

**April 18, 2013 Revision**

**SUPPORTING STATEMENT**

**(0572-0031)**

**Operating Reports for Telecommunications and Broadband Borrowers**

**This is a revision of a currently approved information collection package.**

**A. Justification**

**1. Explain the circumstances that make the collection of information necessary.**

Rural Utilities Service (RUS), an agency delivering the U.S. Department of Agriculture Rural Development Utilities Programs, hereinafter referred to as RUS or the Agency, is a credit agency of the USDA. It makes loans and loan guarantees to finance electric, broadband, telecommunications, and water and waste facilities in rural areas. In addition to providing loans and loan guarantees, one of the main RUS objectives is to safeguard loan security until the loan is repaid. Section 201 of the Rural Electrification Act of 1936, as amended (RE Act) (7 U.S.C. 901 *et seq.*) authorizes that “the Secretary is authorized and empowered to make loans to persons now providing or who may hereafter provide telephone service in rural areas...for the purposes of financing the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities or systems to furnish and improve telephone service in rural areas.” Similarly, Section 601(c)(1) states that “the Secretary shall make or guarantee loans to eligible entities...to provide funds for the construction, improvement, or acquisition of facilities and equipment for the provision of broadband service in eligible rural communities.”

Section 201 also provides that “(l) loans under this section shall not be made unless the Secretary finds and certifies that in his judgment the security therefore is reasonably adequate and such loan will be repaid within the time agreed...”. Section 2(b) of the RE Act provides that “the Secretary may make, or cause to be made, studies, investigations, and reports regarding matters, including financial, technological, and regulatory matters, affecting the condition and progress of electric, telecommunications, and economic development ...”.

Both the Operating Report for Telecommunications Borrowers and the Operating Report for Broadband Borrowers are required by the loan contract and provide RUS with vital financial information necessary to ensure the maintenance of the security for the Government’s loans and service data which enable RUS to ensure the provision of quality telecommunications and broadband service as mandated by the RE Act of 1936 [7 CFR § 1738.154(e), § 1744.209(b), and *Appendix to Subpart C of Part 1770, 106.B.*]. In addition, for telecommunications loans, the Operating Report is the basis for developing an applicant’s current financial condition, upon which financial and service projections are based when determining the feasibility of a loan application [7 CFR § 1737.70(g)].

2. Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the Agency has made of the information received from the current collection.

Operating Report: RUS Telecommunications and Broadband program borrowers are required to file an Operating Report with the agency. The primary purpose of the Operating Report is to provide the Agency with financial information to ensure loan security consistent with due diligence. A secondary purpose is to utilize the data for a variety of financial and service based studies performed throughout the year. These functions are essential to protect loan security and to achieve the objectives of the RE Act. RUS staff must evaluate all factors related to the security of loans and the maintenance of adequate telephone service by borrowers on a continuing basis. In the processing of telecommunications loan applications, the Operating Report is used extensively by the Agency to prepare the loan feasibility study to determine if the loan can be repaid.

The Operating Report is submitted to RUS not less than quarterly for broadband borrowers and not less than annually for telecommunications borrowers and serves the following purposes:

Loan Security: To carry out their responsibilities, RUS staff evaluates factors related to the security of loans and the maintenance of adequate telecommunications or broadband service by RUS borrowers on a continuing basis. The Operating Report allows the Agency to identify serious operating problems and take preventative or early corrective action. Using the Operating Report, the Agency can detect deteriorating financial conditions at an early stage and avoid dangers of recognition at an advanced stage when only difficult, costly solutions are available options. RUS must maintain the capability to ascertain the security for the Government's loans which frequently constitute the major portion of the capitalization of telecommunications and broadband companies.

Mortgage Compliance: The Government's loan documents contain provisions to assure achievement of the objectives of the RE Act and continued security for the Government's investments. One of the most effective means RUS has to police these provisions is analysis of the Operating Report which provides data in such important areas as: current levels of debt and equity, investments in telecommunications or broadband plant, working capital levels, and the extent of coverage for interest and principal payments. The Operating Report also provides information regarding the extent to which service is being provided on an area coverage basis, a legal provision of the RE Act for telecommunications borrowers (Sec. 201) or on a community basis, a key regulatory provision for broadband borrowers [7 CFR § 1738.19(h)]. The subscriber data in the Operating Report allows the Agency to track a borrower's progress in achieving subscriber projections which support the Government's loans. In addition, the Operating Report provides information on activities prohibited by the mortgage, such as excessive distributions of capital, including dividend distributions and investments in affiliated companies, which might adversely affect loan security, quality of service, or reasonableness of rates.

Loan Processing: When RUS staff prepares a feasibility study for a telecommunications loan application, the Operating Report is used to derive a borrower's recent financial and service operating experience. With the broad range of interest rates applicable to telecommunications loans and loan guarantees, fairness and the need for accurate measurements of a borrower's operating characteristics demand that current and valid data be utilized to determine borrower eligibility for each type of loan or loan guarantee and the applicable interest rate for that loan. The Operating Report is the most convenient method of deriving this information for both the borrower and the Government.

Broadband loan applicants are required to provide their own financial forecast with each loan application. Nonetheless, the Operating Report provides an invaluable tool for validating historical financial information included in the borrower's projections for any existing broadband borrower applying for an additional broadband loan or loan guarantee.

Field Staff Utilization: RUS relies heavily on borrower evaluations by General Field Representatives (GFRs). GFRs monitor the progress of telecommunications and broadband systems within their territories using financial and service data reported by the borrowers on the Operating Report as a basis for that review. With the added advantage of on-site visits, GFRs using the Operating Report can detect difficulties before they become large problems and suggest remedial action for problems related to loan security, management, and quality of service. Without the Operating Report, GFRs have a limited basis for determining the trend of the borrower's operations and for taking action in the interest of rural ratepayers, the Government, and the borrower. Without the use of the Operating Report as a tool, there would be a significant loss of effectiveness of GFRs.

Telecommunications borrowers file Operating Reports using the USDA RUS Data Collection System (DCS). Broadband borrowers file their Operating Report Using the USDA RUS Broadband Collection and Analysis System (BCAS). Both DCS and BCAS are web-based systems that allow for electronic data submission. Both systems use USDA's eAuthentication to provide for electronic signature of submitted data.

Form 674 - "Certificate of Authority to Submit or Grant Access to Data": Form 674 provides approval from the Board of Directors of Telecommunications, Broadband and Electric borrowers for individuals named on the form to conduct business on behalf of the entity. The use of Form 674 ensures that one person identified by the Board of the entity is authorized to certify information entered into either DCS or BCAS. Form 674 also ensures that one person identified by the Board is authorized to act as a security administrator for the entity. The security administrator is able to assign other persons associated with the entity, user and reader roles in the DCS or the BCAS systems. This form is also used by Electric program borrowers using the DCS System to file the Financial and Operating Report for Distribution Borrowers (formerly RUS Form 7) and Financial and Operating Report for Power Supply (formerly RUS Form 12) data (as cleared under 0572-0032). Form 674 is submitted with an accompanying board

resolution and the agency receives forms only from new borrowers or from borrowers that need to revise their forms already on file.

3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g. permitting electronic submission of responses, and the basis for the decision for adopting this means of collection.

RUS is committed to complying with the E-Government Act, to promote the use of the Internet and other information technologies to provide increased opportunities for citizen access to Government information and services, and for other purposes.

Both Telecommunications and Broadband borrowers submit Operating Reports through web-based systems and use USDA's eAuthentication system for electronic signature. Collection of the Broadband Operating Report is 100% electronic. Collection of the Telecommunications Operating Report is about 98% electronic, except for those entities in the Pacific Islands and Micronesia that cannot obtain an eAuthentication ID due to citizenship requirements.

Individual eAuth IDs are associated with borrower companies in two ways. Each borrower submits a completed Form 674 to RUS designating the individual who will be able to certify and submit the Operating Report to RUS (the "Certifier"). It also designates the individual who is able to give other users access to the borrower's data either to read ("Reader") or complete ("User") the Operating Report (the "Security Administrator"). RUS grants the roles of Certifier and Security Administrator to the individuals listed on the form, using the eAuth IDs listed. The Security Administrator grants the roles of Reader and User to appropriate individuals. The Form 674 must be submitted in hard-copy.

4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.

Telecommunications borrowers are required to submit an annual Operating Report to RUS and each broadband borrower is required to submit a quarterly Operating Report. Information in the Operating Report is unique to each borrower and the Agency and cannot be collected from any other source. RUS researched programs provided by other agencies within Rural Development and elsewhere in the federal government and could not locate a similar loan program providing funding primarily for rural telecommunications and broadband systems. The Federal Communications Commission collects and publishes some service data, but only provides aggregate subscriber figures without the level of detail necessary to ensure the purposes of the RE Act are being met. Due to the competitive nature of telecommunications and broadband industries, detailed financial and service data such as RUS collects through the Operating Report is not available through any other means.

5. If the collection of information impacts small businesses or other small entities (item 5 of OMB Form 83-I), describe any methods used to minimize burden.

Telecommunications carriers are required to keep their books in accordance with Federal Communications Commission's (FCC) Uniform System of Accounts (USoA). The information required to complete the Operating Report is readily available to the borrowers from the records they are required to maintain by the FCC. The burden placed on small entities is minimized because the information being collected may be taken directly from these records.

Broadband providers are not necessarily required to use the USoA unless they are also considered telecommunications carriers; nonetheless, under Generally Accepted Accounting Practice (GAAP), these providers are required to maintain financial data which is readily convertible to USoA categories. Therefore, the burden placed on broadband providers should not be much greater than that placed on other telecommunications carriers.

The Operating Report requires the least information needed in order for RUS to fulfill its obligation of monitoring and analyzing the financial and operating condition of its borrowers. In addition, use of the electronic format reduces the time required to prepare and submit data.

All but 10% of the borrowers meet the Small Business Administration criteria for a small business. The Agency has made every effort to ensure that the burden on these small entities is the minimum necessary to effectively administer the program and to meet statutory requirements with respect to both large and small entities. The Agency headquarters and field staff are available for consultation and to assist borrowers in preparing and submitting information.

6. Describe the consequences to Federal program or policy activities if the collection is not conducted or conducted less frequently, as well as any technical or legal obstacles to reducing burden.

Without the submission of the Operating Report, RUS cannot effectively monitor each borrower's operations to assure continued security for the Government's loans and borrower compliance with the provisions of its contract and mortgage. Annual submission of the report is adequate for telecommunications borrowers because of the maturity of the industry and the long experience the Agency has had with most borrowers. Quarterly submission is necessary for broadband borrowers, however, because of the lack of operating experience of many of the borrowers and the rapidly changing nature of this new and dynamic business. Collecting information quarterly rather than annually reduces the risk of loss caused by the rapid decline in the financial condition of a borrower.

7. Explain any special circumstances that would cause an information collection to be conducted in a manner:

- a. Requiring respondents to report information more than quarterly.

If a broadband borrower shows significant financial weakness or violates a mortgage covenant or contract with the Government, monthly reporting may be required for a period of time. For telecommunications borrowers, similar weaknesses to those described above would normally increase the frequency of reporting from annually to quarterly.

- b. Requiring written responses in less than 30 days.

There is no requirement for a response in less than 30 days. However, if a “Certifier” or “Security Administrator” of an entity leaves the organization, the entity should notify Rural Development as soon as possible by filing a revised Form 674.

- c. Requiring more than an original and two copies.

There is no requirement for more than an original and two copies.

- d. Requiring respondents to retain records for more than 3 years.

Record retention requirements are in accordance with 7 CFR 1770 and normally do not exceed 3 years.

- e. That is not designed to produce valid and reliable results that can be generalized to the universe of study.

Statistical analysis could produce results that could be generalized to the universe of borrowers from the collected data, but the primary purpose of the collection is to monitor the specific performance of each borrower.

- f. Requiring use of statistical sampling which has not been reviewed and approved by OMB.

This collection does not involve statistical sampling.

- g. Requiring a pledge of confidentiality.

There is no requirement for a pledge of confidentiality.

- h. Requiring submission of proprietary trade secrets.

There is no requirement for submission of proprietary trade secrets.

8. If applicable, identify the date and page number of publication in the Federal Register of the agency’s notice soliciting comments on the information collection. Summarize

public comments received and describe actions taken by the agency in response to these comments. Describe efforts to consult with persons outside the Agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, reporting format (if any), and on data elements to be recorded, disclosed, or reported.

As required by 5 CFR 1320.8(d), RUS published a notice and request for comments in the Federal Register on May 7, 2012, at 77 FR 26735. No comments were received.

Rural Development maintains close contact with borrowers through GFRs and a headquarters staff. Suggestions are considered and evaluated by the Agency. The following applicants/borrowers representing Electric, Telecom and Broadband Programs were contacted for this information collection package:

Rick Shurtz, Manager of Operations  
Northeast Oklahoma Electric Cooperative, Inc.  
P.O. Box 948  
Vinta, OK 74301  
(918) 256-9360

The responses were positive for availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, reporting format, and on data elements to be recorded, disclosed, or reported.

Roger Cox, Chief Financial Officer  
Kim Edwards, Controller  
Atlantic Telephone Membership Corporation  
640 Whiteville Rd, NW  
Shalotte, NC 28459-3198  
(910) 755-1780  
FAX (910) 754-5499  
[rcos@atmc.coop](mailto:rcos@atmc.coop)

The responses were positive concerning the data submission. Mr. Cox stated the information required was readily available from other records and instructions for submission were clear.

Roger Anderson, Manager  
Deb Berggren, Bookkeeper  
Cooperative Telephone Exchange  
P.O. Box 95  
425 Parker St.  
Stanhope, IA 50246-0095  
(515) 826-3206  
[cooproger@netins.net](mailto:cooproger@netins.net)

Respondents provided positive responses concerning the data collection requirements and the reporting format. Respondents suggested that the instructions for reporting cash flow could be more detailed but, otherwise, had no problems with submission of data or frequency of reporting.

Kimberly Miles, Controller  
Logan Telephone Cooperative, Inc.  
P.O. Box 97  
10725 Bowling Green Road  
Auburn, KY 42206-0097  
(270) 542-4121  
[kmiles@loganphone.com](mailto:kmiles@loganphone.com)

The respondent gave positive comments concerning the clarity of instructions and frequency of data collection. Respondent was satisfied with the reporting format and recordkeeping requirements.

Lohn Weber, Chief Financial Officer  
Cinergy Metronet, Inc.  
3701 Communications Way  
Evansville, IN 47715  
(913) 754-3322

Mr. Weber provided positive responses concerning the reporting requirements for the Broadband Operating Report.

9. Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.

Payments or gifts are not provided to respondents.

10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or Agency policy.

The information collection involves financial information from companies involved in competitive industries and disclosure may result in competitive harm to submitting borrowers. Since 1999, RUS has not published the financial and service data of its telecommunications borrowers. The Agency informs borrowers that filed data is not routinely released. However, the Agency reminds borrowers that the information submitted on the Operating Report is covered by the provisions of the Freedom of Information Act ("FOIA," [5 U.S.C. 552]), and confidentiality cannot be assured. Nonetheless, in accordance with FOIA, borrowers are informed they will be notified of FOIA requests for their data and given the opportunity to make their case, if appropriate, that release of the information would cause competitive harm.



11. Provide additional justification for any question of a sensitive nature, such as sexual behavior or attitudes, religious beliefs, and other matters that are commonly considered private.

There are no questions of a sensitive nature.

12. Provide estimates of the hour burden of the collection of information.

Hour Burden

See the attached Spreadsheet for a breakout of burden hours.

Cost to Respondents

Data collection, transcription, review and completion of the Operating Report program

Professional time @ \$ 54.83 /hr X 2,910 hours = \$159,555

Total annualized cost to respondents = \$159,555

The wage rate used is from the May 2011 Occupational Employment and Wage Estimates at [http://www.bls.gov/oes/oes\\_dl.htm](http://www.bls.gov/oes/oes_dl.htm). National 4-digit NAICS Industry-Specific estimates are used and the industry used is Wired Telecommunications Carriers (517100). For 'professional' time an hourly wage of \$54.83 for 'Managers, All Other (11-9199)' is used.

13. Provide an estimate of the total annual cost burden to respondents or recordkeepers resulting from the collection of information.

(a) Total capital and start-up cost component (annualized over its expected useful life); and

There are no capital and/or start-up costs components associated with this collection.

(b) Total operation and maintenance and purchase of services component.

There are no operation and maintenance and/or purchase of services component associated with this collection.

14. Provide estimates of annualized cost to the Federal Government.

The cost to the Federal government is estimated as follows:

Data processing and analysis

Professional @ \$35.88 hr (GS 12, step 1, including 45% increase for total value of benefits) X 1 hour X 720 responses = \$25,833.60

Receipt and confirmation of Form 674

Professional @ \$53.77 hr (GS 14, step 3, including 45% increase for total value of benefits) X .25 hour X 120 responses = \$ 1,613.10

Establish borrower roles in system

Professional @ \$42.66 hr (GS 13, step 1, including 45% increase for total value of benefits) X 10 minutes (.17 hour) X 120 responses = \$ 870.26

Printing letter to respondents regarding completion and submission of the Operating Report:

Copying @ \$.07 page X 694 respondents: \$ 48.58

Cost to mail letter to respondents:

Postage @ .44 letter x 694 respondents \$ 305.36

Total cost to the Federal Government = \$28,670.90

15. Explain the reasons for any program changes or adjustments reported in items 13 or 14 of the OMB Form 83-I.

This is a revision of a currently approved information collection. The burden hours increased by 104 hours due to a greater number of broadband respondents. Even though there was a decrease in the number of Telecom borrowers – 510 to 480 = minus 30 x 4 hours = decrease of 120 hours; and an increase in the Broadband borrowers – 46 to 60 = +14 x 4 responses each = 56 responses x 4 hours = 224 hours increase for an overall increase of 104 (224 minus 120 = 104).

16. For collection of information whose results will be published, outline plans for tabulation and publication.

The results of this collection of information are not intended for publication. RUS discontinued publication of the results of the telecommunications data collection in 1999 since requests for this information under the Freedom of Information Act could place borrowers at a competitive disadvantage and impair loan security. Similar concerns apply to broadband borrowers.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

Rural Development requests approval to not display the expiration date on the Operating Report due to the fact that this is an automated system and each time the expiration date changes a software revision would be required which would cost the Government additional funds.

18. Explain each exception to the certification statement identified in item 19 on OMB 83-1.

There are no exceptions.

**B. Collection of Information Employing Statistical Methods.**

This information collection does not employ statistical methods.