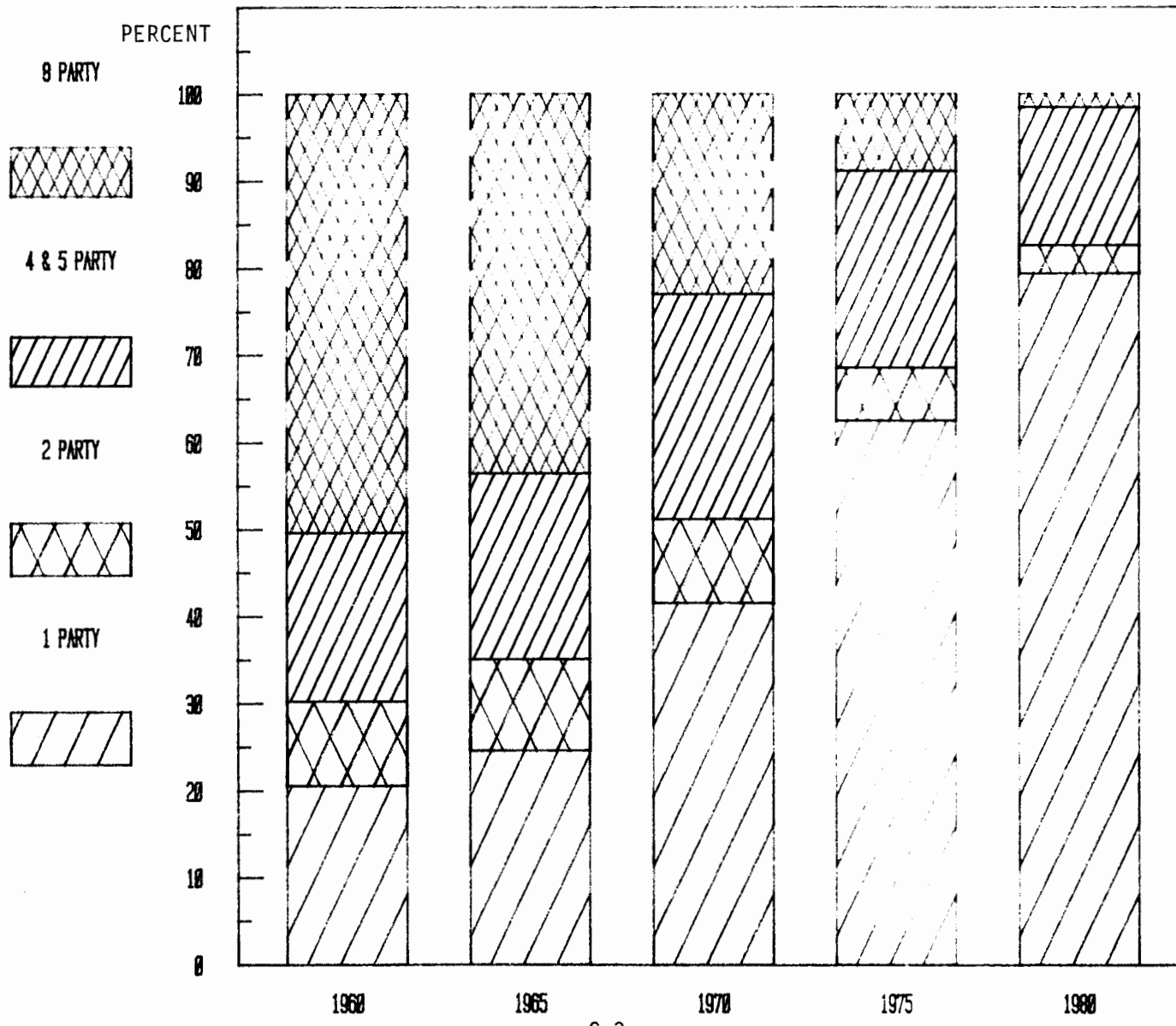


TABLE C-2

Number of Subscribers Served by REA Telephone Borrowers,
by Grade of Service

(Subscribers in thousands)

Year	One Party		Two Party		Four and Five Party		Eight Party*	
	No.	Percent	No.	Percent	No.	Percent	No.	Percent
1960	236.0	20.8	108.1	9.5	219.4	19.3	571.5	50.4
1965	428.7	24.8	182.0	10.5	362.7	21.0	752.9	43.7
1970	927.3	41.6	227.4	9.8	598.7	25.6	536.1	23.0
1975	1,909.2	62.7	183.3	6.0	685.2	22.5	267.6	8.8
1980	3,383.1	79.4	136.1	3.2	669.7	15.7	73.4	1.7

* Includes service stations (switchers) which represent less than 1 percent of the total number of subscribers.

In the case of electricity, the strong rural demand that has historically been experienced and met by rural electric utilities can be explained in part by the fact that alternatives to electricity are not available in many nonmetropolitan areas. For this reason electricity is used for home heating and major appliances to a greater extent in nonmetro than in metro areas. In the case of new housing, electricity is being used to an increasing extent.

CHART C-4

ELECTRICITY USE FOR MAJOR APPLIANCES

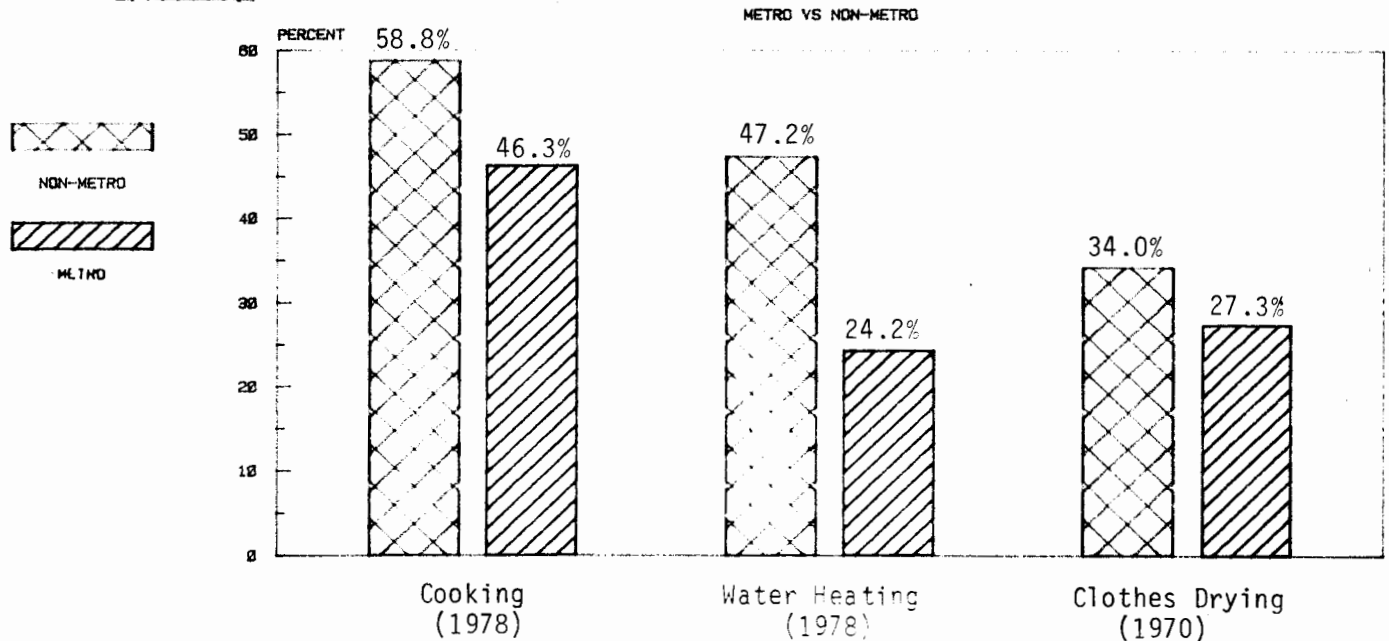
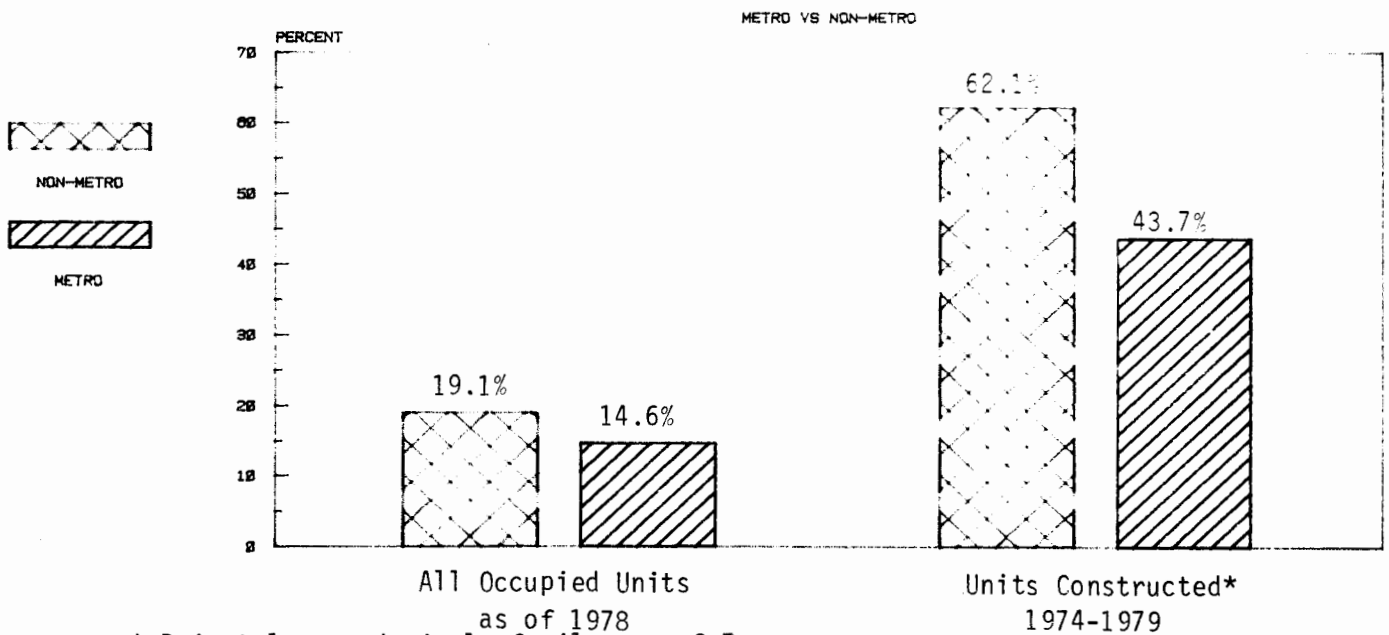


CHART C-5

ELECTRICITY USE FOR HOME HEATING



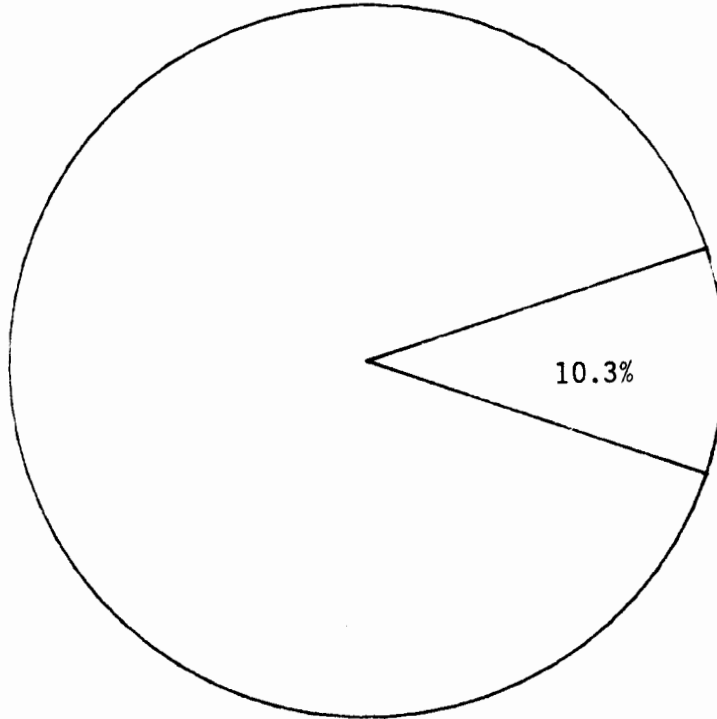
* Privately owned single family C-7

Today the rural electric and telephone utilities that receive financing from REA have developed into strong business organizations. Although not large when compared with many urban utilities, they are vital components of their respective industries.

CHART C-6

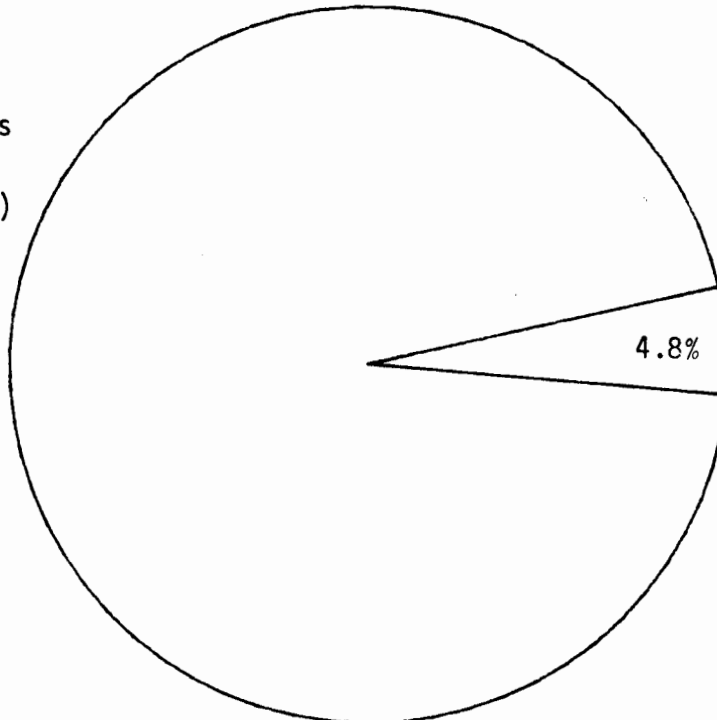
Percent of Electric Consumers and Telephone Subscribers Served by REA Borrowers

Electric Utility Industry
Million Consumers Served, 1980
Total 91.7
REA 9.4



REA Electric Borrowers

Telephone Utility Industry
Million Subscribers Served, 1980
Total 89.1 (est.)
REA 4.3



REA Telephone Borrowers