

Introduction to the USDA & Overview of Rural Utilities Service Programs –Accounting

MAINE CHAMBER OF COMMERCE ZOOM- CONFERENCE FEBRUARY 23rd, 2021

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Rural Development's (RD) Mission

USDA Rural Development

Committed to helping improve the economy and quality of life in rural America.

- Provide loans, grants, and loan guarantees that support essential services, such as:
 - Housing
 - Economic Development
 - Health Care
 - First Responder Services and Equipment
 - Water, Electric, and Telecommunications Infrastructure







USDA's Core Mission



"Our core mission at USDA is to increase rural prosperity through boosting economic opportunity in rural America. We know that rural communities need robust, modern infrastructure to thrive, and that includes having access to broadband e-Connectivity."

Rural Broadband Programs

- Telecommunications
 Infrastructure Loan Program
- Rural Broadband Access Loan, Loan/Grant, & Loan Guarantee Program-TBD-BROADBAND PROGRAM
- Community Connect Grant Program- PROCCESSING
- ReConnect Program-TBD



ReConnect Program-TBD IN REWRITE (FALL/WINTER 2021-ROUND*3)

Available Funding	Program Updates	
 FY2018 \$600.0 million available in FY2018 FY2019 \$550.0 million available in FY2019 FY2020 \$655.0 million available in FY2020 (includes CARES funding) 	 FY2019 – "Round One" 146 Applications processed: \$1.4 billion 78 applications requesting 100% Grant funding 53 applications requesting 50/50 Loan/Grant funding 15 applications requesting 100% Loan funding 	
 Changes for Round Two (see Funding Opportunity Announcement published on 12/12/2019 for a comprehensive list): For 100% Grants, 90% of the PFSA cannot have sufficient access to broadband. Pre-application expenses incurred for round one, but benefit an application for round two, may be funded up to the 5% of the total award in round two. Public notice response period increased from 30 days to 45 days. 	 79 projects approved: \$698 million 33 States impacted FY2020 – "Round Two" 172 Applications submitted: \$1.57 billion requested Application window closed on April 15, 2020 65 projects announced as of Oct. 26: \$569 million 30 States impacted FY2021- 2nd Chance 37 Applications \$260 Million-In Process 	

https://www.usda.gov/reconnect

Loan, Combo and Grant Chart







Buildout Speed

25/3 Mbps minimum

25/3 Mbps minimum, incentive for higher speeds

25/3 Mbps minimum, incentive for higher speeds

Terms

Max award: \$50 million 2% Interest Rate Max award: \$50 million 50/50 Loan/Grant UST Rate Max award: \$25 million 25% match

Application Review

Open (non-competitive)

Competitive Scoring

Competitive Scoring

Round 1 Federal Funds

\$200 million

\$100 million grant + \$100 million loan

\$200 million

Round 1 - Application Deadlines

July 12, 2019

June 21, 2019

May 31, 2019

Round 2 – Application Deadline

April 15, 2020

COVENANTS TO RECONNECT-Under Writing

Section 5.7 Rates and Financial Performance Criteria

- Must design, charge, and maintain rates to meet the following Financial Requirements:
- Section 5.8 Financial Requirements
 - At least two of the following:
 - Minimum TIER of 1.2
 - Minimum DSCR of 1.2
 - Minimum Current Ratio of 1.2
 - Positive cash flow from operations at the end of the fifth year of the award
 - Positive ending cash balance as reflected on the cash flow statement for each year of the forecast period
- Section 5.9 Corrective Action
 - Must submit corrective action plan to RUS if fail to meet requirements above
 - Within 30 days of sending the financial reports
 - Within 30 days of being notified by RUS
 - Which ever is earlier

AUDIT

- §1773.3 Annual audit
 - a) Each auditee must have its financial statements audited annually by an auditor selected by the auditee and approved by RUS as set forth in §1773.4. All auditees must submit audited financial statements on a comparative basis covering two consecutive 12 month periods
 - b) Each auditee must establish an annual audit date within 12 months of the date of the first advance and must prepare annual financial statements for the audit date established. Each auditee must notify the AA-PARA of the audit date at least 90 days prior to the selected audit date
 - c) In addition to the requirements of this part, certain auditees may be subject to the Single Audit Act

AUDIT CONT.

- §1773.3 Auditee's responsibilities
 - a) Selection of a qualified auditor. The auditee's governance board is responsible for the selection of a qualified auditor that meets the requirements set forth in §1773.5. When selecting an auditor, the auditee should consider, among other matters:
 - 1) The qualifications of auditors available to do the work;
 - The auditor's experience in performing audits of utilities, related industries, or in the case of grantees, experience in auditing entities comparable to the grantee; and
 - The auditor's ability to complete the audit and submit the reporting package within 90 days of the audit date.
 - b) Board approval of selection. The board's approval of an auditor must be recorded by a board resolution that states:
 - 1) The auditor represents that it meets RUS qualifications to perform an audit; and
 - 2) The auditee and auditor will enter into an audit engagement in accordance with §1773.6.

RETAINING DOCUMENTS

- Retained and preserved in accordance with 7 CFR 1770 A
 - Construction retained until audited and approved by RUS
 - Plant in service retained until facilities are permanently removed from utility service
 - Life and mortality study data supporting depreciation retained 25 years or for 10 years after plant is retired, which ever is longer

Award Documents (Section 6.1 Financial Records)

- The Awardee shall maintain, at its premises, such books, documents, papers, or other records and supporting documents, including, but not limited to, invoices, receipts, payroll records and bills of sale, adequate to identify the purposes for which, and the manner in which Loan, Grant, and other funds were expended on the Project. The Awardee shall at all times keep, and safely preserve, proper books, records and accounts in which full and true entries shall be made of all dealings, business, and affairs of the Awardee and its Subsidiaries, in accordance with its system of accounts
- The Awardee shall maintain copies of all documents submitted to RUS in connection with the Award until the longer of (i) the Loan being paid in full and all audits have been completed, (ii) the term of this Agreement or (iii) three years subsequent to close-out of the Award

RECORDS CONT.

ReConnect Construction Procedures

- Records supporting all assets financed by RUS shall be retained until audited and approved by RUS. Records must be sufficient to document the cost and location of all expenditures and to support advances and disbursement of award funds. The support records must include, but not limited to, contracts, third party invoices, timesheets, payroll records, material records, and overhead allocation records and summary schedules.
- Records related to plant-in-service must be retained until the facilities are permanently removed from utility service, all removal and restoration activities are completed, and all costs are retired from the accounting records unless accounting adjustments resulting from reclassification and original costs studies have been approved by RUS or other regulatory body having jurisdiction.

Not allowed:

- Cash Basis accounting and financial reporting
- Tax Basis accounting and financial reporting

Type of entity determines the overall accounting principles:

- For-profit private entity (Financial Accounting Standards Board)
 - Departures from Telephone USoA must be approved in advance
- Cooperative (Financial Accounting Standards Board –Telephone USoA)
- Not-For-Profit Entities (FASB 117/118)
 - Departures from Telephone USoA must be approved in advance
- Government Entities (Government Accounting Standards Board)
 - Departures from Telephone USoA must be approved in advance

RUS RIGHT TO INSPECT

- Awardee must comply with all reasonable Agency requests to support ongoing monitoring efforts
- Awardee shall afford RUS, through its representatives, reasonable opportunity, at all times during business hours and upon prior notice, to have access to and the right to inspect:
 - Broadband system or other property encumbered by the Award Documents
 - Any and all books, records, accounts, invoices, contracts, leases, payrolls, timesheets, cancelled checks, statements, and other documents (Electronic or Paper)
 - Including subsidiaries
 - Make copies or extracts

REPORTING REQUIREMENTS RECONNECT

- Annual comparable audited financial statements
 - Report on compliance and on internal control over financial reporting
 - Management letter (7 CFR 1773)
- Quarterly balance sheets, income statements, statements of cash flow, rate package summaries, number of customers taking broadband service (per community)
 - Due 30 days after calendar quarter
 - Using RUS' on-line reporting system
 - Loan amortization period or economic life of the facilities funded for 100% grant
- Annual service area maps through RUS mapping tool
- Final service area map showing all construction complete
 - May require portion of the award to be rescinded or paid back if not fully constructed
- Semi annual reports for 3 years after completion of project

REPORTING CONT.

Award Documents (Sections 6.3 Annual Audit and 6.4 Reporting)

- Annual comparable audited financial statements (Due 120 days after fiscal year end)
 - Report on compliance and on internal control over financial reporting
 - Management letter (7 CFR 1773)
 - CPA must meet requirements of 7 CFR 1773.4
 - Non-Federal entities (expending \$750,000 or more in federal awards per fiscal year are subject to 2 CFR part 200 subpart F. (Due 9 months after fiscal year end)
- Quarterly balance sheets, income statements, statements of cash flow, rate package summaries, number of customers taking broadband service (per community) completion status of the build out. In addition, other reports as RUS may request
 - Due 30 days after calendar quarter
 - Using RUS' on-line reporting system

REPORTING CONT.

Award Documents (Sections 6.3 Annual Audit and 6.4 Reporting)

- Annual service area maps through RUS mapping tool
 - Until entire funded service area can receive the broadband service
- Close out report
 - Due 90 days after the expiration or termination of the award or expenditure of all award funds
 - Includes reporting on various aspects of the project and also a final buildout map on the RUS mapping tool
 - May require portion of the award to be rescinded or paid back if not fully constructed
- Semi annual reports for 3 years after completion of project
 - Beginning the first January 31st after project completion
 - Using RUS' online reporting system

ACCOUTNIGN REQUIREMENTS

FOA

- US GAAP, acceptable to RUS
- System of Accounting (RUS Bulletin 1770B-1)
- 2 CFR 200
 - "Grant recipient" = "loan recipient" and "loan/grant" recipient
- Must adopt a system of accounts acceptable to RUS (7 CFR 1770,B)

Award Documents (Sections 6.1 and Definitions in Article I)

- US GAAP, acceptable to RUS
- 2 CFR 200
- System of Accounting (RUS Bulletin 1770B-1)

Telecommunications Infrastructure Loan Program

Available Funding	Program Updates
• \$690 million available in FY2018	 FY2018 13 loans approved: \$161.9 million States (x11):
• \$690 million available in FY2019	• NV, SD, VA, IA x 3, MN, WI, SD, MO, AZ, NM, KY FY2019 • 12 loans approved: \$181.5 million
FY2020\$690 million available in FY2020	 States (x10): AR, IA, IL x 2, IN, KY, NM, SC, TN, VA, WI x2 FY2020
 Loans finance new & improved telecommunications infrastructure, primarily for the benefit of rural populations in communities of 5,000 or less 	 8 loans approved: \$98.6 million States (x10): AL, AR, IA, IL, IN, MS, TN, TX, VA, WI 5 loans in process: \$75.9 million
Loans may serve non-rural subscribers in some cases	 Applications are accepted year round RD Apply online application system

https://www.rd.usda.gov/programs-services/telecommunications-infrastructure-loans-loan-guarantees

Telecommunications Infrastructure Loan Program

Standard Loan Terms include:

- 2 Year Principal Deferral
- Interest Rate at the Cost-Of-Money
- Loan Maturity Life of the Facilities Financed Plus 3 Years

RUS Infrastructure Loan Program

This program is for Incumbent Local Exchange Carriers

- \$690 Million in funding each year-Approx.
- Low fixed interest rates set at time of each advance on a loan.
- Term is generally the life of the assets financed plus 3 years, usually 18 to 23 years.
- Regulation: 7 CFR 1735 and 7 CFR 1737

Rural Broadband Access Loan, Loan/Grant, & Loan Guarantee Program

	Available Funding	lable Funding Program Updates	
	• \$120.5 million available in FY2018 (includes carryover) 2019	• 1 loan approved: \$19.9 million FY2019	
	 \$121.7 million available in FY2019 (includes carryover) 	• 3 loans approved: \$47.8 million	
FY2	 \$91.9 million available in FY2020 (includes carryover) 	• 0 loans approved	
•	Program finances the costs of constructing a broadband network		
•	Broadband Service and Broadband Lending Speed is defined as 25/3 Mbps (subject to change by public notice)	 Revised regulation (7 CFR 1738) published March 12, 2020 	
•	Broadband speed requirement is higher for longer loan terms		
•	Serving rural communities of 20,000 or less and not in urbanized area	 RUS is not accepting applications pending 	
•	At least 90% unserved for loan/grants, 50% unserved for loans	implementation of a new public notice system	
•	Cannot have 3 or more incumbent service providers (not mobile/satellite)	required by the 2018 Farm Bill	
•	Service area cannot be in a RUS previously funded area		

https://www.rd.usda.gov/programs-services/farm-bill-broadband-loans-loan-guarantees

Farm Bill Broadband Loan Rates, Term & Security

- Loan Term is Life of asset plus 3 years
- Interest Rate is Federal Cost of Money Rate
- Loan Security, all assets of company
- Possibly will accept shared first lien
- Regulation: 7 CFR 1738

Public Notice Requirement

- For each application, RUS issues a Public Notice
- RUS requests existing providers in the area to provide certain information about the service area
 - Number of residential & business customers currently offered service
 - Number of residential & business customers purchasing the existing providers services, rates, data speeds, any nonbroadband services

Financial Feasibility

- Impact of the facilities financed
- Market Survey
- Competitive Analysis
- 10% Equity Requirement
- Three Year historical Financials if available
- Five Year Forecast
- TIER of at least 1.25 at the end of the 5 year
 Forecast

Technical Feasibility

- Loan Design must be prepared & designed by a licensed Telecom Engineer
- Design must support the delivery of service at the planned bandwidth
- Project must be completed within 3 years

Rural Broadband Access Loan Program –Did You Know?

- * Loan Amounts between \$100,000 & \$25 Million.
- * Unserved areas: "Broadband Service", the rate used to determine if an area is eligible for funding, shall mean the minimum rate of data transmission of 25 megabits downstream and 3 megabits upstream for both mobile and fixed service.

Applicant Priority: The greatest proportion of unserved households.

* Broadband Lending Speed: Applicants must propose to offer new broadband service at a minimum bandwidth of 25 megabits downstream and 3 megabits upstream for both mobile and fixed service to the customer.

Special Terms and Conditions may apply if more than 50% of the households are unserved:

- up to 4 year principal deferral
- 25% extension to the amortization period of the loan up to 35 years

Standard Loan Terms include:

- 2 Year Principal Deferral
- Interest Rate at the Cost-Of-Money
- Loan Maturity Life of the Facilities Financed Plus 3 Years

Community Connect Grant Program

Available Funding	Program Updates
 \$33.0 million available in FY2019 \$72020 \$29.1 million available in FY2020 after awarding 8 grants from FY2019 application cycle 	 62 Applications processed: \$100.1 million 12 grants approved: \$24.3 million States: KY x2, MN, NC, ND, OK, PA, TX, VA x2, WV x2 FY2020
 Grants fund broadband deployment in eligible rural areas Population of 20,000 or less Amounts from \$100,000 to \$3 million Service Area must not have access to Broadband Service Minimum Broadband Service defined as 10 Mbps/1 Mbps 	 8 grants approved: \$15.7 million States: AK, IL, KY, NV, OK (x2), UT, WV Awards are from the FY19 application cycle. Reg changes published March 12, 2020 (7 CFR 1739)
 Minimum Broadband Grant Speed is defined as 25 Mbps/3 Mbps 15% Matching Requirement Applications now accepted through USDA's new Community Connect portal 	• Funding Opportunity Announcement (FOA) released September 24, 2020, applications due by December 23, 2021- 73 Applications received- \$146.4 Million

http://www.rd.usda.gov/programs-services/community-connect-grants

Community Connect Grant Program

New

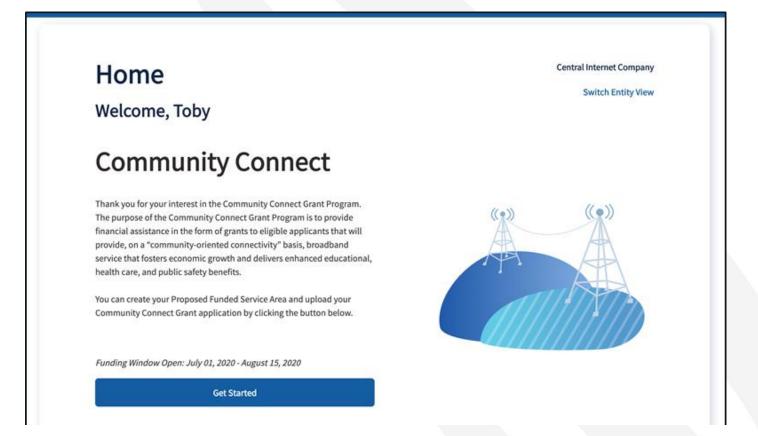
Applications can only be submitted electronically through the new online application system.

Resources are available on the website at: http://www.rd.usda.gov/programs-services/community-connect-grants

Contact Information

Loan Origination and Approval Division Email: community.connect@wdc.usda.gov

Call: 202-720-0806



Community Connect Program

Eligible Grant Purposes

- Construction, acquisition or leasing of facilities, including spectrum, land or buildings to deploy service at the Broadband Grant Speed
- Must provide service to all Critical Community Facilities and all residents and businesses within the Proposed Funded Service Area
- Community Center that furnishes free Broadband and use of computers for first 2 years
- Community Center cost limited to lesser of \$150,000 or 10% of Grant amount
- Free Broadband Service to Critical Community Facilities for first two years

Central SD Enhancement District Updated: 11/16/2018 Page 29

Distance Learning and Telemedicine Program

Distance Learning & Telemedicine Grant Program – The Basics

https://www.rd.usda.gov/programs-services/distance-learning-telemedicine-grants

85 Grants obligated for \$41.4 Million- Announcements SOON!

Distance Learning & Telemedicine Grant Program

Distance Learning means the <u>real-time</u>, <u>interactive</u> delivery of <u>curriculum via</u> <u>telecommunications</u> and promotes the connection of students and teachers at remote sites.

- Provide educational programs, instruction, or information originating in one area, whether rural
 or not, to students and teachers who are located in rural areas; or
- Connect teachers and students, located in one rural area with teachers and students who are located in a different rural area.

Telemedicine is a <u>real-time, interactive, telecommunications</u> link to an end user from medical professionals at separate sites in order to exchange health care information for the purpose of providing improved health care services to residents of rural areas.

• Benefits rural residents both in reduced travel and improved access to service



Telecommunications Programs – All State Investments

Since FY2010, RUS has approved over \$7 billion in funding for broadband and distance learning and telemedicine projects that serve rural residents.

Program	Projects Approved	Funds Approved
Telecommunications Infrastructure Program	193	\$3.2 Billion
ReConnect Program	91	\$826.1 Million
Rural Broadband Access Program	10	\$273.4 Million
Distance Learning and Telemedicine Program	1,069	\$366.7 Million
Community Connect Grant Program	111	\$185.0 Million
Broadband Initiatives Program	258	\$2.9 Billion
Grand Total	1,732	\$7.7 Billion

^{*}Table shows award data at time of obligation.

Telecommunications Programs – All NEW ENGLAND Investments

Fiscal Year	Number of Awards	Estimated Funds Serving New England	
2010	8	\$132,700,308	
2011	27	\$9,282,272	
2012	2	\$809,586	
2014	12	\$4,163,825	
2015	9	\$3,553,868	
2016	8	\$7,554,706	
2017	7	\$1,660,212	
2018	5	\$2,214,428	
2019	8	\$2,591,431	
2020	8	\$13,453,438	
Total	94	\$177,984,074	

Telecommunications Programs – MAINE



Program Investments in Maine

Program	Projects Approved	Funds Awarded
ReConnect Program	4	\$9,874,470
Distance Learning and Telemedicine Program	63	\$20,043,065
Community Connect Grant Program	1	\$1,320,373
Broadband Initiatives Program	3	\$7,399,252
Grand Total	71	\$38,637,160

Telecommunications Programs – NEW HAMPSHIRE



Program Investments in New Hampshire

Program	Projects Approved	Funds Awarded
Infrastructure * ReConnect Program	2	\$7,405,298
Distance Learning and Telemedicine Program	16	\$2,799,481
Broadband Initiatives Program	3	\$2,960,855
Grand Total	20	\$13,165,634

Telecommunications Programs – VERMONT



Program Investments in Vermont

Program	Projects Approved	Funds Awarded
Distance Learning and Telemedicine Program	10	\$2,676,502
Broadband Initiatives Program	2	\$122,340,201
Grand Total	12	\$125,016,703

Telecommunications Programs – CONNECTICUT



Program Investments in Connecticut

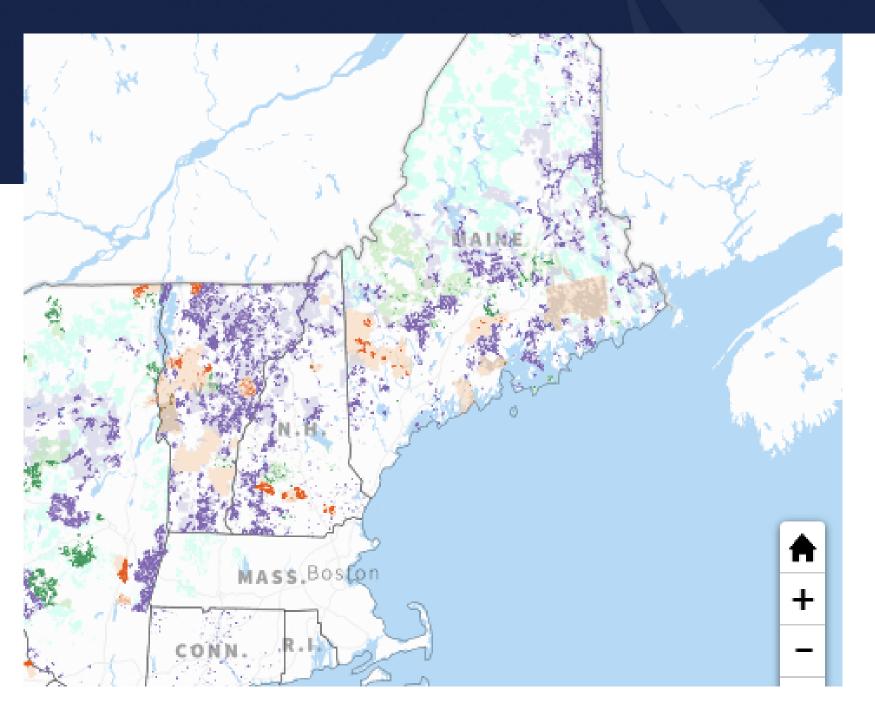
Program	Projects Approved	Funds Awarded
Distance Learning and Telemedicine Program	1	\$319,194
Grand Total	1	\$319,194

Telecommunications Programs – MASSACHUSETTES



Program Investments in Massachusetts

Program	Projects Approved	Funds Awarded
Distance Learning and Telemedicine Program	4	\$845,384
Grand Total	4	\$845,384



Company Name

Search Company Name

 $Speed \ \, ({\sf Applicable\ only\ to\ Local\ Data})$

25 Mbps/3 Mbps **



25 Mbps/5 Mbps 💥

10 Mbps/1 Mbps ×

50 Mbps/5 Mbps ×

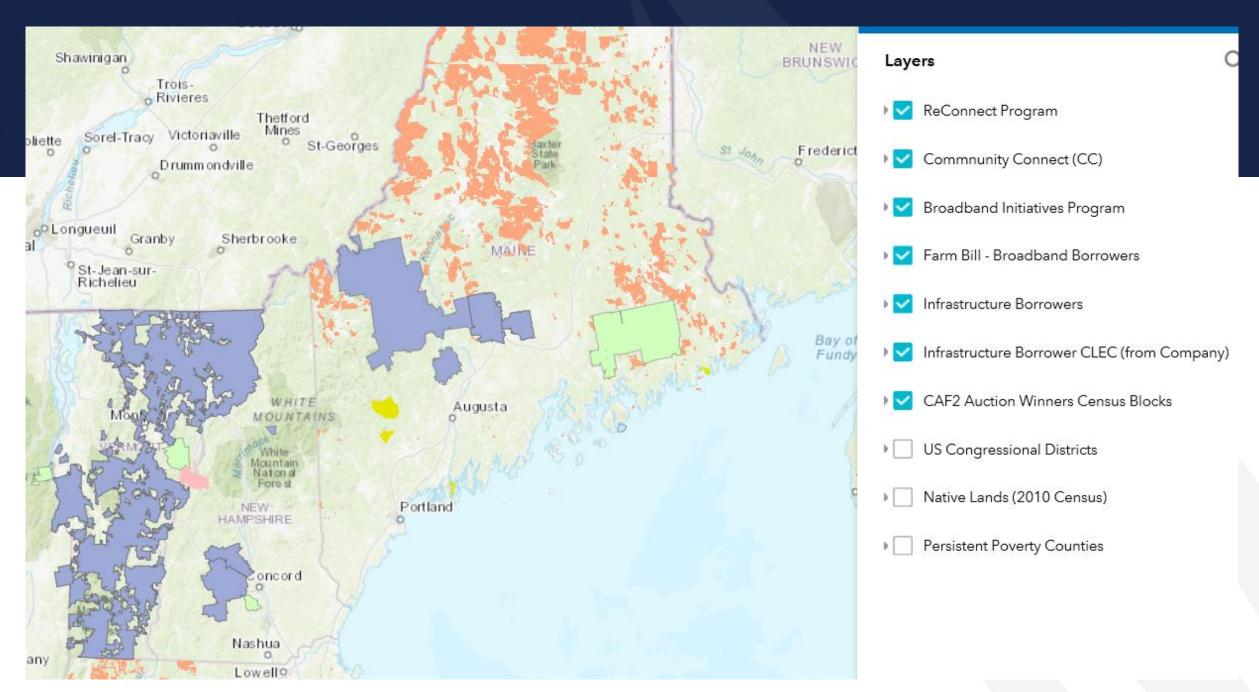
100 Mbps/5 Mbps 🗶

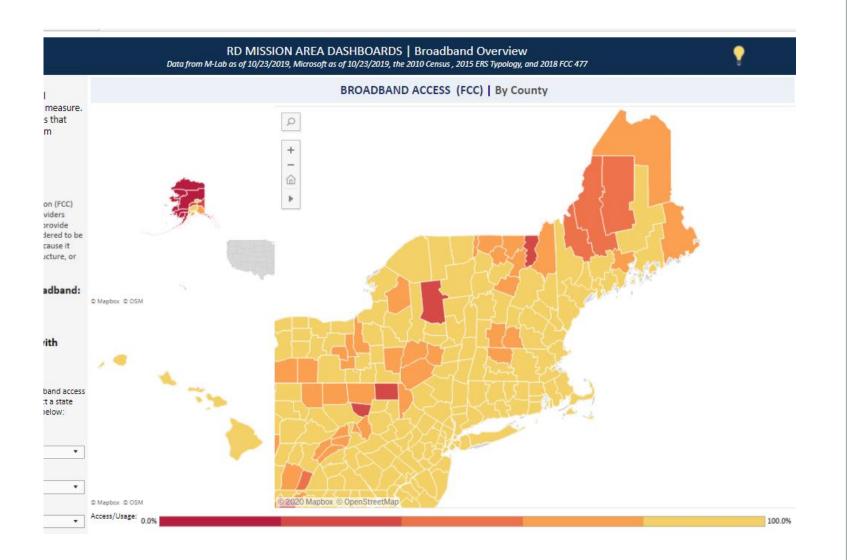
100 Mbps/20 Mbps **

100 Mbps/25 Mbps **

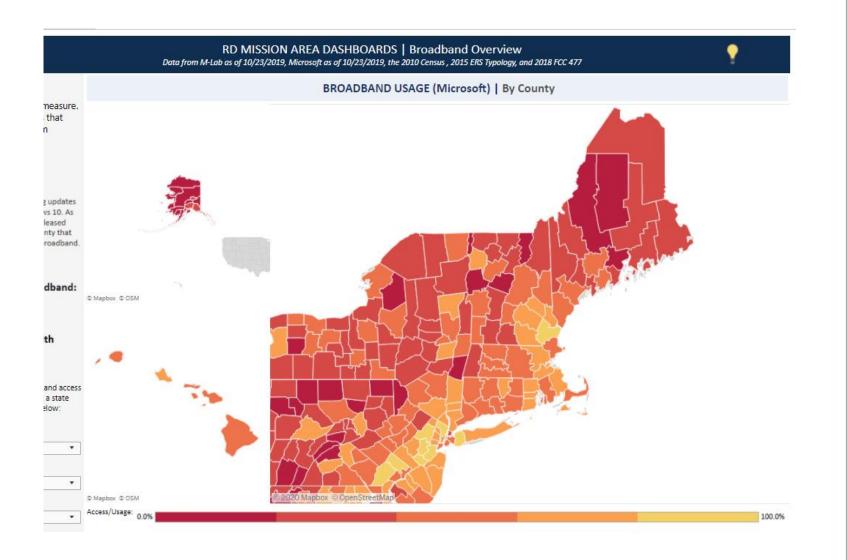
1 Gbps/100 Mbps *

1 Gbps/500 Mbps **

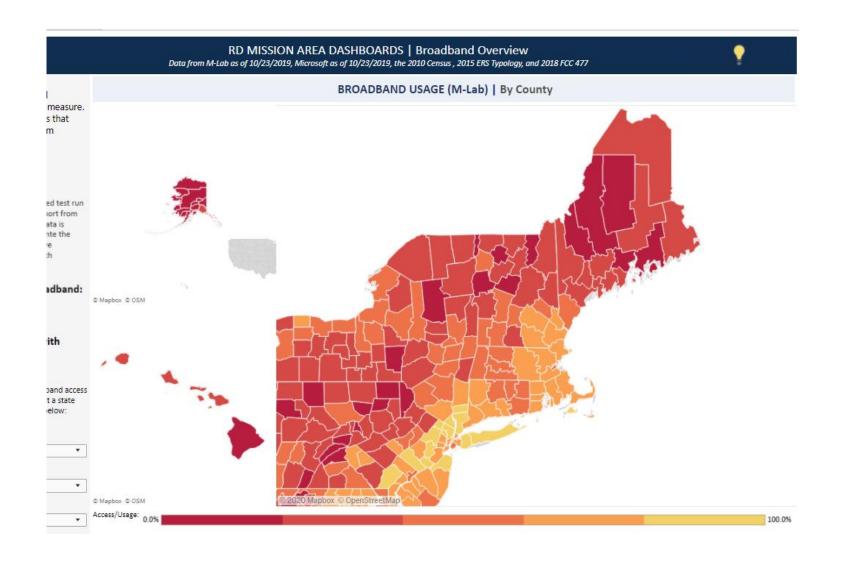




FCC MAPPING-NEW ENGLAND



MICROSOFT MAPPING-NEW ENGLAND



M-LAB MAPPING NEW ENGLAND



Questions?



General Field Representative Coverage - <u>www.rd.usda.gov/contact-us/telecom-gfr</u>



Rural Utilities Service Telecommunications Key Contacts

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