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REVIEW OF RURAL BROADBAND PROGRAMS OPERATED BY THE U.S. DEPARTMENT OF AGRICULTURE'S RURAL UTILITIES SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON SPECIALTY CROPS, RURAL DEVELOPMENT AND FOREIGN AGRICULTURE

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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HEARING TO REVIEW RURAL BROADBAND PROGRAMS OPERATED BY THE U.S. DEPARTMENT OF AGRICULTURE'S RURAL UTILITIES SERVICE

TUESDAY, MAY 1, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SPECIALTY CROPS, RURAL DEVELOPMENT, AND FOREIGN AGRICULTURE
COMMITTEE ON AGRICULTURE
Washington, D.C.

The Subcommittee met, pursuant to call, at 1:00 p.m., in Room 1300 of the Longworth House Office Building, Hon. Mike McIntyre [Chairman of the Subcommittee] presiding.

Members present: Representatives McIntyre, Marshall, Cuellar, Salazar, Barrow, Pomeroy, Peterson (ex officio), Herseth-Sandlin, Musgrave, Everett, Smith, Fortenberry, Hayes, and Goodlatte (ex officio).

Staff present: Aleta Botts, Adam Durand, Tyler Jameson, Scott Kuschmider, Merrick Munday, Clark Ogilvie, John Riley, Sharon Rusnak, Debbie Smith, Kristin Sosanie, Bryan Dierlam, Brian Knipling, Kevin Kramp, Matt Schertz, and Jamie Weyer.

STATEMENT OF HON. MIKE MCINTYRE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. MCINTYRE. Good afternoon, everybody. This is the subcommittee's hearing on the Rural Broadband Program operated by the Rural Utilities Service. My name is Mike McIntyre from the 7th District of North Carolina, and as subcommittee chairman I am pleased today to welcome Mr. Jim Andrew, the administrator of Rural Utilities Service, and our other esteemed witnesses that will be here today at this hearing.

But before we hear from the witnesses I wanted to have a few remarks to set the tone of this committee hearing and I will also call on the ranking member, Mrs. Musgrave for her opening remarks. We are especially pleased to have the chairman of our overall committee, Mr. Peterson, here, and he will be called upon as well. And then we will proceed to the witnesses and then to the subcommittee members as appropriate for questions.

Broadband is regarded by many as an economic equalizer--providing individuals and businesses with the enhanced ability to bridge geographic distances. Broadband has the potential to reshape educational and healthcare offerings, expand employment

opportunities, and dramatically reshape the way we look at services available in rural areas.

Unfortunately, studies show a digital divide in this nation with regard to our being able to have broadband services where we need them. In May of 2006, a Government Accountability Office study showed that while 29 percent of urban households, and 28 percent of suburban households subscribed to broadband, only 17 percent of rural households do so. Often, this is not a matter of consumer choice. Rather, many rural areas simply do not have access to this service. In North Carolina alone, 82 percent of total households had access to broadband in late 2005. However, in 26 rural North Carolina counties, many of which are in eastern North Carolina, in the part of the State that I represent, that number falls to less than 70 percent of households and businesses. And in 5 counties the number falls to less than 50 percent.

Congress recognized the potential of broadband to foster greater economic growth in rural areas when it established a pilot broadband program to enhance access in rural areas. This was done in the fiscal year 2001 Appropriations Bill. This was just the start, however, and the 2002 Farm Bill authorized the Rural Broadband Access Loan and Loan Guarantee Program as part of the rural development title to provide loans and loan guarantees to fund the costs of construction, improvement, and acquisition of facilities and equipment for the provision of broadband service in eligible rural communities.

This was a conscientious decision to recognize the digital divide facing rural America and to find ways to close that gap and ensure equal opportunities for our rural citizens. In fact, I still vividly remember on a beautiful day just like today, it was the last week of April in the year 2000, when President Clinton came to the center of our district, the seventh district in southeastern North Carolina, to visit the small towns of Brunswick and Whiteville, North Carolina, located in Columbus County. It is only one of three places in America he went to highlight bridging the digital divide. When we realize that this program has been going on for several years and there has been a concern, we realize that it hits home. I spent time in Columbus County, that same county, just yesterday, just trying to struggle to make sure we had enough water and sewer for citizens living in that county.

So we are talking about serious issues when we talk about equal opportunity and equal access for citizens who live in rural America--places that we want to do right by all citizens here in America--including the folks like President Clinton visited back in the year 2000, when we were there, and like I did yesterday in Columbus County, North Carolina.

This has real consequences for families, for business, for healthcare, for education, and for equal opportunity in our country. As Mr. Andrew will note, the program has had some successes over the years in providing broadband loans to entities for areas that arguably would not have received such service without low-interest loans. Additionally, modifications were made to the program in its early years to address concerns that arose particularly with regard to the pilot program.

Unfortunately, the program's successes have been overshadowed by continued pervasive concerns about the program's operations and its ability to direct funds to rural areas who are most in need of much-needed investment. In particular, it is critical that we find ways to resolve concerns associated with which communities are eligible to be served by loans and how competition is assessed by the agency when it makes these loans.

The Inspector General report of September of 2005, and the GAO report of May of 2006, identified numerous problems with these two aspects of the program. Congress purposely prioritized rural, unserved areas as key recipients of the program. One of our concerns is how we can ensure that the program reaches that target group.

Now, as we discussed in our hearing on March 21 with Undersecretary Dorr, the agency is working on new regulations to resolve some of these issues. Unfortunately, we do not have the benefit of knowing what these regulations entail because they have not yet been published by the Administration. As Administrator Andrew knows and as we have discussed, I am disappointed that today he has to testify with those regulations still under wraps. It ties the hands of those on this subcommittee. It will tie the hands of those on the full committee, and as we deliberate what changes need to be made to the farm bill to ensure this program meets the objectives we have for it, we cannot afford for that to be the case.

What is even more disappointing is that it has been more than a year since these regulations were undertaken. The process starting in December of 2005, the regulations at Office of Management and Budget (OMB) not until December of 2006, sent back for a rewrite and then returned again to Office of Management and Budget where they apparently sit today.

So I am going to ask specifically, and we will be speaking to the administrator about this as he comes to testify in a moment, to forward to this subcommittee and the full committee, to both Chairman Peterson and myself as chairman of this subcommittee, as quickly as possible but as required by our rules no later than 10 days from today, and hopefully sooner, this regulation.

Without knowing the changes the USDA itself is proposing, we must assume a more prescriptive stance with regard to the statute than we otherwise would. I continue to hope these regulations will be published very soon and within the 10 days prescribed so that we may have a fuller understanding of USDA's intent on this program.

We will explore all these issues today, and I hope when we end this hearing have a better understanding of these concerns, along with other concerns expressed by committee members and we will receive greater input on where the committee should direct its efforts as it proposes to rewrite the statute during the farm bill this year. I will remind and encourage the witnesses to use the 5 minutes provided for in their statements to highlight the most important parts of their testimony. Pursuant to committee rules, testimony to witnesses and the committee members will be limited to 5 minutes, including the question and answer period. Your complete written testimony, of course, should be submitted in its entirety, and we welcome that so that we can have your full state-

ment with any other explanations you might need to make in the record.

Welcome today. We are glad to have many guests with us. I know many of you have concerns about this. We always welcome you to these hearings and welcome what they mean to the deliberative process here in Congress.

I am going to now call on our Ranking Member, Mrs. Musgrave, and then she will be followed by our esteemed Chairman of the Full Committee, Mr. Peterson.

Mrs. Musgrave.

STATEMENT OF HON. MARILYN N. MUSGRAVE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mrs. MUSGRAVE. Thank you, Mr. Chairman, for holding this important hearing today. I am also welcoming the guests today, and there is one of my constituents that will be testifying on the second panel, Mr. Kevin Felty. He is from Joes, Colorado, and Joes is so rural there are a lot of people in Colorado that don't know where Joes is. But I am very happy to have him today. He is the current president of the Colorado Telecommunications Association, and he also is the general manager of the Plains Cooperative Telephone Association. So, Mr. Felty, welcome.

Deployment of high-speed internet services is one of the most important factors for the economic development, and really the future of our rural communities. From promising renewable energy technologies to healthcare to education, broadband can open many doors for rural America--both on the farm and in our smaller communities. Tele-work has the potential to slow and possibly reverse, the population exodus from our rural areas, something that is very near and dear to my heart. I was in Eads, Colorado, which is not too far from Joes, just this weekend, talking to high school students who want to be able to come back to rural Colorado, and they want a main street that has thriving businesses. They said in their lifetime they have not seen main streets that were thriving in these rural communities like where they live in Eads. And they want to go back to the time when their grandparents tell them there was a hardware store, and there were other businesses, and it was the heart of the community, and there were jobs available there. So that is what our young people are looking for, and I really think that reversing this exodus from those rural areas is one of my top goals.

When we look at our rural schools, distance learning is critical for them. I recently worked on a veteran's clinic that will be located in Yuma, Colorado--another rural community--and tele-medicine plays a huge part in the availability of healthcare for people in rural America and especially for our veterans. People have the expectation of state-of-the-art healthcare, and they want it in every part of our Nation. When you look at these rural areas, you can imagine the distance that specialists would have to travel to get there. It is not economically feasible to think that a heart specialist can travel to these various rural communities, so we know what an important part tele-medicine plays. The Rural Telecommunications Programs in the 2002, Farm Bill have provided roughly 1.6 million

rural customers with new or improved telecommunications services, including high-speed broadband.

The Rural Broadband Access Loan and Loan Guarantee Program and the Community Connect Broadband Plans administered by the RUS have made great strides in helping these rural communities build broadband infrastructure. The current broadband projects funded through the RUS when fully complete will serve well over half a million households across the United States. While these two programs are just part of an overall national effort to help promote the deployment of broadband, at present they are the only Federal programs exclusively dedicated to deploying rural broadband infrastructure.

And Mr. Andrew, I want to commend you and your staff for the hard work you have put forth on behalf of rural America and your efforts to move the broadband program forward. So I look forward to hearing from you today, and I hope, Mr. Chairman, that all committee members can have a copy of that regulation.

But I want to say despite the success of these programs, there are many opportunities and there are many challenges that still remain. Both programs have come under a great deal of criticism recently, with particular debate being given to the definition of a "rural community" for purposes of program eligibility. A narrower rural definition would exclude some small communities in need of broadband service, while a broader definition increases the chance that communities that are not traditionally considered unserved or underserved by most definitions may be eligible for assistance. We have to try to determine what kind of specific guidelines we need.

Mr. Chairman, I look forward to hearing the testimony today, and I thank you again for your leadership and scheduling this meeting.

Mr. MCINTYRE. Thank you, Mrs. Musgrave, and thank you for your very good words.

I would like to now call upon our esteemed chairman, Mr. Collin Peterson, Chairman of the Full Committee on Agriculture, and we welcome you to our subcommittee meeting today.

STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. I want to thank the chairman and ranking member for their leadership on this issue and calling to light an area that needs, I think, some focus, and we appreciate your leadership. So thank you for calling this hearing.

I want to first of all welcome a gentleman on the second witness panel, Dr. Jack Geller, who is the President of the Center for Rural Policy and Development in St. Paul, Minnesota. Dr. Geller's organization is dedicated to understanding the major issues facing rural America today like broadband deployment, and I look forward to his testimony.

Reliable, affordable broadband internet service is as important to rural America today as electrification and water were during the Great Depression. Broadband internet access is vital to job creation and retention, economic development, entrepreneurship, education, and medical technology. It is also a critical component of public safety--especially in remote areas.

Nevertheless, when it comes to Federal investment in the communications infrastructure necessary for any economy to thrive, rural areas are consistently left behind high density urban and suburban areas. I think because there is more money to be made there. Close to a million Minnesotans live outside municipal boundaries, and many of those citizens lack reliable broadband service.

These are the major issues that USDA's Rural Utilities Service are expected to address. RUS operates two Federal assistance programs exclusively dedicated to financing broadband deployment, and these programs provide Federal support for deploying high-speed internet access for private homes, commercial establishments, schools, and public institutions.

Despite the implementation of these programs, many problems, in my opinion, in broadband deployment persist. The Federal government still struggles to identify which communities already have access to broadband technologies and which ones do not. I don't know how that could be. Broadband deployment is reported only by the government by zip code, which does not paint an accurate picture of what is accessible to most people living in a rural area.

A September 2005, audit of RUS broadband programs by the Inspector General stated that RUS has not maintained its focus on unserved rural communities. The application process has been found to be very cumbersome, with loans not being approved in a timely fashion. Furthermore, the agency has been unable to effectively define rural and suburban areas, and as a result, the outlying subdivisions of our largest cities, as well as affluent smaller communities, are apparently receiving multiple RUS loans. I just had some people in last week who were telling me, and I find this hard to believe, and I think we need to get to the bottom of this, that we are overbuilding in some communities where there are already 14 or 15 providers. Now, how this can be I don't know. If this is true, and if you guys don't fix it, I will guarantee you this committee will, because we need to get this money to the people that need it. And I don't know why it should be this hard.

Widely-available broadband service is critical to our economic future. As I said, the rural communities are depending on effective investment in this so that they can not be on the wrong side of this digital divide and I am not happy with these stories in the Washington Post that are coming out. This is not helpful to us when we are writing a farm bill, and again, if we can't get some kind of way to resolve that within your rule making or whatever process you have down there, then I guess we will have to try to do it here.

So, again, I want to thank the Chairman and the other committee members for their leadership and look forward to the testimony.

Mr. MCINTYRE. Thank you, Mr. Chairman, and thank you again for joining us today.

Our first panel that we will begin with as we move along is Administrator James Andrew of the Rural Utilities Service, USDA. He is accompanied by Ms. Jacqueline Ponti, Assistant Administrator for Telecommunications Programs with the USDA here in Washington. Welcome to you both, and we look forward to your testimony, and you may begin.

STATEMENT OF JAMES ANDREW, ADMINISTRATOR, RURAL UTILITIES SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JACQUELINE PONTI-LAZARUK, ASSISTANT ADMINISTRATOR FOR TELECOMMUNICATIONS PROGRAM, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. ANDREW. Thank you. Chairman McIntyre and Ranking Member Musgrave and subcommittee members, thank you for the opportunity to appear before you today. The subject of today's hearing is one of the most important programs we at Rural Development Utilities Program administer, and from the looks of what is in this room it is obviously important to a lot of other people. So if my nerves show out a little bit, you will understand with all the folks.

You have a written testimony, and I will only offer a few oral remarks.

Mr. Chairman, I am pleased first of all to introduce a colleague sitting next to me. This is Jackie Ponti-Lazaruk. Ms. Ponti-Lazaruk is an assistant administrator for telecommunications in the Utilities Program. She came to the program from the Federal Communications Commission (FCC), where she served for 15 years. She has broad, across the platform communication knowledge and experience in wire line, wireless, satellite, international, et cetera. This month she will have been on the job in rural development for 1 year and has made tremendous strides in all aspects of the telecommunications program. If I refer to her only as Jackie Ponti, forgive me. She just got married 2 weeks ago, and I am not used to that last name yet.

In order to establish some credibility, let me assure you that I am a citizen of rural America, reared in rural southeast Alabama, a town of Geneva, educated in public schools, graduated from the University of Alabama, and can stand before you with the credentials of a rural upbringing. For the last almost 40 years I have lived in rural Jenkins County, Georgia, population 8,600 for the whole county. My friend once said I lived so far in the country they have to go back towards town to go hunting. Another said that the Grand Ole Opry doesn't get there until Tuesday night. That all is true. My home is 12 miles from the only town in the county. The town of Millen has 2,600 citizens. The nearest neighbor is two miles away. This hearing is about broadband and not my rural background, but these facts may become relevant as I proceed.

Broadband. This subject was first raised with the first interview I had with the Secretary of Agriculture in his office. What did I think of broadband? Frankly, I had given it quite a lot of thought even before the job was a gleam in my eye. It is my belief that when the trains bypassed the town its chances of survival were shortened. Railroad towns generally prospered. When the highways, speed highways came and bypassed the town it had a hard time surviving and certainly prospering. I found that to be true when I had my agricultural irrigation business. We were going to assist in forming a co-op to help farmers diversify into vegetable crops by helping them start up a packing house. My Vidalia onion-growing customers advised us not to do so because we were not on

a major highway, and the truckers would not venture far from the interstate. That turned out to be true.

Now comes broadband, high-speed connectivity to the web. I was convinced before and during the interview and I am even more so now that the internet is the high-speed transportation highway of the future. Let me restate that. It is the transportation highway now.

I stopped in to see my friend Wayne Dixon in Waynesboro, Georgia, recently. Wayne has a small auto truck repair business and salvage yard, what we call a junkyard. He is located only several hundred yards from the location of my former business. He did all my vehicle repairs. He asked what I was doing now. I ticked off the things we work with in utilities. When I mentioned broadband, he exclaimed as to how he wished he could get high-speed internet. His dial up took forever to get him in touch with folks from whom and to whom he bought and sold parts. He was only a few hundred yards away from my DSL service, and he could not get high-speed connectivity.

Because of that conversation I am even more convinced that broadband is critical to everyone in rural America. They don't all know it yet, but their kids and grandkids do, and we must find ways to span that few hundred yards.

Let me get back to my rural home in Georgia. The speed of my house in dial up is about six kilobits. I have DSL in my office, but my wife had six kilobits. She could turn on the computer and cook dinner while it woke up.

Mr. Chairman, that generated some real pressure for me when my career began at Rural Development. I guess she thought I could magically get the problem solved. We are too far in the country for a wire system to be run because of economics. A wireless system stationed in the nearest town would not reach us with the technologies available today, and the economics aren't there.

However, last fall we were able to get connected via satellite. So now we have broadband. More expensive per month than those receiving service in a more populated area, and not quite as fast, but I am off the hook temporarily.

One of our major challenges has been trying to reach folks like my wife and me, and there are rural towns like Millen that need systems so people in town can have the service. Providers need the density to warrant building a system that will grow out from the community. They probably won't reach me, but there are many others closer in who can realize the benefit of that density.

Technology and high-speed communication are moving so rapidly that maybe one day my neighbors and I will have system availability that are faster and less expensive. We in the Utilities Program talk to satellite providers, fiber projects, wireless systems, et cetera, and they are developing projects that will do just that. We even hear of some technologies that are on the drawing board. When we look at these projects, we must remember that we are a form of a banker. We underwrite these applications for loans with as much assurance as we can that the taxpayers' money will be invested wisely--invest it so rural America can grow. We want the systems to be technologically sound, a good business plan, and have credit support adequate for success.

We are dedicated to getting broadband to rural America. Candidly, we can only process an application if one comes in. On that score, we are hoping leaders of communities are realizing the need for high-speed connectivity that will act.

Mr. Chairman and committee members, we are here to serve rural America, my rural America. We can't all live in metro areas of the country. It is not practical, and we don't want to. Broadband is a transportation mode to connect us all.

We welcome positive, well-meaning comments, criticisms, and suggestions that will help us achieve the mission of delivering broadband to rural America. It is with that in mind that we certainly hope you will renew the program so we can build on the strides we have made. Our team is in place and hopefully has passed the biggest of the learning curves. There will be more challenges but many are past.

In closing, Mr. Chairman, we had hoped to have the proposed revised regulations out in publication before today. That didn't happen. We hope they will be out in the next few days, and we will certainly try to get it within the 10 days that you asked us to do. We will provide copies to you the minute they are released to the Federal Register for publication.

With that being said Mrs. Ponti-Lazaruk, and I will be happy to answer any questions or receive suggestions you may have.

Mr. MCINTYRE. Thank you so much, Mr. Administrator. Thank you for your remarks. I know they were heartfelt and also thank you for highlighting the most important parts.

I want to start with what you closed with, and that was about the concern about the regulations which I mentioned in my opening statement. With the more than 1 year time period that has passed and now this hearing is already well under way, and you have given your testimony, yet we still have no regulations, I understand you have committed to do all that you can to present those within the 10-day time period. And we will look forward to you all doing what you can to honor that and comply with the committee rule.

Could you please explain for the record why it has taken more than a year?

Mr. ANDREW. We started in December of 2005, with 35 people of our staff that included our lawyers, our technical people, our loan specialists, and people from the field to look at the problems that we had with broadband--what was wrong and what was good. Once we identified all those things we reduced it down to a committee to start breaking down things that we could work with. Over time suggestions kept coming up from the industry and other providers as to things we ought to incorporate. For example, you mentioned the definition of rural. We have been working with the Economic Research Service (ERS) trying to define exactly what rural is, and as I have explained on many occasions, it is said that rural is like describing the difference between tall and short. It is difficult to do. For example, my town of Millen, Georgia, population 2,600--and that is the reason I said I wanted to get it in the record--is listed as an urban cluster. Now, an urban cluster for us means we are 50 miles from the nearest movie. We have to go about 25 miles to the barber and so forth, but it is still listed as an urban cluster.

So we are having a hard time identifying what we really should have in there, and every time we think we had this thing ready to come out to go to our people we would find things that needed to be changed to improve it and to make it a better product. We worked on it a long time, and it was turned into the OMB in December. Hopefully we will get it out. We were hoping to get it out yesterday, but it is not, so, therefore, we hope within the next couple of days we will have it, sir.

Mr. MCINTYRE. Whose direct authority is this under to get these regulations done?

Mr. ANDREW. Whose direct authority?

Mr. MCINTYRE. Yes, sir.

Mr. ANDREW. Do you mean from when we started?

Mr. MCINTYRE. Yes, sir. Is it under yours?

Mr. ANDREW. That would be me. Yes.

Mr. MCINTYRE. All right. Well, we do implore you to get that done as soon as possible, and we do request it be done within the time period, and I thank you for your attention to that very much.

Let me ask in the remaining time, you mentioned in your testimony that 40 percent of the communities approved for funding were unserved at the time of loan approval. That means that over half of the loans are going to serve communities that already have some level of service. Would you elaborate on why such loans are approved?

Mr. ANDREW. Well, I can. For example, we find that there are places where, I used to say in my business, if a vacuum is created, somebody is going to fill it. We have had some cases where we have had, like my friend, Wayne Dixon, people with DSL within 150 yards and yet it cannot be brought to them. And we found that across the country. There are places where if we can reach a higher percentage of people there, then we will look at the loan application.

I am not sure I answered your question, but the answer to it is that we have looked. Before we turn an application loose, we have looked at all of these things--the number of providers and so forth.

Mr. MCINTYRE. All right. Let me ask you one other question before my time expires.

Mr. ANDREW. Certainly.

Mr. MCINTYRE. The authority for the program expires on September 30 of this year, yet the program currently has over $900 million in available funds to lend. Given that in both 2004, and 2005, the agency estimated that the appropriations for the program would support significantly more in loans than actually was awarded, how much of this $900 million do you expect to lend by the expiration of the existing program?

Mr. ANDREW. Well, we have 7 loans outstanding right now for $128 million, and we are not so sure how many will go out because the bank was closed down last year, and we had 20 pending for 940. Okay.

Mr. MCINTYRE. I am sorry. Say that again.

Mr. ANDREW. We have $990 million as you pointed out at the beginning of the year. We have 7 applications in house right now, 7 loans for 128 million. We have the remaining available funds of $861 million. We expect, we have about 500, we have 20 applica-

tions in house right now pending for $940 million. We expect to get those out before this expires.

Mr. MCINTYRE. Before the expiration of this year? This fiscal year?

Mr. ANDREW. Yes, sir.

Mr. MCINTYRE. All right. Thank you. All right. With that we finished those questions within the time allotted. I will call on the Ranking Member, Mrs. Musgrave, for her questions.

Mrs. MUSGRAVE. Mr. Chairman, I am going to defer to Mr. Peterson. He has a time constraint.

Mr. MCINTYRE. Okay. Thank you very much. Mr. Chairman, we gladly go to you.

Mr. PETERSON. I thank the gentlelady.

Along that line, about the 40 percent who are unserved, the 15 percent who have 1 provider, and 45 percent have a number of providers. Can you tell us, of that 45 percent how many have 2 providers, how many have 5, if there is actually communities out there that have 14 or 15 providers? Can you give me that information?

Mr. ANDREW. We can provide it for you. Yes, sir. Because we do know that.

Mr. PETERSON. Okay. Is it possible that you are making the loan to a place that has that many providers?

Mr. ANDREW. I don't think so. No, sir, but anyway, I want to say that whoever told you that was not sober. Well, certainly I will get you an answer to that question.

Mr. PETERSON. Okay. As I understand it, you don't receive any loan applications from entities that are proposing to only serve non-served areas? Is that true?

Mr. ANDREW. I am sorry. I didn't understand.

Mr. PETERSON. That you are not getting any application, loan applications from entities that are proposing to serve only unserved areas and other——

Mr. ANDREW. The only loan application that we have received and approved is on an Indian reservation. That was the only one we have had that is totally unserved.

Mr. PETERSON. Only one what?

Mr. ANDREW. That was totally unserved.

Mr. PETERSON. There is only one?

Mr. ANDREW. Yes, sir.

Mr. PETERSON. And what are you doing on this? We can have these grant programs and one thing or another, but without the Universal Service Fund (USF) fund on telephones we wouldn't have got telephone service.

Mr. ANDREW. Right.

Mr. PETERSON. These folks that are out there running around whipping everybody up not to tax the internet are the biggest problem of why we are not getting this done, because we need a universal service fund to get this broadband out there. Because frankly, the economics don't work otherwise. Am I wrong?

Mr. ANDREW. Well, so far it has been kind of hard to make the economics work unless you have got something to back it up, sir. That is why, as I indicated in my oral testimony, the density is really critical in some of these places.

Mr. PETERSON. But if we had a Universal Service Fund available in those unserved areas like we did with telephones, I bet you would be getting more applications than one.

Mr. ANDREW. Probably.

Mr. PETERSON. So, somewhere or another we have got to get realistic about this because if we don't get these broadband services out there in these communities, it would be like not having telephones was back in the old days. We are going to have to figure out some way to work together to make this happen.

Mr. ANDREW. I might suggest to you that of all the applications we have gotten, 35 percent of them are start-up operations, and those start-up operations are looking at, they are looking at this as a for-profit business. And when we get applications in all of them are somewhat different. You get different business plans, different ways of financing, different ways of structuring their business plan, different tiers and levels of organizational structure, and so our people at first were having a hard time working their way through this. That was one of the reasons we had such a hard time at first and took longer to get these applications finished. We were down to 330 days, I believe it is. We are down to 181 days now on the applications because our people are learning better, and we are also learning up-front as to what will and will is not going to make it. You can offer advice, but we are getting better at this. You are right. We need more applications, and we need people to understand what we have to offer.

Mr. PETERSON. Well, thank you. Thank you, Mr. Chairman, for accommodating me and the ranking member.

Mr. MCINTYRE. Yes, sir. Thank you, Mr. Chairman, for joining us today.

I now call on the ranking member, Mrs. Musgrave.

Mrs. MUSGRAVE. Thank you. Mr. Andrew, as I read through your written testimony I was paying particular interest to your bumps in the road I believe you called them, and you made comment about how the staff was overwhelmed by loan applications, just the sheer volume. You said that security of the loans were an issue, and many loan applications were returned because of some deficiency or some problem. You also went on to say that you had streamlined the process, the review process now, and I would like you to give me some specifics on that, because when I read that the number of loans was overwhelming. I wondered what you have done to educate your staff and increase their expertise. I also am trying to determine when a loan is submitted, how long is it before you determine that it is not going to pass muster, that you have to get it back to the folks. What is that turnaround time?

I guess I just feel, for instance, when I read about security of a loan is an issue, that is the case when we face anything. So I don't know why that is a difficulty. I am wondering how you have addressed those bumps in the road. I know I read that you now have a qualified, dedicated headquarter staff of 16 in the national office, and there are engineers and loan specialists and economists, and I am just wondering if you have the specialists with the expertise to deal with these things so that we can get past these bumps in the road. I would ask you to comment on that, please.

Mr. ANDREW. Like I said earlier, part of the problem we had was that these applications that come in are all different. They really were all different in the beginning. They are getting better and better. It is because of our people the folks that submit applications know more about what we are looking for.

We also have 28 people out in the field called loan specialists. They are working with these people before the loan is actually submitted to us now. So when they come in, our folks in Washington are better equipped because of experience. They are better equipped to identify the hard spots in the loans immediately.

Now, one of the problems we had to start with was that we spent a lot of time working with the loan applicants, sending the applications back, ″fix this, fix that, fix something else″, and that is one of the reasons it took quite a long time is because the applications were quite difficult. But they have to be that way because we are dealing with government money, ma'am.

What are we doing about it? Well, as I said, we have reduced it from 320 days I believe it is to about 181 days, and we hope to be able to get that down to a lot less than that. I won't make any comments as to what we are shooting for, but as we get better at this and as the applications that are being submitted get better, we are getting better. As I said earlier also, we have had a tremendous learning curve. A lot of that learning curve is behind us now, and we now can move onto other things.

I am not sure I really answered your question, but that is the way we see it.

Mrs. MUSGRAVE. You have those 28 specialists out in the field. Describe to me how much they work with the folks that are going to be making the applications.

Mr. ANDREW. The original job when those specialists started to work was to work with the infrastructure, the telephone co-ops, and in the process of time when the DSL came when broadband came, they didn't have the expertise with broadband. So we set up a separate group in Washington to handle only broadband. Broadband loans came directly to Washington and did not go through our folks in the field. Now we are training them to know what to look for, how to work with these folks, and also how to follow up on it after they get installed.

That is the expertise. Most of them are engineers, and they are loan specialists, most of the people in the field are.

Mrs. MUSGRAVE. Thank you, Mr. Andrew. Thank you, Mr. Chairman.

Mr. MCINTYRE. Thank you, Mrs. Musgrave. We are pleased to have our former Chairman of the Full Committee, Mr. Goodlatte, from Virginia here, and Mr. Goodlatte, would you like to make a statement or do you have any questions?

All right. Then we will welcome you at any time that you may wish to do so and we are pleased to have your presence today.

Let us see. Mr. Barrow.

Mr. BARROW. Thank you, Mr. Chairman.

Mr. Andrew, good afternoon. My name is John Barrow. I represent Georgia's 12th District. You have testified how your family farm is in Jenkins County, and your business was in Burke County. Well, I represent Jenkins County and Burke County now, and

it is good to be with home folks. It gives me a certain amount of pleasure to be with you here today. I say only a certain amount because of all the things that have yet to be done, and I want to add my concerns to those that have been expressed so far.

On one point in particular, in response to the exchange between you and Chairman Peterson, I am going to have to express the hope that if you all can't do a better job with defining unserved areas than you have been able to define rural areas, we are going to have. It is going to be a long time in getting the job done. There are going to be folks back home in Millen that is going to have a hard time understanding why that doesn't meet anybody's definition of a rural community. Maybe folks in Hopeulikit, Georgia qualify, but we got to make some progress and get there fast.

I want to touch on a subject. You mentioned in passing that you were finally able to get access by way of satellite——

Mr. ANDREW. Yes.

Mr. BARROW. —service, and that is something that I am going to touch on because we have talked about the logistical challenges of both distance and terrain that make getting broadband to most folks the way it is gotten to most folks now--by way of cable or DSL service--kind of challenging in more rural areas. So I want to know what you all are doing to promote wireless broadband by way of satellite service. What are you doing now to promote that, and what can you do that you are not doing now to promote that?

Mr. ANDREW. The satellite people came in just last week as a matter of fact. They described to us a new satellite that they are hoping to put up and maybe even submitting an application to us to help them get that done. The satellites that are up there right now, the one that serves me, for example, and I don't know why this happened, but I was the last one that was able to be served on that satellite--the circuit--because it was filled. These things have beams that come down in like a cone, and when you fill up that cone it is done. They had some openings in other parts of the United States. Minnesota, for example, filled one up rather quickly.

Mr. BARROW. It sounds like it is a demand that is not being met right now.

Mr. ANDREW. Well, they have got another satellite up that they put up in October, and it started to open up some more. It doubled the capacities. These cones doubled the capacity on the new satellite, and they assure us that this third satellite will be even stronger than that one, and it will also have the capability of moving these cones around so that if there is an unmet spot they can move it.

Mr. BARROW. Well, right now, Mr. Andrew, it sounds like you are describing what is going on. What I want to know is if RUS is doing anything to promote that? Are you all making any loans? Are you making any grants that are directed towards expanding the scope and availability of satellite, wireless service?

Mr. ANDREW. We have not made any loans to satellite providers.

Mr. BARROW. Has anybody made any applications?

Mr. ANDREW. No. Let me back up. That is not so. Yes, one did come in, and they didn't have the credit support to back up what they wanted to do.

Mr. BARROW. Was that, it didn't happen to be that one involved with the Indian reservation that was——

Mr. ANDREW. No.

Mr. BARROW. —the only one that was in a totally unserved area by you all's definition of unserved, is it?

Mr. ANDREW. No.

Mr. BARROW. Okay. Well, what can you all do? You described somebody coming in just last week to talk about this. What can you do that you are not doing to reach out to that sector of the wireless community to try and expand service in that way?

Mr. ANDREW. We hope to work with them on this project they have got going right now. We hope to be able to help them on this project they have going to get this next satellite up. We have some understandings with them. For example, they tell us that they have the ability to identify totally unserved areas and also serve rural areas, and that is what they are going to dedicate this system to serving totally unserved and rural areas. We want to see that, and we think they are supposed to be providing us that information.

Mr. BARROW. Meanwhile, if there are people who are providing service right now, are they reaching out to RUS for support, or are you aware of any kind of effort that is going on in that area?

Mr. ANDREW. No. For example, Congressman, in my case, I am getting my service through my electric co-op. They are offering the service.

Mr. BARROW. Right.

Mr. ANDREW. They did the contract with this provider, and they are offering the service, and my bill comes from the electric co-op, and I pay the electric co-op.

Mr. BARROW. Are these the folks you say who are tapped out in your service area? You are the last one getting on board. Is that——

Mr. ANDREW. I am the last one, but now this new satellite is supposedly providing more. There was another beam just up north toward Sandersville, which you know that area.

Mr. BARROW. Uh-huh. My district also.

Mr. ANDREW. That beam was also open, but it was starting to fill up very quickly. The co-op up there was offering service, and they were about to run out, but now they are back in business again. So, the co-ops are taking this up, and some other people are taking up offering the marketing of this satellite business. But we are, as an organization, no, we are not out soliciting satellite business. We would like to help them. We hope they can get them up there, because like I indicated, that is the only way I am ever going to get it right now anyway unless technology changes.

Mr. BARROW. Okay, Mr. Andrew. My time is running out, so I yield back. Thank you, Mr. Chairman.

Mr. ANDREW. Thank you.

Mr. MCINTYRE. Thank you, Mr. Barrow. We now will go back to our former full committee chairman and the ranking member of the full committee, Mr. Goodlatte. We welcome you if you have any questions or statements.

Mr. GOODLATTE. Well, thank you, Mr. Chairman, and thank you for holding this hearing. I do have a brief opening statement that I will make a part of the record.

Mr. GOODLATTE. I want to ask Administrator Andrew, who I also welcome, a couple things.

First of all, with regard to Mr. Barrow's questions, a few years ago the Congress did pass and the President signed into law legislation that was introduced by myself in Congress and Representative Boucher that gives RUS the authority to make loan guarantees for satellites for both local and the local television service and for broadband high-speed internet service. I understand, Mr. Andrew, part of the problem is that after that was done, the privately-competing television, satellite companies, if you will, expanded their coverage area to cover a lot of the more profitable areas. Is that one of the reasons why there has not yet been a subscription, an application to you for service under that?

Mr. ANDREW. I can't answer that question, sir. I just know that the one application we had to come in, I was involved in that, and the problem they had was that we require 20 percent credit support, and they didn't have the investor backing to get that 20 percent credit support. Part of the problem was that I asked that it was going to be credit support, and I asked them who was going to go get it if they defaulted, and I didn't get an answer. It had to do with buying insurance and so forth. It is not hard, wouldn't be a hard asset for us. The same company is back in on this third round that they are going with, and I think they have identified ways that we can help them now.

Mr. GOODLATTE. Good. Well, we certainly want to encourage that, and I want to ask a similar question with regard to competition for your broadband funds for deployment using any kind of technology. I know from my hearing from some providers of broadband service, cable companies, telephone companies, and so on, of their concern about competition between them and other companies that are receiving either loan guarantees or direct funding from the Rural Utilities Service. Can you tell us the status of your efforts to sort that out and determine who can receive assistance and who cannot?

Mr. ANDREW. Yes, sir, in a way. We are dealing with this in our regulations which I pointed out are due out any minute as a matter of fact. As I understand I am restricted from talking about that until it does come out. That is one of the main subjects we are having to deal with. We have some friends back here from the cable company, cable association, and we worked with them on some issues that they have, but we have not resolved it yet. We hope we are going to resolve it when these regulations come out.

Mr. GOODLATTE. And when do you expect to see those regulations?

Mr. ANDREW. Last week. We expect——

Mr. GOODLATTE. Looking forward from last week when might we expect to see them?

Mr. ANDREW. We were promised as late as yesterday afternoon they might be out as early as today, but any day now.

Mr. GOODLATTE. Well, I am very interested in that. I know Congresswoman Herseth Sandlin has introduced legislation to address

this issue. wanting to make sure that we are reaching the people who are most——

Mr. ANDREW. Yes.

Mr. GOODLATTE. —in need of broadband service. You say you can't tell us anything about the report you are about to release? Can you tell us whether this is based on a radius out from certain-sized communities, or is it based upon the degree of competition that takes place?

Mr. ANDREW. We looked at all of those things, and it would not necessarily be competition but rather what is the definition of rural. As I said earlier, my little town of Millen, Georgia, is considered an urban cluster, and we are 50 miles from the nearest town. That has been the hard spot. Trying to decide if you do away with urban clusters and therefore, do away with the Millen, Georgias of the world or the communities in South Dakota, for example. That is what we are having to deal with right now, but I think we are close to getting that done. And when the regulations come out, we know that there is going to be a lot of discussion about it, and that is what we want. We want to hear from everybody based on what we have got, and there will be some changes I am sure.

Mr. GOODLATTE. Mr. Chairman, we may want to have him back after those regulations come out, because this is a very important issue.

My concern is that in the eastern part of the United States, I represent a rural area of Virginia, we have——

Mr. ANDREW. Yes.

Mr. GOODLATTE. —small cities where one, two miles outside of the city, cable companies aren't providing service. Oftentimes telephone companies are not able to get service out, even that close to urban areas. So they are underserved when it comes to getting high-speed broadband service, but they are, indeed, rural areas. I could take you down and drive you outside the city limits——

Mr. ANDREW. I know.

Mr. GOODLATTE. —and you will be in the country real fast.

Mr. ANDREW. I looked at your map.

Mr. GOODLATTE. And we would be interested in making sure that those types of areas are covered. I do, however, believe that there is a need to recognize that people who are making private investments to reach areas don't need to have government-subsidized competition. So it is almost like there are three areas, three levels here. One level is where there is real competition. I would assume RUS doesn't need to be there at all. Another area is where there is no broadband service, and we would certainly want RUS to be offering that kind of loan guarantees and other programs to get people, and then there is an area where you might have limited service. You might have one private competitor, and let me ask you this one question. My time I think is already up, but if I might, Mr. Chairman.

Mr. MCINTYRE. Yes, sir.

Mr. GOODLATTE. Do you lend right now to cable companies and telephone companies who have in a community broadband service already but want to expand out into areas that are more costly for them to reach but are in adjoining areas to where they are already providing service?

Mr. ANDREW. That is a very interesting question because anybody can borrow money from us, and we would like to see that. We have never had an application to that extent.

Mr. GOODLATTE. Not a single application from, I know you have had many applications.

Mr. ANDREW. We have had a few cable companies, but not many.

Mr. GOODLATTE. Okay.

Mr. ANDREW. But we are available.

Mr. GOODLATTE. And they can use that funding to expand their current service——

Mr. ANDREW. Yes.

Mr. GOODLATTE. —to new areas?

Mr. ANDREW. Yes.

Mr. GOODLATTE. If they meet certain criteria?

Mr. ANDREW. Yes. Or even if they are already serving and need to expand in their community, we can do that.

Mr. GOODLATTE. Very good. Thank you, Mr. Chairman.

Mr. MCINTYRE. Thank you. Good you have you with us, Mr. Goodlatte.

I now call Mr. Marshall from Georgia.

Mr. MARSHALL. It is good to see a fellow Georgian. I have some pretty basic questions to help me get a little bit better educated about this program.

I have had plenty of visits from folks who are concerned about the competition issue that has already been discussed by Mr. Goodlatte and others, and it is discussed in the testimony as well, and I hope you all can resolve that since it does seem inappropriate to me. I am wondering about what flexibility the statute gives you to structure your loans so that they are more attractive to start-up ventures that are interested in serving unserved areas. I have to suspect that serving an unserved area is particularly challenging since the market is already decided. There is just no money there, and if you were limited to serving only unserved areas, would you be able to make any loans?

Mr. ANDREW. No.

Mr. MARSHALL. Is that because your loan flexibility is? Can you make zero interest loans? What is the flexibility that you have in order to attract people to borrow money?

Mr. ANDREW. In broadband we have no zero interest loans. We have no grants. We have it in distance learning and tele-medicine, but not in the broadband program. Business is growing very fast, and finding unserved areas is getting harder and harder to do, except small, small towns. Therefore, it would be rather hard to make a loan in a small town like that because the economics are not there.

Mr. MARSHALL. What lending niche are you? I am a banker, lawyer. What lending niche are you intended to fill here?

Mr. ANDREW. We are intended to cover, according to the law, we are to cover the rural areas of America.

Mr. MARSHALL. Well, I understand that, but plenty of loans are made to rural Americans for all kinds of different business ventures. Apparently there was a decision made that there is a gap in the financing that is available, and that gap has to be filled by the Federal government. So you were created and authorized to make

loans. What is the lending gap? Is it that the private sector just charges too much money or won't lend at all, or what is the deal there? I can understand you don't want to go up, you know, to retrieve your collateral in space somewhere.

Mr. ANDREW. Well, Congressman, as I understand it--I was not there--but when this program started, they were seeking advice from investment bankers of how we should proceed with this thing. They were even suggesting that we should have 80 percent credit support, meaning by that the person coming to borrow money should put up 80 percent. Private investors feel the same way about that. So, therefore, we were created, and we require 20 percent investment credit support before we make the loan. That means that somebody has got skin in the game before they actually go out there and deploy. That means that when they start deciding what town they are going to serve in, they have got a pretty good idea what they are going through. Yes, sir.

Mr. MARSHALL. So your terms are consistent with the private market as far as interest, period of repayment, those sorts of things concerning, but not consistent with the private market as far as credit worthiness. You are——

Mr. ANDREW. The interest is less.

Mr. MARSHALL. So your interest is less, and your credit standards are less as well?

Mr. ANDREW. Well, I wouldn't say they are less because, no, I wouldn't say they are less. No. We still have to get the taxpayers' money back.

Mr. MARSHALL. Well, if you have a choice between a borrower who is going to go out and try and serve some underserved areas whose credit worthiness is marginal by your standards, and a borrower who is going to expand existing services, I think you gave an example of somebody who is 150 yards away from a DSL line or a fiber optic cable——

Mr. ANDREW. Right.

Mr. MARSHALL. —and couldn't get DSL. If you have a choice between those two, how do you resolve that choice? Credit worthy, wants to expand in an existing area and will be able to frankly reach more people versus not as credit worthy, meets your standards, not as credit worthy, not going to reach as much people but going to go to an unserved area.

Mr. ANDREW. Credit worthiness would be the choice.

Mr. MARSHALL. You would go with the company that had the more credit.

Mr. ANDREW. Correct.

Mr. MARSHALL. Mr. Chairman, I see my time is up, but that is probably an issue we need to look at.

Mr. MCINTYRE. Okay. Thank you. Thank you very much. Very good questions, Mr. Marshall, and thank you, Mr. Administrator, for following up on those as well.

I would like to now call on Mr. Smith from Nebraska.

Mr. SMITH. Thank you, Mr. Chairman, and Administrator Andrew for coming here today. I apologize for my earlier absence.

The overall needs assessment is what I would like to have you elaborate on. In terms of detection of current availability of broadband, and then the process by which you ensure that all par-

ties are notified if they are interested in participating in or requesting the assistance.

So I guess needs assessment to begin with.

Mr. ANDREW. Your question is?

Mr. SMITH. Identifying areas that need broadband or that would qualify for the assistance.

Mr. ANDREW. We don't have a process by which we go out and map out the country and decide where there is a need. We have to base it on what applications, the applications that come in.

Mr. SMITH. Right.

Mr. ANDREW. And they would bring an application in, say this community is only receiving 10 percent service or 20 percent service, and it goes from there. But we don't go out. No, sir. We do not go out and identify towns that need broadband coverage.

Mr. SMITH. But then you rely solely on the applicants——

Mr. ANDREW. Yes.

Mr. SMITH. —to explain the need for the basic area.

Mr. ANDREW. Well, originally. Then we check that out because he has to give us a market study, and then we advertise in the local newspaper at the suggestion of some friends of ours. We also put it on our website, and we also have a link over to the FCC so that anybody that goes onto the FCC website can link over to us and find out who is, what towns are being asked for.

Mr. SMITH. Are there public hearings involved in this process?

Mr. ANDREW. No, sir.

Mr. SMITH. Okay.

Mr. ANDREW. No.

Mr. SMITH. Thank you.

Mr. MCINTYRE. Thank you, Mr. Smith.

And I would like now to call on Mr. Pomeroy from North Dakota.

Mr. POMEROY. Thank you. I was part of the original effort to try and get loan funds to support lending to address the digital divide, and I tell you, the heart of my thinking was we were going to fund, we are going to help support build-out in the areas where populations dropped, and it was harder to get these things to be financed without this extra dimension of assistance.

I have been very concerned that build-over has been a recurring feature of the program, not build-out. We have built-over. I am just deeply troubled with the loan that was offered in Jamestown, North Dakota. It was offered to a rural telephone company. It is a fine company, and I like RTCs, but I have real concerns about the damage that may be irreparable to a private, small businessman running a cable system in that community. And he doesn't understand why he has got to compete against a new competitor generously funded with subsidized government money.

Now, I am not asking you at this point in time to address that one, although I might, if you want to, I will evaluate. The damage is done. I mean, I would evaluate how in the world that happened, but just using that as a hypothetical, I still have questions about the application of this program.

I am a little concerned, Mr. Administrator, by—I like your candor, first of all. You acknowledge that you didn't know everything about this from the start, but gosh, we put $3 billion into this program, and to hear you say, well, as we get better at this, we are

improving the administration of the program. We don't really anticipate a long learning curve given those kinds of resources. We want you to go hire the help you need so that we can basically competently execute an assignment like that right from the get go.

I think that if you don't have loan demand, you ought to take such resources you can bring to bear and work on market development, not fund build-over projects just so you get some loans out the door, and I think that is what happened in part anyway.

I am also concerned about an area where you have not sought additional funding going forward, and that is this Community Connect Grant Program, which funds hookups to schools and libraries and community centers in some of these rural areas. If you are concerned about some of these hardest areas to reach with the broadband activity, why would you not seek funding for the program that directs it into some of these places like schools, libraries, and community facilities through the Community Connect Program?

Those are the things that are on my mind this afternoon. I would be interested in your responses.

Mr. ANDREW. The Community Connect, let me start with that. The Community Connect is a very good program, and we are pushing that very strongly. In fact, I think that there are a lot of places we have some, at least one example, of where Community Connects was the basis for starting out an expansion program out in the community. We would like to, we are, it is a competitive program as you well know. It is up for competition. They have to submit applications, and we, I think last year we, well, I will let Jackie, she hasn't said a word. Let me let her speak just to that issue. If you don't mind, sir.

Ms. PONTI-LAZARUK. Thank you. Community Connect as Mr. Andrew said is a wonderful program. Last year we had $8.9 million in grants, and more than 90 applications were received for $45 million in requests. So it is very popular. It is extremely competitive.

Mr. POMEROY. It is my understanding that you have not sought funds for next year?

Ms. PONTI-LAZARUK. In the current budget? The funding does come through other means, and in the current budget we have not sought funds for this program.

Mr. POMEROY. So this great program that you both have spoken to, you zero out next year if you have your way about it. It makes no sense to me.

Ms. PONTI-LAZARUK. Well, one of the wonderful things as Mr. Andrew alluded to is we do have some who graduate from the grant program into the loan program, and we find that in the loan program we can do a lot more with the dollars.

Mr. POMEROY. Schools, libraries, community facilities. I mean, there is probably not going to be a lot of graduation when we think about those entities.

I will continue to look on that one. I would like you to talk about build-out versus build-over, and get your sense for how you are administering this program presently. You have been talking about it through the day, but like I say, we have got a situation of particular concern in North Dakota.

Mr. ANDREW. As I indicated, I think that when the regulations come out you will be better satisfied with the answer to that question, but having said that, what we look at on an application is the percentage of take that somebody is getting in the community, and if there is a small percentage of take and there is a lot of people who are not getting it, that would be the only reason we would be looking at a build over. Now, let me give you an example.

I had a lady come into me that was the mayor of a small town out west. They wanted to build a system out there that was fiber, a loop fiber, a backbone fiber optics. They wanted to provide fiber to these communities, and we could only fund about five communities. The rest of them were too large for us to fund. But these 5 communities came to us and one of them was a community of 5,000 people. She said that they had already lost two industries because they couldn't bring broadband to those industries. She said also that the third one that they had in town, they were about to leave, and they do scientific products for NASA, for the Army, for the military, and if they didn't get high-speed internet to them, they were going to lose that industry. There were 2 providers in that town, and they were 100 yards away from them, and they would not take it to them. So we offered to do the job. And that is the example of what I am trying to say that when we build-over, that is what it is.

Now, if I understand correctly, they are probably getting it now. They wouldn't offer it to the college either in that town. As I understand it, the fact that we might be, that they might be doing something, sometimes I think that if we just advertise we are going somewhere, that it will get build out, because the people start to get active again when they see us coming or see a competitor coming. But that is an example of what, sometimes when we have to look at build-over.

Mr. MCINTYRE. Thank you, Mr. Administrator. I am going to have to stop this because we are running, we have run 2 minutes over, but I wanted to allow you to fully elaborate your answer.

Mr. ANDREW. Thank you.

Mr. MCINTYRE. And thank you for doing that, but we would welcome you to give any other example or explain further as necessary. Thank you for understanding, and thank you, Mr. Pomeroy, for some very excellent questions.

I would like to now call on a special guest of the subcommittee today. We are honored to have the gentlewoman from South Dakota, Mrs. Herseth Sandlin join us. Although she is not a member of this subcommittee, she is a member of the full committee, and I have consulted with our ranking member, and we are pleased to welcome her to join in the questioning of the witnesses.

Mrs. Herseth Sandlin.

Mrs. HERSETH SANDLIN. Thank you, Chairman McIntyre, for allowing me to attend today's hearing. I do want to thank all of today's witnesses and in particular too that you have been kind enough to let me introduce on the next panel, two South Dakotans. I commend their testimony to all members of the subcommittee.

I do have an opening statement I will submit for the record that lays out briefly some of the elements of the Rural Broadband Improvement Act that I have introduced, along with other of your

members on this subcommittee, including Mr. Pomeroy and Mr. Smith. So I will submit that for the record.

Mrs. HERSETH SANDLIN. But I do have just a couple of follow-up questions for Mr. Andrew if I might.

Mr. ANDREW. Yes, ma'am.

Mrs. HERSETH SANDLIN. I understand, Mr. Chairman, that you had requested that the regulations that the USDA is working on be submitted to the subcommittee within 10 days.

Mr. MCINTYRE. Yes, ma'am.

Mrs. HERSETH SANDLIN. I know in response to Ranking Member Goodlatte's question that, Mr. Andrew, you expect them any time. May I inquire, however, how long you have been undertaking the review and the proposed changes to the regulations? How long has this process been taking, how long has it, when did it start in other words?

Mr. ANDREW. We started the process in December of 2005. We started with a large group of people to analyze the good parts and the bad parts about the program that we had at that time. Then after we got all these things on paper, we reduced them down to a workable paper, workable project, and over the time, over that time from that, from February of 2006, to July of 2007. We were honing our process down, and for example, I know you are concerned about overlay, competition, and we had a lot of discussion with competitors from the cable industry and other industries. We also had discussions about what is rural and what is not rural and how do we identify what areas we are going to serve. Every time we thought we had something ready to come out we would find another issue that we needed to deal with, and that is what has taken so long--probably too long.

Mrs. HERSETH SANDLIN. But you don't anticipate any problems getting us the proposed regulations within the next 10 days?

Mr. ANDREW. I am sorry?

Mrs. HERSETH SANDLIN. You don't anticipate any problems getting us those proposed regulations within the next 10 days?

Mr. ANDREW. I sure hope not. I didn't have any, didn't think I would have any problems getting them, not getting them here today, but we hope to get them out. We have been promised anyway.

Mrs. HERSETH SANDLIN. Okay. Picking up on Mr. Pomeroy's questions, but also going back to a statement you made about the unserved areas and that the economics just aren't there, and that they are very small towns. You just gave the example of when you did go in, even though there were providers that were there in that community of about less than 5,000 and industry was possibly going to move out of that community, knowing how important broadband is to the revitalization of rural communities, including these very small towns, do you have any suggestions or will we see in the proposed regulations how we go about addressing the statement you made about the economics just not being there, or are the people that live in these communities just never going to be served by broadband?

Mr. ANDREW. Do you want to say something? I see you shaking your head. We would like very much to get awareness out there, Congresswoman. The little town I talk about where I come from,

I go to town every time I go there. I go into town and speak with the Chamber of Commerce, I speak with the industrial developers. Why aren't you doing something on broadband? Why aren't you doing something to bring this to our community of 2,500 people because it is going to be so critical to the success. It is drying up. The only answer I get is lack of leadership, and we have got to find a way to find that leadership.

Mrs. HERSETH SANDLIN. Well, I agree with you, and I do think that is an issue for communities of all sizes but I also support entrepreneurs, and that is where the issue of credit worthiness comes in. We all know how important that is as it relates to protecting taxpayers when we are dealing with a loan or loan guarantee program. But I do think as Mr. Pomeroy pointed out, if there isn't the demand for the loan, and there is a problem of lack of leadership, then we need to work together to figure out a way for market development or enhancing the leadership and building the type of leadership and support for entrepreneurs for the types of companies that would be willing to submit application and serve these unserved areas.

My time is drawing down, but I do thank you for your testimony, and we look forward to seeing the proposed regulations from USDA.

Mr. ANDREW. Thank you.

Mrs. HERSETH SANDLIN. Thank you.

Mr. MCINTYRE. Thank you so much, and thank you for joining us.

We now call upon Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Chairman, for holding this important hearing. You will recall a month or so ago Under Secretary Dorr was present with us and made the comment that providing rural broadband access is perhaps the most significant initiative that we can undertake to help ensure good rural economic development. So, thank you, Mr. Chairman, for following up on that comment.

Mr. Andrew, you did make the comment earlier to Mr. Smith that you currently have no methodology of identifying areas that are underserved, poorly served, not served at all, or conversely, areas that may be very well served or adequately served. Also in your testimony you, and I apologize if some of this is redundant because I just came in, but I skimmed through your testimony quickly. You make the comment that we want to do a better job of identifying where the holes are in existing service. I think we ought to reconcile those two comments. If you would talk openly about if this would be an important new policy initiative that we undertook some sort of identification strategy to understand where our holes are significant, and perhaps some type of rating scale that gave an indication as to how well communities are being served, if they are served at all. That could then tie into perhaps what Mr. Pomeroy was alluding to in terms of decision-making processes as to where you provide loans to ensure that we aren't unnecessarily entering into competition when there has already been build-out by the private sector.

Mr. ANDREW. We looked at this right from the very get go when I first got on board. We looked at the possibility of mapping the

United States and where we could identify who had it and who did not have it. The conclusion was finally reached that this thing is moving so fast that by the time we had the map finished, it would be obsolete. We didn't have the funds to do such a thing as that. Now as recently as 2 or 3 weeks ago, we have met with the chairman of the FCC, and there is a possibly that we will be able to do some work with them about identifying these areas. Because right now they identify that if there is one person in a community receiving broadband service, that community is served. Well, of course, that is not the way it should be. We think that we might--we are going to be meeting with them on a regular basis to try to figure out a way to better identify where we are going. We have also identified a private contractor that may be able to help us. We think that they have got some data that can help us identify better than what we have been doing. We have to do that.

Mr. FORTENBERRY. Okay. Again, so then the presumption is that is an important initiative that you should undertake.

Mr. ANDREW. Yes, it is.

Mr. FORTENBERRY. I would agree. I think that, providing that information is going to be critical as you move forward in potentially any reform of the program that looks at as to how you grade an applicant's, the viability of a potential applicant for a loan that provides service in the area if we know clearly that it is a potential duplication of private market sectors or if there is somewhere in-between versus not having the service at all versus enhancing existing service. And you might be able to grade, if you will, the applicant on using some methodology, having a clearer understanding of what the market is already providing.

Mr. ANDREW. If you don't, if you will, I will give you an example of how difficult that might be. I live in an apartment building in Arlington. When I got there, I applied for broadband coverage or applied for, I won't say with whom. They said, yes, we can provide it. Well, then in the 2 days that they are supposed to connect it, they said they don't have the capacity. Well, if I were to look at a map and look at what is covered, they would say that Arlington is covered, but I couldn't get it. So I had to go to another provider. I almost put in a satellite receiver, but I could not get it there because the capacity was not there. They were overloaded, so if we were to look at a map, it would say that it is covered, but a lot of us still couldn't get it. We are finding that to be true in a lot of places. But we have got to identify, better identify places where we need to be going. There is no question about that, and we have got to find a way, Congressman Pomeroy, we have got to find some boots on the ground to help us get this program delivered because basically we are not deliverers. We are bankers, but we need to find a way to deliver this stuff. We have thought a lot about this. I have worked with Rural Electric, for example. They have got people on their staff that are marketing people that work with the Chambers of Commerce, county commissioners and so forth. If they could help us, say, ″Look, let us get broadband.″ Some of these co-ops are now offering broadband more and more.

So we are trying to find ways that is within our purview.

Mr. FORTENBERRY. Well, I appreciate your comments. Obviously it is very complicated and difficult. My suggestion about a grading

system was not indicating any policy preference but just putting a new idea on the table to suggest that I think we do need some attempt to collect the data and how that could potentially be an important input into your processes of evaluating loan applicants.

So thank you.

Mr. MCINTYRE. Thank you. We thank you for being with us, Mr. Andrew, and Ms. Ponti, congratulations on your recent marriage. Thank you all. We will look forward to getting the regulations hopefully by tomorrow, but in no less than 10 days.

Mr. ANDREW. It helped me a great deal, sir.

Mr. MCINTYRE. Yes. Thank you all so much.

We now will call, we will excuse this first panel and call our second panel to the table.

Thank you. Welcome our second panel to come before us today for the Specialty Crops, Rural Development, and Foreign Agriculture Subcommittee. I would like to recognize the Ranking Member from Colorado to introduce her constituent who is testifying on this panel.

Ms. Musgrave.

Ms. MUSGRAVE. Thank you, Mr. Chairman. Well, again, Kevin Felty from Joes, Colorado. He and I had a good chance to visit and I introduced him previously, but Kevin, we are glad to have you here today and look forward to your testimony along with the rest of the panel.

Thank you, Mr. Chairman.

Mr. MCINTYRE. Yes, ma'am. Thank you, and I would like now to call upon the gentlewoman from South Dakota to introduce her constituents who are testifying on this panel.

Mrs. HERSETH SANDLIN. Thank you, again, Mr. Chairman. I would like to take this opportunity to introduce the witnesses from the great State of South Dakota. Tom Simmons, Senior Vice President of Public Policy for Midcontinent Communications, and Denny Law, Eastern Regional Manager for Golden West Telecommunications Cooperative Association.

Incorporated in 1916, Golden West Telecommunications headquartered in Wall, South Dakota, was the first company to run telephone lines across the remote plains of western South Dakota. Today, despite serving the most remote regions of our State, Golden West is the statewide leader in information, communications, and entertainment. The history of Golden West, despite the many barriers it confronts, serves as the perfect example for both the success and the challenges of providing telecommunication services to rural America.

Mr. Law's early years in the communications business include ownership of a start-up inter-exchange carrier in 1990, and a start-up internet service provider in 1994. He has served as general manager of Sioux Valley Telephone Company and a Golden West subsidiary since 1997. In addition, Mr. Law serves in a larger capacity as I mentioned as eastern regional manager of Golden West Telecommunications.

We also have with us today Mr. Tom Simmons from Midcontinent Communications. Midcontinent, headquartered in Sioux Falls, South Dakota, is the leading provider of cable television services, as well as local and long distance telephone service,

high-speed internet access, and cable advertising services for communities in both North and South Dakota. Prior to his 20 years of service at Midcontinent Communications, Mr. Simmons managed radio stations in Spokane, Washington, Boise, Idaho, and Green Bay, Wisconsin. He has provided testimony before the U.S. Senate Commerce Committee, the Senate Agriculture Committee, and the North Dakota Public Service Commission, along with legislative committees in both North and South Dakota.

So I want to thank both of them for their testimony, commend to you, Mr. Chairman, and our ranking member, and thank you again for allowing me to participate in today's hearing.

Mr. MCINTYRE. Thank you so much, Mrs. Herseth Sandlin, and I would like to note that in addition to those that have already been introduced by members of the panel or the larger committee, we know Dr. Geller was mentioned earlier by Chairman Peterson. He will be our first witness, the President of the Center for Rural Policy and Development from St. Peter, Minnesota.

Also, we have on the panel Mr. Walter McCormick, Jr., President and Chief Executive Officer of the United States Telecom Association here in Washington, and we welcome you as well.

So with that we have all of our panel introduced, I believe, and Dr. Geller, if you will begin.

STATEMENT OF JACK GELLER, PRESIDENT, CENTER FOR RURAL POLICY AND DEVELOPMENT

Mr. GELLER. Chairman McIntyre, members of the subcommittee, it is indeed an honor to be here today. My name is Jack Geller. I am President of the Center for Rural Policy and Development in Saint Peter, Minnesota. My comments this afternoon will be limited in scope, and I will focus on the importance of having accessible and affordable high-speed telecommunications infrastructure throughout rural America. In that discussion I will touch upon the adoption and deployment of broadband services throughout rural Minnesota and what we have learned about the value of having good objective data on the utilization consequences of broadband technology to Minnesota policymakers, industry executives, and rural organizations.

In many ways the need for access to these broadband technologies for our rural communities and businesses is really self-evident. As FCC Commissioner, Michael Copps noted last month after learning of a new report that dropped the United States in its rankings from 12th to 15th among OECD nations in broadband penetration, these rankings are not a beauty contest. They are about the competitiveness, our competitiveness as a country and creating economic opportunity for all of our people. It is with this very reason that Federal agencies such as RUS have put funding programs in place to assist rural America in remaining viable and economically competitive and connected.

At the Center for Rural Policy and Development we have been conducting annual technology assessments since 2001. In that first year we reported that only six percent of rural Minnesotans purchased a broadband service at home. I am pleased to tell you that last month in April, 2007, we reported that, to date, 40 percent of rural Minnesota households subscribe to a broadband service. This

is just a few percentage points below the national subscription rate of 42 percent as reported by the PEW internet and American Life Project.

Of course, the adoption of high-speed telecommunication services is simply not possible if such broadband services are inaccessible or unavailable throughout rural Minnesota and rural America. Accordingly, in 2003, we also began working with Minnesota's broadband providers to monitor the deployment of broadband services throughout rural Minnesota as well. The outcomes of these monitoring efforts has been valuable to policymakers, broadband advocates, and industry officials as we no longer need to make generalizations based upon case-specific or anecdotal events.

For these statewide assessments we reported that access to broadband services, while not ubiquitous, is quite widespread throughout rural Minnesota. Overall more than 85 percent of Minnesota's rural communities have access to at least one broadband provider and more than one-third have access to competitive broadband services.

Essentially today if you live in rural Minnesota and live within one of our 800 municipal boundaries of the cities and towns in Minnesota, there is a very high probability that you will have access to at least one broadband provider. However, that is not the case if you reside outside the municipal boundaries

Across Minnesota's countryside accessibility and availability of broadband services is considerably less consistent. In Minnesota more than 900,000 residents currently live outside these boundaries. The reality is, in spite of all this added emphasis on advanced telecommunication services, there is embarrassingly poor information and data on the adoption, diffusion, deployment, and utilization of these technologies. In fact, as mentioned today, the Federal government still has no credible list simply identifying which communities do and do not have access to broadband technology.

Accurate data and information on the availability and consequences of this significant public investment is essential. Recently, the Federal Communications Commission validated the importance of such information when they announced their efforts to determine whether high-speed internet access is being made available fast enough--calling it critical to the Nation's economy. Specifically, the FCC emphasized the need to assess the availability of broadband service in rural and other underserved areas. That is a great first step.

In closing, I see my time is waning quickly, allow me to offer the observation that if the Rural Utilities Service were a technology company making such sizable billion dollar technology investments, it would be unheard of that it were not spending a sizable percentage of its revenues on research and development. The need to understand the consequences and the outcomes of these public investments is evident.

Allow me to suggest that in the case of RUS, a simple set aside of less than five percent of program and loan funds and actually considerably less than five percent, would be one of the best investment strategies that Congress could make.

Chairman McIntyre, members of the subcommittee, I see my time is up, so let me thank you for this opportunity. I really appreciate it.

Mr. MCINTYRE. Yes, sir. Thank you.

Mr. Simmons.

STATEMENT OF TOM SIMMONS, SENIOR VICE PRESIDENT OF PUBLIC POLICY, MIDCONTINENT COMMUNICATIONS, ON BEHALF OF NATIONAL CABLE AND TELECOMMUNICATIONS ASSOCIATION

Mr. SIMMONS. Chairman McIntyre, Ranking Member Musgrave, and members of the committee, thank you for allowing me to testify today and also thank you, Congresswoman Herseth Sandlin, for being here as well.

My name is Tom Simmons, and I am the senior vice president of public policy for Midcontinent Communications, a leading provider of cable telecommunications services in rural America, including digital, cable television, broadband internet, and telephone services. We serve over 200,000 customers in approximately 200 communities in North and South Dakota, western Minnesota, and northern Nebraska, generally classified as rural and small. The size of our communities ranges from densities of 5 to 116 homes per cable mile, with populations ranging from less than 30 in Barlow, North Dakota, to our largest community, Sioux Falls, South Dakota, which has a population of about 150,000.

Midcontinent launched its broadband internet service over 10 years ago in Aberdeen, South Dakota, and made a pledge then to bring advanced broadband services to as many customers as possible regardless of the size of the community. The continued build out and upgrade of our system has required Midcontinent to invest well over $100 million in private risk capital to bring advanced services to our customers in rural America without the assistance of public funds, and we hope to continue doing so.

We are proud of our ability to deliver the services our customers in relatively small towns demand, which are no less than those desired and expected in suburban and major metropolitan areas. And Midcontinent's not alone. The cable industry has invested over 110 billion during the last 10 years to become the largest provider of broadband service in America, and according to Kagan Research, cable internet service is now available to 94 percent of all U.S. households including hundreds of small towns and communities in rural areas across the country.

However, despite the widespread availability of broadband service, there are still sparsely-populated areas of the country that are not served. Recognizing this, the cable industry supports legislative initiatives and government programs designed to promote broadband deployment in these unserved, rural areas.

The Rural Utilities Service Broadband Loan Program is a prime example of a program that was intended to make it economically feasible for the private sector to serve rural communities that lack broadband service. Though we support the goals of the RUS Broadband Loan Program, we are very concerned about how this program has been implemented and managed. And our concern was validated by a September, 2005, report from the USDA's own

Office of Inspector General. In particular, the report and the cable industry's concerns center on the fact that our U.S. loans are largely being used to subsidize broadband deployment in areas already served by companies that deploy broadband service without a government subsidy using private risk capital.

Additionally, RUS rules make it difficult for anyone, existing providers, the public, even RUS staff, to assess the accuracy of the claims made by an applicant regarding existing broadband service in the area it proposes to serve. As such, the RUS is often unable to determine whether the grant of a loan will undermine private sector competition, and before the process lacks transparency, taxpayer funds are being misspent on projects that are not extending broadband service to those unserved rural communities.

I know this personally since the town of Mitchell, South Dakota, was over-built with RUS funds, despite the fact that the project didn't reach any unserved homes. And Midcontinent had already invested nearly a million dollars to upgrade the existing cable plant to provide those advanced services. Last week Representative Stephanie Herseth Sandlin, along with Representative Jerry Moran, introduced legislation to reform the RUS Broadband Program. The cable industry supports this legislation. HR 2035 would redefine eligible rural community so that scarce Federal resources are not squandered on projects that serve densely-populated suburban areas where broadband competition already thrives.

The bill would also create an incentive for applicants to deploy broadband service to as many unserved households as possible by only granting a loan for the full amount of the project if at least half the households proposed to be served do not have broadband available to them.

Mr. Chairman, the legislative changes prescribed in HR 2035 would do much to ensure that the RUS refocuses the Broadband Loan Program on its original mission by bringing broadband service to unserved rural areas. However, to fully address the program's problems, the cable industry also believes that considerable changes have to be made to the RUS broadband loan application assessment and approval process. These changes should require much needed transparency, aggressive oversight, and a notice and comment period for the loan applications. If the RUS cannot ensure that it has complete and accurate information regarding the applications, then any legislative changes made by this committee will be considerably less effective.

In closing, let me reiterate that Midcontinent supports the Federal government's goal of ensuring that all Americans have access to broadband services. However, any government program designed to promote broadband deployment must be carefully defined and targeted at those areas that lack broadband service.

Mr. Chairman, thank you, again, for inviting me to testify today. I would be happy to answer any questions that you or the members may have for me. Thank you.

Mr. MCINTYRE. Thank you, Mr. Simmons.

And now Mr. McCormick. Welcome.

STATEMENT OF WALTER B. MCCORMICK, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED STATES TELECOM ASSOCIATION

Mr. MCCORMICK. Thank you, Chairman McIntyre, Ranking Member Musgrave, members of the committee. I appreciate the opportunity to appear before you today.

The United States Telecom Association represents innovative companies ranging from the smallest rural telecoms in the nation to some of the largest corporations in the United States economy. The vast majority of our member companies are rural companies. They are small businesses serving small communities. They are deeply committed members of their communities.

What unites our diverse membership is the sheer determination to deliver innovative services to consumers. We are enthusiastic about our role in driving the next wave of broadband-based innovation which holds the promise of significant life-enhancing advances from healthcare to the environment to education to our economy. We believe it is critical that these opportunities be accessible in rural America so we wholeheartedly support the objective of ubiquitous, nationwide broadband. We were pleased to see that affordable broadband access for all Americans is now a component of Speaker Pelosi's innovation agenda. Similarly, the Republican High Tech Task Force is calling for policies that "promote widespread deployment and use of broadband technology."

Broadband deployment and adoption should be bipartisan objectives, and we believe that RUS has a vital role to play in advancing these goals in rural America. Specifically, we believe that five modest changes to the RUS Broadband Loan Program can produce significant progress in terms of enhanced rural broadband deployment.

First, target program resources. We believe the current program can more aggressively target areas with no current broadband access. We believe the successful RUS Telephone Program offers many helpful suggestions for doing so. In that program, for example, the RUS administrator must issue a non-duplication finding prior to making a loan. Such a requirement in the Broadband Program would help direct funds to where they are most needed. The Telephony program also requires that service be extended to the widest practical number of users in the service area, unlike the Broadband Program, where service is sometimes confined to town limits.

Second, enhanced investment incentives. While cost-of-money loans make projects financially viable in some communities, higher cost areas require below-cost loans or a combination of loans and grants to make a costly infrastructure build feasible. Particularly as the program focuses more sharply on unserved areas, this approach will become increasingly important. Congress should encourage RUS to look at the unique needs of unserved communities and find ways to enhance incentives for private investment. Taxpayers will reap the benefits of broadband-driven economic development, and we believe this would increase loan applications targeting the more hard-to-reach areas.

Third, expand eligibility. Expanding the range of companies eligible for these loans would also help. Unlike the Telephony Program,

the Broadband Program prohibits loans to companies that serve more than two percent of the nation's customers. So while the FCC, for example, classifies Embarq as a rural carrier in 17 of the 18 states it serves, it is prohibited from using RUS loans to bring broadband to unserved communities. The emphasis in our view should be on the infrastructure needs of a community, not on the company willing to serve it.

Fourth, steps can be taken to improve loan processing.

And fifth, Congress should explore innovative public-private partnerships such as the partnership in Kentucky known as Connect Kentucky, which has done far more than accept government loans. It has mapped broadband availability throughout the State, something no other State has done. It created technology teams in each community that lacked broadband. 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 percent of its household. We think Congress might look to Connect Kentucky as a model, and in fact, Senator Durbin recently introduced legislation that would do just that.

Mr. Chairman, after 60 years the RUS loan programs remain an essential public-private partnership. The United States Telecom Association and its member companies stand ready to work with this subcommittee to make broadband ubiquitous.

Thank you again for the opportunity to appear before you today, and I, too, would be happy to answer any questions you may have.

Mr. MCINTYRE. Thank you, and thank you for your very timely testimony.

Mr. Law. Welcome.

STATEMENT OF DENNY LAW, EASTERN REGIONAL MANAGER FOR GOLDEN WEST TELECOMMUNICATIONS COOPERATIVE, ON BEHALF OF NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION

Mr. LAW. Thank you. Chairman McIntyre, Ranking Member Musgrave, members of the subcommittee, I would like to thank you for the opportunity to be here today. Congresswoman Herseth Sandlin, thank you very much for the kind introduction.

I am here on behalf of the National Telecommunications Cooperative Association and Golden West Telecommunications Cooperative based in Wall, South Dakota.

After President Truman signed the Telephone Amendment to the Rural Electrification Act in 1949, residents of Quinn, South Dakota, met to form Golden West Telephone Cooperative and soon applied for a loan from the REA. Today, Golden West Telecommunications and its subsidiaries now provide service to over 43,000 telephone customers and 15,000 internet subscribers in South Dakota. Golden West serves customers across 63 telephone exchanges and over 24,000 square miles. That is a geographic area larger than the States of New Hampshire, Massachusetts, and New Jersey combined.

Due to RUS funding, many communities served by independent telephone cooperatives throughout the United States have significantly higher broadband deployment than neighboring communities served by regional Bell operating companies. Since 1995, RUS tele-

communications infrastructure loans have been required to be in harmony with State modernization plans and be broadband capable.

NTCA members' tremendous record of broadband deployment in some of the most remote and rural areas of America is largely due to the RUS Telecommunications Loan Program. NTCA's 2006 annual members survey shows more than 96 percent of its members are offering broadband to some portion of their customer base, and 88 percent of its members are providing broadband at speed of more than 1 megabit per second.

Since the initiation of the RUS Broadband Loan Program 5 years ago, RUS has made over $1 billion in loans to 68 entities. RUS broadband loans have been used by some rural independent companies to increase broadband capabilities within their traditional service territories.

Other independent telecommunications providers have used the Broadband Loan Program to overbuild or compete in communities outside their traditional ILEC territories where broadband deployment may not be as advanced. However, there are also stories in many parts of the country where broadband loans have been approved in areas where broadband services already existed through two or more competitors. While overbuilding and competition is allowed under the regulations, I do not believe this is what Congress had intended when the farm bill was signed into law.

The Rural Broadband Improvement Act, HR 2035, was recently introduced by Representatives Herseth Sandlin and Moran. Golden West believes the Rural Broadband Improvement Act would provide better definitions for rural and urban, as well as limit loan fund availability for applicants proposing to serve areas that already have a broadband provider. Golden West supports HR 2035.

As a Telco provider, I am well aware of the challenges faced by a Federal agency trying to determine where broadband currently exists. I believe that RUS should be able to better determine the level of broadband deployed based on their own lending portfolio inventory. As Golden West has just been approved for our 25th telecommunications infrastructure loan through RUS since 1954, I am well aware of the high standards required for borrowing from the American taxpayers. The level of information required by RUS for approval of an infrastructure loan is extensive. A similar level of information should be required under the Broadband Program.

Golden West's success in connecting farms, ranches, small communities, and tribal areas throughout South Dakota illustrates how vital RUS Loan Programs address the needs of those residents living in rural America. In many communities, rural independent telecommunications companies provide broadband in areas outside the city limits where a cable company or a regional Bell operating company has no interest in providing that service. These rural residents deserve the same consideration as those living within the city limits. What is good enough for the residents living just a few miles from the Houston skyline should be even better for those residents living outside of Wall, South Dakota.

Golden West and other rural independent telecommunications providers have an extensive history of providing voice and advanced telecommunications services to remote, high-cost areas of

rural America. Since the 1950s, RUS infrastructure loans have provided a solid foundation for the deployment of these basic and advanced telecommunications services. The RUS Broadband Loan Program is a more recent application, and there are examples of loans being awarded to provide broadband to communities or regions where broadband did not exist. But it is obvious that this program could be working better.

Thank you for this opportunity. I welcome any questions you may have.

Mr. MCINTYRE. Thank you so much.

And now Mr. Felty. Welcome.

STATEMENT OF KEVIN FELTY, GENERAL MANAGER, PLAINS COOPERATIVE TELEPHONE, AND PRESIDENT, COLORADO TELECOMMUNICATIONS ASSOCIATION

Mr. FELTY. Good afternoon, Chairman McIntyre, Ranking Member Musgrave, and committee members. My name is Kevin Felty, and I am the general manager of Plains Cooperative Telephone Association, and its wholly owned, deregulated subsidiary, Plains Communications Services.

Our headquarters are located in Joes, Colorado, on the extreme eastern plains of our State. Plains Telephone provides voice and data service to 1,350 access lines in 7 exchanges encompassed in 2,000 square miles. That gives us a density of .7 subscribers per mile.

Despite the vast expanse we have 100 percent availability of broadband services via our telephone plant with a penetration rate of 32 percent. We are often referred to as the poster child for rural high cost companies. In several meetings at State level as well as RUS when they come out and do drive throughs, they just marvel at the vast expanse.

We have been a 45-year traditional borrower of RUS funds. We have a very inherent understanding of the loan process and requirements associated with doing business with the RUS much like Golden West. Programs like the Broadband Loan and Grant Programs are key components to most companies' business plan if they intend to serve rural America. Traditional capital sources do not understand the costs associated with serving such a sparsely-populated area. They don't like the slim margins in the product line of broadband, and furthermore, most large companies just don't play where we live, where we choose to live. That leaves deployment of advanced services up to companies that understand this type of business model.

In my prior position before becoming general manger of Plains Cooperative Telephone I was Manager at Sunflower Telephone Company, a FairPoint Communications property. While serving as Manager of Sunflower, I actively pursued and was awarded a Community Connect grant. This grant allowed Sunflower to bring broadband service to 3 exchanges that had a total of 307 access lines in a 900 square mile area.

Today, checking with my counterparts at FairPoint, 20 percent of the customers of Towner, Sheridan Lake, and Harman Colorado have subscribed to these broadband services and are using them as everyday business tools. During our scoring process in the grant

application we received 70 percent out of a possible 70 percent in the demographic portion of the application. That consisted of density, mean family income, and other quantifiable measurements. By all accounts the $300,000 capital investment we needed to complete this project would not have come close to a satisfactory rate of return on any investment for any company. Without the grant from RUS these communities would still be on the wrong side of the digital divide.

While I sit here and sing the praises of these programs, they are not without systemic problems. We have touched on most of them. I will skip over some of the few I have listed. But in an effort to secure financing for our subsidiary's wireless broadband development, we did a review of the Loan, the Rural Broadband Program administered by the RUS. We found the process to be too cumbersome administratively as evidenced by the 38-page application guide and the 58-page actual loan application. We managed to fund the project internally, and it did end up slowing our rollout.

In light of recent and past criticisms of the Broadband Loan and Grant Program, I think a few inherent questions need to be asked, and a lot of them have been today. Does the RUS staff have a clear understanding of the legislative intent?

We may need to revisit the definition of broadband. Today, the FCC, as well as the RUS, defines broadband as 200 kilobits per second. That is just slightly better than a dial-up connection.

Regarding the quantity served versus unserved areas, we have touched on that. Most witnesses have touched on that today.

Is the current staff at the RUS adequate to fulfill the wishes of Congress and the technology they use? And can the loan applications be streamlined?

We have referred to the Office of General Counsel's audit, and I won't review what most people have already said here again. These instances were splashed all over the pages and caused embarrassment to the RUS, USDA, as well as Congress and this committee. I believe the program is viable and with some modifications it can be accessed by the parties it was intended for, as well as fulfill the legislative directive. The establishment of a Rural Broadband Initiative or Caucus could maybe provide direction to all parties involved. It could become a database, the keeper of the data regarding who is served and who is unserved.

In closing, I would like to ask Congress and this committee to continue to support the longstanding national social policy of quality, affordable telecommunications services for all America, no matter what the remoteness or the cost of these services.

Thank you, and I would be happy to answer any questions.

Mr. MCINTYRE. Thank you so much and thanks to all of our panel.

I may have a question or two, but I am going to defer at this moment my time to our chairman of the full committee, Mr. Peterson. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. Dr. Geller, Minnesota is apparently doing quite a bit better than the rest of the country. Could you tell us why you think that is?

Mr. GELLER. Mr. Chairman, Representative Peterson, there are a lot of reasons why, but I would say that probably one of the most

important ones is unlike some other States, and I can't really speak to every other State, but some States are just totally dominated in almost all their markets with their baby Bell, with their Regional Bell Operating Company (RBOC). In Minnesota, as you well know, we have a large number, dozens and dozens and dozens of telephone cooperatives, small family-owned telephone companies, and independent telephone companies, and so essentially at the end of the year when they look at reinvesting their profits, they don't have to question where exactly we are going to make these capital investments. They are going to make them in their service areas. When you are a large regional Bell, and you have a dozen, 14 or more States to cover, you have a lot of choices as to where you are going to deploy that technology. So I am sure it is true in South Dakota and elsewhere as it was in Minnesota that as we saw the rollout of broadband, it was not unusual for small rural communities to actually have the technology before some of the larger areas just because our small independent telephone companies were investing in their sole service areas.

Of course, there are lots of other reasons why. I think Minnesota as a State is rather aggressive in pushing all kinds of public services online. That is one thing we really hadn't talked about--how Federal, State, and local governments are aggressively pushing more and more public services online from purchasing car tabs to--most businesses pay their quarterly sales taxes online, on and on and on. As we start seeing government pushing more public services, I think it is important for us to ask what role does the government have in making sure that residents in remote rural areas can access those very same services.

Mr. PETERSON. This development of a national broadband map has attracted attention by some people, and some have identified this program called Connect Kentucky as being a model. What do you think of such State programs and are the States better able to prepare these maps than the Federal government or why, and I don't get involved in this area so much, but I remember a few years ago the State of Minnesota was getting involved in this, and they were actually trying to overbuild what the private sector was doing. Did that get straightened out? Apparently I don't hear about it anymore so——

Mr. GELLER. Well, Chairman Peterson, essentially the Courts kind of straightened it out in Minnesota, but we created similar maps in Minnesota. As a matter of fact, in my written testimony I provide such maps. The problem you run into is, as you noted awhile back when Administrator Andrew was speaking, the issues often lie in the smallest communities and people living in the countryside. And for many of those markets that are less attractive, many of the solutions are wireless solutions, and trying to actually map the reach of a wireless provider is not nearly as easy as a telephone provider or a cable provider, and sometimes it is similar to, ″Can you get this AM or FM station in your community?″ Well, some days when the wind is blowing in the right direction, I can. Other days I can't. Oftentimes when you are dealing with wireless solutions, if you are kind of on the periphery, it is really difficult to figure out whether you are really being consistently covered at speeds that we would consider broadband. But I do think this

whole issue of assessing our telecommunications capacity throughout rural America to help target the investments, to really understand the consequences of these kinds of investments doing what we think they are supposed to be doing. Everything from making rural businesses more competitive, rural economies, rural communities being able to retain and attract new businesses, so on and so forth. We often do this based upon assumptions. We don't often have really good data as to whether or not the consequence is what we hoped it would be.

Mr. PETERSON. Thank you. Thank you very much, Dr. Geller, and other panel members. Excellent job and thank you, Mr. Chairman, for your leadership.

Mr. MCINTYRE. Yes, sir. Thank you, Mr. Peterson.

Mrs. Musgrave.

Mrs. MUSGRAVE. I will have some questions later, but I would like to defer to Ranking Member Goodlatte.

Mr. MCINTYRE. Yes, ma'am.

Mr. GOODLATTE. Thank you, Mr. Chairman, and I thank the ranking member.

You heard the testimony of the Administrator. We really have a problem here in terms of trying to get broadband spread across the county, and the companies that you represent are the principle place that we look to accomplish that goal. And so when we look to the Rural Utilities Service we want to do it in such a way that it is not unfairly competing with private companies and private investment dollars. On the other hand, just relying on private companies to reach some of these most remote areas is not completely working.

I wonder if you each might comment about the Connect Kentucky program, which obviously is a program that has received a lot of compliments for identifying areas not served in the State. By the way, I am absolutely sure that map was not completely accurate, but identifying areas not served by the State and then utilizing both Rural Utilities Service funds and State funds to target those areas that are not served.

Mr. McCormick, do you have a view of that?

Mr. MCCORMICK. Yes, Congressman. Thank you very much. We think that the Connect Kentucky program is a very intriguing model. Intriguing based upon its success. The fact that Kentucky has gone to, from such a low level of broadband adoption to such a high level of broadband adoption really merits some focus on that.

But we also think that we appreciate the committee having this oversight hearing because the Rural Utilities Service has money. It has got a telephony program that has worked. It seems to be trying to reinvent the wheel with the broadband program. It can look to what it did with the telephony program. I mean, get the money out there and get broadband into areas that are unserved today. It shouldn't be sending money to areas where it is duplicating investment that is already there. It ought to be focusing on areas that need broadband. And so we think that your lighting a fire under them at this hearing today is a very, very good thing to have done.

Mr. GOODLATTE. Mr. Simmons, do you agree with that comment from Mr. McCormick, and what is your impression of the Connect Kentucky program?

Mr. SIMMONS. Well, I believe I generally do agree. What I know of the program, what is most intriguing for me, I think, is that there is a different party or a third party out there trying to examine what areas are served and unserved. Currently under the RUS program as Mr. Andrew I believe testified to, the only way they know about what areas are in question are by the applications. And through their processes those applications are very confidential. We have tried on several occasions to try to get information about details of applications and have been thwarted at every effort. So as it stands now the only ones defining what is or is not unserved are the applicants, and I fear that is terribly inadequate.

I do know that there are other informal programs that are going on in other areas not quite——

Mr. GOODLATTE. Let me interrupt you because I only have a few minutes, and I want to ask you a couple other things.

Mr. SIMMONS. Okay.

Mr. GOODLATTE. The Administrator testified that there have been very few, if any, applications from cable companies to participate in the RUS program, and I know there are many cable companies in my district. I have not talked to very many of them about this issue other than to receive similar types of complaints that you have about having to compete with others. They are either experiencing that or concerned about having to experience that. Why is it that cable companies have not applied for funds to reach out beyond their normal service area into areas that are more expensive to reach? It is a smaller number of customers per mile of line. Is the RUS program not desirable to participate in from that standpoint, and if not, why not?

Mr. SIMMONS. Congressman, the program is very difficult for a cable company to participate in, primarily because the RUS program was modeled after the business operations of an RTC, a rural telephone company. Cable companies typically borrow money from bankers to upgrade and to operate their systems, and for an MSO, a multiple system operator, to go to the RUS and agree to a first lien on the assets of the entire company makes it very difficult for us to do. The bankers would have a great deal of difficulty with that.

So almost——

Mr. GOODLATTE. Let me ask Mr. McCormick since he represents some of those telephone companies, why the telephone company experience would be different. I understand you also want to see changes, and I want to see changes to the RUS program, but why is it that can work for a telephone company and not for a cable company?

Mr. MCCORMICK. I think that the principle difference is our telephone service area is usually different from the cable company's franchise area. Cable companies tended to locate in areas where there was a concentration of population. Our footprints sort of extend on the basis of service to broader geographic areas, and so our whole service ethic is about trying to get service out to as many people as possible. It is just kind of a different business model.

Mr. GOODLATTE. All right. And that is the model really of a government entity that is trying to get it extended beyond where the cable industry is going, but I also don't see why when you have got in the old days you had cable companies and you had telephone companies, and never the twain shall meet. Now you both in urban areas are competing very heavily with each other, and what we are trying to accomplish in rural areas is to get one and ultimately we would love to see both of you out there competing out there, too, but we recognize that the first step is to get at least one of you out there.

What do we need to do, Mr. Simmons, to change the RUS, not to just restrict its competition with you, but to get you out there utilizing this program in more costly areas to get out there? Do we need to change it so that you don't have to put a lien on your entire company, so you only have to provide some other form of security? Or what can we do to get you to reach out beyond where you are located now and serve people in the closed in areas outside of small cities that do not have high-speed broadband service today because neither one of you are reaching them?

Mr. SIMMONS. Congressman, I think the lending requirements would be a very good step. I would very much appreciate the opportunity for our industry to participate in the design of this new plan that would offer an opportunity for several different business models to embrace those of cable industry but also the companies that are not necessarily in the telecommunications business today but might be providing solutions with some of the wireless technologies as well.

I think additionally in my formal testimony there are some examples that might be helpful, like providing tax credits or other tax incentives to providers that build out in these rural areas, to make sure that, or to consider an expansion of the FCC's Lifeline and Linkup Programs. There are other private and public partnerships in these areas that I think would be very helpful. I know that we voluntarily within my company have partnered with a few wireless telephone providers that go from our cable plant out into those areas, but we supply them with the back haul link into the internet that would be terribly expensive for them were they not able to obtain it in that community.

I think there is a lot of things that we can do by getting a variety of people together, and if the RUS were willing to consider other models, other opportunities, other ideas other than an extension of the models that they have been working with for the last several years.

Mr. GOODLATTE. Thank you. Mr. Chairman, my time is well passed, and I thank you for your forbearance.

Mr. MCINTYRE. Yes, sir. Thank you, and it is a pleasure to have you and the chairman with us today.

I would like now to defer my time to Mrs. Herseth Sandlin. Mrs. Herseth Sandlin.

Mrs. HERSETH SANDLIN. Thank you, Mr. Chairman. I want to thank all of you for your testimony. It is very insightful, and Mr. Law, thank you for the work of Golden West and the support for the bill that was recently introduced by me and a number of my colleagues, a bipartisan bill. It reflects a lot of input and com-

promise from a wide spectrum of organizations. And I know that NTCA, who your testimony on behalf of today, as well as NCTA Quest and others, has been valuable.

I would pose a question to you and others on the panel, however, to the extent you are familiar with the bill. We don't want to make what we think are unnecessary changes because of how the program has been administered in a way that we didn't intend and then place too many restrictions on the Loan Program so that folks in unserved areas don't benefit.

So the question I would have to any of you, are there recommendations that you would have for the bill? I know that 1 topic that has come up in some conversations with some of my colleagues has been the 10-mile, non-eligible boundary. Does that create problems for some of your fellow cooperative members or for communities in South Dakota or communities like Mr. Goodlatte's that are just two miles outside of what would be defined as an urban cluster or a larger community, all the different definitions we used? Because, again, I want to make sure that we make appropriate changes to the bill as it is currently drafted so that we don't overdo it and impose restrictions in a way that leads to other unintended consequences.

Mr. LAW. Congresswoman, I would suggest that rural densities to some degree will always come back to the forefront of this issue in terms of what is the fine line that you just tried to describe in terms of the 10-mile exclusionary rule. As you are aware, in South Dakota you can get two miles out of many of the communities in our home State and rural there looks like rural all the way across the rest of the State. I think it is, and Mr. Felty testified in terms of densities in his area. I don't think, and I think that will be one of the more difficult items is how do you define in terms of rural densities, and can it be a mileage exclusion, or does it deal more with a city limit, boundary, or a certain geographical or subdivision boundary. I wish I could tell you I had the answers to that. I do not, but I do know that I think there should be some type of litmus test that is reasonably designed. Is it 10 miles? I am not sure that is the magic number, but I am not sure it is much less than that either.

Mrs. HERSETH SANDLIN. Does anyone else care to comment on that question?

Mr. SIMMONS. Congresswoman Herseth Sandlin, I appreciate the job that you have done on this and that of your staff members. We have had an opportunity to speak with them on numerous occasions.

I agree with Dennis. It is very difficult to break this down to mileage situations. Communities are different. What I was most concerned about in looking at all this is that we not have a situation where we would have one or two homes or some circumstance that would somehow sneak through the process that would allow an overbuild of an entire community. That to me is gaming the system and not the intent of the overall program.

I know that you have a finite period of time to come up with a bill in language that hopefully will be enacted into law, and that everybody has forever to figure out a way around it. I just hope that the attention of the RUS and this oversight committee would

be on the original mission of taking care of people in unserved areas and not on seeing how much, how many loans we can process or get out the door. I am concerned that has been more the fact previously in the program.

Mrs. HERSETH SANDLIN. Point well taken, Mr. Simmons, in terms of the full committee and the various subcommittees oversight and the importance of what happens in the implementation process and how it fits with what we intended as we make these changes, whatever changes are ultimately made to the program.

But one last question based on what you just said about the need not to overbuild. You had stated in your testimony you proposed requiring that all projects that receive an RUS loan be required to survey a certain minimum percentage of unserved households. So I guess my question, Mr. Law and Mr. Felty, is what are your thoughts regarding that proposal? If the percentage was set at a reasonable amount, say 20 percent, do you think your fellow cooperative members would strongly object?

Mr. MCINTYRE. If you will answer that as briefly as possible.

Mr. FELTY. I don't think they would object.

Mr. LAW. I concur.

Mr. MCINTYRE. Okay.

Mrs. HERSETH SANDLIN. Thank you, Mr. Chairman.

Mr. MCINTYRE. Thank you, Mrs. Herseth Sandlin, and if you would like to expound on that, we would welcome you to do so in your, any further answer on that question.

We now call back on the Ranking Member, Ms. Musgrave.

Mrs. MUSGRAVE. Thank you, Mr. Chairman. I would just like to ask the entire panel do you think that a national broadband map would be beneficial?

Mr. FELTY. It would be hard to maintain. I think it would be outdated as soon as it came off the press, but I think it would be a good start. As long as it was updated.

Mrs. MUSGRAVE. Anyone else?

Mr. MCCORMICK. I do not think having the Federal government undertake a national broadband map would be the right way to go. I do think the approach that was taken in Kentucky where you have local public-private partnerships engaged in mapping with an objective in mind, which is to get broadband out, to look for solutions to get broadband out to those unserved areas, that would be a productive exercise.

Mr. GELLER. As someone who has actually created such a map for the State of Minnesota, I could tell you that the value of it will only be equal to what you are hoping to accomplish with it. If, in fact, you are trying to create a map that is the definitive, you know, map of the state of broadband in the U.S., then everybody on the panel, including Administrator Andrew earlier, is exactly right. It is going to be obsolete as soon as it is completed.

On the other hand, I could certainly make an argument that if the purpose of such a map is to create a baseline from which progress can be tracked over time, then, in fact, it may have some value. If you are only going to do it once, I would advise not to do it.

Mrs. MUSGRAVE. Okay. Thank you very much. Mr. Felty, in terms of speed, what should the classification be today to qualify

as broadband service? I know you had mentioned in your written testimony that the FCC and the RUS defined it as 200 kilobits per second.

Mr. FELTY. With the applications increasing, software downloads, the music, the gaming industry is really pushing for more and more broadband. I don't think that is an antiquated speed from a time perspective. I think the technology just passed it by. You know, 512 kilobit, 1 meg, 2 meg. I was a western WTA meeting the other day, and they are talking 10 meg being the minimum. I think every day goes by that speed will just increase and increase and increase, but a 200 kilobits per second is probably, a good dial-up connection is 64 kilobits. So to put it in perspective I would say a half meg to 1 meg.

Mrs. MUSGRAVE. Thank you. In your comments you also mentioned how a rural broadband initiative could help in the development of the services that we need and in rural Colorado. Could you comment on that further, please?

Mr. FELTY. Well, Congresswoman Musgrave, in our great State we have a commission that put it in writing that, and I brought it along with me, that there is no correlation between broadband services and economic developments. And I am fighting this at a State level. I think initiatives, key players coming together, be it members of the RUS, members of the cable industry, members of trade organizations. Maybe pulling together and educating. Policymakers know what it is. Educating the general public. Some of the policymakers are at a State level that just don't understand the correlation between broadband and economic development.

If there was some forum, for lack of a better word, I think it would serve us justice.

Mrs. MUSGRAVE. Thank you, Mr. Felty, and thank you, Mr. Chairman.

Mr. MCINTYRE. Thank you very much. Mr. Fortenberry.

Mr. FORTENBERRY. Thank you gentlemen for coming today. In all of your testimonies there is some inherent tension from what I am hearing. The country is vastly covered in adequate broadband service. We have a public policy to help build out that service in areas that are underserved, and yet we are having trouble defining what underserved means, and yet you are all strong supporters of the program.

And, again, as I mentioned earlier, Mr. Felty, Under Secretary Dorr, who was here a month or so ago, pointed out that of all the initiatives we could undertake that rural broadband service is probably the most effective initiative to help ensure rural economic development. So your points are well taken.

But, Mr. Simmons, you hinted at basically the answer to my question. Presuming again that this is good public policy, that enhanced communications such as this that help bring down market barriers towards, for entrepreneurs in rural communities, the technologies which supply those market information or access to market information. It is important to continue our aggressive march in developing it and be sure that we are networked throughout the country. Assuming all that is not being supplied or portions of it is not being supplied adequately by a private sector investment, how would you go about a redesign of our broadband initiatives in

the Rural Utilities Service so that it is effective? I hear your point that you are concerned that the process by which we are determining who gets loans is not open to public scrutiny, and we don't have a clear understanding mapped out as to how these services are interconnected and who, again, is adequately served and who isn't. Yet a smaller scale model in the State of Kentucky seems to have accomplished that.

So let me just take a higher altitude look here for a moment and ask you the question. How would you redesign what we all agree can be a very important tool for rural economic development and an essential one and an important policy program?

Mr. SIMMONS. Well, Congressman, when I made the statement that we support the RUS Programs, we certainly support the intent of the programs but have been disappointed by the processes that we have seen over the years. I think the first point is defining what is and is not served and unserved. I am intrigued by the connect programs, to have another party do that and not leave it to applicants.

I think it is important for——

Mr. FORTENBERRY. Could I interject something? Perhaps on a smaller scale than a nationwide undertaking, perhaps using another governmental subdivision as apparently it has happened in Kentucky, might be a faster route to getting that done. Is there a general agreement on that?

Mr. SIMMONS. I would agree to that.

Mr. FORTENBERRY. I am trying to pull out important findings here that we can potentially include as we move forward in the farm bill.

Mr. SIMMONS. Well, Congressman, I am concerned that there may be those type of programs that are out there. There might be information that may have been supplied to the RUS, but we have not been invited to do that, and I am not sure the States have either.

Mr. FORTENBERRY. All right.

Mr. SIMMONS. In preparation for this hearing I testified before the Senate Ag Committee a year ago, and at that time in that testimony I reported that there were 70 communities in South Dakota that were unserved. That number came from the South Dakota Public Utilities Commission. In preparation for this hearing I called the same analyst and asked him what is that number today, and he told me the number is six. I know full well that there have not been a number of grants or certainly that number of grants from the RUS to move that plan forward in the State of South Dakota. Yet there are a number of communities that have broadband service today that didn't have it before. That is to the credit of companies like Mr. Law's Golden West and several of the rural telephone companies. And we have built out markets ourselves. I know this is going on.

But to your point I know that the South Dakota Public Utilities Commission, under the Bureau of Information and Technology, collects that information. I know it is available through the IT operations in the State of North Dakota as well. I am quite sure that Mr. Geller would be able to get that information from the State of Minnesota. Had the RUS gone out rather than doing their own par-

ticular program and accessed perhaps some of the information that is available, we might have that information.

Mr. FORTENBERRY. Mr. Chairman, may I have an additional minute or so?

Mr. MCINTYRE. If you have an additional question, go ahead and ask it, then we will ask them to submit it back.

Mr. FORTENBERRY. Yeah. I would just, was hoping the panel could give a brief overview of what I was asking.

Mr. MCINTYRE. Let us finish with one or two more questions, and then we will see what our time is. Okay. Just to honor the time limits on the overall hearing but Mr. McCormick, I had deferred previously to both the chairman and to Mrs. Herseth Sandlin as a visiting member of the full committee. I wanted to ask you, you have mentioned the need to enhance incentives for investment in areas not served. How would you structure such a combined loan grant program?

Mr. MCCORMICK. Mr. Chairman, I would structure it very similar to the very successful telephone program. The RUS Telephone Program has gotten telephone service out to virtually every American. It requires a certificate of non-duplication so that there is not investment in duplicative facilities. It draws a nice balance between those areas that are unserved and those areas that are incidental to service in an adjacent urban center. It is an effective model for not wasting money and getting service out to as many Americans as possible.

So we think that a broadband program based on the telephony program, and one that maybe incorporates mapping along the Connect Kentucky model would be a very, very effective way of getting the program out there and in conserving taxpayer resources.

Mr. MCINTYRE. Thank you. Mr. Law, the customers you have in your service area with access to broadband, what percentage actually decide to purchase the service, and what do you think is influencing the decision not to buy broadband among those who have access?

Mr. LAW. I think probably a couple of items. One still is deployment of——

Mr. MCINTYRE. What is the percentage first? Can you tell me?

Mr. LAW. I would at last count put it roughly 30 percent depending on the geographic exchange, but 30 percent is a rough number.

Mr. MCINTYRE. They are the ones that actually decide to purchase the service?

Mr. LAW. Yes.

Mr. MCINTYRE. Okay. All right. Now, go ahead. I am sorry. What do you think influences their decision not to buy?

Mr. LAW. I think there is a couple of influencing items. One is potentially computer penetration besides remoteness. Computer penetration in the household. Age. We serve some of the oldest demographics in the country in some of our rural areas, and while the digital revolution continues, there is not a computer in every home, nor is there a program that is going to change that. That will evolve over time, I am sure, and we have seen it evolve even in the last few years. But I would say it is, age is one, demographics.

Probably the other one is still from a cost perspective. Incomes tend to be lower in rural areas and whether you are talking 30 to 40 bucks a month for in our case primarily DSL services, that can represent a significant expenditure in some of the areas that we serve, both from a retired income household as well as tribal area and things along those lines.

Mr. MCINTYRE. Okay. Thank you. Just one moment. All right. We are approaching the conclusion of the hearing, but Mr. Fortenberry, I will, with the ranking member's consent, I will yield for you to ask the members to briefly respond to your question, because I think it was an important question. I wanted to make sure everything else had been concluded.

Mr. FORTENBERRY. Thank you, Mr. Chairman.

Mr. MCINTYRE. Please proceed. If the members will be direct and to the point to answer Mr. Fortenberry's question, and then you may supplement to the record.

Mr. FORTENBERRY. Again, the key recommendations that you would use in altering or redesigning the program.

Mr. MCCORMICK. Again, my key recommendation is take a look at the successful telephone program, which requires non-duplication. It provides funding to areas that area incidental to the population center to get broadband out there. And map those areas that need service along a public-private partnership route a la Connect Kentucky.

Mr. LAW. I would concur with Mr. McCormick, and I would also stress given the level of regulation and reporting certainly from the rural telephone company perspective--we fill out volumes of reports and information for a variety of local, federal, and State officials. Perhaps some type of comprehensive amalgamation of those reports could also provide to a better reporting system for where broadband is already available and focus on the areas that it is not.

Mr. FELTY. I would concur with Mr. Law. The Traditional Infrastructure Loan Program at the RUS had a zero percent default. They have never had a default on any of those loans since the inception of them, and I can see where they are nervous, they want to protect that record, but I feel that this process needs to be streamlined. And like Mr. Law said, let us get together with the FCC. We all file an FCC Report. We have the Public Utilities Commission report. That has our broadband penetration and access on it as an independent telephone company.

Mr. GELLER. Congressman, I would say first I think we need to recognize that those communities that in 2007, do not have any access to broadband services are not exactly rural communities that are economically robust and vibrant, and we have to understand that these are tough places, and they are dealing with all kinds of issues about migration, economic distress, and so on. With that, we have to identify them, and I think that some of the issues of public-private partnerships that were discussed make sense. Just giving them a loan may still not be enough in some of these places, and obviously if, in fact, it is true that the program has never had a default, then clearly I think that one has to start dealing with taking on a little bit more risk in these places that are inherently more risky.

Mr. FORTENBERRY. Thank you. Thank you, Mr. Chairman.

Mr. MCINTYRE. Thank you, Mr. Fortenberry. A very pertinent question. Mr. Felty, I have one other question. You ultimately decided not to pursue a broadband loan through the program. What factors would have changed that decision?

Mr. FELTY. I have a staff of 10 people in my company, and it was more of an administrative burden on myself and my staff to go ahead. We found a local bank that would finance that project. It was just administratively cumbersome. Like I said, I brought the application guide, which is 38 pages. The actual loan application I believe is 58 pages long. So that was my overwhelming decision.

Mr. MCINTYRE. All right. Thank you, sir. And before we adjourn I invite the ranking member if she has any additional comments.

Ms. MUSGRAVE. I do not, Mr. Chairman. Thank you.

Mr. MCINTYRE. Thank you. And thanks to all of our members of our subcommittee and the committee who joined us today. I want to thank all who have testified, all of our guests. We also always show appreciation to our staff for their good work and although she left the room earlier during this hearing, lest anyone think I overlooked her, I make special note to welcome my wife, Dee, to this hearing earlier today. I know we all appreciate the support of our families and our staff in this important work here in this subcommittee, and also in the United States Congress. May God bless each of you and thank you for being with us. This meeting is now adjourned.

[Whereupon, at 3:20 p.m., the Subcommittee was adjourned.]

House Agriculture Committee Chairman Collin C. Peterson
Opening Statement
Subcommittee on Specialty Crops, Rural Development, and Foreign Agriculture
Hearing to review rural broadband programs operated by the U.S. Department of Agriculture's Rural Utilities Service
May 1, 2007

Thank you, Mr. Chairman, for calling this hearing today. I would like to welcome to the second witness panel Dr. Jack Geller, President of the Center for Rural Policy and Development in Saint Peter, Minnesota. Dr. Geller's organization is dedicated to understanding the major issues facing rural America today, like broadband deployment, and I look forward to his testimony.

Reliable, affordable broadband internet service is as important to rural America today as electrification and water were during the Great Depression. Broadband internet access is vital to job creation and retention, economic development, entrepreneurship, education, and medical technology. It is also a critical component of public safety, especially in remote areas.

Nevertheless, when it comes to federal investment in the communications infrastructure necessary for any economy to thrive, rural areas are consistently left behind high-density urban and suburban areas. Close to a million Minnesotans live outside municipal boundaries, and many of those citizens lack reliable broadband service.

These are the major issues that USDA's Rural Utilities Service are expected to address. RUS operates two federal assistance programs exclusively dedicated to financing broadband deployment. These programs provide federal support for deploying high-speed internet access for private homes, commercial establishments, schools, and public institutions.

Despite the implementation of these programs, many problems in broadband deployment persist. The federal government still struggles to identify which communities already have access to broadband technology and which ones do not. Broadband deployment is reported only to the government by zip code, which does not paint an accurate picture of what is accessible to most people living in rural America.

A September 2005 audit of RUS Broadband Programs by the Inspector General stated that RUS has not maintained its focus on unserved rural communities. The application process has been found to be very cumbersome, with loans not being approved in a timely fashion. Furthermore, the agency has been unable to effectively define rural and suburban areas. As a result, the outlying subdivisions of our largest cities, as well as affluent smaller communities, are receiving multiple RUS loans.

Widely available broadband service is critical to our economic future. Rural communities are depending on an effective investment in innovative broadband technologies so that these communities do not find themselves on the wrong side of the "digital divide." The testimony of today's witnesses will help the committee focus RUS programs on providing new service to the greatest possible number of unserved rural communities, businesses, schools, and governments.

Thank you, Mr. Chairman, for calling this hearing. I yield back my time.

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Statement of Ranking Member Marilyn Musgrave
House Committee on Agriculture
Subcommittee on Specialty Crops, Rural Development, and Foreign Agriculture
Hearing to Review rural broadband programs operated by the USDA Rural Utilities Service
May 1, 2007

Mr. Chairman, thank you for calling this important hearing. Welcome to each of our distinguished guests offering testimony this morning. Thank you for your leadership on this issue and for taking the time to appear before this subcommittee.

Mr. Chairman, I'd like to recognize a fellow Coloradoan, and my constituent, Kevin Felty, who is offering testimony today. Mr. Felty is from Joes, Colorado and serves as the current President of the Colorado Telecommunications Association and is the General Manager of the Plains Cooperative Telephone Association. Mr. Felty - welcome, and thank you for being with us this afternoon.

Deployment of high speed internet service is one of the most important factors for the economic development and future success of our rural communities. From promising renewable energy technologies to healthcare and education, broadband can open many doors for Rural America – both on the farm and in our communities.

Telework has the potential to slow and possibly reverse the population exodus from our rural areas. Distance learning provides new, exciting opportunities for rural schools and community colleges, and Telemedicine practices offer the ability for rural health care providers to deliver state-of-the-art health care to every corner of the United States. The viability of each of these areas is, in large part, dependent on the availability of broadband technology in rural America.

The Rural Telecommunications Programs in the 2002 farm bill have provided roughly 1.6 million rural customers with new and or improved telecommunications services, including high speed broadband. The Rural Broadband Access Loan and Loan Guarantee Program and the Community Connect Broadband Grants administered by the Rural Utilities Service have made great strides in helping rural communities build broadband infrastructure. Current broadband projects funded through the RUS, when fully complete, will serve well over a half million households across the United States.

While these two programs are just part of an overall national effort to help promote the deployment of broadband, at present they are the only federal programs exclusively dedicated to deploying rural broadband infrastructure.

Mr. Andrew, I commend you and your staff for the hard work you put forth on behalf of rural America, and your efforts to move the broadband program forward. I look forward to your views on the development of broadband initiatives since your tenure as RUS Administrator began.

Despite the success of these programs, many opportunities and challenges remain. Both programs have come under a great deal of criticism recently, with particular debate being given to the definition of a "rural" community for purposes of program eligibility. A narrower rural definition could exclude some small communities in need of broadband service, while a broader definition increases the chance that communities not traditionally considered "unserved" or "underserved," by most definitions, may be eligible for assistance.

I look forward to hearing testimony today and utilize the expertise of our witnesses this afternoon. Mr. Chairman, thank you again for your leadership in scheduling this hearing.

Opening Statement of Ranking Member Bob Goodlatte
House Committee on Agriculture
Subcommittee on Specialty Crops, Rural Development, and Foreign Agriculture
Hearing to Review rural broadband programs operated by the USDA Rural Utilities Service
May 1, 2007

Thank you, Mr. Chairman. I appreciate you holding this hearing, and Administrator Andrew, welcome. We are delighted to have you with us this afternoon.

Mr. Andrew, I want to thank you and your staff for the hard work you do on behalf of our rural communities -- especially the work you do to administer the broadband loan and grant program.

For rural Americans to reap the full rewards of the most exciting technology today, all cities, towns, and counties must have access to broadband. Access to this technology allows children to learn, businesses to grow and local economies to flourish with the creation of jobs and businesses in our rural communities.

Mr. Andrew, you mention in your testimony, and I agree, that broadband deployment is similar to the growth of the railroad in the 19th century. Towns that were near the railroad thrived, while those that weren't either stagnated or just faded away. In the 21st century, those communities that have access to high speed broadband will be able to compete in the electronic marketplace. Those that don't have access will fall behind.

STATEMENT OF CONGRESSWOMAN HERSETH SANDLIN
SUBCOMMITTEE ON SPECIALTY CROPS, RURAL DEVELOPMENT AND FOREIGN AGRICULTURE

HEARING TO REVIEW RURAL BROADBAND PROGRAMS OPERATED BY THE U.S. DEPARTMENT OF AGRICULTURE'S RURAL UTILITIES SERVICE

May 1, 2007

Chairman McIntyre, thank you for allowing me to attend today's hearing. I would like to thank all of today's witnesses.

I also would like to take this time to thank all the people and organizations that worked with me and my office to draft the Rural Broadband Improvement Act, which I, along with several other Members of the Agriculture Committee, introduced last week.

The participation of a wide variety of organizations across the telecommunications spectrum helped produce a bill that I believe reaches a compromise – it addresses many of the criticisms of the RUS broadband loan program, but does not overly restrict access to it.

Access to broadband service is critical to the quality of life in rural America. It has the potential to be an unprecedented catalyst for economic growth and improvements in education and health care. However, I am concerned that instead of benefiting the rural Americans who need it, RUS is too often being used to subsidize Internet access to suburban communities and communities that already have multiple high speed internet providers.

Therefore, I have introduced the "Rural Broadband Improvement Act" to refocus this important program. My legislation would make three simple reforms:

1. It would ensure that RUS loans and guarantees go to truly rural communities;
2. In rural communities that already have some high speed internet service, my bill would ensure that federal dollars benefit those residents who have no broadband;
3. It would ensure that federal dollars for projects not built within three years of being granted the loan, are paid back to the U.S Treasury.

I look forward to hearing from all of today's witnesses about these and other issues related to the rural broadband programs. In addition, I look forward to working with Members of this Subcommittee to address the concerns raised today. Thank you.

Testimony of Jim Andrew to the House Committee on Agriculture Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture

Hearing -1:00 PM- May 1, 2007

1300 Longworth House Office Building

Washington, D.C.

Chairman McIntyre, Ranking Member Musgrave, and subcommittee members, thank you for the opportunity to testify today regarding broadband service in rural America. Some of you, who know me, know I live in rural America. I live outside of Millen Georgia, so far from town that I have to go back towards town to go hunting. I know what it means for a rural community to not have broadband service. I have been around long enough to have seen what has happened to too many of our small towns.

When the railroads passed some of our towns by, they dried up. When the interstate did not have an off ramp, the tourists and truckers did not stop to buy gas and meals, your town did not survive. Fifty-seven years ago when the telephone program was created in this very room, rural America did not have phones and it took a fourth of our population to produce the food and fiber needed for this Nation.

Rural America has changed but some things are still the same. We are still among the world's top producers of grains, soybeans, cotton, and other commodities. Down in Georgia, we still grow a few peanuts. But at the same time, rural America has diversified. The rural economy isn't just commodities anymore; it's manufacturing, services, and everything else as well.

So what does this have to do with broadband? Broadband is our railroad, our highway, our bridge to the rest of this country and to the world. With high-speed communications, we can bridge the barriers of time and distance to market our goods and services, have access to markets to both buy and sell.

Today's technology gives the student in the most rural school access to information and teaching that has long been available to more populated communities. With today's technology, advanced medical treatment and expertise is available to small rural hospitals. Today's technology gives our communities and their citizens the ability to build businesses that provide jobs for our children.

My wife and I have two children, now adults. One lives in Baltimore and one in Atlanta. When they were younger, Millen, Georgia did not have the career opportunities that they were interested in pursuing. The loss of the next generation has been the problem for rural communities all over this country. With modern technology, we have an important new tool to plug the leak.

As I indicated before, we have administered the rural telephone loan program since it was created by Congress in 1949. In the mid 1990's, Congress amended the telecommunications section of the Rural Electrification Act to require new plants financed by us to be broadband capable at the speed of one meg. Placing this updated capability with USDA Rural Development made sense because we were already stringing the lines.

In addition to the Broadband Access Program, authorized by the 2002 Farm Bill, we have also had the pilot broadband loan program that was a product of the appropriations process for fiscal years 2001 and 2002 and the Broadband Community Connect Grant program.

A third program -- the Distance Learning and Telemedicine Loan and Grant program (DLT) -- was created in the 1990 Farm Bill. The first DLT grants were made in 1994. While it is not a broadband program, it

makes use of broadband connectivity to improve educational opportunities and improve the quality of health care for rural citizens.

THE PRESENT

We have made important accomplishments with the Broadband Access Program. To date, we have approved 69 loans for $1.21 billion to finance facilities in 40 states. These projects, when fully functional, will serve a projected 520,000 households in 1,081 communities. Eight projects have been completed in Kansas, Louisiana, Michigan, North Dakota, Nebraska, South Dakota, Texas and Washington State.

Of these loans, approximately 40 percent of the communities approved for funding were unserved at the time of loan approval. An additional 15 percent had only one broadband provider at the time of loan approval.

To date, the program has received 198 applications totaling $4.3 billion. As of today, we have 21 applications under review for more than $950 million. We anticipate another $400 million in applications this

year. We have administered this program with no increase in personnel. In fact, we have fewer employees than we had when the program began.

From the beginning the loan applications have been larger and more complicated than anything else the Telecom Program staff has experienced. In 2003, the average loan size was $11.2 million. In 2006, the average was $44 million.

During the past six years, we have made 129 Community Connect grants for a total of $57.8 million. Under the Pilot Broadband Program, we made 28 loans totaling $180 million. Since 2002, USDA has invested more than $166 million in its Distance Learning and Telemedicine (DLT) Program, allowing 3,796 rural educational facilities to expand their access to modern telecommunications technology, and 2,226 health care institutions to develop technologies needed to enhance local medical care.

Let me make one very important point....no one else is making loans for broadband service in rural America. We are committed to making this work.

SUCCESS STORIES

We have a number of success stories that you can review on our web site. I want to mention some of them here today. Nex-Tech, Inc. of Lenora, Kansas has received two loans totaling just under $12 million. This company has used a combination of fiber/coaxial cable and DSL to build a system that provides broadband data services, voice and video at speeds over six Mbps to Plainville, Smith Center, and Stockton, Kansas. These areas had poor or non-existent data services. The system will serve 2,251 voice lines, 1,855 video subscribers, 768 high-speed data and 528 dial-up subscribers with new or improved service.

What do these loans mean? What is the impact? Osborne Industries in Osborne, Kansas is only one example. The company has not only remained in town; it's more than doubled in number of employees. It has become the largest employer in the community, thanks to broadband capability that has allowed it to reach not only across the nation but to international markets. Just this year, the employees have been able to purchase the company. They are working for themselves because they took the tool of broadband and have been able to make the concept of "living locally and competing globally" a fact.

And just down the road, in Phillipsburg, Kansas, a new ethanol plant was built and depends on Nex-Tex for its broadband service. This $54 million business created 34 jobs and is expanding.

A second example is a small company that is headquartered in Frankenmuth, Michigan. Air Advantage began with a Community Connect grant and with that start was able to graduate to two loans totaling $1.5 million. They have used a fixed wireless system that provides broadband service to 37 rural communities in Michigan. This company and its parent, Zimco, were founded by local businessman Scott Zimmer and his wife with a mission to improve the education and communications in their community.

Air Advantage now serves 1,100 customers with another 1000 projected in the near future. Their subscriber rates exceed their original projections. In addition, Scott and his wife successfully assisted local schools with applications for distance learning grants.

A typical success story from the Pilot Broadband loan program is Consolidated Enterprises, Inc. With a loan of just under $20 million, this project brought broadband services to the town of Dickenson, North Dakota. With the broadband loan, this company was able to purchase

and upgrade an existing cable company and replace existing lines with new hybrid fiber/coax facilities in and around Dickenson. Last year, Consolidated reported more than 3,000 broadband customers receiving service. In addition, Consolidated's parent company, Consolidated Telecom, invested significant general company funds to ensure that the outlying rural areas were also upgraded and now offers advanced broadband services to those residents as well.

THE PAST

Now let's talk about some of the bumps in the road this program has incurred. The law creating the program instructed that regulations be issued without public comment. That meant we got them out faster, but it also meant that we did not have the amount of input that comes with proposed regulations published for comment.

We are now developing revised regulations, which are being reviewed by OMB and will be published for public comment very soon. We expect that the proposed regulations will receive extensive comments. We also believe the process will be of help to this subcommittee as you begin drafting the legislative language on the next farm bill.

In addition to the lack of public comment, the volume of loan applications has been an issue. In July and August of 2003, we received applications totaling over one billion dollars. Needless to say, we were overwhelmed. We had to rework how we handled loan applications. These were not our traditional telephone loan applications.

We were concerned from the beginning that the loans we made had to be good loans. First, this is not just the government's money. This is the taxpayers' money. It needs to be spent in the way that Congress intended it be spent and in a way that accomplishes the goals of Congress. Second, no one benefits from a bad loan. Not the applicant, not the taxpayer, and not the people who are looking for broadband service.

This agency has always been concerned about security of a loan. For utility programs, it is often more important to have an accurate projection of the revenue stream than it is to tie up the hard assets of a borrower, although we try to do both.

We have returned 108 loan applications for a variety of reasons. In some cases, review indicated that they did not have the credit support or equity needed. In others the applications were incomplete, had unsubstantiated or missing financial or technical information, or did not

meet other criteria in the statute or regulations. It takes just as long, and sometimes longer, to review an application that is not approved as it does one that is approved.

A great deal of concern has been expressed from applicants, private industry, and Congress, including the House Committee on Agriculture, that we were not getting a sufficient number of loans approved fast enough. In any business, time is money and in the broadband industry, the changes occur almost daily.

We understand those concerns and are trying to respond appropriately. We have worked to streamline our review process, make the applications more "user friendly" and opened up our process to the extent possible.

Another frequently raised concern is that we are lending into existing service. In many cases we are doing just that, lending into some level of service. Let me go over some of the questions we face as we approach each application.

The statute requires us to give first priority to applicants that will provide service where there is no service. We do that. We want to see

more applications that serve an unserved area. If you want rural citizens to have access to broadband, you are going to lend into competition.

For example, we had an application where we had two servers saying they were in one of the towns in question. Our review found that they were providing service in that community. But at the same time, I had a letter on my desk from the mayor of the town in question stating that they had lost two businesses because they could not get access to broadband and the college in the community could not get broadband service on the campus. We made the loan.

On the other hand, we hear and understand the concern. This is the first program in the utilities part of Rural Development where we lend into competitive areas. It raises new issues. We have met with every group that has asked to meet with us on this issue. The Assistant Administrator for Telecommunications Programs, Ms. Jacki Ponti, has made a concerted effort to improve the openness of the process:

- New USDA/RD web link on the Federal Communications Commission (FCC) Rural Home Page.
- New and improved web page design that is easier to use and easier to find information.

- New and improved weekly broadband report indicating companies with applications pending and the communities proposed to be served if the application is funded.
- Under construction is a new Community Search Function that will help everyone with an interest find out what communities are being served, which ones have applications pending, and which companies are providing service.

WHERE DO WE GO TOMORROW?

Congress has a challenging task on hand to write a Farm Bill for 2007 that will cover commodities, conservation, food and nutrition, and of rural development. We are committed to working with you on this task. My area of responsibility is small, but I think it is important. Here is what we are doing.

We have proposed changes in the regulations that we hope will address some of the concerns that have been expressed. As these are published and comments come in, I expect I will hear from a number of

members of Congress. We will have an open discussion as to how this program should work.

In addition, we are working to improve program delivery in the field. This begins with strong leadership from the Rural Development State offices with 47 state offices covering all 50 states. These State Directors with their staffs provide the eyes and ears of where the needs are in rural America.

Under the supervision of the State Directors, Telecom Program Staff provide Financial and Engineering support and guidance in all 50 states with 28 General Field Representatives monitoring more than 1000 telecom and broadband loan and grant projects across the country.

Finally, twenty three broadband workshops and outreach events have been held to inform potential applicants and community leaders about the program, as well as assist existing program borrowers with compliance requirements.

In closing, USDA can successfully operate a rural Broadband loan program because:

- We have expertise with the program and a long history in administering loan and loan guarantee programs.

- There is an established distribution system with field representatives and state offices in the heart of rural America
- We have developed a qualified and dedicated headquarters staff of 16 in the national office comprised of Engineers, loan specialists, and economists to provide broadband expertise and detailed evaluation of proposals.

There is a demand for broadband in rural America. We see it and hear it every day. We want to do a better job of identifying where the holes in service exist. We can only make loans to those who submit applications. Local leadership is vital to every rural development program.

The technology is changing and so are the business plans. We cannot be much leaner, but we can be smarter in how we manage this program. I look forward to your questions.

Written Statement for the Record

Jack M. Geller, Ph.D.
President, Center for Rural Policy & Development
Saint Peter, Minnesota

Before the United States House of Representatives
Committee on Agriculture
Subcommittee on Specialty Crops, Rural Development
and Foreign Agriculture

May 1, 2007

The Center for Rural Policy & Development is a not-for-profit, nonpartisan policy research organization dedicated to benefiting Minnesota by providing its policymakers with an unbiased evaluation of issues from a rural perspective.

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Chairman McIntyre, members of the subcommittee, it is indeed an honor to have the opportunity to provide input as you and your colleagues take up the important task of crafting a new farm bill. My name is Jack M. Geller, president of the Center for Rural Policy & Development in Saint Peter, Minnesota. The Center is Minnesota's only nonprofit, nonpartisan rural policy research center. As such, we are dedicated to researching, understanding and advising Minnesota's policymakers on the forces that impact rural Minnesotans and the communities they reside in.

My comments this afternoon will be limited in scope and will focus on the importance of having accessible and affordable high-speed telecommunications infrastructure throughout rural America. In that discussion I will touch upon the adoption and deployment of such infrastructure throughout rural Minnesota and what we have learned about the value of having good objective data on the utilization and consequences of broadband technology to Minnesota policymakers, industry executives and rural organizations.

Since the turn of the 21st century, added emphasis has been placed at both state and national levels on the status of the telecommunications infrastructure throughout rural America. As our nation's economy continues to rapidly transform into a technology-driven, information-based economy, the ability to access advanced telecommunications services has become vital. As FCC Commissioner Michael Copps noted last month after learning of a new OECD report that dropped the United States in its ranking from 12th to 15th among the OECD nations in broadband penetration, "These rankings are not a beauty contest. They're about our competitiveness as a country and creating economic opportunity or all of our people." Accordingly, it has become clear that without the advanced telecommunications tools and resources to adequately compete in the national and global marketplace, businesses and industries throughout rural America will continue to be at a serious disadvantage.

But as you know, business applications and economic competitiveness are not the only factors behind the need for these high-speed connections. Unlike the static Internet applications of yesterday, today's more modern and sophisticated applications are designed with the assumption that the end user has a high-speed or broadband connection. Whether it's for social networking, personal entertainment, research, or the delivery of public services, modern Internet applications utilize the transfer of extremely large audio, video, data and graphics files that at best will frustrate the dial-up user and at worst, completely overwhelm a dial-up connection and render it useless.

Further, please understand that the need for broadband is not limited to popular video sites as YouTube or audio sites such as iTunes. One area often left out of such discussions are the efforts that state, local and federal governments expend to find efficiencies in the delivery and processing of public services on the Internet. Today we know that a significant percentage of Americans file their incomes taxes online, but we often do not consider that the majority of businesses routinely pay quarterly sales taxes, unemployment taxes and other business taxes on line. In fact, the Internet is quickly becoming the primary method by which businesses interact with their government. Further, today in Minnesota you can purchase your car license tabs, local building and other permits, pay

your municipal utility bills and even file for unemployment benefits online. Undoubtedly, our federal, state and local governments will continue to aggressively accelerate their efforts to seek efficiencies by pushing more and more public services onto the Internet. Further, now that we officially have electronic voting machines in many states, don't be surprised we start hearing about pilot tests of actual online voting before the expiration of this next farm bill. Imagine -- the ability to participate in our democratic process with an Internet connection.

And it is for these very reasons that federal agencies such as the USDA Rural Utilities Service have put funding programs in place to assist rural America in remaining viable, economically competitive – and connected.

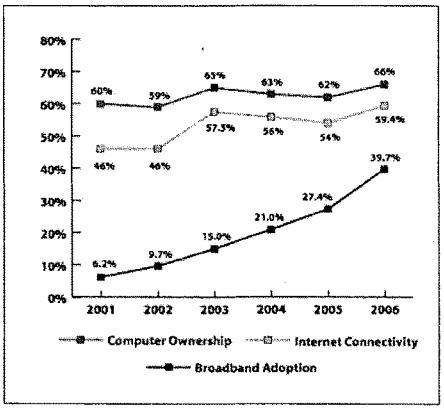


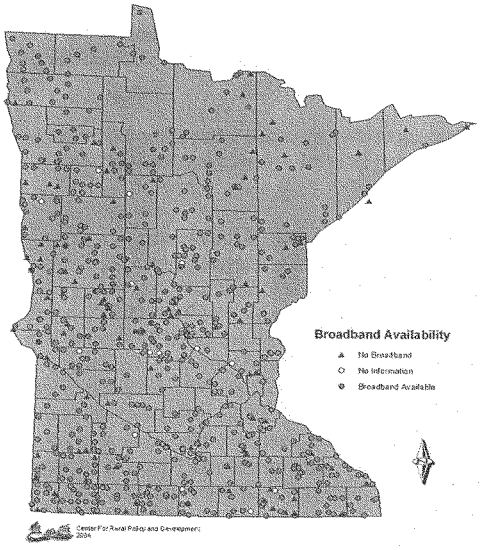
Figure 1: Computer ownership, internet connectivity and broadband adoption in rural Minnesota 2001-2006.

As a result of the Internet's rapid and functional integration into our daily lives, the Center for Rural Policy and Development decided back in the year 2000 to begin to annually monitor the adoption, diffusion and utilization of these digital technologies throughout rural Minnesota. Working with both government and telecommunications industry groups, we have amassed over the years a valuable longitudinal database which allows both policy makers and industry groups to better understand how rural Minnesotans are engaging these newer digital tools.

Accordingly, as once can see from Figure 1, while there has been a modest increase in home computer ownership and slightly higher gains in Internet connectivity throughout rural Minnesota households since 2001, there has been an unmistakable linear increase in broadband penetration, as rural Minnesotans switch from their dial-up connections to broadband connections. In fact, at the end of 2006 we reported that 39.7% of rural Minnesota households subscribed to a broadband service. This is just a few a percentage points below the national subscription rate of 42% as reported by the PEW Internet and American Life Project.

Of course, the adoption of high-speed telecommunications services is simply not possible if such broadband services are not accessible and available throughout rural America. And it was for that simple reason that we also began to work with Minnesota's broadband providers to monitor the deployment of broadband services as well. The outcomes of these monitoring efforts have been valuable to policymakers, broadband advocates and industry officials, as we no longer need to make generalizations based upon case-specific or anecdotal events.

Figure 2. Broadband availability in Minnesota



As one can see from Figure 2, access to broadband services, while not ubiquitous, is quite widespread throughout rural Minnesota; as the green dots on the map designate communities that have access to at least one broadband provider, red triangles represent communities that do not have a broadband provider and a few white dots represent rural markets where we were simply unable to confirm access to broadband services. Overall, more than 85 percent of Minnesota's rural communities have access to at least one broadband provider and more than one-third have access to competitive broadband services.

Essentially, today in rural Minnesota if you live within the municipal boundaries of our more than 800 cities and towns, there is a very high probability that you will have access to at least one broadband provider. However, we cannot sound so optimistic if you reside outside these municipal boundaries. Across Minnesota's countryside, accessibility and availability of broadband services is considerably less consistent. And in Minnesota, more than 900,000 residents currently live outside these municipal boundaries.

USDA as the Federal Lead

Among the federal agencies designated to assist rural communities with their advanced telecommunications infrastructure, the USDA Rural Utilities Service is clearly the most comprehensive. With more than $1 billion appropriated, the Rural Utilities Service enables communities through its Rural Broadband Access Loan Program, its Community Connect grant program and its Distance Learning and Telemedicine grant program. Clearly, without the Rural Utilities Service funding, access to advanced telecommunications technologies throughout rural America would be even further behind.

The Need of Better Information

But the reality is that in spite of all this added emphasis on advanced telecommunications services, there is embarrassingly poor information and data on the adoption, diffusion, deployment and utilization of these advanced technologies throughout rural America. Broadband adoption rates and utilization patterns are poorly assessed throughout rural America. This is especially true at the state-level. Agencies such as the National Telecommunications Information Administration occasionally conduct such technology assessments, but they do not differentiate rural areas from urban areas. And even the nationally-recognized PEW Foundation's Internet and American Life project only occasionally conducts rural assessments. In fact today, the federal government still has no credible list simply identifying which communities do, or do not have access to broadband technology throughout rural America.

There is little doubt that if Rural America is going to successfully compete in this emerging information economy and create vibrant and connected communities, programs such as the USDA/RUS Telecommunications Programs will be essential. Yet, at the same time, simply funding rural infrastructure projects without fully understanding the need, the impact and the consequences will inevitably lead to untargeted and sometimes unnecessary spending. Simply put, when Congress targets federal funds for rural telecommunications infrastructure, it is generally done with some assumptions about the value of such public investments. These assumptions include:

- **That Rural Businesses** will be more economically competitive with access to advanced telecommunications technology.
- **That Rural Communities** will be better able to recruit new and retain existing businesses with access to advanced telecommunications technology.
- **That Rural Residents** will be more connected; enhance quality-of-life opportunities; be able to telecommute; start-up home-based businesses; and more easily access online educational opportunities with these technologies.
- **And That Rural Governments** will be better able to provide access to public services and serve their constituencies more effectively by enhancing their online services.

Accurate data and information on the availability and consequence of this significant public investment is essential. Such information will help target future investments, establish "best practices" in broadband adoption strategies, and provide the type of information that policymakers at both the state and national levels need to make sound telecommunications policy decisions.

So while the Rural Utilities Service may have accurate information about the number of borrowers and grantees, or loan repayment schedules and loan default rates, more substantive questions go unanswered:

- Are rural communities better able to retain and recruit businesses as a result of these telecommunications investments?
- Are such investments better enabling rural entrepreneurs to start-up new businesses or increase their market share?
- Is the rural regional economy more competitive as a result of USDA's public investments in telecommunications infrastructure?
- Are rural residents enhancing their online educational opportunities as a result of these public investments?
- Are rural governments better able to offer citizens enhanced choices in the delivery of public services as a result of these public investments?

The answers to questions such as these that address the substantive consequences of public investments in the rural telecommunications infrastructure would be invaluable to policymakers and agency officials in help target future investments.

Recently the Federal Communications Commission validated the importance of such information when they announced their effort to determine whether high-speed Internet access is being made available fast enough, calling it "critical" to the nation's economy. Specifically, the FCC emphasized the need to assess the availability of broadband service in rural and other under-served areas, along with the need to improve data collection methodologies on wireless broadband services.

Equally, if not most importantly, agencies such as the Rural Utilities Service need such data to provide objective feedback on the impact of their programs, to make the necessary adjustments and modifications that all program managers must make from time to time. And USDA Rural Development state directors also need to better understand the consequence of these telecommunications investments as they coordinate them with their portfolio of housing, infrastructure and business development programs to further advance their important mission throughout rural America.

In closing, allow me to offer the observation that if the USDA Rural Utilities Service were a technology company making such sizeable technology investments, it would be unheard of that it were not spending a sizeable percentage of its revenues on research and development. The need to understand the consequences and outcomes of these public investments is evident. Allow me to suggest that in the case of the USDA Rural Utilities Service, a simple 2-5 percent set-aside of program and loan funds for such research & development would be one the best investment strategies that Congress could make.

Chairman McIntyre, members of the subcommittee, thank you again for this opportunity to address you on this important matter.

Testimony of Tom Simmons

Senior Vice President of Public Policy

Midcontinent Communications

Before the

House Agriculture Subcommittee on

Specialty Crops, Rural Development, and Foreign Agriculture

On the

RUS Broadband Loan Program

May 1, 2007

Chairman McIntyre, Ranking Member Musgrave, and Members of the Subcommittee, thank you for inviting me to testify today. My name is Tom Simmons and I am the Senior Vice President of Public Policy for Midcontinent Communications, a leading provider of cable telecommunications services in rural America, including analog and digital cable television, broadband Internet, and local and long distance telephone services. We serve over 200,000 customers in approximately 200 communities in North and South Dakota, Western Minnesota, and Northern Nebraska, generally classified as small or rural. The size of our communities ranges from densities of 5 to 116 homes per mile of cable plant and populations range from less than 30 in Barlow, North Dakota to our largest community, Sioux Falls, South Dakota, which has a population of more than 150,000.

Midcontinent launched its broadband Internet service nearly ten years ago, on April 15, 1996 in Aberdeen, South Dakota, and made a pledge then to bring advanced broadband services to as many customers as possible regardless of the size of the community. At the end of 2005, we completed a

project to rebuild our cable plant to 750 MHz or better in 50 more Midcontinent communities, bringing our total of upgraded systems to 152, serving over 95% of Midcontinent's customers.

Customers in these communities now enjoy over 150 channels of analog and digital video programming, broadband Internet service, high definition television, digital video recording capability, and in many communities, video on demand. Midcontinent is also a certificated local exchange telephone service provider in North Dakota, South Dakota, and Minnesota. Midcontinent first launched facilities-based circuit switched telephony in 2000, and is converting previously resold phone service to its own facilities-based digital phone product. By the end of this year, most of its phone customers will receive service via Midcontinent's facilities-based network.

All of this has required Midcontinent, a privately held company, to invest well over $100,000,000 in private risk capital to bring advanced services to our customers in rural America without the assistance of public funds, and we hope to continue doing so. We're proud of our ability to deliver the services our customers in relatively small towns demand, which are no less than those desired and expected in suburban and major metropolitan areas.

And Midcontinent is not alone. The cable industry has invested over $110 billion during the last ten years to become the largest provider of broadband service in America. According to Kagan Research, cable Internet service is now available to 94 percent of *all* U.S. households including hundreds of small towns and communities in rural areas all across the country. Nearly 30 million American households subscribe to cable's broadband service and according to a report just released by the OECD, 58 million American households subscribe to a high-speed Internet service. As broadband availability and penetration continue to increase, so do download speeds. While the cable

industry began by offering 1-1.5 Mbps ten years ago, most cable operators today offer speeds above 5 Mbps, and while some are already offering speeds of up to 50 Mbps, a new technology will soon allow speeds above 100 Mbps. As broadband availability and speed has increased, the price-per-megabit of service has dropped due to a highly competitive marketplace in which the telephone companies' Digital Subscriber Line (DSL) service is available to 70 percent of all US households that can access ILEC telephone service. At the same time, the number of "alternate" broadband technology subscribers (such as WiMax and broadband-over-power line subscribers) also continues to increase.

However, despite the widespread availability of broadband service, there are still remote, sparsely populated areas of the country that are not served. Recognizing this, the cable industry supports legislative initiatives and government programs designed to promote broadband deployment in these unserved, rural areas. These include:

- Tax credits or other tax incentives to providers that build out in rural areas that are unserved by an existing broadband provider.
- Any use of USF money to support broadband deployment should be targeted to unserved areas.
- Expansion of the FCC's Lifeline and Link-Up Programs to help ensure that broadband access is extended to low-income households.
- Public-private partnerships to provide broadband in unserved areas.
- Passage of H.R. 743 and S. 156 that would make permanent the current moratorium on Internet access taxes and unfair taxes on electronic commerce.

- Reform of the Rural Utilities Service Broadband Loan Program so that funding is targeted specifically to unserved areas.

The Rural Utilities Service Broadband Loan Program is a prime example of a program that was intended to make it economically feasible for the private sector to serve rural communities that lack broadband access. Though we support the goals of the RUS Broadband Loan Program, we are very concerned about how this program has been implemented and managed. Our concerns focus on two areas:

First, that RUS loans are largely being used to subsidize broadband deployment in areas already served by companies that deployed broadband service without a government subsidy, using private risk capital.

Second, that RUS rules make it difficult for anyone – existing providers, the public, and even RUS staff to assess the accuracy of the claims made by an applicant regarding existing broadband service in the area it proposes to serve. As such, the RUS is often unable to determine whether the grant of a loan will undermine private sector competition. More importantly, because the process lacks transparency, taxpayer funds are being misspent on projects that are not extending broadband service to unserved rural communities.

In September 2005, the U.S. Department of Agriculture Inspector General's Audit Report on the RUS' Broadband Grant and Loan Programs (OIG Report) found that this program has "not maintained its focus on rural communities without preexisting service" (OIG Report at ii). Instead, it is largely being used to subsidize competition in areas where one, and in many cases, multiple

providers of broadband service, exist. To this extent, the private entrepreneurs' reward for being the first risk takers in rural America is to face a government-subsidized competitor.

The RUS itself recognizes the difficulties presented by subsidized competition in rural America. Its own regulations prohibit the granting of a loan in a market where an RUS borrower already exists. The RUS doesn't want to put its borrowers at risk by subsidizing competition. That same principal should apply with regard to private sector competition.

Providing broadband service in high cost rural areas is economically risky at best. Midcontinent and other cable operators in rural communities all across America have taken, and continue to take, that risk. However, that risk could become unbearable if we are faced with a competitor subsidized by the government. Subsidizing a company to overbuild an existing provider could have the perverse effect of making it increasingly difficult, if not impossible, for a company that entered the market first using private risk capital to continue to provide quality service in that market. Additionally, the threat of a government subsidized competitor in rural markets also creates a disincentive for a company that does not receive federal support to extend service to otherwise unserved rural communities. Why should we build out to a rural area if we know our reward will be to face a government subsidized competitor? Finally, and most importantly, subsidizing competition is a waste of the finite loans funds available that should instead be targeted to unserved areas where a market-based solution has not developed.

There are numerous examples of loans being granted in areas already served by one or more providers. The case closest to Midcontinent involves Mitchell, South Dakota, a small city of a little over 14,500 residents. When the RUS granted a loan in excess of $20 million to Sancom, Inc. to

overbuild us in Mitchell, we were already competing with Qwest for telephone customers, as well as with two DBS companies for each and every video customer. Midcontinent's investment in private risk capital to upgrade our system in Mitchell allowed us to offer our customers a variety of advanced services, including high speed Internet access at speeds of 3 mbps downstream and 256k upstream, which has been further upgraded to 8 mbps downstream. Midcontinent also provides high definition television service and telephony. Digital phone service is now also available. And Mitchell was not the only town overbuilt in South Dakota. As an RUS official reported at a 2004 South Dakota Public Utilities Commission Wireless Conference in Spearfish, South Dakota, the RUS had approved $37 million in loans to South Dakota companies by that time, but none of that money was targeted to provide broadband service to any of the more than 70 communities in that state that had no access to broadband service.

Many other companies have faced similar situations. In Fairfield, Iowa, the RUS granted a $9.475 million loan to an applicant to compete against two existing broadband providers. The cable operator in that case had invested millions of dollars to bring this town of approximately 9,500 people a state-of-the-art 860 MHz system, with capacity that exceeds or equals the capacity of major metropolitan areas. Services offered by this cable operator today include high speed Internet access at speeds of up to 15 mbps downstream (at the customer's option) and 512k or higher upstream, 194 video channels, high definition video service, and video on demand. Digital phone service will also soon be launched.

As the OIG Report makes clear, loans to fund competition have been granted time and again, and, as a result, "[the] RUS may be setting its own loans up to fail by encouraging competitive service; it may also be creating an uneven playing field for preexisting providers operating without Government

assistance" (OIG Report at ii). To prevent such a scenario, the OIG recommended that before approving such loans, the RUS should conduct objective market research. Without such research, it believed the RUS could issue loans to companies with little chance of survival, which "would not appear to be a suitable use of Federal funds" (OIG Report at 16). The OIG Report illustrates that the RUS broadband loan program, as currently structured, unnecessarily places taxpayer dollars at risk, creates unfair subsidized competition, and does little to promote the goals of Congress and the Administration to bring broadband to every American.

Last week, Rep. Stephanie Herseth Sandlin (D-SD), along with lead Republican co-sponsor Rep. Jerry Moran (R-KA), introduced legislation to reform the RUS broadband loan program. First, HR 2035 would redefine "eligible rural community" so that scarce federal resources are not squandered on projects that serve densely populated suburban communities where broadband competition already thrives. By excluding these larger and densely populated regions, the program can focus on granting loans to the communities that most need it--rural areas that do not have access to a broadband service.

Second, the bill would also create an incentive for applicants to deploy broadband service to as many unserved households as possible. Specifically, applicants proposing to serve areas where more than 50% of the households do not have broadband service available at the time of the application may receive a loan that covers the full amount of the project, despite the presence of some competition. However, applicants proposing to serve areas where fewer than 50 percent of the households are unserved will only receive funding for the proportional amount of unserved households. This important distinction will encourage loan applicants to focus on finding and bringing broadband service to a significant number of unserved households. The Committee may

also want to consider giving priority to loans that would result in bringing broadband service to the greatest number of unserved households. Another option would be to require that all projects that receive an RUS loan would be required to serve a certain minimum percentage of unserved households.

Mr. Chairman, the legislative changes prescribed in HR 2035 would do much to ensure that the RUS refocuses the broadband loan program on its original mission of bringing broadband service to unserved rural areas. The cable industry also believes that considerable changes have to be made to the RUS's broadband loan application assessment and approval process, since that process is in part responsible for the approval of many loans in areas that are already served, in many cases by a significant number of providers, or in areas which this program was not designed to reach. As Under Secretary of Agriculture Thomas Dorr acknowledged, at a Senate Commerce Committee hearing on March 6, 2006, "[a]s good stewards of the taxpayers' money, [the RUS] must make loans that are likely to be repaid" and that one of the agency's challenges "in determining whether a proposed project has a reasonable chance of success is validating the market analysis of the proposed territory..." (Dorr Testimony at 6). The RUS' own processes, however, make it difficult for the RUS to meet this challenge.

Specifically, the RUS should improve the process in place to solicit the data it needs to validate the applicant's market analysis. The public, including existing providers, receives little notice when RUS applications are filed. Current RUS rules require only a one time legal notice by the applicant in a newspaper of its choice at some time prior to the filing of its loan application. There is no guarantee that an existing provider will see the notice, thereby denying the RUS an accurate picture of the broadband services available in that market.

Furthermore, the RUS does not disclose when an application has been filed, the amount of the loan the applicant is requesting, or any assertions made about existing broadband service in a community, including whether the community is already served by one or more broadband providers. It does periodically update a relatively new online list of towns and unincorporated rural areas that are covered by pending or approved applications, along with information about the company applying for the loan. There is, however, no true public notice and comment period that ensures the public is heard, and its information is taken into account, prior to a loan being granted.

In fact, the only way anyone can find out how an applicant is characterizing a market is through a Freedom of Information Act (FOIA) request, and in our experience, such requests are usually fulfilled after the application is approved. When Midcontinent finally received a response to its FOIA request on the Mitchell, South Dakota application, we were more than a bit surprised to see that the applicant had blacked out its assertions about our company, apparently based on a claim that this information was proprietary or confidential. Other companies have reported that when they received FOIA responses, they found that applicants had made misstatements about, for example, their Internet speeds, system capacity, quality of service, and the number of video channels being offered.

We believe that the current notice and disclosure rules and practices limit the ability of the RUS to properly assess a loan's likelihood of repayment given the potential lack of data needed to evaluate an applicant's claims regarding the level of broadband service in a market. A more transparent, open process allowing for disclosure of non-proprietary, non-confidential information to the public would assist RUS staff evaluating loans and benefit the public, whose tax money supports

this program. We acknowledge the need to protect proprietary information; but we believe it is essential to make available information being provided in a loan application about third parties and the state of broadband in a market. The RUS should know that information before it fully and fairly represents the market it is evaluating to determine the feasibility of a proposed loan and whether granting the loan is appropriate. Absent such information, the RUS had experienced $30.4 million in loan defaults as of Fall 2005 (OIG Report at i).

As part of your legislative efforts to reform and improve the RUS Broadband Loan Program, we recommend that Congress also direct the RUS to implement the following regulatory changes:

1. Define "unserved": The rules should be modified to simply define an unserved household as one where broadband service is not being provided and no entity has begun construction of the facilities to provide such service as of the date the application for a loan is filed with the RUS.

2. Require an independent verification of "unserved households": As there has been incorrect market data supplied to the RUS in past broadband loan applications, the RUS itself should make an independent determination regarding the number of unserved households in a proposed service area, based on a combination of information gathered independently by the agency, and information from the applicant and the public.

3. Adopt a notice and comment period: By adopting a formal notice and comment period for each filed application, the RUS will have access to additional information in making its determination of whether an area is served or unserved

In closing, let me reiterate that Midcontinent supports the federal government's goal of ensuring that all Americans have access to broadband services. We have invested millions of dollars to help that goal become a reality. We recognize that government subsidies may be the only answer in some rural areas. However, any government program designed to promote broadband deployment must be carefully defined and targeted at those areas that lack broadband service. We believe that Rep. Herseth Sandlin's legislative changes to the RUS broadband loan program coupled with regulatory enhancements and vigilant oversight will help this program accomplish its goals and increase broadband access in rural America.

Mr. Chairman, thank you for inviting me to testify today. I would be happy to answer any questions you or the Members of the Committee may have.

Statement of
Walter B. McCormick, Jr.
President and CEO, U.S. Telecom Association
to the
House Committee on Agriculture
Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture
May 1, 2007

Chairman McIntyre, Ranking Member Musgrave, members of the subcommittee: Thank you for this opportunity to appear before you today. I am Walter McCormick, president and CEO of the USTelecom Association. This committee has been at the forefront of helping advance the development of rural America, from bringing electricity and safe, running water to communities that never had it before, to connecting the country via the telephone and now, we all hope, via the high-speed Internet. 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. We believe this should be a *non-*partisan objective of our nation's leaders, and we believe that the Rural Utilities Service (RUS) has a critical role to play in helping bring broadband to rural areas currently not served.

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 oldest – 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. So we appreciate the opportunity to be here today.

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 has 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.

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?

The RUS Broadband Program – Modest Changes Could Produce Dramatic Results

Our member companies want to work with the subcommittee to completely close the gap in broadband coverage. In its relatively brief history, the 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.

As the subcommittee begins to write the rural development title of the Farm Bill, USTelecom would make the following recommendations to 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 subcommittee 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 a loan. In the broadband program, such a 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 a waste 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 point 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.

After 60 years of success, the RUS loan programs remain an essential public-private partnership conceived with the best of intentions—spreading opportunity throughout the country—helping the private sector overcome the often significant economic barriers associated with our nation's vast geography. The results have been impressive: RUS generates more revenue than it costs. It provides incentives where the market does not so private companies can invest in infrastructure that promotes rural economic development. And, it expands our citizens' access to services that can vastly enhance their quality of life and the economic opportunities available to them in their own communities. I'd also like to add that RUS has never lost a dime of taxpayer money because of a telecom carrier default.

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. We look forward to working with you to make its many opportunities accessible to all Americans. Thank you.

TESTIMONY OF MR. DENNY LAW

EASTERN REGIONAL MANAGER

GOLDEN WEST TELECOMMUNICATIONS

WALL, SOUTH DAKOTA

HOUSE SUBCOMMITEE ON SPECIALTY CROPS,

RURAL DEVELOPMENT AND FOREIGN AGRICULTURE

MAY 1, 2007

Chairman McIntyre, Ranking member Musgrave, members of the subcommittee, I would like to that you for the opportunity to be here today. My name is Denny Law and I am here today on behalf of the National Telecommunications Cooperative Association and Golden West Telecommunications Cooperative in Wall, South Dakota where I serve as Eastern Regional Manager. Golden West Telephone Company was incorporated in 1916 as an effort to provide telephone service between the towns of Interior and Quinn, SD. During the Great Depression, Golden West suffered setbacks and the assets were sold by the county sheriff to pay taxes. After President Truman signed the telephone amendments to the Rural Electrification Act in 1949, residents of the community in Quinn met to form Golden West Telephone Cooperative and soon applied for a loan from the REA. Beginning with telephone line strung along fence posts to farms and ranches, Golden West Telecommunications and its subsidiaries now provide service to over 43,000 telephone customers, 15,000 internet subscribers, and 10,000 cable television customers. Golden West serves customers across 63 telephone exchanges and 24,500 square miles – an area larger than the states of New Hampshire, Massachusetts and New Jersey combined.

While Golden West serves a large geographical area, our resident population is very small. The largest community Golden West serves is Hot Springs, South Dakota with a population of approximately 4,000 people. At the other end of the spectrum, Golden West provides telecommunications services to the small community of Hayes. The entire Hayes telephone exchange encompasses 1,119 square miles, but has only 192 access lines, which equates to 0.17 access lines per square mile. Residents in the Hot Springs exchange as well as the Hayes exchange have access to broadband services due, in part, to the RUS loan programs that have provided affordable financing to construct these telecommunications facilities.

Golden West also provides telecommunications service on four Native American tribal reservations in South Dakota, including the Pine Ridge Indian Reservation. Bringing service to parts of the Pine Ridge Indian Reservation in 1973 when no other company would provide service, Golden West formally purchased the entire Pine Ridge telephone exchange in 1981. Of the almost 1,700 access lines comprising the Pine Ridge exchange, close to half receive service through the FCC's Lifeline or Link-up programs which provides discounted telephone service to

customers on public assistance. According to information compiled in the 2000 Census, landline telephone penetration on the Pine Ridge Reservation was measured at 75.2 %. This figure has also been confirmed by the FCC's Indian Telecommunications Initiative Study on Telephone Subscribership on American Indian Reservations and Off-Reservation Trust Lands and a January, 2006 GAO Report on the challenges of telecommunications for Native Americans on Tribal Lands.

Throughout Golden West's history, we have been borrowers through the REA and since USDA's most recent reorganization, the Rural Utilities Service. Due to RUS funding, many communities served by independent telephone cooperatives throughout the United States have significantly higher broadband deployment than neighboring communities served by regional Bell operating companies. While the mantra from Congress is there is a "digital divide", that is far from the case in many areas of rural America. What has been overlooked is that since 1995 RUS telecommunications infrastructure loans have been required to be in harmony with state modernization plans and be broadband capable. RUS telecommunications lending has stimulated billions of dollars in private capital investment in rural communications infrastructure.

In recent years, on average, less than a few million in federal subsidy has effectively generated $690 million in federal loans and guarantees. For every $1 in federal funds invested in rural communications infrastructure, $4.50 in private funding has been invested. By the early part of this decade, RUS telecommunications borrowers had used more than $12 billion in loans to build a network of more than one million miles of infrastructure to provide advanced communications services across rural America. NTCA members' tremendous record of broadband deployment in some of the most rural and remote areas of rural America is largely due to the RUS telecommunications loan program. NTCA's 2006 annual member survey shows more than 96% of it's members are offering broadband (200 Kbps) to some portion of their customer base and 88% of it's members are providing broadband at speeds of more than 1 Megabyte.

Since the initiation of the RUS broadband loan program five years ago, RUS has made over $1 billion in loans to 68 entities, including 6 to South Dakota telcos. RUS Broadband loans have

been used by some rural independent companies to increase broadband capabilities within their traditional service territories.

Other independent telecommunications providers in South Dakota have used the broadband loan program to overbuild or compete in communities outside their traditional ILEC territories where broadband deployment may not be as advanced. However, there are also stories in many parts of the country where broadband loans have been approved where broadband already services existed through two or three competitors. In the case of a loan in Oregon, a loan was made in communities where broadband deployment was at 99% or greater. This loan was also made over the objections of the RUS Field Representative. While overbuilding and competition is allowed under the regulations, I do not believe this is what Congress has intended when the Farm Bill was signed into law.

The Rural Broadband Improvement Act (HR2035) was recently introduced by Reps. Stephanie Herseth Sandlin (D., S.D.) and Jerry Moran (R., Kan.). Golden West believes the Rural Broadband Improvement Act would provide better definitions between rural and urban as well as limit loan fund availability for applicants proposing to serve areas that already have a broadband provider. Golden West supports the principles outlined in HR2035. NTCA also agrees with the direction of this legislation and is committed to continuing to refine it to the degree necessary to ensure the programs integrity, effectiveness, and sustainability as well as ensure the areas that are most in need of such financing receive it.

As a telco provider, I am well aware of the challenges faced by a federal agency trying to determine where broadband currently exists. Under the FCC's Form 477, broadband deployment is reported only by a zip code and does not paint an accurate picture of what is available in rural America. I believe that RUS should be able to better determine the level of broadband deployed based on their own lending portfolio inventory. As Golden West has just been approved for our "Y" loan--- representing our 25th telecommunications infrastructure loan through RUS, I am well aware of the high standards required for borrowing from the American taxpayers. I can testify that the level of information required by RUS for approval of an infrastructure loan under its longer standing loan programs is extensive. A similar level of information should be required

under the broadband program. Whether an infrastructure loan or a broadband loan; the painstaking process of an RUS loan application is designed to protect the American taxpayers. This principle should be reinforced as Congress looks to reauthorize the program.
One possible change that others have addressed is reforming the current public notice process that is utilized under the broadband loan program. At the federal, state and municipal level, the "legal notice" is often accomplished through the publication of a newspaper notice or advertisement. Some broadband loan applicants have taken advantage of non-specific public notice requirements and merely placed ads in larger statewide papers and purposely avoiding local newspapers published in the communities that are proposed to be served. By doing this applicants are able to prevent comment by incumbents already providing broadband. NTCA has suggested to USDA and to Congress that this process should be reformed by establishing a system that requires notification by certified letter to all service providers in the affected area. While the RUS field representative is supposed to verify the level of broadband deployment in the area that is to be served, the awarding of some RUS loans indicates that this is not occurring. A thorough verification process needs to occur and would end the gaming of the system by all potential competitors.

Given Golden West's success in connecting farms, ranches, small communities and tribal areas throughout South Dakota illustrates well how vital RUS Loan programs ensure that funds address the needs of those residents living in rural America. In many communities in South Dakota, a number of rural independent telecommunications companies provide broadband in areas outside the city limits where a cable company or an RBOC has no interest in providing service. These rural residents deserve the same consideration as those living within the city limits. Given the tremendous costs associated with connecting such long loops, Congress and USDA should examine how to better provide funds to these "last mile" customers. What's good enough for residents living just miles away from the Houston skyline should be even better for residents living outside of Wall, South Dakota.

Golden West and other rural independent telcos have an extensive history of providing voice and advanced telecommunications services to some of the most remote, high cost areas of rural America. Since the 1950's, RUS infrastructure loans have provided a solid foundation for the

deployment of these basic and advanced telecommunications services in rural areas throughout this county. The RUS Broadband loan program is a more recent application and there are many examples of loans being awarded to provide broadband to communities or regions where broadband did not exist, but it is obvious the program could be working better. I welcome the opportunity to answer any questions you might have.

Testimony of Mr. Kevin Felty

General Manager

Plains Cooperative Telephone Association

Subcommittee on Specialty Crops, Rural Development, and Foreign Agriculture

May 1, 2007

Good Afternoon Chairman McIntyre, Ranking Member Musgrave and committee members.

My name is Kevin Felty I am the General Manager of Plains Cooperative Telephone Association and its wholly owned, deregulated subsidiary, Plains Communications Services. Our headquarters is located in Joes, Colorado on the extreme eastern plains of our state. Plains Telephone provides voice and data services to 1350 access lines in 7 exchanges covering 2,000 sq. miles, with a density of .7 access lines per sq. mile. Despite the vast expanse we have 100% availability of broadband services via our telephone plant with a

penetration rate of 32%. We have been referred to as "the poster child for rural high cost companies"

As a 45 year traditional borrower of RUS funds we have an inherent understanding of the loan process and requirements associated with doing business with the RUS. Programs like the Broadband Loan and Grant are key components of most company's business plan if it intends to serve rural America. Traditional capital sources do not understand the costs associated with serving these sparely populated areas and they do not like the slim margins associated with this product line, furthermore most large companies simply don't play where we chose to live. That leaves the deployment of advanced service up to companies that understand this type of business model.

My prior position before coming General Manager at Plains Cooperative Telephone was with Sunflower Telephone Company (A FairPoint Communications Company.) While serving as Manager of Sunflower Telephone I actively pursued and was awarded a Community Connect Grant. This grant allowed Sunflower to bring broadband services to 3 exchanges that had a total of 307 access lines in a 900 sq. mile service area.

Today 20% of the customers of Towner, Sheridan Lake and Hartman Colorado have subscribed to broadband services and are using the service as an everyday tool in their business. During the scoring process of the grant we received a 70% out of a possible 70% in the demographic portion of the application. (Density, mean family income and other quantifiable measurements) By all accounts the $300,000.00 capital investment needed to complete this project would not have even come close to a satisfactory rate of return on the investment for any company. Without this grant from the RUS these committees would still be on the wrong side of the digital divide.

While I set here and sing the praises of these programs they are not without systemic problems. In an effort to secure financing for Plains Telephone subsidiary's 700 MHZ broadband wireless project we did a review of Rural Broadband programs administered by the Rural Utilities Service. We found the process for a new small start up company administratively cumbersome as evident by the 38 page application guide and the 53 page actual loan application. We did manage to fund the project internally and ended up delaying the rollout.

In light of recent and past criticism of the Broadband Loan and Grant Program a few inherent questions should be ask.

1. *Does the staff at RUS have a clear understanding of the legislative intent?*
2. *A simple redefinition of what is broadband may be considered? (currently the FCC and RUS defines broadband as 200 kbps)*
3. *Quantify served vs. underserved areas? (How many RUS funded competitors in a rural market constitute fully served?)*
4. *In today world should broadband services be considered a basic service?*
5. *Is current staff and technology at the RUS adequate to fulfill the wishes of congress?*
6. *Can the process be streamlined?*

I have included excerpts in my testimony from a September 2005 Inspector General Audit of the RUS Broadband programs:

"Congress's current language was meant to serve only as a broad definition for bringing broadband service to rural citizens, and that the clear purpose behind the program was to fund service to the truly rural. We do not believe Congress foresaw that this broad definition might be used to justify funding

loans to affluent suburban communities while other more rural communities remained underserved."

The audit went on to state:

"Based on this review, we found that RUS has not maintained its focus on rural communities without preexisting service. Although the language of the law specifies that these Federal loans and grants are for rural communities, RUS has codified and implemented a definition that cannot reliably distinguish between rural and suburban areas. Due to this ambiguous definition, the agency has issued over $103.4 million in loans to 64 communities near large cities, including $45.6 million in loans to 19 planned subdivisions near Houston, Texas."

While these instances were splashed all over the press and caused embarrassment to the RUS and the USDA, I still believe the program is viable and with a some modification can be accessed by the parties it was intended for as well as fulfill the legislative directive. The establishment of a Rural Broadband Initiative could provide direction for all parties involved in bringing parity to these type services.

In closing I would ask congress and this committee to continue to support the long standing national social policy of quality, affordable telecommunications services for all of American no matter the remoteness or cost of supplying these services.

I would be happy to answer any questions the committee has.

Thank you.

House Committee on Agriculture
Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture
Hearing on H.R. 2035, the Rural Broadband Improvement Act, May 1, 2007
Statement for the Record by Gary Lytle,
Senior Vice President of Federal Relations,
Qwest Communications

Mr. Chairman:

Qwest is pleased to support H.R. 2035, the Rural Broadband Improvement Act, which is legislation that focuses the Rural Utility Service (RUS) Rural Broadband Access Loan and Loan Guarantee Program for support to rural communities that presently have no high-speed Internet access instead of to areas where there are many choices available from commercial broadband service providers.

High-speed Internet access is vital for economic development, educational opportunities and quality health care. However, because of the way the RUS Broadband Program is administered, many small communities are being left out.

There are many examples in Qwest's local service region where RUS loans have been awarded to companies for deploying broadband where such service already exists. These companies are using the federal government assistance to compete against Qwest, and in many cases, other providers, including the cable industry.

Awarding loans in served markets is not what Congress intended when it established the RUS Broadband Program in the last farm bill. This practice, however, is jeopardizing the investment commercial providers like Qwest have made to bring broadband services to sparsely populated, rural communities.

Qwest's broadband network is designed with the latest advances in technology for speed and efficiency and spans more than 138,000 route miles worldwide. Qwest continues to invest in its broadband applications and services to meet the demands of its customers, with growing focus on increasing speeds and extending its geographical reach within is its local service footprint, which includes some of the most rural and isolated communities in the nation.

Currently, broadband services are available in 83 percent of the households Qwest serves for a total of more than 2.3 million broadband subscribers, a nearly 70 percent increase from just two years ago. Qwest is also one of the few broadband providers offering the service without requiring customers to also subscribe to a wireline voice or any other service.

However, Qwest is a commercial business, and it would be difficult for it to justify the investment necessary to extend and support broadband services to rural communities when another operator is getting financial assistance from the federal government to compete against us for those potential customers. The result would be that Qwest, and local broadband providers in other regions of the country, would be less inclined to take the financial risk of extending its network along many miles and sometimes across difficult terrain to serve Rural America.

Qwest supports the original intent of the RUS Broadband program and applauds efforts by the bill's sponsors to ensure the availability of high-speed Internet access to Americans who live in rural areas where the service is not yet available to them.

We urge Congress to consider and enact this legislation as soon as possible.

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