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INTRODUCTION

Chairman Wicker, Ranking Member Schatz, members of the Subcommittee, good morning and thank you for the invitation to participate in today's hearing focused on broadband, economic development, and the Universal Service Fund (USF).

I am Shirley Bloomfield, Chief Executive Officer of NTCA–The Rural Broadband Association ("NTCA"). NTCA represents approximately 850 rural small businesses deploying broadband infrastructure in 46 states. All NTCA members are fixed voice and broadband providers, and many of our members also provide mobile, video, satellite and other communications-related services to their communities. The small telcos like those in NTCA's membership serve less than 5% of the population of the United States, but cover approximately 37% of its landmass. These companies operate in rural areas left behind by other service providers because the markets were too sparsely populated, too high cost, or just too difficult in terms of terrain.

Small, rural broadband providers have for decades been frontrunners in deploying state of the art communications services to their customers. Services that enable local businesses to serve globally and connect rural America to urban America and the world. These impacts are felt not only in agriculture, but in all sectors of the economy that depend on broadband connections, such as education, commerce, health care and government. However, the job is far from finished. Communications providers must not only deploy broadband; they must sustain and upgrade their networks to keep pace with their consumers' growing demands. We also still face the challenge, of course, of delivering services to parts of rural America without access.

Before turning to the USF High Cost Program – also referred to these days as the Connect America Fund – and the challenges of deploying and sustaining broadband infrastructure in rural America, it is important to understand the economic and other benefits that accrue to America as a whole when every American has reasonably comparable access to high-quality communications services at affordable rates.

RURAL BROADBAND: ECONOMIC DEVELOPMENT AND JOB CREATION

Broadband networks facilitate greater interconnection of community resources and enable greater participation in the national and global economy. To not have access to high-speed internet today should be unimaginable, yet millions of rural Americans have limited or even no access to robust broadband. And while it is critical to deliver broadband to the unserved, it is just as critical that those already receiving broadband remain served. There are many places in rural America where networks have been built by committed companies like those in NTCA's membership, but the sustainability of that infrastructure and the affordability of services remain in question – putting the sustainability of rural communities in question as well.

In many parts of rural America, the challenges of distance and density are so great that they cannot sustain even one broadband network. These are places where the market does not work. Section

254 of the Communications Act therefore rightly recognizes that our national policy is not merely about deploying infrastructure, but also ensuring that such infrastructure, once deployed, means something lasting and ongoing for the consumer – that is, "reasonably comparable" services at "reasonably comparable" rates for urban and rural consumers alike.[1] If a network is built but then becomes unsustainable, or if the services offered over it are unaffordable or unreliable or cannot keep pace with increasing consumer demand, then these outcomes deny rural Americans the benefits of broadband and represent a terrible waste of the resources that help to make broadband infrastructure available in the first instance. This is not about a "scoreboard" of locations served, although public policy these days unfortunately seems to take just such a short-term focus all too often. Rather, it's about whether we are building broadband that will make a lasting, long-term difference for rural areas looking to attract and retain residents and businesses, who are in turn betting on the viability of those communities.

In April of 2016, the Hudson Institute, in conjunction with the Foundation for Rural Service (FRS), released a report examining the economic benefits of rural broadband infrastructure.[2] This report determined that the investments and ongoing operations of small rural broadband providers contribute $24.1 billion annually to the nation's gross domestic product, with 66% ($15.9 billion) of that amount accruing to the benefit of urban areas.[3] The report also found that rural broadband investment is an important driver of job growth, estimating that 69,595 jobs – 54% of which are with vendors and suppliers in urban areas – can be attributed directly to economic activity of small rural broadband providers.[4] These findings confirm that investment in rural broadband infrastructure yields returns that reach far beyond the confines of rural America.

Finally, the study found that rural broadband supported over $100 billion in e-commerce in 2015. Nearly $10 billion of that total involved retail sales, and Hudson estimates that if the broadband deployment in rural areas was equivalent to that in urban areas, sales would have been at least $1 billion higher.[5] Such data underscore that not only is the widespread availability of robust affordable broadband important for our national economy, but the direct act of investing in and operating broadband infrastructure is itself a substantial economic driver.

But, there are also jobs beyond the telecom technicians, engineers, materials suppliers and manufacturers that are supported by rural broadband infrastructure. In Sioux Center, Iowa, a major window manufacturer built a 260,000 square-foot plant to employ 200 people. The company considered more than 50 locations throughout the Midwest, but selected Sioux Center in part because the rural broadband provider enabled this plant to connect with its other locations

[1] 47 U.S.C. § 254(b)(3) (2015).
[2] The Hudson Institute, "The Economic Impact of Rural Broadband," April 2016, ("Hudson Paper"). https://s3.amazonaws.com/media.hudson.org/files/publications/20160419KuttnerTheEconomicImpactofRuralBroadband.pdf.
[3] *Id.*, pp. 13-14.
[4] *Id.*, p. 13.
[5] *Id.*, pp. 19-20.

throughout the U.S. using a sophisticated "dual entrance" system that could route traffic to alternate paths, ensuring that the main headquarters 250 miles away and other facilities would remain connected. In Cloverdale, Ind., a rural broadband provider met with developers and helped bring an industrial park to its service area. Powered by this provider's broadband, the facility brought more than 800 jobs to the area. In Havre, Mont., a rural broadband provider is partnering with a tribally-owned economic development agency to create a Virtual Workplace Suite and Training Center that is expected to create about 50 jobs. These stories are repeated throughout NTCA member service areas.

THE UNIVERSAL SERVICE FUND SUCCESSES AND CHALLENGES

Created decades ago and modernized over the past several years, the federal USF High-Cost Program is essential to the business case for investment in rural broadband infrastructure – it is the best, most successful example of a public-private partnership in the broadband space. Recast as the Connect America Fund within the past decade, the USF initiative helps unleash billions of dollars in private investment in rural markets that are uneconomic to serve and would not and could not otherwise justify obtaining loans or using cash flows to build broadband. The USF does not fully fund (or "pay for") rural network investments; it helps to justify the business case for private network investments that totaled approximately $29 billion (in terms of gross plant in service) just for small rural carriers as of 2015.

The High-Cost USF programs have recently been reformed to improve their effectiveness and accountability. While they were already successful in promoting increased broadband in rural areas served especially by smaller rural providers, recent reforms help ensure that funds are targeted to areas of real need, that they are spent on network investments and operations, and that the locations served via USF can be identified. The High-Cost USF program is therefore already a success story in many respects, and it is positioned to achieve even greater things in a broadband era going forward. Unfortunately, despite all this progress, the viability and effectiveness of the USF is at the same time in serious peril. While regulatory uncertainty from USF reforms and budgets has seemed like a fact of life for small network operators for more than a decade, the effects of a budget that has been flat for almost a decade are finally coming home to roost.

While the Federal Communications Commission (FCC) thankfully took steps to provide some level of additional funding earlier this year within the fixed overall USF budget for a subset of carriers that elected model-based High-Cost USF support, the funding was insufficient to achieve the goals of the model the FCC designed. An additional $110 million per year is needed to fully fund an alternative model that the FCC created to promote broadband deployment. Because of this budget shortfall, 71,000 rural locations will receive lower-speed broadband, and nearly 50,000 may see no broadband investment at all.

And the problem is even more dire for those small carrier recipients of High-Cost USF that could or did *not* elect model support. The High-Cost USF has been locked at the same budget level overall since 2011, and a lower budget target first adopted in 2011 for smaller carriers within that overall

budget total is now being enforced via a strict budget control mechanism that threatens to wreak havoc on consumer rates and network investment. Under this tightly constrained USF budget, over the next 12 months, small rural network operators will be denied recovery of $173 million in actual costs for private broadband network investments that these carriers have already made. In other words, small rural network operators and the customers they serve will need to come up somehow with $173 million to pay for broadband investments that the USF program would have supported just a year ago – and that the rules would still have permitted for recovery today via USF had it not been for "haircuts" made to enforce an artificial budget target adopted six years ago back when the program supported voice services only.

Because of these support cuts, rural network operators are already increasing rural broadband rates for consumers and cutting back on future infrastructure investments. We have had one member company in the Southeast indicate, for example, that it cannot justify seeking a $26 million loan to build high-speed broadband infrastructure due to the USF cuts; a project that would have delivered approximately 1,000 miles of fiber to over 7,000 rural customers is now on indefinite hold. Similarly, due to the USF budget cuts, a cooperative in the upper Midwest is on the cusp of cancelling 2018 construction projects worth several million dollars; these projects would have upgraded or delivered broadband for the first time to approximately 500 rural consumers and businesses, but the company now needs to scale back future investment because the USF cuts are taking away millions of dollars that were counted upon for investments already made in the past. In Mississippi, a small rural provider has been forced to hold off indefinitely on plans for future investments in communities like Fulton and surrounding rural areas due to the USF budget concerns, instead making minimal investments just to keep existing network plant operational rather than upgrading that network for higher-speed broadband that would help those areas thrive. In Nebraska, a small company with only 12 employees that just recently completed a significant fiber-to-the-home project has declined to fill four open positions – effectively cutting its workforce by 25% – because of concerns with declining USF support and its impact on the ability to pay for the network construction already completed. And in Iowa, a small carrier has not been able to lower its prices for standalone broadband because the USF budget cuts are effectively wiping out any support for such connections, despite the intention of the reforms and the repeated calls for such a fix from Congress.

And the most insidious aspect of this budget control is that it not only cuts support that the rules indicate should be available, but it does so in unpredictable ways. For the last four months of last year, the budget control was 4.5% on average; for the first six months of this year, it rose to 9.1% on average. Now, as of July 1 of this year and for the 12 months after that, the budget control will on average reduce USF support by 12.3%. As if the support losses for investments already made were not bad enough, this lack of predictability makes it even harder to justify building going forward – it hearkens back to a cap system the FCC adopted a few years ago called Quantile Regression Analysis or "QRA." Many members of Congress, including many on this Committee, wrote to the FCC several years ago expressing grave concern about the QRA caps because they

could change in unpredictable ways and thus severely undermined investment incentives. We eventually got rid of those caps, thanks in no small part to the efforts of the members of this Committee in pressing the FCC to do the right thing.

But now with this budget control, we are venturing right back into the kind of unpredictability created by the QRA. If a company does not know whether the budget control will be 5% or 10% or 20% next year – and given the growth trends, all we can guess is that the budget control will grow – that company cannot make informed decisions to invest in capital-intensive broadband infrastructure. Put another way and without hyperbole, the budget control – the USF budget shortfall – is the worst thing for promoting rural broadband investment since the much-maligned QRA. If it does not get fixed soon, we will be looking at years of lost rural broadband investment to the detriment of millions of rural Americans. Rather than creating new programs from scratch or taking flyers on untested theories of broadband deployment, why not use a program that has a proven track record and has just been improved in recent years? Why starve that program's budget while throwing dollars at new initiatives that might not work or, worse still, might conflict with this proven program? If rural broadband is really a priority, good public policy would indicate we should be building upon what has worked to promote it, rather than neglecting it.

It's not just NTCA that is concerned about the USF budget shortfall. In May 2017, nearly 170 Members of Congress – including Chairman Wicker and other members of this Subcommittee – wrote to the FCC expressing serious concern about how the USF budget shortfalls will undermine private infrastructure investment and consumer rates. This letter demonstrated the shared bipartisan interest in prompt action on this issue, and a window of opportunity exists. We are hopeful that with continued congressional interest and leadership we can see these issues addressed, and the promise of last year's USF reforms can be realized by the millions of rural consumers served by smaller rural network operators.

A PATH FORWARD FOR THE UNIVERSAL SERVICE FUND

Solving the USF budget shortfall requires a demonstrated commitment on the part of policymakers to rural broadband – but the shortfall is actually just a small fraction of the increases that other USF programs have received in recent years to further their mission. There are several potential options to address this shortfall, but what is clear is that doing nothing is no longer an option if rural broadband remains a public policy priority.

One option would be for the FCC to leverage the existing USF mechanism to fill the shortfall. This could involve the use of USF program funds or reserves – funds that the FCC has collected but has not yet disbursed for USF program purposes. Certain reserves were previously used to help fund the model election referenced earlier in this testimony. It is unclear the extent to which other reserves remain, but getting a public accounting regarding how much is left in the reserves, if anything, would seem an important first step.

Alternatively, the FCC could increase the contribution factor by a small amount to help pay for the shortfall. While not ideal, this would result in American consumers paying perhaps a few dollars more per year so that rural Americans are not paying *tens or hundreds of dollars more per month* for broadband, which is a clear violation of the universal service mandate in the Communications Act.

Another option could be for Congress to direct infrastructure funding toward supplementing of (or at least for use in coordination with) the USF program. As Congress starts to consider potential infrastructure initiatives, leveraging the USF program would seem the most effective and immediate means of achieving a real effect on rural broadband availability and adoption. The USF initiative is up and running, so there is no need to "reinvent a wheel" to see results. Sufficient USF funding targeted for broadband infrastructure deployment could help fill the specific shortfalls mentioned above and accelerate private network investments in the most rural 37% of the U.S. landmass – while leaving substantial funding also to promote fixed network investments in other rural areas, for rural mobility services, and for unique challenges on tribal lands. The FCC's various High-Cost USF programs – the Connect America Fund 2 initiative and the programs that enable service delivery in rural areas served by smaller businesses – therefore offer a ready-made platform that, with additional resources but with very little additional "heavy lifting" or process, could "hit the ground running" and yield immediate, measurable benefits for rural consumers.

If an infrastructure package including broadband moves forward through Congress and if it is not targeted toward somehow supplementing the USF programs, other options could include creation of new grant or capital infusion programs, comparable to what several states have used to address "market failure areas" – places where the business case for investment is difficult, if not impossible, to make without additional resources. At the same time, creating such programs would require more administrative effort than leveraging existing programs, and the rules for any such new program must still be informed by "lessons learned" from similar prior efforts at the federal and state levels. For example, as a matter of program integrity and to ensure the most efficient possible use of resources, it would be necessary to ensure such a capital infusion program is accurately targeted to unserved areas rather than enabling installation of duplicative infrastructure; in effect, this means that any new program would still require substantial coordination with the existing USF programs, among other things. And although some have alternatively touted tax incentives as offering promise – and while there are certainly areas in which such incentives might help – such measures are unlikely to make a material impact in most rural areas where distance and density make it difficult, if not impossible, to justify a business case for infrastructure investment to start. Put another way, if there is insufficient USF to help enable the business case for ongoing operation of networks and providing affordable broadband in rural areas, a capital infusion program or tax incentives may do very little to promote meaningful broadband deployment in many rural areas.

Regardless of what path might be chosen in developing a broadband infrastructure package, one key factor that requires further consideration is what sorts of broadband networks we should be aiming as a country to promote. Presumably if one is paying for and building an asset intended to last for a

few decades, that asset should be built to last a few decades. Of course, in a world of finite resources, there is a difficult tension between, on the one hand, trying to reach as many unserved Americans as possible with networks that may cost less upfront and, on the other hand, deploying more sustainable "future-proof" networks to potentially fewer locations. This is not an easy choice. But NTCA submits that deploying a network that may be less expensive upfront – but which consumers will find substandard in just a few years' time, or will require much more to operate and upgrade over time – makes little sense for either the consumers who would use those networks or the American ratepayers or taxpayers who would ultimately help support them.

As a more traditional infrastructure analogy that may resonate: if one projects that car traffic is doubling every few years on a single-lane road, one likely does not rebuild the new highway with only two lanes and then go back to add two more lanes a few years later and yet two more lanes a few years after that. Instead, given the relatively high costs of infrastructure deployment and the disruption involved in repetitious construction, one builds the highway "the right way" the first time. The same should be true of our broadband networks. We should certainly look for a balanced approach to reach as many locations as possible, but not at the societal and economic cost of deploying networks that in only a few years' time will look obsolescent and inadequate for the users consigned to them. It is therefore important that any rules adopted by the FCC in connection with USF and any other new programs created as part of a broader rural broadband infrastructure initiative deliver the best, most balanced payback for both the American taxpayer and the users of the networks – *both* in the near-term *and* over the life of that infrastructure.

Finally, I should not close without noting that the long-term sustainability of the universal service program depends upon rationalizing a contributions framework that is not built for a 21st century marketplace. One can have differences in opinion on how this should be done, but it is hard to dispute the basic notion that has already driven contributions policy all along – that those who make use of communications networks should contribute to the well-being and universal availability of those networks. Today, however, a shrinking base of legacy services that do not represent the majority users of our communications networks are being asked and tasked with funding universal service goals that are centered on broadband. Assuming all agree that universal service is an important public policy – and the Communications Act indicates that Congress thinks it is – rationalizing and reforming contributions requirements is essential to firm up the foundation of universal service for the 21st century.

CONCLUSION

Small, rural broadband providers are eager to continue deploying infrastructure and delivering services that rural America needs to participate in the modern world. But the ability to justify and then recover the initial and ongoing costs of sustaining infrastructure investment in high-cost rural areas is critical to this mission's success.

NTCA is excited to participate in this conversation regarding rural broadband. We look forward to working with policymakers and other stakeholders on a comprehensive infrastructure strategy that provides the tools and capabilities needed to achieve our nation's shared broadband goals.

Thank you for the opportunity to testify, and for the Subcommittee's commitment to creating an environment conducive to broadband infrastructure investment in rural America.