

**Statement of
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to the
House Committee on Small Business
Subcommittee on Rural and Urban Entrepreneurship
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Chairman Shuler, Ranking Member Fortenberry, members of the subcommittee: Thank you for this opportunity to appear before you today. I am Bill Deere, Vice President of Government Affairs for the USTelecom Association. I am pleased to appear before this subcommittee to discuss USTelecom's perspective on "*Maximizing the Value of Broadband Services to Rural Communities.*" It is a timely moment for the subcommittee to hold this hearing.

USTelecom and its member companies are proud of the role we play connecting the country, and we wholeheartedly support the objective of ubiquitous, nationwide broadband. We were pleased to see "affordable broadband access for all Americans" as a component of Speaker Pelosi's Innovation Agenda. Similarly, the Senate Republican High-Tech Task Force is calling for policies that "promote widespread deployment and use of broadband technology." Broadband deployment and adoption *should* be *non-partisan* objectives, and we believe the Congress, the Federal Communications Commission and the Rural Utilities Service have vital roles to play in advancing these goals in rural America.

USTelecom represents innovative companies ranging from the smallest rural telecoms in the nation to some of the largest corporations in the U.S. economy. Our member companies offer a wide range of services across the communications landscape, including voice, video and data over local exchange, long distance, Internet and cable networks. USTelecom is the nation's most established – and largest – association representing rural telecom providers. The vast majority of our member companies are rural providers. They are small businesses serving small communities. They are proud members of these communities and deeply committed to their future development. What unites our diverse membership is our shared determination to deliver innovative voice, video and data services to the consumer—a commitment we know is shared by this subcommittee.

Regulatory Changes Have Spurred Broadband Deployment

The Federal Communication Commission's decisions that oriented the communications marketplace away from government-managed to market-based competition have resulted in an explosion of broadband coverage across the nation. In March 2002, the FCC clarified that high-speed cable-modem service is an information service not subject to unbundling and other Title II regulations of the Communications Act. In August 2003, the FCC exempted wireline fiber facilities from the Commission's unbundling requirements. In September 2005, the FCC clarified that wireline broadband Internet access service is also an information service not

subject to unbundling and other Title II regulations of the Communications Act. These actions have accelerated broadband deployment in the United States from just over 4 million broadband lines in 2000 to just under 16 million broadband lines in 2002 to approximately 32 million lines in 2004 to almost 65 million lines in 2006. This demonstrates a direct correlation between the FCC's market-based policies and the explosion of broadband subscribers in the United States. The lack of regulation on wireless services also has permitted wireless broadband services to explode as well. In June of 2005, there were almost 380,000 wireless broadband subscribers; in June of 2006, there were more than 11 million. The Commission's recent video franchise order promises to further increase the demand for broadband service.

Internet access is available through DSL, or cable modem, or wireless, or satellite – and, increasingly, over power lines and municipal wi-fi systems. In fact, there are more than 1,270 broadband service providers in the U.S. today.

Against this competitive backdrop, North American telecommunications companies are projected to spend \$70 billion on new infrastructure this year. The next wave of broadband innovation holds the promise of significant, life-enhancing advances from health care to the environment to education and to our economy. It is critical, as you know, that these opportunities be accessible in rural America, as well. Mr. Chairman, much has been made recently of new international broadband penetration rankings from the Organization of Economic Cooperation and Development (OECD). We have some issues of our own with our country's current ranking of 15th in the world. We feel it significantly undercounts, for example, connections in the U.S. business market. It certainly also under-values the markedly more intense facilities-based competition we have here in the U.S. But the most striking dissimilarity is that 10 of the 11 countries allegedly in front of us are significantly smaller than the U.S.—as diminutive as Norway, which is comparable in geographic size to New Mexico. A majority also have much smaller *populations*, including Iceland, an entire country that is comparable to the metro area of Naples, Florida. The exception is Canada, which is a country of vast geographic expanse. However, 80% of the population is clustered along the U.S. border. So the true broadband challenge before our country is precisely the challenge we are here today to discuss. How can we most efficiently work together to connect parts of the country where the marketplace alone is incapable of attracting the significant investment necessary to truly build a broadband nation?

USTelecom and our member companies are committed to furthering rural broadband deployment and believe that Congress can advance a number of initiatives that promote this goal.

Sustainable Universal Service

First, we must ensure a sustainable future for universal service, a program designed to increase access to telecommunications services nationwide and to maintain affordable rates in low-income and rural areas. USTelecom and our member companies have advocated that universal service should be reformed to create a strong and sustainable system that can provide affordable, reliable telecommunications for all Americans. The current funding system is

eroding at a rapid pace requiring the current system to be reformed. The need for reform was underscored last week by the Federal-State Joint Board on Universal Services' recommendation to temporarily cap further growth of universal service funds going to wireless carriers and competitive service providers.

USTelecom supports this recommendation. Consumers would benefit from a temporary cap on universal service support because it reduces the burden they face from a rising contribution factor. A temporary cap on universal support for wireless carriers and competitive service providers would allow the Commission additional time to develop and implement much needed fundamental reforms. Doing nothing in the near term, which would only serve to raise the cost of communications services purchased by consumers, is simply not an option.

In the House, Representatives Rick Boucher (D-VA) and Lee Terry (R-NE) have recently re-introduced universal service reform legislation that they first proposed last year. This legislation is an important initiative to help preserve the future for universal telecommunications service and spur broadband deployment in rural areas and we appreciate the Congressmen's dedication to finding a sustainable, long-term solution. While there is broad recognition that action must be taken to reform universal service, it is vital that members of this Committee encourage the consideration of such reform legislation this year.

Tax Policies To Encourage Broadband Deployment

In addition, Congress can promote broadband deployment by permanently extending the Internet Tax Moratorium; allowing for faster depreciation of broadband equipment and fiber; and creating a tax credit for the deployment of broadband equipment and fiber.

Congress first passed the Internet Tax Freedom Act (ITFA) in 1998. The moratorium was extended by Congress in 2001 and 2004 and now expires Nov. 1, 2007. The moratorium needs to be permanently extended to ensure that this critical component of the American economy is not the target of excessive taxes imposed by state and local governments. If the moratorium is allowed to lapse, USTelecom members and their customers will face a significant tax increase for Internet access services.

USTelecom was joined by NCTA and CTIA in a letter to all House members in support of H.R.743, bipartisan legislation introduced by Representatives Anna Eshoo and Bob Goodlatte. I encourage all members of the Committee to consider cosponsoring this legislation and urge the House take up this important legislation before its expiration in November.

The RUS Broadband Program -- Modest Changes Could Produce Dramatic Results

In its relatively brief history, the Rural Utilities Service (RUS) broadband loan program has achieved some successes. But we believe with modest changes, largely based on the successful RUS telephone program, the program could accomplish even more.

Last week, USTelecom appeared before the House Agriculture Committee in order to make recommendations for inclusion in the Farm Bill that would advance our collective goal of

helping the nation achieve universal broadband penetration:

- 1) Better target areas currently not served;
- 2) Enhance incentives for investment in the areas not served;
- 3) Expand program eligibility;
- 4) Improve processing at USDA; and
- 5) Explore public-private partnerships.

Revise the eligibility rules to better target areas not served

We believe the primary weakness of the current program is that it does too little for areas with no access to broadband. Although the nation is dotted with areas currently not served, the USDA Inspector General concluded the program's focus has shifted away from rural communities that would not, without government assistance, have access to broadband technology.

In revising eligibility rules, we believe the Agriculture Committee may need look no further than the RUS telephone program. This program has a 60-year record of success, and we believe it holds important lessons for broadband. In the telephone program, initial loans to areas with adequate, existing service are discouraged. In fact, the RUS administrator must issue a non-duplication finding prior to making such a loan. In the broadband program, a similar requirement would help direct funds to where they are most needed – those areas with no existing broadband service. Making loans for duplicative facilities and service, when other citizens in rural America reside in areas with no service at all, is not a good use of scarce government resources. In addition, the telephony program requires that service be extended to the widest practical number of users in the service area, avoiding a problem that has sometimes arisen in the broadband program, where service is only provided within town limits, but not to the surrounding county.

Enhance incentives for investment in areas not served

Providing broadband service in rural and remote areas is a challenging proposition. While the current practice of offering cost-of-money loans makes projects financially viable in some areas, other higher cost areas will require below-cost loans or a combination of loans and grants to make a costly infrastructure build feasible. This will become increasingly important as the program narrows to focus on areas with truly no access. Congress should encourage RUS to look at the unique needs of these areas and to enhance incentives for the private sector to act. Taxpayers will reap the benefits through loan repayments and tax revenues generated by broadband-driven economic development. We believe that taking these basic steps would increase the number of loan applications to areas with no service facing significant economic barriers to investment, such as low population densities or difficult terrain.

Expand eligibility to more applicants

We also believe steps should be taken to expand the number of companies eligible for broadband loans. When the broadband program was established, a provision was adopted prohibiting loans to telephone companies with more than 2% of the nation's access lines. This is

counterproductive. Some USTelecom members serve rural areas that would otherwise qualify for broadband loans. For example, the FCC classifies Embarq as a rural carrier in 17 of the 18 states it serves, yet it is prohibited from applying for RUS broadband funds. Meanwhile, RUS is searching for more applications from carriers seeking to serve untouched areas. Again, if I might refer you to the successful, 60-year-old telephony program – it has never had a 2% restriction, and it has never suffered as a result. The emphasis in our view should be on the infrastructure needs of a community, not on the company willing to serve it.

Improve processing at USDA

USTelecom also advocates that steps be taken to improve processing of loan applications at USDA. At present, the broadband and telephony programs have access to a small number of attorneys in the Agriculture Department's general counsel office. This has created a bottleneck when legal decisions are needed and caused delays in processing loan applications—delays that too often put broadband deployment on hold in communities with no service.

Explore public-private partnerships

Finally, I direct the subcommittee's attention to the successful public-private partnership in Kentucky, driven by a non-profit organization called Connect Kentucky. Connect Kentucky has worked with the RUS broadband program, but has gone much farther than would have been possible with RUS alone. Its first objective was to map broadband availability in the whole state, something that no other state has done. Then it created technology teams in each community that lacked broadband. These teams looked at computer ownership, technological literacy, and other factors to increase demand for broadband. At the same time, the teams worked with broadband providers to match up new demand with new broadband deployments. By the end of 2007, Kentucky will go from having one of the lowest broadband subscription rates in the country to having broadband available to 100% of its households. That's impressive progress, and we think Congress might look to Connect Kentucky as a model for what works. In fact, we understand that Senator Durbin has recently introduced legislation that would create a national program based on the Connect Kentucky model.

Mr. Chairman, in closing, let me reiterate that it is critically important that rural areas be included in the nationwide drive for greater bandwidth capacity. This modernization of the nation's communications infrastructure will seed economic growth and expand opportunities ranging from telecommuting to distance learning to telemedicine. Mr. Chairman, nowhere in the nation do these advances hold more potential than in rural America.

We thank you for your invitation to appear today. USTelecom and its member companies look forward to working with the subcommittee and this Congress to achieve our shared objective of making broadband as ubiquitous today as electricity, water and telephone service. Broadband is an essential building block of every modern American community and we must make sure its many opportunities are accessible to all Americans. Thank you.