Statement of
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Hearing on "Oversight of the American Recovery and Reinvestment Act: Broadband"

Subcommittee on Communications, Technology and the Internet
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U.S. House Committee on Energy and Commerce
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Thank you for the opportunity to discuss the Rural Utilities Service's Telecommunication Program and in particular, implementation of the broadband provisions of the American Recovery and Reinvestment Act of 2009 (ARRA).

Rural broadband is of vital importance to expanding economic opportunity and improving the quality of life in rural America, as well as improving the U.S. economy as a whole. We appreciate the continuing support of the President and Congress for that mission through the provision of $2.5 billion in ARRA funding, as well as Fiscal Year (FY) 2009 appropriations that supports over $1 billion in loans and $48 million in grants for the existing telecommunications programs.

History

At USDA Rural Development, we have decades of experience supporting rural communities through critical infrastructure and economic development assistance. We administer over 40 programs providing funding for water/wastewater, electric, telecommunications infrastructure; housing; community facilities; and business development. We finance everything from one ambulance for a small town up to billion-dollar investments in electric infrastructure that will benefit thousands of homeowners and businesses.

This year marks the 60th anniversary of United States Department of Agriculture's (USDA's) telecommunication programs. Since the program began in 1949, USDA has provided over $20 billion in telecommunication loans and grants in rural America. In 1949 many rural communities lacked basic telephone service; only 39% of rural Americans had even minimal service, and most rural residents had to share party lines with their neighbors. As with electricity under the Rural Electrification Administration (REA), there was a need for a low-cost source of financing to enable rural telephone companies to affordably serve low density areas. USDA loans met that need, thus significantly improving the quality of life for rural residents and facilitating economic development in rural communities.

Rural broadband is the next iteration of this 60 year commitment to rural America, and it is as essential to rural businesses and economic development today as was the provision of electric and telephone service in an earlier era.

Current Programs
USDA currently administers four major telecommunication loan and grant programs, with a $4 billion portfolio. These programs include:

- Infrastructure Loan Program
- Broadband Loan program
- Community Connect Grants
- Distance Learning and Telemedicine Loans and Grants

All of these programs create or leverage investment in broadband infrastructure. Since 1993, we have required that all telecommunications infrastructure that we finance be broadband capable. Because of this investment, our rural telephone borrowers have widely deployed broadband services in their service territories.

We also have funded Distance Learning and Telemedicine projects that provide improved healthcare and educational opportunities to rural residents.

Starting in 2002, we implemented an additional program for broadband infrastructure as authorized under the 2002 Farm Bill and reauthorized under the 2008 Farm Bill.

- This program has made $1.3 billion in loans to provide funding that supports broadband service to more than 885,000 households in 1,974 communities.
- We also have provided $84 million in grant funding to support broadband in the neediest, most rural, unserved communities.

We have had extensive on-the-job training when it comes to rural broadband. The unique challenge in rural America is, again, the provision of service in low density areas that tend to be underserved or bypassed entirely by commercial providers. Rural Development is a major source of financing for broadband in rural America. This began with our pilot program in 2001, and continues today with our Farm Bill program that was reauthorized by the 2008 Farm Bill.

Success Stories
Rose Hill, VA: USDA provided a broadband grant ($506,048) to serve the community of Rose Hill, population 714, located in the central Appalachian Mountains of southwestern Virginia. The project provided fiber optic to this unserved community that had no broadband service. More than 450 participants have attended computer and internet training workshops at the computer center funded by the project. To date, more than 115 households and businesses have been connected with broadband service. Rose Hill is an isolated community and the completion of this project has been an asset to the community. This project has given the citizens a community center to be proud of, a location to improve their education and quality of life, and a location for local students to have access to the world via the computer and internet.

Havasupai Reservation: The Havasupai Reservation is located in the Supai Canyon, in Arizona - a remote area near the southwest corner of the Grand Canyon. The area is so remote that mail and food for the reservation are brought into the canyon by mule train several times a week and by helicopter usually once a week.

A Community Connect Broadband grant, awarded in 2004 to the Havasupai Tribe, allowed the community center to provide free service to the tribe. Tribal members can be seen sitting on the steps of the community center with their laptops accessing the internet. During the school holiday, most of the students spend their time in the community center.

When the Supai Canyon was flooded in August 2008 the telephone system became unstable. Due to this, communication between the tribe and the outside world relied heavily on the broadband service. Since most of the Tribe members were evacuated out of Supai, the Tribe had only a handful of employees in the village to manage the situation. Documents needed to be drafted off-reservation and emailed to the Tribal Council office in the canyon. In addition, the Tribe posted the flood documents on its website. Without the Community Connect Broadband grant, none of this would have been possible.

International Broadband Electric Communications (IBEC): IBEC was awarded a broadband loan to work with rural electric cooperatives to install broadband to provide Internet access using power lines to thousands of rural communities in 13 states across the U.S. Recently IBEC started providing support to the Cullman Electric Cooperative for their smart grid project using their Broadband Over Power Line network at substantial cost savings over the previous methodology.

Issues with the Current Broadband Loan Program

Criticisms

We have made mistakes along the way but we have worked diligently to correct errors and improve our program. We quickly discovered that the historical model provided by the electric and telephone programs does not translate easily to broadband. Rural electric and basic telephone service were built out in an earlier era of relatively stable technologies, in a natural monopoly environment, and on the realized assumption of an essentially 100% take rate. All of these factors are quite different in the 21st century broadband arena.

As a result, both our staff and the service providers trying to participate in the program had to climb a steep learning curve. We recognized these difficulties ourselves, as well as other problems with the existing regulations, and moved more than two years ago to address them with a Proposed Rule, published in May 2007, seeking comments from interested parties, that:

- clearly defined served, underserved, and un-served markets based on service availability and the number of existing competitors;
- targeted funding to un-served and underserved areas;
- provided applicants with a clear definition of which communities are eligible for funding;
- established equity requirements that provide incentives for serving the un-served;
- reduced market survey requirements;
- increased application transparency through web-based information dissemination; and
- imposed new time limits for timely deployment of services to rural customers.

This rulemaking process was delayed in light of the new Farm Bill legislation which amended the statutory requirements, in a large part to address these same concerns. However, we are aggressively working regulations that will reflect the provisions of the 2008 Farm Bill.

Importance of Broadband

The importance of broadband to rural America was reaffirmed by Congress when it reauthorized Rural Development's broadband programs under the 2008 Farm Bill. And now we have been given the opportunity to provide additional funding under the Recovery Act.

As President Obama and Secretary Vilsack have stated, American families and businesses need access to broadband for economic competitiveness and improved quality of life. There are still areas where access to affordable, reliable broadband services is not available. Many communities - including in rural areas and low-income areas – suffer the impact of not having home Internet access for business and educational purposes, social interaction, economic development, improved healthcare, and community involvement. With broadband, American companies can compete on a global basis, jobs are created and retained in local communities, and rural children can obtain the same education as their urban and suburban counterparts through services such as distance learning.

The ARRA broadband initiative provides a unique opportunity to accelerate the deployment of broadband in rural areas.

Implementation of the ARRA

Staff Expertise

Because of the six years we have devoted to developing and refining the broadband loan program, USDA is well-positioned to implement ARRA within the challenging time frames demanded by the statute.

We have a seasoned staff that has developed a great deal of expertise in broadband technologies and gained invaluable experience in working with service providers. We understand the barriers and we have systems and processes in place that can be leveraged. We intend to move quickly to identify the appropriate eligibility requirements for applicants and projects. Our Rural Development state offices work with local community leaders and state governments to meet the needs of the rural residents and businesses in their states, and will be instrumental in implementing the program by providing outreach and technical support.

Coordination with NTIA and FCC

We are also coordinating our broadband program with the National Telecommunications and Information Administration (NTIA) and the Federal Communications Commission (FCC) so that a comprehensive approach is taken. In addition, we will be sharing the results of this investment with you on Recovery.gov so that Members of Congress and the general public can see how this program achieves its goals. We are coordinating with the FCC and NTIA in developing definitions of broadband, unserved and underserved, broadband mapping, and the overall U.S. broadband strategy.

On March 12, 2009 we jointly issued a request for information (RFI) with the NTIA on issues related to implementation of the broadband funding under the ARRA. In keeping with President Obama's commitment to a transparent, collaborative, and participatory style of government, USDA and NTIA have pursued extensive public comment to inform our implementation of the ARRA. The public has been invited to comment on the specific issues raised in the RFI or any other issues related to implementation of the ARRA. Six public meetings have been held, one each in Las Vegas and Flagstaff, Arizona, and four in Washington, D.C. The record remains open for written comment until April 13, 2009.

Details of the Program

Of the $7.2 billion in broadband funding authorized by ARRA, USDA received $2.5 billion to deliver a new program with flexible authorities to help deploy broadband service in rural America. The new Recovery Act program is of limited duration and will operate concurrently with our four existing broadband-related telecommunications programs.

The Recovery Act funding is intended to make it economical to deploy broadband even to the most remote, least populated areas of the country. The Federal government will provide incentives that will help service providers identify the most underserved areas and work with local community leaders to deploy broadband. Under credit reform, we plan to leverage these resources into a flexible loan and grant program in order to generate even greater resources for broadband deployment.

Since we are in a public comment period, I will not be discussing in detail what the Recovery Act program may look like. However, the key elements of this new program as defined by the Act are:

75 percent of the area to be served by a project shall be in a rural area without sufficient access to (a) high speed broadband service to (b) facilitate rural economic development.

Priority shall be given to:

- Projects that will deliver end users a choice of more than one service provider;

- Projects that provide service to the highest proportion of rural residents that do not have access to broadband service;

- Projects that commence immediately upon approval.

Timeline

Within 60-days of the end of the public comment period on April 13, 2009, we intend to publish a series of Notice of Funding Availability (NOFAs) in the Federal Register seeking applications for USDA assistance. We anticipate approximately 3 NOFAs. Timing on the subsequent NOFAs will be dependent upon results from previous NOFAs and our coordination with NTIA and FCC as we deploy funds. This implementation plan is subject to modification based on analysis of public comments.

The NOFAs will include:

- The amount of funding available
- Applicant, Area and Project eligibility requirements
- The application process
- The application window
- Evaluation (scoring) criteria
- The reporting requirements for borrowers/grantees

We will be providing information and support to applicants through our Field Staff, webinars, and outreach workshops. We will coordinate with NTIA and other Federal agencies, local and state government, and rural stakeholders to make sure we reach as many prospective applicants and other interested parties as possible.

Thank you for this opportunity to testify. I look forward to your questions.