

2016

SUPPORTING STATEMENT

(0572-0031)

Operating Reports for Telecommunications and Broadband Borrowers

This package is being submitted under a regular clearance as an extension of a currently approved information collection package. There was an increase in annual burden hours from 2,910 to 6,749 based on an increase in total respondents due to the addition of Broadband Initiatives Program respondents. In addition, the agency increased reporting from annually to quarterly for telecommunications providers in 2013 because of increased risk to these borrowers, warranting closer agency monitoring.

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 – which includes reports submitted by borrowers under the Broadband Loan and Loan Guarantee Program as well as the Broadband Initiatives Program, 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. The functions are essential to protect loan security and to achieve the objectives of the RE Act. RUS staff must evaluate factors related to the security of loans and 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 all telecommunication loans made since 2013 require borrowers to report quarterly – prior to that borrowers were only required to report annually. 296 Telecom Program borrowers report annually today while 63 report every quarter and serves the following purposes:

Loan Security: To carry out their responsibilities, RUS staff evaluates factors related to security of loans and 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 difficult, costly solutions are the only available options. RUS must maintain the capability to ascertain 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 the 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 agreement, 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 report 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. 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 and is the most efficient of deriving the information for both the borrower and agency.

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, which is required before a new borrower can access the BCAS or DCS systems and when there is a change in personnel submitting the reports, 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 entity Board 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. Form 674 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. Pacific Islands and Micronesia respondents cannot obtain an eAuthentication ID due to citizenship requirements and submit reports directly to the agency and are encouraged to use the same format as is required through the DCS and BCAS systems. The agency has provided blank copies of the DCS and BCAS reports so they know what to submit.

Individual eAuth IDs are associated with borrower companies in two ways. Each borrower submits a completed a 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 roles of Certifier and Security Administrator to the individuals listed on the form, using the eAuth IDs listed. The Security Administrator grants 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.

The agency has required borrowers under the Telecommunications Program to submit operating reports at least once per quarter since 2013. Prior to that, Telecom borrowers were required to submit annual reports. Similarly, Broadband borrowers are required to submit quarterly Operating Reports. Information in the Operating Report is unique to each borrower 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.

Telecommunication borrowers are members of the wired (NAICS 517110) and wireless (NAICS 517210) telecommunications industry and meet the Small Business Administration (SBA) size standard for the industry as they have less than 1,500 employees. Telecommunications carriers are required to keep their books in accordance with Federal Communications Commission's (FCC) Uniform System of Accounts (USoA). The burden placed on the small telecommunications entities is minimized because the information being collected can be taken directly from the records required by FCC or from financial data maintained under Generally Accepted Accounting Practice (GAAP). Ninety percent of electric program borrowers meet the NAICS industry standard for SBA criteria. (All electric borrowers, including electric power generation, distribution, geothermal, biomass and other electric power generation are included in NAICS Sector 22, Utilities.) The burden on these small entities is also minimized because agency requires the submission of the Certificate of Authority only in the event of a new borrower or of a change in officers of the Board of Directors for an existing borrower. The information required under the collection is unique to each borrower and is the minimum required to protect the Government's security on loans. RUS headquarters and field staff are always available for consultation and to assist borrowers in preparing and submitting information and RUS staff will make every effort to simplify the burden on respondents.

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 a borrower's operations to assure continued security for the Government's loans and borrower compliance with the provisions of its contract and mortgage. Since 2013 the agency has required Telecom borrowers to submit quarterly operating reports due to new uncertainty in the industry and increased risk to loans. Quarterly submission is required for broadband borrowers, because of the rapidly changing nature of this dynamic business. The Agency's requirement to collect quarterly reports 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.

There is no requirement to respond more frequently than quarterly unless a broadband borrower shows significant financial weakness or violates a mortgage covenant or contract with the Government. For telecommunications borrowers, similar weaknesses to those described above would normally increase the frequency of reporting. There are no other requirements for respondents to report more than quarterly.

b. Requiring written responses in less than 30 days.

There is no requirement to respond in less than 30 days. It is recommended, however, that if a “Certifier” or “Security Administrator” leaves an organization, the entity should submit a revised Form 674 as soon as possible.

c. Requiring more than an original and two copies.

There are no requirements for more than an original and two copies to be submitted.

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

There are no requirements for respondents to retain records for more than 3 years.

e. In connection with a statistical survey, that is not designed to produce valid and reliable results that can be generalized to the universe of study.

This collection is not a survey.

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 that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use.

No pledge of confidentiality is required.

h. Requiring respondents to submit proprietary trade secrets, or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information’s confidentiality to the extent permitted by law.

There is no requirement to submit propriety 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 December 24, 2015, at 80 FR 80316. No comments were received.

RUS maintains close contact with borrowers through GFRs, field accountants and headquarters staff and may consult with them on an individual basis by telephone, e-mail, U.S. Postal Service, Facsimile, and at various meetings and conferences attended jointly by RUS staff and borrowers. GFRs have direct personal contact with the borrowers in connection with the fulfillment of RUS requirements and pass on any comments to the headquarters staff. All comments and 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 and comments addressed below:

Leslie Cantrell, Manager of Finance and Accounting
Southwest Electric Cooperative
P.O. Box 150
Bolivar, MO 65613-0150
417-327-1499

The respondent represents an Electric Cooperative and stated that the information required by RUS was necessary information to assure that only authorized individuals were able to gain access to the online system for updating reports. The frequency of collection was only when necessary and instructions for submission clearly understood.

Cindy Berryman – Chief Financial Officer
Jeffery Carthan – Senior Staff Accountant
Convergence Technologies, Inc.
16W215 83rd St. Suite D
Burr Ridge, IL 60527
(630) 887-1000

Kim Jones – Accounting Supervisor
Thacker-Grigsby Telephone Company

PO Box 789
Hindman, KY 41822
(606) 785-9500

Terri Crews – Accounting Supervisor
Paul Bunyan Communications
1831 Anne St. NW
Bemidji, MN 56601
(218) 444-1234

Rick Williams – CFO
Lynette Demaray – Financial Specialist
BEK Communications
200 Broadway E
Steele, ND 58482
(701) 475-2361

1. The reporting format – For Broadband borrowers, the biggest complaint dealt with the electronic system (BCAS) used to submit the required operating reports. Borrowers noted that in the past, they occasionally had to submit files via Excel spreadsheet because they were unable to gain access to the system and noted that the system can be slow and cumbersome during peak reporting periods. Additionally, a number of respondents are both Infrastructure Program borrowers and Broadband borrowers, so they are required to report in two different systems, BCAS and DCS, each quarter. Those interviewed noted that the systems asks for similar information, but in different ways, which requires additional work and extends the time required to complete the reports. The agency is currently working to address this issue with a new consolidated system that will only require one report from such Borrowers and intends to begin using the new system in 2017.
2. The data elements collected – Comments were generally positive. Respondents identified Part C – Subscriber Data in the BCAS report as being the most difficult to produce. Respondents also vocalized concerns regarding the amount of information that is required to be reported by Infrastructure Program borrowers in their year-end DCS report. Many respondents complained the year-end DCS report was too detailed and specifically identified the listing of service offerings and need to collect plant-related data (route miles, etc.) as being especially time consuming and burdensome.
3. The availability of data – Comments were generally positive. Respondents noted that most of the data requested is readily available. The only exceptions being that some respondents stated that there was some difficulty obtaining the Part C – Subscriber Data needed for Part C and all Infrastructure Program borrowers noted issues with the amount of information they have to report in their year-end reports in DCS.

4. The clarity of instructions – Comments were generally positive regarding the instructions provided for both BCAS and DCS.
5. The frequency of collection – Comments were generally positive. Quarterly collection is natural and reasonable.
6. The time it takes to complete the quarterly reports – Comments were generally positive for Broadband borrowers reporting quarterly in the BCAS system, with 4 hours of estimated burden to complete each report. The burden for the quarterly DCS reports was also positive, with respondents indicating it took approximately 2 hours to complete each report. However, respondents noted the year-end DCS report required for Infrastructure Program borrowers takes significant time to develop and estimated 10 hours to complete the year-end report in DCS.

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 financial and service data from telecommunications borrowers and the agency informs borrowers that filed data is not routinely released. However, borrowers are also reminded 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.

This collection does not contain questions of a sensitive nature.

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

There was a program adjustment to account for an increase in estimated number of respondents by 50 from the last reporting period from 597 to 647 and in the estimated burden hours per response from 3.67 to 4.63 that resulted in an increase of 3,839 burden hours from 2,910 to 6,749. The estimate of respondents was calculated based on past experience and by averaging annual respondents for the last three years reporting period. The increase in response time was based on reports from respondents of an increase in the estimated time to complete the annual operating report required for all Telecommunications borrowers and which does not impact or increase the estimated

burden for quarterly reports submitted throughout the year. In addition, due to changes in the telecommunications industry, declines in subscribers to traditional phone service, and significant regulatory changes by the FCC to the support mechanisms of telecommunications providers, the agency believes and warrants closer monitoring of borrowers financial condition and requires quarterly reporting. There are an estimated 1,340 annual responses and each response requires an estimated average of 4.63 hours. The wage rate for calculating respondent cost is selected from the Department of Labor, Bureau of Labor Statistics, May 2015 National-Industry Specific Occupational Employment and Wage Estimates for the Telecommunications industry (NAICS 517000) located at http://www.bls.gov/oes/current/naics3_517000.htm. The wage category is Business operations specialist, all other (Occupation Code 13-1199) at \$38.55 per hour. The wage rate is multiplied by 29.80 percent to obtain the fringe benefit and the total hourly wage and benefits is \$50.04.¹ Total annualized cost to respondents for this information collection is \$426,591, as calculated in the following table:

Annual Responses	Burden per Response	Total Burden	Wage & Benefits	Respondent cost
1,340	4.63	6,749	\$50.04	\$337,720

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 capital/start-up or operation/maintenance costs associated with the collection.

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

The estimated cost to the federal government is \$46,362. Wage rates used to calculate federal cost were found at Office of Personnel Management, 2016 General Schedule Tables at

https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2016/DCB_h.pdf. Three categories are used: GS12, Step 1 (\$37.13 per hour); GS 13,

¹ Benefit rates for private sector employees in Private trade, transportation, and utilities industry workers is provided by Bureau of Labor Statistics Historical Data issued in September 2015. See, Employer Costs for Employee Compensation, Supplemental Tables, Historical Data, December 2006 – September 2015, page 91. Retrieved from <http://www.bls.gov/ncs/ect/sp/ecsuhst.pdf>. Benefit as a percentage of the total compensation for private sector employees in the utilities industry in September 2015 was 29.8 percent.

Step 1 (\$44.15 per hour); and GS 14, Step 3 (\$55.65). With addition of cost of benefits² wage costs are \$50.59 for GS12, Step 1; \$60.15 for GS 13, Step 1; and \$75.82 for GS 14, Step 3.

Quarterly reporting is required from 63 Telecom borrowers and 168 Broadband borrowers who submit a total of 924 reports each year and each report requires .75 data processing and analysis performed by the GS 12/Step 1. The annual operating report submitted by 296 borrowers requires .50 hour of data processing and analysis performed by the GS 12, Step 1. An estimated 120 respondents submit new or revised Forms 674 and receipt and confirmation of each form requires .25 hours of GS 14, Step 3. Borrower roles must be established in EAuth, the online platform, by a GS 13, Step 1 for each of the 120 borrowers submitting new or revised Forms 674. It requires 10 minutes (.17 hour) for each submission to establish borrower roles. Correspondence regarding submission of Operating Reports is prepared and sent to each of 527 borrowers and expense for copying and mailing the correspondence is added to federal cost. The cost to the Federal government is shown in the following chart:

Description of Cost or Action required	Federal time required	Hourly Wage/Benefit costs of Federal Employee	Number of submissions or activity	Cost
Data Processing/Analysis of Quarterly Operating Reports	.75	\$50.59 (GS12/1)	924	\$35,059
Data Processing/Analysis of Operating Reports	.50	\$50.59 (GS12/1)	296	\$7,487
Receipt/Confirmation of Form 674	.25	\$75.82 (GS14/3)	120	\$2,275
Establishing Borrower Roles in system	.17	\$60.15 (GS13/1)	120	\$1,227
Printing/copying letter re: Operating Reports @ 10.7			527	\$56
Postage @ .49 per letter			527	\$258
Total Cost				0

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

This renewal package requests an extension of a currently approved collection. There is an increase in burden hours from 2,910 to 6,749. The increase in burden hours is an

² Cost of total benefits as a percentage of total hourly compensation for Federal Government employees is calculated by multiplying 36.25 percent by the hourly OPM wage in accordance with OMB Memorandum M-08 13.

agency adjustment based on: 1) an increase in numbers of respondents, specifically Broadband borrowers, by 50, from 597 to 647, from the last reporting period; 2) additional reporting requirements for Telecommunications Borrowers; and, 3) an increase in respondent time required to submit reports. The agency contacted respondents concerning this collection and determined that the reporting burden increased particularly with regard to the year-end report required each year for infrastructure borrowers who submit operating reports through the USDA RUS Data Collection System (DCS), and the total burden per response increased from 3.45 to 6.35 per report. In addition, during the last reporting period, the agency began requiring quarterly, instead of annual, reporting from traditional telecommunications providers based on increased risk to those borrowers. Broadband has revolutionized the telecommunications industry, subscribers to traditional land line telephone service continue to decline, and the Federal Communications Commission (FCC) has and continues to make significant regulatory changes to the support mechanisms for telecommunications providers. These changes have resulted in an increased risk with regard to telecommunications loans that the agency believes warrants closer financial monitoring to protect the governments interest.

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

There are no plans for publication.

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.

The agency is not seeking such approval.

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

There are no exceptions.

B. Collection of Information Employing Statistical Methods.

1. Describe (including a numerical estimate) the potential respondent universe and any sampling or other respondent selection method to be used.

This collection does not employ statistical methods.