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FULL COMMITTEE HEARING ON THE RECOVERY ACT AND BROADBAND: EVALUATION OF BROADBAND INVESTMENTS ON SMALL BUSINESS AND JOB CREATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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FULL COMMITTEE HEARING ON THE RECOVERY ACT AND BROADBAND: EVALUATION OF BROADBAND INVESTMENTS ON SMALL BUSINESS AND JOB CREATION

Wednesday, October 28, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:49 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez [Chair of the Committee] presiding.

Present: Representatives Velázquez, Dahlkemper, Michaud, Altmire, Clarke, Bright, Halvorson, Graves, Bartlet, Luetkemeyer, and Thompson.

Chairwoman VELÁZQUEZ. This hearing is now called to order. The American Recovery and Reinvestment Act was a blueprint for renewed job growth. As part of a larger effort to put Americans back to work, that legislation included important investments in broadband deployment. And in fact, every $10 billion in broadband investment creates or saves 498,000 jobs annually. Of those positions, more than half are supported by firms with fewer than 500 employees. In other words, this is an opportunity for small businesses to really shine. And with efforts to expand the technology now underway, small firms are already vying for that chance.

By next month, the first round of broadband awards will have been announced, and because telecom giants like Verizon and Comcast decided not to compete, small firms should win a sizeable chunk of available grants and loans. In fact, NTIA and RUS are required to give special considerations to disadvantaged small firms.

But, unfortunately, that process has been less than seamless. Many small businesses have complained of challenges ranging from excessive paperwork to restrictive capital requirements.

In today's hearing we are going to discuss those obstacles. We will also look for ways to ensure small firms can enjoy the benefits of broadband deployment both as the beneficiaries of an enhanced IT infrastructure and as its engineers.

Expanded access to broadband presents an enormous opportunity. Since the mid-1990s, the Internet has played a key role in our economy. With a high-speed Internet connection, any entrepreneur, regardless of location, can tap that growing marketplace.

While overall growth in broadband has been steep, progress has varied by region. Today, only 46 percent of rural households use technology, compared to 67 percent in nonrural areas. Many low-income urban communities have also fallen behind. Given the role that the Internet plays in our economy, this disparity marks more than a simple digital divide. It means missed opportunities for small businesses. New investments in broadband can help recapture those opportunities, but so far, efforts are off to a rough start.

There are a number of challenges working against entrepreneurs. For example, an overly complex application process, one that requires nearly 200 pages of paperwork. More often than not, small businesses cannot afford in-house lawyers, accountants, or support staff. A streamlined application process will mean less red tape and more productivity and is worth considering.

For small firms struggling to access capital, a decreased matching requirement could also go a long way. Asking small businesses to match 20 percent of total project costs is a tall order, especially at a time when capital is increasingly hard to come by. Nine times out of ten, small businesses offer the best value for the taxpayer dollars. Our policies should reflect that fact. But when it comes to broadband projects, it seems we are not there yet.

Small firms deserve a level playing field. I know that both RUS and NTIA are committed to creating a more efficient process, and look forward to working with both agencies in the coming weeks and months.

Technology is often called the great equalizer of the business world. If done properly, increasing access to broadband will allow small firms to compete with big companies. It would also create new opportunities for small businesses, all while connecting our country with the fastest means of communication. We have come a long way since the days of dialogue. New investments in broadband can take that progress one step further and allow America's small businesses to help rebuild our economy.

I would like to thank the witnesses in advance for their testimony. I know this is an exceptionally busy time for them, and I am grateful that they could be here to discuss this important issue.

[The information is included in the appendix.]

Chairwoman VELÁZQUEZ. With that, I will yield to the Ranking Member for his opening statement.

Mr. GRAVES. Thanks, Madam Chair. And good morning, everyone, and thank you for participating in today's Committee hearing reviewing the broadband provisions in the stimulus package. And thank you, Madam Chair, for holding this timely hearing.

It is no secret that I voted against the American Recovery and Reinvestment Act, or the stimulus bill. I felt that the amount of spending contained in the measure was unprecedented and, I believe, fiscally irresponsible. However, that vote has come and gone, and I think we need to move forward to ensure that the $787 billion worth of taxpayers' dollars is used wisely and not abused.

The stimulus bill provided $7.2 billion primarily for broadband grant and loan programs to expand broadband access to those who do not have it, a very worthy goal and one with significant economic consequences. The advantages of broadband service in communities both urban and rural are substantial. Access to these

services puts information at the fingertips of our students. Job seekers can search and apply for job opportunities at many of today's leading businesses. Small businesses can improve market access and compete with larger counterparts on a more level playing field. Health information technology can help doctors share patient information that leads to quicker diagnosis. Consumers can shop better, smarter, and more efficiently, and the economic opportunities are absolutely endless.

However, the lack of sufficient access and speeds has put a growing number of people at a disadvantage. Students can't access the level of information as their connected peers. Job searches are more difficult. Communities are unable to attract new investment. And opportunities for small businesses are limited.

The advantages of broadband service are clear. Now we must review the various programs that are designed to bring broadband to everyone, and ensure that dollars are being spent efficiently, effectively, and without abuse. If an application is too complicated or costly to complete, then we need to reinvent or reevaluate the process. If definitions are defined by government officials, if they are having unintended consequences, then they should be revised. Bureaucratic red tape should not be prohibiting businesses from providing high-speed broadband service to everyone. Moreover, the government should not be subsidizing areas with adequate broadband coverage. It is important to make sure that steps are being taken to prevent government-subsidized competition.

As the first round of broadband funding concludes, it is imperative that the government make changes to address these concerns and ensure that future rounds operate in a way that improves the economy, helps small businesses and providers, and expands broadband coverage to everyone.

We have a distinguished panel of witnesses here today, and I look forward to hearing all their thoughts on the broadband issue and programs, including the stimulus bill and how they have been working again.

Thank you, Madam Chair, for coming. Thank you to the witnesses for coming in today, too.

Chairwoman VELÁZQUEZ. Thank you.

[The statement of Mr. Graves is included in the appendix.]

Chairwoman VELÁZQUEZ. And it is my pleasure to welcome the Honorable Lawrence E. Strickling. He is the Assistant Secretary for Communications and Information at the Department of Commerce. Mr. Strickling serves as Administrator of the National Telecommunications and Information Administration, the agency with responsibility for advising the President on communications and information policies. Mr. Strickling was confirmed on June 25 of this year, and has more than two decades of experience in technology policy. Welcome, sir.

STATEMENT OF LAWRENCE E. STRICKLING

Mr. STRICKLING. Thank you, Madam Chair, and Ranking Member Graves and members of the Committee. Thank you for your invitation to testify on behalf of the NTIA on the implementation of the broadband initiative set out in the Recovery Act. I welcome the opportunity to testify this morning, and I bring you the message

that these broadband initiatives have the potential to have a profoundly positive impact on the growth and development of small businesses.

I am very pleased to appear here today with Jonathan Adelstein, who oversees the Broadband Initiatives Program at the U.S. Department of Agriculture. Our two agencies have worked hand in hand to implement the broadband provisions of the Recovery Act, and the result has been a highly coordinated and well thought-out approach that has taken advantage of the individual expertise of each agency.

The President's innovation plan announced in September makes clear that the foundation for durable, sustainable economic growth must be innovation and investment. The Recovery Act, by providing over $7 billion for broadband grants and loans, directly supports building that foundation. With these funds, I am confident that America will take a significant step forward in achieving President Obama's vision of bringing the benefits of broadband to all Americans.

Small businesses are the backbone of the American economy, and broadband connectivity is essential for small business. They stand to gain significantly from the broadband stimulus in the Recovery Act either by applying for funds directly or by benefiting from the improved infrastructure that will result from projects built in their communities.

The economic impact of broadband access is real and measurable. Studies by experts at MIT and Carnegie-Mellon have demonstrated how communities with broadband see more rapid growth in employment, more rapid growth in business activity, relative to comparable communities without broadband. With access to modern infrastructure, small businesses can reach consumers worldwide in a manner they could have only dreamed of years ago, and they can now cost effectively compete against the largest corporations if they have a product the world wants. And these benefits reach small business wherever they are located, including rural areas.

A recent report from the Department of Agriculture concluded that rural communities with high-speed broadband facilities experienced greater economic growth, specifically job growth and higher revenues, than their counterparts that lack the infrastructure.

There are a myriad of other benefits to small businesses and communities from increased broadband availability. For example, the increased use of telehealth assists rural hospitals and remote health care systems in improving their capacity for treating patients. Telehealth can help cut health care costs for all firms, but especially for small businesses which consistently cite the rising cost of health care as a major concern.

Our agencies have received an extraordinary response to our initial round of funding, and we look forward to the challenge of rewarding grants to a diverse set of recipients.

Between our two agencies, we received over 2,200 applications requesting nearly $28 billion in funding, seven times the funding we had made available in the first round. At least one application was filed for each State, territory, and the District of Columbia.

The applicant pool is diverse, includes States, tribal nations, local governments, nonprofit organizations, telephone, cable, and

wireless companies, and anchor institutions such as libraries, schools, and hospitals. We are particularly pleased to see strong participation from the small business community in the first round, particularly socially and economic disadvantaged businesses.

Out of the total pool of applications submitted to us, around 15 percent were made by socially disadvantaged businesses or from applicants who were partnering with SDBs. These applications account for just under $2 billion of the total $28 billion requested in the first round.

This occurred because we made special efforts to encourage SDBs to apply to our programs. During our educational campaign last summer to informed interested parties about the grant program, we conducted three workshops that focused exclusively on providing guidance to small businesses, including small and economically disadvantaged businesses, as to how they could apply for grants. The Minority Development Business Agency and the Department of Commerce also helped publicize the opportunities of the grant programs to minority firms.

Overall, I believe the significant number of applications filed by SDBs demonstrates the success of our outreach campaign to this business community, and we look forward to strengthening the program in our next funding round.

We are currently in the midst of reviewing our applications, and as I noted yesterday at the Senate Commerce Committee oversight hearing, we are now targeting mid-December for the announcement of the first grant awards.

But even in the middle of all this activity to review the current applications, we are constantly thinking about ways to improve the program. We are working with the Department of Agriculture to finalize a request for information to collect input from the public as to how to improve the program in the second round. In this RFI, we will ask for suggestions as to how we can streamline the application process and for comments on some of the key program definitions.

As has been previously reported, RUS and NTIA are evaluating whether to combine the original rounds 2 and 3 into a single funding round. If we do so, we would expect to initiate the new application round after the first of the year. The key for us in setting that start date will be to make sure that we are able to apply the lessons learned from the first round in designing the second funding round. But, as required by the Recovery Act, we will award all of the broadband stimulus dollars by September 30, 2010.

In my remaining time I would like to spend just a minute on our progress in developing the national broadband map. Under our State Broadband Development Data and Development Grant Program, for which Congress appropriated $350 million, our plan is to award a broadband mapping grant to every State and territory for the purpose of collecting and verifying broadband data in accordance with the standards we have set. We have now awarded eight grants totaling over $14 million under this program to Indiana, North Carolina, West Virginia, Arkansas, Vermont, as well as California, New York, and the District of Columbia. In addition, we are in the final stages of awarding additional grants next week, and we will continue to announce these awards on a rolling basis. Our stat-

utory deadline to publish a comprehensive interactive national broadband map is February 2011.

In closing, we are working extremely hard to ensure that the broadband projects funded by the Recovery Act and the broadband mapping information developed from our Mapping Grant Program serve as valuable inputs to the Nation's long-term broadband strategy.

Thank you again for the opportunity to testify, and I look forward to your questions.

Chairwoman VELÁZQUEZ. Thank you, Honorable Strickling.

[The statement of Mr. Strickling is included in the appendix.]

Chairwoman VELÁZQUEZ. Our next witness is the Honorable Jonathan Adelstein, the Administrator of the Rural Utilities Service in the U.S. Department of Agriculture. The Rural Utilities Service is charged with enhancing public utilities to rural areas in the United States via public-private partnerships. Prior to his appointment, Mr. Adelstein served as the Commissioner of the Federal Communications Commission from 2002 to 2009. Welcome, sir.

STATEMENT OF HON. JONATHAN ADELSTEIN

Mr. ADELSTEIN. Thank you, Madam Chairwoman, Ranking Member Graves, and members of the Committee. We are certainly appreciative of the opportunity to testify here today, and it is a special honor to appear with my good friend, Assistant Secretary Larry Strickling, who has done such an outstanding job of leading the NTIA. And it is a real tribute to his leadership and our good working relationship that we have worked so seamlessly together, as he noted, in making sure these programs are coordinated from top to bottom.

RUS has a long and highly successful experience since its beginnings as the Rural Electrification Administration back in 1935 in deployment of electric, telephone, and water service to rural areas. I think it is especially fitting that we are having this hearing here today, because today, actually this very day, marks the 60th anniversary of the telecommunications programs at RUS.

We first began the telephone program trying to serve areas of the country. One third of the country of people in rural areas did not have a phone in 1949. And thanks to the RUS' programs, today it is virtually universal.

We are now applying this expertise that we developed beginning 60 years ago to this newer technology, to broadband. And, as indicated by the major resources that Congress provided in the Recovery Act, improved access to affordable broadband is a high priority for the Obama administration and Congress, and I know it is for this Committee as well. It is certainly critical for the small business community, as you noted. Broadband levels the playing field, gives rural businesses access to national and international markets, enables very small and home-based businesses to succeed. It is one of the key foundations of the 21st century economy that rural businesses need to survive and remain competitive.

We have done extensive outreach to small businesses, Assistant Secretary Strickling has noted. We have to put the benefits to small businesses front and center, as you are doing here through this hearing today. This summer, the USDA's own Economic Re-

search Service examined the economic effects of having broadband in rural communities. This report concluded that employment growth was higher and nonfarm private earnings greater in counties with a longer history of broadband availability. Benefits include access to online course offerings, telemedicine, telehealth services living in those remote areas. Agricultural producers and farm-based businesses are also more reliant on Internet access to conduct sales transactions, advertise their businesses, and monitor real-time changes in commodities markets, and tracking global crop prices.

It is clear that broadband access is a necessary component for sustainable growth in rural communities. Small businesses are the engine of economic growth, and they just can't make it without broadband today in rural America. So we need to make sure that small businesses in rural America have every bit as much access to broadband as those in any other parts of the country if our overall economy is to survive and to thrive and our growth is to be maximized.

This isn't just an issue for rural areas. The success of rural small business is an issue of concern to our overall economy. We are seeing jobs outsourced overseas at a time when they should be insourced to rural parts of the United States. That can't happen if they have broadband in Korea, but they don't have it in rural Alabama. We have to make sure that we do that. And the RUS I think is in a position to help.

Since 1959 we have required that all new telecommunications capacity that we finance be broadband capable. Our Community Connect and Distance Learning and Telemedicine programs are examples of highly successful and oversubscribed programs that are key in the ability of rural areas to attract and retain small business.

The USDA broadband loan program, which was created in the 2002 farm bill, has provided over $1.1 billion to more than 90 broadband projects in rural communities spanning 42 States; 36 percent of those loans have gone to startup companies, many of which, of course, are small businesses. So we know how to work with small business. We like to do it. We like to work with startups. And on top of that, we have provided $4.4 billion in loans since 2001 to our regular program for broadband-capable infrastructure.

Now, the Recovery Act marks a huge new chapter for us in this effort. Since its enactment, we have worked side by side with our partners at NTIA, the White House, the FCC, and throughout the administration to fulfill the President's vision of promoting broadband access to every part of the United States, and the collaboration we have seen has really been unprecedented.

So the RUS and NTIA are now engaged in our respective reviews of applications for over $28 billion in funding requests, and we are using the 75 years' experience that we have in lending to rural America.

We have less than a 1 percent default rate for our telecommunications portfolio. So I think you had a hearing last week on capital, formation of capital availability, and we are—at a time when most lenders are reluctant to extend loans, we are looking at doubling our entire loan portfolio in 1 year with these Recovery Act funds.

We are a rural development bank and we are open for business. We want to provide those loans to these small businesses, and we are going to use the $2.5 billion in funding that Congress provided to leverage them to use our budget authority to provide loans, grants, and loan-grant combinations to prospective applications. We will stretch those $2.5 billion significantly to facilitate the deployment of broadband technology as far and wide as we can.

We are now in the process of evaluating first-round applications and expect to begin issuing awards shortly. Our initial plan might have moved back by a few weeks, but we still hope to make announcements within a month of when we originally planned.

Well over half of the investment we have is planned for the second round. So the concerns that you raised today and the changes we make can be applied in future rounds of funding. I think we should continue to plan to combine or plan for second or third rounds into a single round in order to give applicants additional time to create strong proposals and to ensure that we are able to meet the goal of obligating all funds by September 2010. And we certainly do need to streamline the process, as you indicated.

We want to make this as easy for small business as we possibly can, and we understand some of the challenges that they face in the application process. So we will put forward an announcement soon about how we are going to move forward on these rounds. And we will certainly take to heart what we learned in the first round, some of the problems that small business have experienced. We want to listen to the concerns that have been raised. We are very aware of concerns that have been raised about a wide range of issues, not only the application process, but things like the definition of rural and remote areas, eligibility standards for unserved and underserved areas, scoring weights for various factors, and some concerns raised by satellite companies as well.

Without speculating on specific changes we might make, we will certainly be guided by an evaluation of our experience in the first round and prepared to make changes accordingly. So we certainly welcome your input from this Committee on how we can best move forward and apply the lessons learned in round one toward the work ahead of us in the next round, which we anticipate in the coming months.

Toward that end, the RUS and NTIA, as Assistant Secretary Strickling indicated, plan to seek formal written comments on ways to better meet the requirements of the Recovery Act very soon. We will release a request for information shortly to gather that information, and certainly welcome the Committee's input on that.

We will continue to assure that implementation of the broadband initiatives are a collaborative and coordinated effort with our partners at NTIA and throughout the administration. It is certainly an honor and a privilege to work with you on behalf of the 65 million Americans who live in rural America. We look forward to continue to work closely with Congress in making affordable broadband service widely available throughout the country.

Thank you again for the opportunity to testify, and we would be happy to answer any questions you may have.

Chairwoman VELÁZQUEZ. Thank you.

[The statement of Mr. Adelstein is included in the appendix.]

Chairwoman VELÁZQUEZ. In the first application period, you each took different approaches to evaluating applications by small businesses. Can you discuss that process and what steps are being taken to maximize participation by small firms?

Mr. STRICKLING. I will start for NTIA. In our application process, we made it clear that applications brought by the SDBs, the socially disadvantaged businesses, would receive extra consideration. This appears in two parts of our evaluation. We have four areas in which we review applications, and in two of the areas, purpose and viability, the reviewers evaluating these applications are directed to give extra consideration in terms of extra scoring for projects where the applicant is an SDB or where the applicant has partnered with an SDB. Those two categories account for over 50 percent of the total score of an application. So depending on how the reviewer evaluates the application, they can give substantial weight to that. In fact, in one of the categories they cannot even give a perfect score unless an SDB is actually part of the application.

Chairwoman VELÁZQUEZ. Mr. Adelstein.

Mr. ADELSTEIN. We also provided advantage for small disadvantaged businesses in our application process. We did extensive outreach, along with the NTIA, throughout the country, particularly trying to reach out to small businesses. One of the problems we have had, of course, you talked about the application process being unwieldy. We did agree to have a two-step process so that rather than having to provide all the information in the first round, there would be a two-step application process where the applicant would give initial information and we would ask certain applicants that were to advance into the process for additional information so that a small business would not be burdened with the entire need to provide all the detailed financial information in the first round but, rather, we would give them a two-round process.

And also during the application process we found some issues in the system that were making it difficult for businesses to get their applications in. We tried to respond to that by providing an extra week to respond, allowing applicants who were having issues to get us their applications through different media if it wasn't working through our online intake system.

Chairwoman VELÁZQUEZ. You provided stats on a number of firms applying. Do you have any preliminary estimates of how much money will actually go to small firms?

Mr. ADELSTEIN. We don't know yet. We are still in the middle of the application process, and it is very difficult to predict who is going to end up with the awards. We know how many we got in, but we don't necessarily know yet how many will go out to small businesses.

Mr. STRICKLING. That is true for us as well.

Chairwoman VELÁZQUEZ. Mr. Strickling, the requirement that BTOP applicants provide matching funds of 20 percent could prove a major obstacle for small businesses, and especially now, given the economic climate and the fact that they are having so much trouble in accessing affordable capital. Given that the NTIA has the authority to grant waivers, how is your agency working to reduce this challenge for small companies?

Mr. STRICKLING. Well, you are correct that in the first instance we do have the waiver authority where an applicant can make a compelling case that they were unable to provide the full match. We can take that into consideration. We have not yet brought forward any of those requests for decision yet, and will only do so as projects go through the due diligence process.

The other thing that I guess I would urge consideration of is the fact that one of the big benefits of this program, even in communities that don't actually receive funding from us, is the discussions that this program has generated all across the country. And we are getting groups together who haven't been talking to each other in the past, to talk about how can our community be served by the broadband grant program, and organizing themselves in partnerships and consortia in terms of putting applications together.

So even if an individual small business might find the application process challenging, might have concerns about finding the matching dollars on its own, we are seeing case after case of groups of entities forming together, banding together to bring an application to us. We think that that is a very important and interesting development that the act has caused, without spending a single dollar, and we hope to see that sort of organizational activity continue on across the Nation as a way for people to kind of bring their demand, aggregate their demand together into a project that maybe we will be able to fund. But even if we are not, it becomes perhaps a more attractive project for private industry to fund.

Chairwoman VELÁZQUEZ. Thank you. You are supposed to announce grant and loan awards by November 7. Are you on schedule to meet this target?

Mr. ADELSTEIN. We said no sooner than November 7. But we are really looking like it is more likely to be in December possibly. We may be able to get some out in November, not clear; but given the complexity and overwhelming demand for the program, it appears that that is slipping by at least a few weeks.

Chairwoman VELÁZQUEZ. So what type of updates have you given to the applicants regarding their pending applications.

Mr. ADELSTEIN. Well, we are still evaluating most of the applications. We have sent some forward to due diligence and we have asked for that second round of information from a handful of applicants and we are considering asking for more of that information in the very near future. So we generally have not given them a lot of updates. We are still going through and processing this applications.

Chairwoman VELÁZQUEZ. Some small service providers, Mr. Adelstein, have been critical of the requirement giving the RUS an exclusive first lien on projects receiving Federal money. Many small firms have suggested that this was a detractor to even applying. Is anything being done to mitigate this challenge for small applicants?

Mr. ADELSTEIN. Yes. We are looking at different legal opportunities for them. I actually spoke before the hearing with the representative who will testify this afternoon for the American Cable Association, who indicated for them it was a major hurdle, and we understand that.

Obviously we have a very long history in doing loans, that we tend to put a very strong first lien on the assets of the company in order to secure the position of the United States so that we can ensure that our position is protected. That is critical for a number of reasons, not only to protect the taxpayers but also to protect the program so that, going forward, we can continue to have that 1 percent default rate I talked about. And to the extent we do get defaults, there is either a small or minimized loss to the United States.

That being said, I understand that for small businesses they have a hard time because they may have financing out from a private bank or financier, and we come in and say we need to have the first lien. And that can create a conflict with their existing—

Chairwoman VELÁZQUEZ. Violating the terms of those loans that have been granted to them.

Mr. ADELSTEIN. Exactly. So that requires a renegotiation with their existing financier or some fear about applying in the first place. Normally what we do in this situation is do an individualized custom mortgage and work with the other lenders to come up with an arrangement and accommodation. In the case of this program, our concern is that because of the size and the scope and the number of applications that are coming through in short order, that it is more difficult for us to do a custom mortgage for each one of the applicants, which makes it tougher basically to accommodate these concerns.

Chairwoman VELÁZQUEZ. So how can you mitigate that?

Mr. ADELSTEIN. Our plan to mitigate—good question—is to think about are there some different options for mortgages that we can provide. We provided a model on our application portal so people can see what it would look like to have the first lien, which is a fairly strong one. I think might have scared away some applicants and understandably so.

Now we are looking at coming up with maybe a variety of them. Rather than having custom ones for each applicant that comes in, maybe a small number, a limited number of different options that they could choose from, some of which may accommodate their existing financial arrangements.

Chairwoman VELÁZQUEZ. This is a very important issue for small companies, and I hope that you can get a way to mitigate such a requirement.

Mr. ADELSTEIN. Thank you. We will try to do that.

Chairwoman VELÁZQUEZ. Mr. Graves.

Mr. GRAVES. I appreciate it. I have a couple questions. The first one is what steps are your agencies going to take—and I kind of talked about this in my opening statement—but what steps are your agencies going to take to ensure that stimulus dollars are not used to duplicate or build existing infrastructure? Can you be the backstop to make sure that we are not going to be spending money going into areas that are already adequately served? And that is a pretty important question.

Mr. STRICKLING. I will take the first response on that.

For infrastructure projects, we will not award dollars unless the funds are going to a proposed service area that meets our definition of unserved or underserved. So in either situation, those would be

areas that by definition are not being adequately served by existing providers. So I think we meet your concern.

Mr. GRAVES. What is that definition, just out of curiosity?

Mr. STRICKLING. ″Unserved″ would be that 90 percent of the people living in the proposed service area do not have access to broadband service. For ″underserved,″ it is a three-part test—any part of which can be satisfied—to satisfy the definition, which would be that 50 percent or more of the residents do not subscribe—do not have it available, that 40 percent or more do not actually subscribe, or that there is not already an existing provider who advertises a service at three megabits per second or faster. If any of those conditions are met, then the area is deemed underserved for purposes of infrastructure projects.

Mr. ADELSTEIN. We use the same definition of unserved. We have, as he said, a coordinated program. So the same definition of underserved and unserved. And we really try to target those most remote areas of the country that have no service at all.

We are going to continue to figure out ways to even approve that process and target the funds towards unserved areas. It is really the mission of the USDA to get service to people who don't have any at all. There are other important areas that are underserved that we are permitted and encouraged by the statute to serve as well. But I think we need to try to target our areas on the most remote areas. In fact, we have come under some criticism for going to too remote of an area, and we are thinking about ways that we can adjust that. But we do want to focus on unserved areas.

Mr. GRAVES. That is extremely important. If anything, we want to make sure that those areas that don't have any access at all are going to get it. In the future, at least with future funding rounds, are you all taking steps or trying to figure out ways to make this process easier or less costly?

Mr. STRICKLING. Absolutely. And as we both indicated in our statements, we will be going out to the public very soon to get their input as to what changes they would like to see, and so that we are in a position to consider and accommodate as many of those concerns as we can for the second round.

Mr. GRAVES. Okay.

Chairwoman VELÁZQUEZ. Would the gentleman yield?

Mr. GRAVES. Absolutely.

Chairwoman VELÁZQUEZ. So you mentioned before, the second round will start at the beginning of the year?

Mr. STRICKLING. We don't have a firm date set, but today I would say I would expect it would start sometime in January.

Chairwoman VELÁZQUEZ. November is almost here. You will be listening to small businesses. This is a session that you are going to be conducting with those who applied for this, and then coming up with the recommendations or making the adjustment or the changes?

Mr. STRICKLING. The RFI process is a paper process where people would submit written comments. We are still evaluating what other outreach we might conduct during that period. Certainly once our rules are issued to kick off the second round, just as we did for the first round, we will go around the country and conduct workshops, just as we did the last time, including some focused ex-

clusively on small business and socially disadvantaged businesses to help them work their way through the application process and explain ways that they can get through the system.

Chairwoman VELÁZQUEZ. Thank you.

Mr. GRAVES. I have got a letter I am putting together now with many suggestions, particularly for rural areas, which I am going to make available to all the members of the Committee if they want to sign on. But we will be sending that over right away with our suggestions.

Chairwoman VELÁZQUEZ. Ms. Dahlkemper.

Mrs. DAHLKEMPER. Thank you, Madam Chair. And I thank the distinguished witnesses here for coming forward to this Committee, this very important topic.

In July, Vice President Biden, Secretary Vilsack, Secretary Locke, and other top administrative officials actually traveled to Erie County in my district to highlight the role of the Recovery Act broadband programs. As I noted then, broadband access is critical to rural business competitiveness.

Mr. Adelstein, can you highlight how some of the proposed projects you have seen address rural competitiveness issues particularly in the areas of education and health care?

Mr. ADELSTEIN. We have seen a lot of that. Your district is where this whole thing kicked off and my boss, Secretary Vilsack, came out there and was thrilled to see the possibilities for Erie.

We have been involved in a number of projects in the past, community connect projects that for what we call our distance learning—telemedicine program, and our community connect program—that fund educational and health care services that are really critical for sustainable growth in rural areas, and many people want to live there.

We have seen great success in allowing remote clinics, for example, to be able to get access to specialty hospitals that have the expertise that can deal with emergency issues that come up in rural areas that otherwise they wouldn't have available that kind of expertise in a rural clinic and they may not have time to get to the urban area. But because of the beauty of telemedicine, they can do that.

But you can't send these large data, radiographical information and instant communication with the specialty hospitals, to do the diagnostics they need to unless you have broadband. So for health care I think it is critical.

I was in Alaska up in Kotzebue one time, and if you are out in the bush outside of Kotzebue, these villagers that can take 60 miles by dogsled is the only way to get to Kotzebue, just to even that health clinic. So we don't have broadband out there, and they are using satellite now which has got issues in that particular community. They don't have the ability to get the health care they need.

So for education, for health care, I think you are exactly right that these are critical applications for small rural businesses and small rural areas.

Mrs. DAHLKEMPER. I have a question regarding the actual process of determination of who actually receives these grants. I had one of the applicants come into my office actually this week, and they have come through highly recommended, but were not rec-

ommended by the State. How much is the State's recommendation going to play in this? Because part of the question was, because the State is also applying for their own projects, you know, is there some waiting going on there within the State to try to make sure that their own projects are getting funded, and then recommending who gets funded and who does not? So I guess I am asking the question, you know, is there a fairness in this, and how much is at stake?

Mr. STRICKLING. This is really unique to our program at the Department of Commerce. We did give each State an opportunity to provide input to us on the applicant pool. What we were primarily focused on was getting information from them in terms of what they would identify as the areas geographically that they viewed as priority areas for our project dollars.

You are correct that in some cases States have applied directly themselves for grants. The statute, however, gives States the ability to provide this input to us. I think the conflict is out in the open for everyone to see. When we get these letters back, they are just another piece of input for our process. They are not determinative of anything.

For an application to pass into due diligence, it is reviewed by three independent reviewers and it has to pass a threshold score from those reviewers to be passed into due diligence. The State cannot recommend a project and have it come into due diligence if it doesn't otherwise merit that evaluation from our independent reviews.

Mrs. DAHLKEMPER. So there were two projects, though, that were equal, and the State recommendations probably would have some weight in that?

Mr. STRICKLING. It is another factor that we would look at, along with a host of other issues.

Mrs. DAHLKEMPER. But I should be able to tell this applicant that they are not out of the picture because the State did not put them on the list?

Mr. STRICKLING. That is correct.

Mrs. DAHLKEMPER. I appreciate that.

Mr. Adelstein, in testimony delivered earlier this year. NTIA's Mark Seifert encouraged applicants that involved partnerships amongst small businesses and municipalities and others join together to promote broadband. In my own community, I have got these two applications who have joined together. What steps are being taken to encourage this partnership across the country and as we go into further application process?

Mr. ADELSTEIN. It is great you raise that issue, because it is something we are thinking a lot about at USDA. Our Secretary, Secretary Vilsack, is very interested in regional economic development. Being any regions that are banding together to try to work towards the development of that area tend to be more successful historically than those that are operating on their own.

So we are, in the RFI that we are going to put out, planning to ask questions about how can we encourage exactly those efforts? How can we look to regional planning that includes an element that would support broadband? How would broadband fit into that regional economic development plan to encourage these commu-

nities to work together towards a comprehensive solution? It is not enough to get broadband into the community. We want them to have a broader economic development plan.

Mrs. DAHLKEMPER. So do they get a higher score if this is included? I have seen great things happen in my own district where they are coming together, county governments, small businesses, other economic development engines.

Mr. ADELSTEIN. That is sort of the options that we have for the next round. That is sort of the questions we are going to ask in this request for information: Should we award higher points to those that have regional development plans that include a broadband element? I think it is a good suggestion.

Mrs. DAHLKEMPER. My time has expired. Thank you.

Chairwoman VELÁZQUEZ. Mr. Thompson.

Mr. THOMPSON. Thank you, Madam Chairwoman. And thank you to those who are testifying today. I really appreciate it.

As I travel throughout my district, which is the Pennsylvania Fifth, it is larger than eight States so it meets, I think, a fair amount of those definitions of remote or underserved or unserved in terms of broadband technology. The importance and the need for access to rural broadband is just really illustrated time and time again as I spend time throughout that district. Business and economic development, jobs, is a result of that, education and health care. And certainly within the Pennsylvania Fifth there are many, many communities and counties that are unserved or underserved with broadband technology. Communities like Renovo, Pennsylvania and Western Clinton County, where the small businesses, the school, the rural hospital, frankly, are very hopeful that this investment may at some point finally bring access to the broadband that they need, because it hasn't—broadband has not been successful by conventional means for that area.

I wanted to follow up on Mrs. Dahlkemper's question, being a fellow Pennsylvanians, and in terms of—Mr. Strickling, what guidance of criterion were provided to the States such as Pennsylvania, ensuring that the projects that they recommended met the definition of unserved or underserved? Were there criterion or guidance provided, or this is just the wish lists that come from the States?

Mr. STRICKLING. The States were given an opportunity to provide whatever input they wanted to us. We are not relying on them to tell us what is an underserved or unserved area. We wanted them to tell us what they view as a priority area for projects.

Mr. THOMPSON. Priority based on?

Mr. STRICKLING. Largely based on the absence of the service being in the community today. But we will make the judgment whether any particular application satisfies our test for unserved or underserved. We absolutely invited States to provide data that they might have to help us answer that question. But they won't make that decision. We will.

Mr. THOMPSON. Thank you. I understand there are about 2,200 applications. Can you explain the process for reviewing those applications seeking Federal funds and your use of volunteers to helping the processes?

Mr. STRICKLING. Sure. As I said yesterday, I prefer to call them independent experts, but in fact they are doing this at no cost to

the Federal Government. I like to say they are doing their patriotic duty to help us. And the pool is an impressive pool. We have folks who are volunteering their time, who have served as senior executives in telecommunications companies, people who have built these kinds of projects before but maybe they are retired and they just want to give back to the community. We have in one case the former chair of a State public utility commission who has dealt with these issues for years and years.

So they are highly qualified people. Our pool of experts is over a thousand. Each of them was vetted for expertise. We reviewed their resumes and we also reviewed whether or not they might have a conflict of interest because they had worked on an application that had been filed or they worked for a company that either filed an application or might be competing with somebody who filed an application. So we eliminated about 300 people from the pool for conflicts or for lack of qualifications.

So the process is that each application is reviewed by a panel of three of these experts, and they each individually provide us a score based on criteria that we provide them in a fairly voluminous manual to guide them through the process.

All that is a screening, though. All that does is those scores come back, and those applications who have an average score above a certain threshold are then moved into due diligence. At that point, my staff, the professional staff, supported by experts from our contractor, Booz Allen, do a complete top-to-bottom scrub of the application and really look very carefully at do these people have the management capability to build a project? Does the budget make sense? Is this project sustainable? Meaning, will it still be operating 5 years from now when there is no Federal money to support it. Are the benefits that are claimed really real benefits that we can expect? So we do all that evaluation ourselves on the top applications, and then we will select from that pool based on the review that we do.

So the first part of this is really just an initial screen to find the best applications in the pool. As I have said repeatedly, and I tell my staff every day, don't worry. We are going to have good applications that don't get funded because we were oversubscribed by seven times.

What we need to do, though, is to make sure that every application we do fund is a good application and is one that 5 years from now will still be operating and still be providing service in their community.

Mr. THOMPSON. Thank you, Madam Chairwoman.

Chairwoman VELÁZQUEZ. Mr. Michaud.

Mr. MICHAUD. Thank you very much, Madam Chairwoman, for having this hearing. There has been—and I want to thank the panels as well for your testimony this morning. There has been more than approximately 830 parties that submitted applications jointly to RUS and NTIA. Has RUS gone through the projects and advised NTIA which ones that they will not fund?

Mr. ADELSTEIN. We are still in the process of consultation with NTIA on that. There are large numbers, as you indicated, of joint projects and we are evaluating them simultaneously. At the same time, we are looking at them, NTIA is looking at them, so we are

not slowing one another down. Yet we haven't made determinations as to which ones exactly we are or are not going to fund in most of these categories, so we are not yet in a position to indicate to NTIA which ones we are turning down. I can't speak for Secretary Strickling, but I don't think that is slowing them down in their evaluation.

Mr. MICHAUD. And when do you plan on having your part of the process done?

Mr. ADELSTEIN. Well, we have made a lot of progress and we are starting to wrap up in certain categories where we are in some of the remote projects. So I think this month we will have a much better sense—I should say November this coming month—of where we are.

Mr. MICHAUD. Does NTIA plan on preserving any funds for jointly submitted projects that RUS decides not to fund?

Mr. STRICKLING. Yes. Absolutely. We had indicated a total funding round of $1.4 billion to $1.6 billion, and we absolutely are interested in looking at the projects that RUS determines not to fund. And as Administrator Adelstein said, we are reviewing the applications in parallel, so we are not waiting to hear from the Department of Agriculture to actually initiate the review of a joint application. We are looking at them right now.

Mr. MICHAUD. And if a project sponsor that has requested—submitted a project to RUS due to the rural nature of its proposed service area, if they haven't heard anything back from RUS by now or NTIA, does mean that the project is no longer being considered?

Mr. ADELSTEIN. No. Definitely not. We are considering a number of projects for which they haven't heard back from us because we are still reviewing them. A number of them are live. And I know we have had some concern from some applicants that are wondering where they are at in the process, because they haven't heard back from us but we are—because of the number of applications we received, we haven't yet made those determination. So there is no need for concern.

We have sent out a small handful of due diligence requests for a number of companies, but it is a very small number and we are going to be sending out many more. So just because somebody hasn't heard from us doesn't mean that, under any circumstance, they are not necessarily a live application.

Mr. MICHAUD. Thank you. Mr. Strickling, in your testimony you mentioned that NTIA is considering the funding recommendation made by each State. How much weight does NTIA give to the State's recommendation?

Mr. STRICKLING. It is another factor for our evaluation. So we will look at it, we will take it into account. It doesn't have any particular weight on its own.

Mr. MICHAUD. And what about RUS? Does RUS give any weight to a State's recommendation?

Mr. ADELSTEIN. We don't have a legislative requirement to create a formal State process like NTIA does. We do have a very good relationship with the States. And I think that to the degree that they have input, we are looking at what they have to say as a factor, but it is not something that we are required to do through a formal process like NTIA.

Mr. MICHAUD. Has RUS established any general guidelines to direct the first rounds of awards? Do you have anything in writing on your general guidelines?

Mr. ADELSTEIN. We do. It is in the NOFA, very detailed requirements and very explicit criteria by which we are indicating what we are looking for in the funding pot. So we have been very clear, I think, about what the main criteria are by which we are going to judge applications in an objective way.

Mr. MICHAUD. Will a greater amount of funding be committed to smaller-type projects over larger initiatives?

Mr. ADELSTEIN. Well, we certainly hope so. We have a lot of applications from small businesses; 34 percent of our applications are for less than $1 million. So we traditionally, in our past experience, have given a lot of funding to small companies and startups, and we hope to continue down that path; and this process is really a good application and scores high in our objective criteria, we are going to look forward to funding a lot of them.

Mr. MICHAUD. And you plan on utilizing all the funding that you have? I have heard some concerns about RUS, even though there is money appropriated, sometimes they don't like to give all the money out.

Mr. ADELSTEIN. We like to give the money out, but we won't do it unless somebody reaches all the eligibility criteria and scores high enough. We will—we do think we will able to obligate all of the funding that was provided to us by September 30, 2010.

Mr. MICHAUD. Thank you.

Chairwoman VELÁZQUEZ. Mr. Bright.

Mr. BRIGHT. Madam Chair, thank you very much for this important timely meeting, and I promise never to speak out of turn again, much less since I am the last one to be called on, and I do appreciate your consideration. And let me thank the witnesses for being here. You have really given us some tremendous information today that we can take back to many of our constituents out there who are interested in these very valuable resources.

And as we all acknowledge, America's small businesses stand to benefit greatly from increased access to broadband. We know that while dial-up Internet services can provide some of the same applications and services, broadband services permit faster downloading and unloading of bandwidth rich applications: video, music, pictures, and data. And as consumers or producers of these services and applications, small businesses stand to benefit from broadband deployment and its use.

One project, one particular project in my district does exactly do what you say, Mr. Strickling, and that is forge a relationship and a partnership between several different entities out there. And it would also do something that we are all trying to do, and that is to integrate the smart grid technology with the broadband in order to serve over 14,000 homes in my district and nearly 400 businesses in unserved and underserved areas of my district.

I applaud these projects, and this project specifically, and others, and would ask that you seriously consider those applications or these applications or all these applications in awarding any of these resources to these particular areas.

And, Mr. Adelstein, you acknowledge that Alabama is in great need because we are a very rural area. My area is very rural, and we are really looking with great anticipation of where these resources can be applied in our district so that we can have access to this unique and very important service out there.

Broadband development would be particularly beneficial in small businesses in my State, in Alabama. I have a large number of small businesses in my district that operate in rural areas, and studies indicate that this puts them at a further disadvantage when it comes to competing with other businesses out there.

The Small Business Administration found that rural small businesses do not subscribe to broadband services as frequently as urban small businesses do, finding the difference in broadband use between rural and urban areas to be statistically different.

I also know that rural small businesses tend to pay higher prices for broadband services than rural small businesses do, probably because of the cost associated with serving less populated areas and a lack of competition in rural areas. This fact highlights the importance of the $7.2 billion made available through the American—or the stimulus project legislation, and for increased deployment and adaptation of broadband technologies.

Of further importance is ensuring that in the process of awarding these funds we get it right. I am appreciative of your willingness to do that. I look forward to working with you and working with your staff to make sure we do get it right.

Many of my questions have already been asked and you have answered them. I am just really concerned with one area because we are so rural. And I guess, Mr. Adelstein, this question would go to you. And that is the definition of ″remote″ areas. I heard you mention that in your opening statement, and you really didn't go into great detail.

I would like for you to go into great detail as much as you can as defining and going through the procedure of determining what is a remote area or a rural area, if you would.

Mr. ADELSTEIN. In the first round we defined ″remote,″ which we focused all of the grant funds on, as being 50 miles away from a town or 20,000, or urbanized area of 50,000 or more, and there was a circle around them which some have complained excluded too many communities. And we understand those concerns that have been raised, and we are really reconsidering whether that is the right way to go forward in the second round.

We understand that a number of communities were excluded that, in fact, have very high costs of providing service that are truly underserved or unserved. And so we are looking at how we can alter that definition. We would certainly welcome your input on how best to define that going forward.

You know, we really wanted to target the funds on the most remote areas and the most hard-to-serve areas. But maybe we didn't draw the line exactly where we should have, and that is something that we are contemplating now and we are going to ask that question in the next round of funding. Where should we go? How should we define this? What are some of the other factors?

Mr. BRIGHT. Do you intend to withdraw or remove that to definition at all, at this point in time in the new or the next round?

Mr. ADELSTEIN. We are completely open to changing it. I think we are finding that there are challenges associated with that that we haven't fully anticipated, and we are doing a top-to-bottom review of whether or not it is a good idea to change that and, if so, how? What are the other factors we might look at besides simply distance from an urbanized area?

So we are open to change and really welcoming all comments on that in the next week or two through our RFI to figure out how to address that going forward.

Mr. BRIGHT. Thank you very much. My time has expired, and I will turn it back over to the Chair.

Chairwoman VELÁZQUEZ. Mr. Altmire, do you wish for time?

Mr. ALTMIRE. No questions, Madam Chair.

Chairwoman VELÁZQUEZ. I do have another question, Mr. Adelstein. Of the $2.5 billion being allocated for the bid program, 2.4 has been set aside for this first round. Given the concerns about the application process, is your agency considering reallocating some of the funding towards the second round?

Mr. ADELSTEIN. That is a very good question. Let me explain what we meant by the $2.4 billion, because we actually are able to leverage our budget authority provided by Congress to provide up to 7 to 9 billion in loans and grants. So the 2.4 billion is only the loan and grant amount combined, not just grant. So we anticipate that well over half of the amount is still left.

I know the math doesn't sound right with 2.4 versus 2.5, but that is because the 2.4 we anticipate includes a major loan component. So our total program amount being 7 to 9 billion, we are using only 2.4 out of 7 to 9 total program level. So, in fact, upwards of two-thirds of the funding remains for the following rounds of funding and will be available for any of the changed criteria that we use.

Chairwoman VELÁZQUEZ. Okay. Any other members who wish at this point?

Well, thank you so very much for being here today, and we will continue this conversation with you, making sure that you are listening to small businesses and that in the second round some of the concerns that have been raised will be addressed so that we could have a more level playing field for small business. Thank you.

Mr. ADELSTEIN. Thank you.

Chairwoman VELÁZQUEZ. You are excused at this time.RPTS MERCHANTDCMN NORMAN[11:49 a.m.]

Chairwoman VELÁZQUEZ. The Chair recognizes the Ranking Member for the purpose of introducing our next witness.

Mr. GRAVES. Thank you, Madam Chair. Madam Chair, I would like to introduce Mr. James Gleason from Sikeston, Missouri. Mr. Gleason is the President and CEO of NewWave Communications and has served in this capacity since 2003. Mr. Gleason serves on the board of the American Cable Association and was formerly the chairman. It is an honor to have a fellow Missourian here before the Committee. And thanks for coming to Washington to participate in our hearing today.

Mr. GLEASON. Thank you very much.

Chairwoman VELÁZQUEZ. Mr. Gleason, you are recognized for 5 minutes.

STATEMENT OF JAMES GLEASON

Mr. GLEASON. Thank you Madam Chairwoman Ranking Member Graves and members of the Committee. The ACA based in Pittsburgh, Pennsylvania represents nearly 900 small- and medium-sized cable companies, providing Internet access to predominately rural and smaller markets in every State.

My company NewWave serves 115,000 customers in Kentucky, Illinois, southeast Missouri, northeast Arkansas, west Tennessee and is headquartered in Sikeston, Missouri. Our members have historically invested in communities where the big guys find it unattractive to provide service. ACA members have built these networks without any direct Federal subsidy. We view the broadband stimulus program as an important investment to bore our networks deeper into rural communities so they can enjoy the benefits of access that many urban consumers take for granted.

I am pleased to report that all 83 ACA members have applied for $1.3 billion in grants and loans. My company, NewWave, has applied for $10.1 million in funds to upgrade fiber and cable facilities in 11 needy communities in Illinois, Indiana, Missouri and South Carolina. The network upgrades will be state-of-the-art fiber-to-the-curb designs that will offer data speeds up to 100 megabits per second.

While we are hopeful that our application will be accepted, the process costs us over $50,000 to complete with no guarantee on funding. The vast majority of these areas NewWave has applied for are currently unserved and would not have broadband access without this program.

As companies with decades of experience in rural America, ACA members have a proud track record of achievement that demonstrates why they are ideal candidates to receive funding from NTIA and RUS. ACA is pleased with the $800 million that has been dedicated for middle-mile projects which are critical to the goal of speeding broadband deployment in rural areas.

Our members have already upgraded their last-mile networks to provide faster broadband speeds. What is still needed is a better and more affordable middle-mile connection. That is the part of the network that runs between a cable broadband provider's central office and an access point to the Internet's backbone. Even though ACA members have upgraded their last-mile networks, the data chokepoint persists due to the lack of middle-mile facilities and insufficient capacity. End user speeds in rural areas suffer as a result of limited or nonexistent middle-mile capacity.

Concerning the application process, there are many ACA members who would have applied for funding but were discouraged because of two specific requirements, both of which were discussed previously. And that is the first lien rule and the resale rule. The government's insistence on holding a first lien would violate the terms and conditions of many of our bank loan agreements, making it impossible to apply for funds.

Next, the resale rule prohibits the sale of a federally funded project for ten years. Such a restriction ignores that sometimes such transactions can be beneficial for consumers.

While a company can seek a waiver, the standard to meet the waiver is very ambiguous. The application review process should be

streamlined and simplified too. Because the agencies have not vetted applications to determine whether a market is already served, every broadband provider, whether they apply for funds or not, is burdened with reviewing all of the applications. Otherwise the government could waste the limited resources, funding a project where we are already providing broadband service.

NewWave alone is spending more than $30,000 just to prove to the government where we already provide broadband service. This process is burdensome and time-consuming. It is almost impossible for our members to fully respond to applications in our service areas within the 30-day deadline.

As recently as yesterday, the mapping tool was down for significant periods of time, limiting the ability of existing service providers to respond. If no objections are filed, the agencies presume there is no existing service where the applicant applied for funds. The agency should confirm if an area is already served and therefore not eligible for funding. Such information is readily available. Our members are already required to report to the FCC the broadband areas we serve, along with the number of subscribers and speeds every year by census track location. At the very least, the agencies could eliminate those applications that clearly do not meet the minimum criteria before incumbents are expected to review applications.

Finally, we believe applicants should be able to apply for funding through either RUS or NTIA. All rural applicants must first file with RUS. The definition of ″remote,″ as has been discussed here today, is so narrow that it is hard to find areas even in Iowa that meet that standard. Nonremote rural areas are only eligible for a 50 percent loan grant combination.

In conclusion, we believe that reasonable revisions to the funding programs will offer greater efficiency for all providers so rural communities receive the service they deserve.

Thank you very much and I would be happy to answer questions you all may have.

Chairwoman VELÁZQUEZ. Thank you Mr. Gleason.

[The statement of Mr. Gleason is included in the appendix.]

Chairwoman VELÁZQUEZ. You discussed the importance of the modern middle mile in providing a more robust, faster Internet. How can Congress, the FCC, or other agencies encourage greater investment in this critical infrastructure?

Mr. GLEASON. Well, the middle-mile component is something that I think a lot of times gets missed in the discussion of fast Internet speeds. And as I mentioned, particularly in our company's case, the last-mile component, the part that goes throughout the community and to the customer's home, has been upgraded and is very capable of delivering very high data rates.

What is missing in many cases is if you think of the interstate highway system, the broadband long-haul fiber network in this country is similar to the interstate's. It goes to the big cities. What is different is there is not really off ramps to rural areas.

And so I think the agencies have done a good job by dedicating $800 million to the development of open access middle-mile components so that there will be more competition in that area, bringing higher capacity lines out to rural areas. So we are very hopeful

that since they have done that, that after the funding period and after applicants are awarded grants, that that will begin to change.

Chairwoman VELÁZQUEZ. You raised the issue of the restriction preventing an award received from selling or leasing an award funding facility, and this has been raised by small business advocates as well. How does this requirement impact innovation and growth for small companies?

Mr. GLEASON. In the first lien requirement?

Chairwoman VELÁZQUEZ. Yes.

Mr. GLEASON. Well, I can tell you in our case we already have a bank and they already have a lien on the assets of our company in the systems that have not yet been upgraded, and that is due to the fact that they are remote and not commercially feasible.

So I applaud what Mr. Adelstein said, that they are going to come up with five or six different options for applicants to apply for, or to try to buttonhole into options to where that first lien might be modified. I really think that they are a lender, so what they are going to have to do in order to get these funds out, they are going to have to be a flexible lender. Because you don't want to eliminate incumbents in certain areas that already have customers. We are applying for an area in Cairo, Illinois, which is a very disadvantaged area and no broadband service exists today, but there is already a lien on those properties. So in order—and we already have 350 video customers there. So we would be a very qualified provider of broadband service in Cairo because we have an embedded customer base. But we have got to have them be flexible when it comes to lien requirements so that we can work around that.

I know for a fact that in our membership's case, we had a number of companies that would have applied but for the first lien rule and the 10-year hold.

Chairwoman VELÁZQUEZ. You heard that a lot of the members here raised the concern about the frustration with the application process to both gentlemen that were here because it is complex and it really discouraged participation. Of the information requested in the application, what were the most intensive to complete?

Mr. GLEASON. The biggest part, the biggest problem that we found in the application process is that we were required to have complete design projects done for the communities we propose to serve. And by doing that, that meant we had to go and specifically walk out from pole to pole, house to house, provide measurements, do a complete system design project for every community. That cost somewhere in the neighborhood of at least $500 a mile. Even in a small town you are talking about 25 miles of cable to provide broadband service. So that was a very expensive and time-consuming proposal.

What we would like to have seen would have the ability to say, look, we provide service to 250 communities and we propose to build a system in Cairo that looks just like this one, and the design we will warrant will look just like this design that currently provides broadband service. And I think if RUS would take a look at that, that would really lower the threshold and the expense in supplying an application.

Chairwoman VELÁZQUEZ. If you had any question about the application, were you able to get a person on the phone to answer any questions?

Mr. GLEASON. In the early parts of the application process we were, and they were helpful. But some of the rules are so specific that were set out in the process, like the one I just discussed, they weren't able to say, well, here is a way around it, it just has to be that way. So while they were accessible, I am not sure exactly how helpful that was.

Chairwoman VELÁZQUEZ. Mr. Thompson. Thank you.

Mr. THOMPSON. Thank you, Madam Chairwoman. And thanks, Mr. Gleason, for your testimony.

I have a couple of questions, including a couple that Mr. Graves had left with me, that he wanted to make sure that we asked as well. First of all, just in general, what recommendations would you make to the Committee to improve the process and ensure that taxpayers are getting the most out of these provisions?

Mr. GLEASON. Well, I have got a couple of issues I think that still exist. One, the application review process is very troublesome, particularly for small businesses. I had a fellow cable operator who is a small businessman in Missouri give me a call, and he is a company that has got 2,000 cable customers and 1,000 broadband customers. And the process is where all the applications have been put out on the Internet for incumbent operators to notify RUS of where broadband service already exists. And he called, and he said I am not sure what I am supposed to do, I don't even know how to do this; have you hired help to go and get this done? We did and we spent in excess of $30,000 to show where our areas already serve.

But many small business guys who were already providing broadband service have to do that. And the problem I see is that all 2,200 applications have been put out on the Web for incumbents to go look at and vet through. I think the organization should have done some pre-vetting of all those applications to say, look, these clearly don't meet these criteria so we need to set those aside.

Secondly, I am still concerned, even though it was mentioned earlier, that we are going to make sure we don't duplicate service and provide money to duplicate service in underserved and unserved areas, I am not completely convinced that they are going to be able to do that. One reason is the mapping hasn't been done, and, as it was said here today, the mapping won't be done until 2011. That is very concerning.

And I have some follow-up concerns after the application review process goes forward as to what we are supposed to do to ensure that duplication doesn't occur. So I am not completely convinced that we are real sure that we are going to keep from doing that.

Mr. THOMPSON. Do you feel that you will have access to the adequate resources to refute applications that plan to service areas already served?

Mr. GLEASON. Well, I hope so, although it is expensive. And that goes back to having to go through all 2,200 applications and see if any of them are in our current service areas.

You know, we have launched, we have built thousands of miles of fiber optic cable just ourselves in the last 3 years and launched broadband service in more than 100 new communities, mostly very

rural small-town communities. And our take rates and our success has been wonderful. But we are trying to go out here with private capital and do that, and we want to make sure that we make sure we tell the government that those areas are already served.

We provide, as I mentioned in my testimony, that data to the FCC every year. And I think on that Form 477 that we fill out, I think these agencies could use that data to pre-vet these applications.

Mr. THOMPSON. You had mentioned that it cost approximately, your company specifically, $50,000 to apply within this process.

Mr. GLEASON. Right.

Mr. THOMPSON. With no guarantees.

Mr. GLEASON. That's right.

Mr. THOMPSON. Going forward. Has the industry done any estimates of—if that is $50,000 just with your organization, your business—has any, across the industry, any projections of what the cost has been, the investment for applications? Because I assume there are a lot of applications that—I don't know what percentage of applications will, on the final day, will be funded.

Mr. GLEASON. We have not, but I would think that you could extrapolate that number pretty easily across the miles of last-mile cable and fiber optic cable to be built like ours. Of that $50,000 about two-thirds of that was in the mapping and design process that had to be completed prior to filing your application.

That kind of goes back to the suggestion of why don't you say our design will be this type of design and here is a sample and here is exactly what it will look like; and, once granted, then we will go and design specifically that community.

I think to a certain extent that process favors wireless providers over wire-line providers. Because a wireless distribution system is much easier to design; you just pick points on a map of where you are going to put towers—I may be oversimplifying a bit, but points on a map where towers are going to go and how you are going to communicate between those towers.

But the broadband speeds that we currently offer and will offer, up to 100 megabits per second, are far and away in excess of what wireless communications can provide. So while the process is supposed to be tech-neutral, it doesn't seem to be in the application process.

Mr. THOMPSON. My final question is do your members plan on hiring more people if they are successful in obtaining stimulus dollars, or will the work be manageable at the current staffing levels?

Mr. GLEASON. Absolutely we will hire additional people. And that is, I think, what the beauty of this program does, is not only does it provide economic advantages to these rural communities that we are going to provide, but also just in amongst our company we have hired hundreds more people over the last 3 years as we have developed our broadband infrastructure in our current operations. So these systems will do the same thing as we have done in our past operations.

Mr. THOMPSON. Just a follow-up. Then are there folks out there with the skills available that you are—I am not sure what different type of positions you will need, but I mean are there people there in the qualified workforce to hire?

Mr. GLEASON. It is interesting, in a lot of cases we look kind of for two-fold people: one, technicians that are field-based people that do insulation work and maintenance work on broadband networks. And that is a little tougher to find, although we are working with community colleges and other institutions to help train that workforce. So, so far that is good.

On the flip side where you use customer support personnel, and we are finding—you know, we operate our call center in Sikeston, Missouri, so it is a small community, rural community. And I worried about that when we established that call center there. But we have been pleasantly surprised at the abundance of people that can work on computers and know computer-related tasks and that sort of thing, particularly younger people who have been trained—and schools are doing a good job with that. So we have had a very—that has been a good opportunity for us and has worked out well for us actually.

Mr. THOMPSON. That is good to hear. Thank you.

Chairwoman VELÁZQUEZ. Mr. Gleason, in August 2009 the USDA released a report that basically highlighted the relationship between farming and broadband. My question to you is for a small rural cable operator, how do you promote greater adoption among small businesses in your local community?

Mr. GLEASON. That is a good question. And I think it is kind of two-fold, and I think our membership of our group is very similar to us. One, we have developed a complete business sales force that is different from our residential work. And that business sales force, we have done a lot of work because we are obviously incentivized to sell more services that we can. So that business sales force has done a good job of learning applications for broadband services. So we can go to an insurance business and say, Here is why you ought to buy our broadband service. We can go to an Ag, a grain elevator, and say, Here is why you ought to buy our broadband service. So that is one area where we have really gone to very, very small businesses, and we have come up with very, very affordable business rates for those businesses to get extremely fast data contentions.

Then, secondly, we have done a lot of partnerships, particularly in this application. We have done a partnership with a local community college, we have done a partnership with school systems in these communities we have applied for, the city governments, the first responders' groups, a mental health center, chambers of commerce. So we have really tried to be very broad in terms of reaching out to get organizations to support our application, but also to get out to those organizations to say here is why broadband is important to you. So we have conducted a lot of city-wide events, things like that, that really go a long ways, I think, to promote the adoption of broadband usage.

Chairwoman VELÁZQUEZ. Okay. Well, thank you. Do you have any other questions?

Mr. THOMPSON. No.

Chairwoman VELÁZQUEZ. Well, thank you so very much for being here. You have shed a lot of light into the importance of expanding broadband deployment into rural areas. And at a time when our

economy is struggling to create jobs, this is a way to do it. So thank you so very much.

Mr. GLEASON. Thank you for having me.

Chairwoman VELÁZQUEZ. I ask unanimous consent the members will have 5 days to provide materials and supporting materials for the record. Without objection, so ordered.

Chairwoman VELÁZQUEZ. This hearing is now adjourned.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

SAM GRAVES, MISSOURI
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
of the
Honorable Nydia Velazquez, Chairwoman
House Committee on Small Business
"Bridging the Digital Divide: The Role of Small Firm in Expanding Broadband Access"
Wednesday, October 28, 2009

The American Recovery and Reinvestment Act was a blueprint for renewed job growth. As part of a larger effort to put Americans back to work, that legislation included important investments in broadband deployment. And in fact, every $10 billion in broadband investment creates or saves 498,000 jobs annually. Of those positions, more than half are supported by firms with fewer than 500 employees. In other words, this is an opportunity for small businesses to really shine. And with efforts to expand the technology now underway, small firms are already vying for that chance.

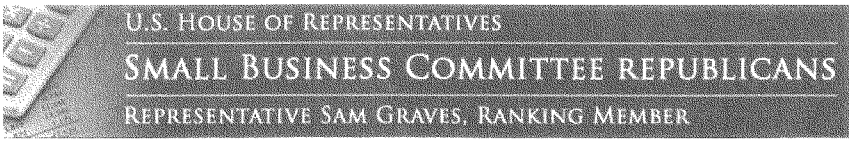
By next month, the first round of broadband awards will have been announced. And because telecomm giants like Verizon and Comcast decided not to compete, small firms should win a sizeable chunk of available grants and loans. In fact, NTIA is required to give special consideration to disadvantaged small firms. But unfortunately, that process has been less than seamless. Many small businesses have complained of challenges ranging from excessive paperwork to restrictive capital requirements. In today's hearing, we're going to discuss those obstacles. We'll also look for ways to ensure small firms can enjoy the benefits of broadband deployment - both as the beneficiaries of an enhanced IT infrastructure, and as its engineers.

Expanded access to broadband presents enormous economic opportunity. Since the mid 1990s, the Internet has played a key role in our economy. With a high-speed Internet connection, any entrepreneur - regardless of location - can tap that growing virtual marketplace. But while overall growth in broadband has been steep, progress has varied by region. Today, only 46% of rural households use the technology, compared to 67% in non-rural areas. Many low-income, urban communities have also fallen behind. Given the role that the Internet plays in our economy, this disparity marks more than a simple "digital divide"- it means missed opportunities for small businesses.

New investments in broadband can help recapture those opportunities. But so far, efforts are off to a rocky start. There are a number of challenges working against entrepreneurs. For example, an overly complex application process - one that requires nearly 200 pages of paperwork. More often than not, small businesses can't afford in-house lawyers, accountants, or support staff. A streamlined application process would mean less red tape and more productivity, and is worth considering. For small firms struggling to access capital, a decreased matching requirement could also go a long way. Asking small businesses to match 20% of total project costs is a tall order, especially at a time when capital is increasingly hard to come by.

Nine times out of ten, small businesses offer the best value for the taxpayer dollar. Our policies should reflect that fact. But when it comes to broadband projects, it seems we're not there yet. Small firms deserve a level playing field. I know that both RUS and NTIA are committed to creating a more efficient process, and look forward to working with both agencies in the coming weeks and months.

Technology is often called the great equalizer of the business world. If done properly, increasing access to broadband will allow small firms to compete with big companies. It will also create new opportunities for small businesses - all while connecting our country with the fastest means of communication. We've come a long way since the days of dial-up. New investments in broadband can take that progress one step further, and allow America's small businesses to help rebuild our economy.



Contact: Angela Landers
Phone: (202) 226-1581

Opening Statement for Hearing on
"The Recovery Act and Broadband: Evaluation of Broadband Investments on Small Businesses and Job Creation"
Sam Graves
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, DC
October 28, 2009

Good morning and thank you for participating in today's committee hearing reviewing the broadband provisions in the stimulus. I would like to thank Chairwoman Velázquez for holding this timely hearing. It is no secret that I voted against the American Recovery and Reinvestment Act, or stimulus bill. The amount of spending contained in that measure was unprecedented and I believe fiscally irresponsible. However, that vote has come and gone and we must move forward to ensure that the $787 billion worth of taxpayer dollars is used wisely and not abused.

The stimulus bill provided $7.2 billion primarily for broadband grant and loan programs to expand broadband access to those who do not have it – a very worthy goal and one with significant economic consequences. The advantages of broadband services in communities both urban and rural are substantial. Access to these services puts information at the fingertips of our students; job seekers can search and apply for job opportunities at many of today's leading businesses; small businesses can improve market access and compete with their larger counterparts on a more level playing field; health information technology can help doctors share patient information that leads to a quicker diagnosis; consumers can shop better, smarter and more efficiently; and the economic

development opportunities are endless. However, the lack of sufficient access and speeds has put a growing number of people at a disadvantage. Students can't access the same level of information as their connected peers, job searches are more difficult; communities are unable to attract new investment, and opportunities for small businesses are limited.

The advantages of broadband service are clear. Now we must review the various programs that are designed to bring broadband to everyone and ensure that dollars are being spent efficiently, effectively, and without abuse. If an application is too complicated or costly to complete, then we need to reevaluate the process. If definitions, as defined by government officials, are having unintended consequences, then they should be revised. Bureaucratic red tape should not be prohibiting businesses from providing high speed broadband services to everyone. Moreover, the government should not be subsidizing areas with adequate broadband coverage. It is important to make certain that steps are being taken to prevent government subsidized competition.

As the first round of broadband funding concludes, it is imperative that the government make changes to address these concerns and ensure that future rounds operate in a way that improves the economy, helps small businesses and providers, and expands broadband coverage to everyone. We have a distinguished panel of witnesses here today. I look forward to hearing their thoughts about the broadband programs included in the stimulus bill are how they have been working.

Again, thank you Madam Chairwoman, and I yield back my time.

Testimony of
The Honorable Lawrence E. Strickling
Assistant Secretary for Communications and Information
National Telecommunications and Information Administration
United States Department of Commerce

Before the
Committee on Small Business
United States House of Representatives

Hearing on
The Recovery Act and Broadband: Evaluation of
Broadband Investments on Small Businesses and Job Creation

October 28, 2009

I. Introduction.

Chairwoman Velázquez, Ranking Member Graves, and Members of the Committee, thank you for your invitation to testify on behalf of the National Telecommunications and Information Administration (NTIA) on the broadband initiatives set forth in the American Recovery and Reinvestment Act (Recovery Act).

As we move forward in achieving President Obama's goal of universal access to broadband service, the Recovery Act's broadband initiatives – NTIA's Broadband Technology Opportunities Program (BTOP) and State Broadband Data and Development Program (Broadband Mapping Program), and the Rural Utilities Services' (RUS) Broadband Initiatives Program (BIP) – will have a profoundly positive impact on the growth and development of small businesses.

For small businesses, the Recovery Act broadband initiative presents a win-win opportunity. Small businesses can receive funds directly, either for broadband infrastructure projects serving unserved or underserved areas, or to establish public computer centers, or for sustainable adoption projects. On a larger scale, small businesses will also be the beneficiaries of these projects, through increased broadband availability for themselves and for American consumers, allowing them to leverage broadband for increased innovation, expanded commerce, and greater efficiencies and cost savings in their daily operations.

In addition, NTIA's national broadband map will provide small businesses with detailed information on broadband availability, and allow Federal, State, and local policy-makers to make more data-driven policy decisions affecting the small business community. These data will enable small broadband providers and investors to make better-informed decisions regarding the use of their private capital.

We all know the commercial benefits of broadband access for small businesses, including more affordable access to job training for employees, improved access to suppliers, and faster outreach to potential and actual consumers through Websites, emails, and e-commerce. However, greater broadband availability and use not only help small businesses succeed but also improve and enrich the lives of the communities in which they do business.

Broadband has the potential to provide businesses and communities with opportunities they, by reason of either location or economic status, had previously been unable to utilize. For example, broadband provides rural hospitals and remote health centers access to the latest medical advancements for their patients from doctors and medical experts stationed hundreds of miles away, resulting in immediate, efficient, and cost effective treatment. In addition, broadband access allows telework arrangements, which generate significant savings in real estate and utility costs, as well as help to maintain continuity of operations at an organization in the event of disasters or epidemics. Our broadband initiatives are helping small businesses in one other way as well: at least four small businesses are assisting NTIA as contractors to further our goal of efficient and expeditious disbursement of BTOP funding.

My testimony today will first discuss some of these important commercial and innovative benefits for small businesses that flow from access to broadband services. I will then provide an overview of the applications, including those from small businesses, that NTIA received in the first round of BTOP funding. I will also briefly describe NTIA's grant review process, and our efforts to maximize the beneficial impact of the BTOP program for socially and economically disadvantaged businesses (SDBs). Finally, I will provide the Committee with a glimpse of what lies ahead for BTOP, including how NTIA plans to meet the challenges I see on the horizon.

II. Commercial and Innovative Benefits of Broadband to Small Business.

Broadband has become an increasingly indispensable tool for commerce today. If you are a small business owner without access to high-speed Internet, you are effectively operating with one hand tied behind your back. Unfortunately, that's business as usual for companies in some areas of the country – especially those in rural and unserved areas – where broadband is not yet available.

The economic impact of broadband access is well documented. In 2006, the Commerce Department's Economic Development Administration sponsored an MIT and Carnegie Mellon study, which supported the view that broadband access and use does enhance economic growth and performance, and that the assumed economic impacts of broadband are real and measurable. In this study, communities examined between 1998 and 2002 with broadband experienced more rapid growth in employment, the number of businesses overall, and businesses in IT-intensive sectors, relative to comparable communities without broadband at that time.[1]

Advances in broadband capabilities since that time have only heightened the gap in broadband adoption that can be associated with detrimental economic conditions for small businesses in rural communities. Just two months ago, a USDA report concluded that rural communities that had greater broadband Internet access had greater economic growth. Specifically, the study found that in rural America, employment growth was higher and nonfarm earnings greater in counties with a longer history of broadband availability.

Small businesses are the backbone of the American economy, with data from the Small Business Administration suggesting that independent businesses with fewer than 500 employees

[1] The study also indicated a possible relation between broadband availability and increased property values, and a reduction in the share of employment attributed to very small establishments, though for methodological reasons these results were not conclusive.

provided jobs for more than half of the nation's private workforce, and accounted for 64 percent of the 22.5 million net new jobs between 1993 and the third quarter of 2008.

Broadband connectivity is essential for small businesses, which hire about 40% of the high tech workforce of scientists, engineers, and computer programmers. And, with more and more consumers going online, the Internet provides these companies with unprecedented opportunities to reach millions of new customers worldwide – a reach that was once limited only to the largest corporations. Now, small businesses can compete in a 21st Century economy because the advent of high speed telecommunications has drastically increased opportunities for entrepreneurs.

One recent industry analysis highlights the increasing connection between entrepreneurial success and broadband access. According to Forrester Research, the three principal factors contributing to the growing number of successful home-based entrepreneurs are 1) rising broadband adoption; 2) increased use of social media, such as Facebook, Twitter, and LinkedIn, providing enhanced networking tools; and 3) growing availability of business support software and services for entrepreneurs, such as cloud computing, which enables business owners to store their data on easily accessible remote servers.

In addition to well-documented commercial benefits, there are a myriad of social benefits from increased broadband availability. For example, the increased use of telehealth – broadly defined as the use of electronic communications and information technology to provide and support health care when distance separates the patient and the caregiver – assists rural hospitals and remote health systems in vastly improving their capacity for treating patients. Telehealth can help cut health care costs for all firms, but especially for small businesses, which consistently cite these critical expenses as a major concern. More accessible health information,

products, and services confer real economic benefits on not only small businesses in the health sector but also to rural communities and their residents: reducing transportation time and expenses, treating emergencies more effectively, reducing time missed at work, increasing local lab and pharmacy work, and providing savings to health facilities from outsourcing specialized medical procedures. The economic benefits have been documented in an array of telehealth studies. In the August 2009 report by the USDA, a study of 24 rural hospitals noted that the biggest benefit noted by hospital staff was improved turnaround for patients, with the cost of not having telemedicine estimated to average $370,000 per annum for the rural hospitals. Simply put, broadband is indispensable to hospitals seeking to offer high quality health care.

For this reason, small businesses in the health sector are increasingly employing telehealth applications, with substantial benefits. The American Telemedicine Association states that there are approximately 200 medical-center based telemedicine networks operating in the United States, linking over 2,500 institutions nationwide. Already, the Department of Health and Human Services (HHS) has awarded over $260 million to support healthcare IT since 2004, including numerous telehealth projects. Whereas Federal programs generally provide the funding at hospitals, clinics, and other network sites that provide healthcare, the broadband initiative will facilitate a synergy with the existing telehealth programs by providing the critical network connectivity among network participants, and it will serve to extend the benefits of telehealth technology to reach underserved Americans in the most remote and underserved areas in the United States.

Another socially innovative benefit of broadband access is teleworking. Telework arrangements can produce considerable benefits for employers, employees, and society as a whole. For employers, allowing employees to work from home can generate significant savings

in real estate and utility costs. A June 2008 study by Wainhouse Research, which interviewed executives and managers in companies and organizations using communications and collaboration technologies, estimated that the annual costs of providing an office for the average worker can be $10,000 or more and noted that expanded telework could reduce a firm's real estate costs by 90%. In 2006, the General Services Administration estimated that if a Federal agency invested $16 million over three years to implement a telework program for one-half of its 100,000 person workforce, the agency would realize more than $36 million in benefits over that same period. The benefits would include not only reductions in operating costs, but also reductions in employee absences and retention costs, as well as improved productivity.

In addition, telework programs can also help an organization maintain continuity of operations in the event of disasters or epidemics. In the wake of the September 11 attacks, Hurricane Katrina, and the potential threat of an influenza pandemic, all public and private organizations should include some form of a telework component in their emergency preparedness plans.

There is no question that the transmission speeds afforded by broadband services help most teleworking employees to perform their tasks more efficiently and more productively. They are able to access information more quickly and to download and disseminate large files and documents with less delay. In particular, broadband can support video conferencing applications that furnish the face-to-face conversations that are critical to effective business operations. Indeed, InnerPass, a company with only about ten U.S. based employees and several more overseas, recently announced that more than 1.5 million Skype users now use its integrated Web 2.0 application to combine meetings, Internet communications, and file sharing and storage.

In sum, greater broadband availability impacts much more than the commercial operations and profit margins of small businesses. Broadband, by providing greater access to information, health care, education, and job opportunities, has the power to transform communities across the country and sow the seeds for the next generation of American entrepreneurship and innovation.

III. Overview of Applications Received.

The level of interest shown by applicants in the first round of BTOP and BIP has been extraordinary. Overall, we received almost 2,200 applications requesting nearly $28 billion in funding for proposed broadband projects reaching all 50 U.S. States, five territories, and the District of Columbia. The fact that applicants requested nearly seven times the total amount of funding available in this first round of broadband funding underscores the extent of interest in expanded access to broadband service throughout the country.

In this first round of funding, NTIA will award up to $1.6 billion in grants. Of this amount, up to $1.2 billion will fund broadband infrastructure, both last mile and middle mile projects. We will also award grants totaling $50 million for public computer center projects and $150 million for projects that promote broadband demand and affordability.

NTIA received first round applications from a diverse range of parties including State, tribal, and local governments; nonprofits; industry; anchor institutions, such as libraries, universities, community colleges, and hospitals; public safety organizations; and other entities in rural, suburban, and urban areas. Working together, NTIA and RUS posted online – at www.broadbandusa.gov – a searchable database containing descriptions of all applications received, as well as maps of the geographic areas of coverage proposed by applicants in the first funding round.

NTIA was pleased to see strong participation from the small business community, especially from socially and economically disadvantaged businesses (SDBs). Of the 1,785 applications to the BTOP and joint BTOP and BIP programs, 13.9% were from SDBs or from applicants collaborating with SDBs. Specifically, approximately 114 SDBs applied, and another 135 applicants indicated collaboration with socially and economically disadvantaged businesses, either as a sub-awardee, contractor, subcontractor, or vendor. In this round, SDBs requested approximately $1.86 billion in federal grants and loans, with a total match commitment of $640 million. When including applications received from the entire small business community, the participation levels are significantly higher. NTIA is committed to ensuring that SDBs have every opportunity to participate in this historic initiative.

To assist potential applicants with the application process, NTIA and RUS embarked on an educational campaign earlier this year, holding ten workshops across the country.[2] For SDBs, we held three additional meetings focusing exclusively on the challenges faced by minorities and small and economically disadvantaged businesses. The Commerce Department's Minority Business Development Agency (MBDA) and Office of Small and Disadvantaged Business Utilization (OSDBU) supported our efforts to publicize BTOP's opportunities to minority firms and small businesses and recruit application reviewers. I am heartened to see the number of total applications from SDBs, which I believe reflects our successful outreach to this business community. I am also committed to continue this outreach to ensure even higher SDB participation in the next BTOP funding round.

[2] In July 2009, NTIA held public workshops in the following cities: Washington, DC area; Boston, MA area; Charleston, WV; Birmingham, AL; Memphis, TN; Lonoke, AR; Billings, MT; St. Paul, MN; Albuquerque, NM; and Los Angeles, CA.

After months of hard work by the staffs at NTIA and RUS, as well as by public and private applicants across the nation, we have before us a strong initial pool of broadband proposals.

IV. Overview of Application Evaluation Process and Evaluation Criteria.

NTIA and RUS are now reviewing the nearly 2,200 applications received for the first funding round. In the first phase of this review, at least three expert reviewers will evaluate each application against established criteria, including the proposed project's purpose, benefits, viability, budget, and sustainability. Those applications considered the most highly qualified in the initial review phase are advancing for further consideration.

Each State and territory has been given the opportunity to comment on the applications relevant to its jurisdiction. The Act recognizes that State and territorial officials have a unique perspective on broadband needs within their jurisdictions and we are evaluating the recommendations which they submitted in mid-October.

As applications successfully pass the initial review phase, they are being moved along for additional "due diligence," which may include requesting that applications submit supplementary information as necessary to substantiate representations made in their applications. NTIA is reviewing and analyzing this supplemental information. I will make the final selections of BTOP awards, consistent with the statutory directives established by Congress in the Recovery Act.

Throughout the evaluation process, NTIA is committed to ensuring that SDBs are provided careful consideration. Specifically, in the application for BTOP grants, eligible entities were required to indicate whether they are, or will collaborate with, an SDB as defined under Section 8(a) of the Small Business Act. Collaboration is defined to include the involvement of

SDBs as a sub-awardee, contractor, subcontractor, or vendor. NTIA's expert reviewers are instructed to score a project's linkages to unaffiliated organizations as an ongoing and integral part of the project planning and operation. In order to receive the full score for this criterion, at least one partner will need to meet the definition of SDB. Finally, during the final selection of BTOP awardees, NTIA will take into account, among other factors, the extent to which the application satisfies the BTOP program purposes, including whether the applicant is a socially and economically disadvantaged business. In these ways, NTIA's evaluation process encourages and rewards meaningful involvement by SDBs.

V. Mapping and Small Business.

The national stimulus package passed by Congress in February also directed NTIA to implement the Broadband Data Improvement Act and to develop and maintain a broadband inventory map. The national broadband map will provide valuable tools to small businesses including information about broadband availability and other information that can serve as a basis for market research, will enable small business broadband providers and investors to make better-informed decisions regarding the use of their private capital, and will allow Federal, State, and local policy-makers to make more data-driven policy decisions affecting the small business community.

NTIA has established the development and maintenance of a national broadband map as one of its highest priorities and, in following Congress' directive that it develop and maintain a "comprehensive" map of both "capability and availability," NTIA will fund high-quality projects that are designed to gather data on broadband availability, technology, speed, infrastructure, and, in the case of wireless broadband, the spectrum used. I believe that this information is critical to

fulfilling NTIA's statutory mandate, and I am pleased that this effort received support from government, public interest, small business, and industry stakeholders alike.

I am very encouraged by the level of participation in NTIA's Broadband Mapping Program, with applications submitted from every State, territory, and the District of Columbia. These 56 applicants requested a total of approximately $100 million in grant awards to fund broadband mapping projects for an initial two-year period and approximately $26 million to fund broadband planning projects. Unlike BTOP's multiple funding round approach, only one mapping grant will be awarded to each State or territory eligible to receive a grant. This will help ensure that the projects will benefit from significant state involvement and oversight. As we review these applications, we see that many of the 56 applicants are partnering with small businesses to collect, analyze and verify the broadband data for each state.

Earlier this month, NTIA awarded the first four grants under this program to fund mapping activities in California, Indiana, North Carolina and Vermont. Yesterday, NTIA announced four additional grants to fund mapping activities in West Virginia, Arkansas, New York, and the District of Columbia. NTIA will continue to announce awards on a rolling basis through the fall.

We aim to leverage the initial information gained from the mapping projects to make more data-driven decisions on BTOP grants in the future. We will have a first set of substantially complete broadband mapping data by February 2010, and we will complete a comprehensive, interactive national broadband map by February 17, 2011, as directed by the statute.

VI. Next Round of BTOP Funding

As we prepare for the next funding round, the first task is to evaluate how the first round has worked. NTIA and RUS are finalizing a new request for information that will help us shape the Round Two process. The request for information will solicit the public's views on how the first round worked for applicants and what changes and clarifications should be made for the second round of applications. Our goal is to improve the broadband programs and specifically the application experience, and we will have the time necessary to adjust those aspects of the process that need to be improved. Also, parties who wish to collaborate on an application, such as through consortia or public-private partnerships, will have additional time to work out the details of those arrangements.

Looking forward, I must underscore the importance of our oversight objectives for the program. NTIA is committed to ensuring that taxpayers' money is spent wisely and efficiently. Since the inception of BTOP, we have been working with the Department of Commerce's Inspector General to design this program in a manner that minimizes the risk of waste, fraud, and abuse. As we move forward and project construction begins, NTIA will enhance its auditing and monitoring responsibilities, including site visits to grantees. I will, of course, keep the Committee apprised of our progress on those efforts.

NTIA also is working diligently to make certain that the broadband projects funded by BTOP and the broadband mapping information developed under the Broadband Mapping Program serve as valuable inputs to our long-term broadband strategy. At its core, the broadband initiatives in the Recovery Act offer a tremendous opportunity to stimulate job creation and economic growth both in the near term and for the future.

We will continue to ensure that implementation of the Recovery Act broadband initiatives is a collaborative and coordinated effort with RUS and others in the Administration. We are also committed to making this process as transparent and as efficient as possible, and we will obligate the $7.2 billion in Recovery Act broadband funds by September 30, 2010, as required by the Act.

Thank you again for the opportunity to testify this morning. I will be happy to answer your questions.

Statement of Jonathan Adelstein
Administrator, Rural Utilities Service
USDA Rural Development
Rural Utilities Service

Before the Committee on Small Business
U.S. House of Representatives
October 28, 2009

Madam Chairman, Ranking Member Graves, and distinguished members of the Committee, thank you for the opportunity to testify on the U.S. Department of Agriculture's Broadband Initiatives Program (BIP).

As indicated by the major commitment of resources in ARRA, improved access to affordable broadband is a high priority for the Obama Administration and Congress. It is critical for the rural small business community, as well. Broadband erodes the traditional barriers of time and distance, levels the playing field, gives rural businesses access to national and international markets, and enables very small and home-based businesses to thrive. It is one of the key foundations of the 21st century economy that rural businesses need to survive and remain competitive.

Together, we can foster the greatest level of broadband access throughout rural America. The funds we will administer in the next 12 months will cultivate new investment opportunities in as many rural remote communities as possible.

On behalf of Secretary Vilsack, USDA stands committed and ready to fulfill its rural broadband mandate outlined by this Congress and the President. Improving the quality of life for rural families and businesses is the centerpiece of USDA's overall mission.

Secretary Vilsack has repeatedly acknowledged how this Congress and the Administration have helped to provide the building blocks for a new rural economy. These building blocks include renewable energy, local and regional food systems, regional collaboration and investment in broadband. Each of these areas is a key component of USDA's focus toward rebuilding and revitalizing economic growth in rural America. Broadband enables all of these building blocks to function more efficiently and deliver enhanced benefits to rural businesses, residents, and communities.

To underscore the importance of broadband in renewing the rural economy, Secretary Vilsack directed the USDA's Economic Research Service (ERS) to examine the economic effects of having broadband access in rural communities. In August, the ERS published a report, entitled "Broadband Internet's Value for Rural America," which concluded that employment growth was higher and non-farm private earnings greater in counties with a longer history of broadband availability.

The report also cited certain key benefits of broadband access in rural communities. Such benefits include access to online course offerings for students in remote areas and the access to telemedicine and telehealth services which often reduce transportation costs for patients living in rural areas in need of urgent care. Agricultural producers and farm

based businesses are also more reliant on internet access to conduct sales transactions, marketing and advertising, monitor real time changes in the commodities markets and track global trends that impact US crop prices to stay in business. The direct benefits of broadband to the rural economy, both on and off the farm, are tangible and significant.

I am pleased to provide you with a roadmap for how the Rural Utilities Service will accomplish President Obama's goal of investing heavily in rural America with broadband. First, I want to provide you with a brief overview of our mission in serving rural communities and how we are prepared to meet the goals articulated in the Recovery Act.

Since 1935, beginning with the Rural Electrification Administration, we have been a premier lender for rural infrastructure investment. Our current loan portfolio is $54. 5 billion and includes federal financing for water and wastewater, telecommunications, broadband, electric and renewable energy infrastructure projects.

We are now tasked with applying the technical skills and historical knowledge we have amassed in issuing financing for electricity, telecommunications and water over the past 75 years to the new challenge of deploying next generation broadband capability in rural communities. Our goal is to recreate the successes we have achieved in financing the rural electric grid for rural utilities and the rural telephone network toward building new broadband networks in the most rural and remote regions of the country.

We are grateful to Congress and the Administration for giving the USDA the opportunity to contribute its expertise towards rebuilding economic prosperity in rural America. Through the Recovery Act, Congress and the Administration entrusted the Rural Utilities Service with nearly $4 billion in stimulus funds for infrastructure investment, dedicating $2.5 billion for rural broadband deployment and $1.38 billion for rural water infrastructure projects.

Since the enactment of the Recovery Act in February, we have worked side by side with our partners at the National Telecommunications Information Administration (NTIA) and the Federal Communications Commission to fulfill the President's vision for promoting ubiquitous broadband access across the nation. Assistant Secretary Larry Strickling has been an outstanding and visionary partner throughout this process. The Federal Communications Commission has also been an active contributor to this discussion.

RUS and NTIA are fully engaged in our respective reviews of applications for over $28 billion in funding requests. There is a high degree of interest in our respective loan and grant programs and the great demand for broadband in rural America.

However, it's worth noting that RUS has encountered several challenges as we have worked to review applications for this round of funding. These concerns have prompted us to consider alternative approaches for the second round of funding that would simplify the application process and support our efforts to fund high-quality projects.

In particular, we have seen applicants struggle to comply with the requirements of the "remote" definition for last-mile rural remote projects. This definition was an attempt to ensure that the program targets funding to some of the most remote and difficult to serve areas in the United States, which we understand is the intent of Congress. The use of this term was also part of an effort to address previous program criticism that RUS has historically funded less-remote project areas. We are contemplating major revisions that will continue to target highly-rural areas that are difficult to serve while making it easier for applicants to comply with any new definition we may establish.

Among other issues, we have also seen some applicants encounter challenges with our program's rural definition. In addition, some applicants have found it difficult to comply with the loan requirement for middle mile and last mile non-remote projects.

We will be working with NTIA to publish a Request for Information (RFI) in the near future that asks questions about these items and many others. We would welcome the Committee's input on these key issues.

USDA's Historic Role in Telecommunications Infrastructure Investment

USDA has a long record success in the deployment of rural telecommunications infrastructure. The telecommunications program was initiated in 1949. By the 1970's, the Telecommunications Program led the nation in funding one of the first commercial fiber optic systems, Commonwealth Telephone Company in Pennsylvania.

To ensure that rural communities get access to quality broadband services, since 1995 RUS required that telecommunications infrastructure for both new construction and upgrades of existing systems be capable of supporting at least 1 Mbps in both directions.

Today, the RUS Telecommunications portfolio--built up over 60 years--totals $4.1 billion. As technology continues to evolve, we will continue to find new ways to deliver next generation services and facilities to end users in rural and high cost areas. We are committed to ensuring that all infrastructure awards are made in a technology neutral manner so that rural end users get the benefit of a variety of technologies servicing their region, not just one.

Our legacy in funding telecommunications facilities was enhanced in both the 2002 and 2008 Farm Bills, which authorized RUS to administer three broadband-related programs. The most prominent of these is the Broadband Loan Program, which to date has approved over $1.1 billion in loans to more than 90 broadband infrastructure projects in rural communities spanning 42 states. In addition, through the Community Connect Grant Program and the Distance Learning and Telemedicine Loan and Grant Program, we have achieved considerable success and gained invaluable experience in deploying broadband and related services to remote rural and underserved communities. Through these two programs, RUS has invested $498 million in rural underserved areas.

Applying the Lessons Learned from the 2002 Farm Bill to Future Applications

Since the enactment of the Broadband Loan Program in 2002, we have gained tremendous insights into the unique challenges of deploying loan financing for next-generation internet architecture in rural high-cost markets. As we develop the regulations for the changes required under the 2008 Farm Bill, we are incorporating the lessons we have learned since 2002 regarding the funding of broadband networks in a competitive environment to improve our existing track record.

Once these regulations are published, we will launch a national outreach effort to help guide applicants on the new requirements and how to apply for funding. Outreach and education are important function of our work in reaching as many rural populations as possible, and we will continue to dedicate resources and attention toward educating the American public of our Farm Bill once regulations are released.

To further assist prospective applicants with the new Farm Bill requirements, we will utilize the expertise of our nationwide network of Rural Development field offices and RUS' own General Field Representatives (GFRs), who are stationed in local communities across the country to hold workshops, deliver presentations, and respond to inquiries about the program. Within weeks of my arrival at RUS, I met with most of our GFRs and State Directors, who are among our most effective resources throughout the federal government in reaching rural Americans.

Rural Development has approximately 6,000 employees in over 470 offices nationwide. Through the outstanding local outreach performed by our field staff, we have enormous capacity to coordinate our programs and provide assistance and guidance to our borrowers. Our field staff stands ready to assist service providers and rural community leaders with these programs, as well as with the current loan and grant programs. We expect that these new regulations and procedures will continue to keep our loan portfolio healthy well into the future.

Implementation of the BIP Program under the American Recovery and Reinvestment Act: Building on our Service to Rural America

In February of this year, ARRA provided the USDA with $2.5 billion in budget authority to deploy broadband in rural, unserved and underserved areas nationwide under the Broadband Initiatives Program (BIP).

With the funds we received in the Recovery Act for broadband, we estimate that we could deliver up to $7 to $9 billion in loans, grants and loan grant combinations to prospective applicants, based on our ability to leverage our funding levels. This strategy is designed to build on RUS' demonstrated expertise in finance and to complement NTIA's Broadband Telecommunications Opportunity Program (BTOP), which is a grant-only program. Supporting investments through our loan authority will help leverage federal resources, and is a goal that we intend to continue to promote.

Under our first Notice of Funding Availability (NOFA), published on July 9, 2009, RUS made available up to $1.2 billion for Last Mile projects, up to $800 million for Middle Mile projects, and established $325 million for a National Reserve.

Our goal is to advance the President's vision of improved access, ensure that every community has a fair opportunity to compete for available funding, and leverage taxpayers' dollars to the greatest extent possible. We are careful stewards of funds we manage and obligate, which is how we built our reputation as an attractive low-cost lender.

To implement our coordinated broadband program, in March the USDA and NTIA initially published a joint Request for Information in the Federal Register soliciting public comment on implementation of ARRA. We held six public meetings to provide an opportunity for further public comment and received over 1,000 comments from institutions and individuals on key questions, including the definitions of "broadband," "unserved," and "underserved." Based on the diverse nature of comments received from a wide cross section of public and private stakeholders, our agencies drafted a Notice of Funds Availability (NOFA) which was posted on-line on July 1st and published in the Federal Register July 9th.

The NOFA incorporated the requirements for both the BIP and BTOP programs so that applicants could file a single application for one or both funding opportunities offered. This NOFA announced the first round of funding under ARRA, with the expectation that one or more additional NOFAs will be released in Fiscal Year 2010. We are mindful of

the fact that all funds must be obligated no later than September 30, 2010, so we are trying to move as quickly, but as prudently, as possible to meet the objectives outlined in the statute.

RUS and NTIA Coordinated Outreach and Public Education

An outreach and communications strategy was developed jointly by both agencies to ensure that the prospective applicants and other stakeholders would receive accurate, timely and comprehensive information on the programs. The objective of the outreach strategy was to explain the application process to prospective applicants in a short period of time. USDA and the Department of Commerce determined that a series of joint how-to-apply workshops would be conducted by program staff from both agencies. Since the Federal Communications Commission (FCC) is an integral partner to both agencies in addressing telecommunications issues, the FCC was invited to participate in the workshops to provide information on broadband technologies and resources available at the FCC.

The outreach and education workshops jointly sponsored by RUS and NTIA were held in a variety of regions throughout the country, with locations chosen to provide maximum geographic diversity and to focus on targeted applicant segments. Workshop locations were also chosen based on their proximity to transportation to facilitate attendance from surrounding areas. We promoted the effort through the USDA/Department of Commerce joint ARRA broadband website (www.broadbandusa.gov), as well as through our own

agency websites and Public Information Coordinators throughout the country, targeted media alerts and e-mailings to state economic development organizations, industry and consumer associations, prospective applicants, and state/local government offices nation wide.

The Application Process

The application window opened on July 14th and the electronic application system went live on July 31st. The volume of applications and the compressed timeframe led to a number of application processing issues, and we took a series of steps to deal with these issues. First, we added server capacity. We also extended the deadline to submit electronic applications from August 14 to August 20. Applicants who had submitted core applications by 5:00 p.m. (EST) on August 14, 2009 (the original application deadline), were also given the opportunity to submit electronic applications through August 20.

We notified applicants by posting the deadline extension on both the BroadbandUSA.gov joint website and respective agency websites. We published a legal notice in the Federal Register and sent it to each applicant by e-mail. The website help desk hours and staff were increased to answer questions from applicants throughout the weekend.

Due to the extraordinary level of demand to upload attachments directly into the system, the RUS and NTIA issued an additional notice on August 19th informing applicants that they would be permitted to submit attachments to their application by alternative means

that included CD, DVD, thumb drive, or other electronic media. Attachments delivered by regular mail postmarked by August 24, 2009 were accepted.

Next Steps for Round One and Round Two

We are now in the process of evaluating First Round applications and expect to begin issuing awards shortly. The first NOFA made available up to $2.4 billion in program level (loans and grants) funding. Well over half of the total investment projected under the BIP program has been reserved for subsequent funding rounds. There have been previous conversations regarding plans for subsequent funding. It continues to be our belief that we should move to compress the planned-for second and third rounds into a single round in order to give applicants additional time to create strong proposals and to ensure that we are able to meet the goal of obligating all funds by September 2010. We continue to work through mechanics of effectuating this change, and we hope to put forward an announcement in the near future on this matter.

Subsequent funding may include enhancements to eligibility and scoring criteria used in Round One. We are cognizant of the concerns and suggestions that have been raised regarding a wide range of issues including the definition of rural and remote areas, eligibility standards for unserved and underserved areas, scoring weights for various factors and concerns regarding overlapping service territories for satellite providers. It would be premature to speculate about specific changes to our regulations until we have completed the evaluation of first round projects, but it is important to note that this is not

a static process. We will consider changes to these rules based on the feedback we have received to date.

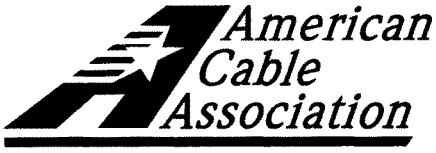
We welcome input from everyone on this Committee on how best to move forward and apply the lessons learned in Round One toward the work ahead of us in the next round of funding, which we anticipate will be announced in the coming months. To that end, RUS and NTIA plan to seek formal written comments on ways to better meet the requirements of the Recovery Act and will be releasing a Request for Information (RFI) very shortly to gather such information. Our next steps will be guided by the input we receive during this process. We will make necessary changes based on these suggestions and our experience.

We will continue to ensure that implementation of the ARRA broadband initiative is a collaborative and coordinated effort with our partners at the NTIA and in the Administration. We are also committed to making this process as transparent and as efficient as possible. The purpose of the Recovery Act is to spur job creation and stimulate long-term economic growth and investment. To date, we are on track to obligate the $7.2 billion in ARRA broadband budget authority by September 30, 2010.

This week we are celebrating our 60 year anniversary of financing telecommunications infrastructure, which has evolved from delivering voice to distance learning, telemedicine and broadband. On behalf of all of us at USDA Rural Development and the Rural Utilities Service, thank you for your continuing and generous support of this critical

mission. Our ability to offer programs to create economic opportunity and improve the quality of life in rural America is a result of your work. It is an honor and privilege to work with you on behalf of the 65 million Americans in our rural communities. We look forward to working closely with Congress and our federal partners throughout the Obama Administration in making affordable broadband service widely available throughout rural America.

Thank you again for inviting me here to testify and I will be glad to address any questions you have.



United States House of Representatives
BEFORE THE COMMITTEE ON SMALL BUSINESS
Wednesday, October 28, 2009

"The Recovery Act and Broadband: Evaluation of Broadband Investments on Small Businesses and Job Creation"

TESTIMONY OF JAMES M. GLEASON

PRESIDENT AND CEO – NEWWAVE COMMUNICATIONS,
SIKESTON, MISSOURI
PAST CHAIRMAN – AMERICAN CABLE ASSOCIATION,
PITTSBURGH, PENNSYLVANIA

Thank you, Madame Chairwoman and members of the Committee. It is a great honor and a privilege for me to be here before this committee to tell you about my independent company and the great broadband work of many other companies that are members of the American Cable Association (ACA).

My name is Jim Gleason, and I am the President and Chief Executive Officer of NewWave Communications and past Chairman of ACA. ACA represents nearly 900 smaller and medium-sized cable companies providing advanced video, telephone service, and, most importantly, high-speed broadband Internet access to 7 million customers in predominantly rural and smaller markets in every state.

My company, NewWave, serves more than 115,000 customers in Kentucky, Illinois, southeast Missouri, northeast Arkansas and western Tennessee and is headquartered in Sikeston, Missouri. At NewWave, we provide cable television, high-speed broadband and data services and telephone service, specializing in smaller and mid-sized communities.

As small and medium-sized independent cable operators, we represent a unique perspective on the broadband marketplace. Our members have historically invested in communities where the 'big guys' find it unattractive to provide service, whether that is in rural communities such as Union Star, MO, or in more urban markets such as Lawrence, KS. To date, ACA members have built these networks in the most rural areas of our country without any direct federal subsidy.

I appreciate the opportunity today to share with you ACA's perspective on key issues facing small, independent cable and broadband providers across America as they continue to be leaders in rolling out broadband service to consumers residing in some of the most economically challenging areas to deliver state-of-the-art communications technology.

ACA AND BROADBAND STIMULUS APPLICATIONS

ACA members view the $7.2 billion broadband stimulus program as an important opportunity to continue their great work in constructing broadband facilities in remote and rural areas so these communities can enjoy technological parity with densely populated urban areas so accustomed to being the first in line.

I'm pleased to report that in all, 83 ACA members have applied for $1.3 billion in grants and loans under the two stimulus programs run by the National Telecommunications and Information Administration (NTIA) and the Rural Utilities Service (RUS).

ACA members applied for both last-mile and middle-mile projects in both unserved and underserved areas. ACA members submitted applications to fund 127 projects.

My company, NewWave, has applied for $10.1 million in funds to upgrade fiber and cable facilities in 11 communities in Illinois, Indiana, Missouri and South Carolina. The network upgrades will be state-of-the-art fiber-to-the-curb designs and will offer these rural communities DOCSIS 3.0 technology that will offer data speeds up to 100 Mbps.

In addition, fiber-optic facilities will be constructed out of the communities and will connect them to larger, high-capacity fiber lines for broadband access. The vast majority of the areas NewWave has applied for are unserved by other providers and would not have broadband access without this program. NewWave has coordinated with a wide range of community organizations and leaders and has submitted dozens of letters of support for these projects.

As companies with decades of experience in rural America, ACA members have a proud track record of achievement that demonstrates why they are ideal candidates to receive funding from NTIA and the RUS. ACA members are uniquely positioned to advance the goal of providing every American with affordable access to the Internet over advanced communications networks, and are prepared to extend broadband into many of the economically and technically challenging areas in the country. I encourage the NTIA and RUS to closely consider all of our members' applications.

THE GOVERNMENT'S IMPORTANT FOCUS ON THE MIDDLE MILE IS GOOD.

Over the years, ACA has demonstrated that the issues and challenges facing rural areas and the small cable operators that serve them is substantially different than the issues and concerns facing urban areas and companies the size of Comcast and Time Warner Cable.

As we talk about broadband, that distinction becomes even more critical.

Although many focus exclusively on the need to upgrade the Internet communications path that enters the home and office, ACA has attempted to draw attention to the middle mile.

NTIA and the RUS should not waste taxpayer dollars on funding broadband projects that intend to provide service in areas already served.

Overbuilding established broadband providers with taxpayer support would reduce the amount of stimulus money available to provide broadband to the truly unserved and would limit funding for critical middle-mile projects.

Why is funding middle-mile projects so crucial?

ACA members have already upgraded their local networks, providing consumers with much faster broadband speeds.What is still needed in rural communities is better and more affordable middle-mile connections between the local community and the nearest internet access point. The middle mile is the part of the network that runs between a cable broadband provider's central office and an access point to the Internet's backbone. The current middle-mile link is typically an expensive, low-capacity facility that effectively slows data speeds between what the local cable network can supply and what is actually delivered or received from the Internet backbone.

The data chokepoint has persisted because the owners of these middle-mile facilities have failed to invest in upgrades to coincide with the last-mile investment made by ACA members.

End-user download speeds in rural areas would be much faster if local broadband providers had access to affordable, high-speed middle-mile facilities.

We all agree that broadband speeds in many rural areas need to be much faster to create more jobs and stimulate more business activity that we all want to see.

Upgrading the middle-mile link would help greatly on both counts and will take advantage of the investment already made in the local communities by facilitating buildout without showing preference to a last-mile provider.

Because the distance between those two points can be many miles, if not counties, apart, ACA members simply don't have the resources to construct new middle-mile links on their own in a fiscally prudent manner.

The RUS's large financial commitment to the middle mile is encouraging.

For instance, the RUS has allocated up to $800 million in loans and loan/grant combinations for middle-mile projects. Continued focus on middle-mile facilities is essential to these communities.

THE AGENCIES SHOULD REVIEW FUNDING RESTRICTIONS AND REVISE FUNDING RULES TO ELIMINATE APPLICATION BARRIERS.

In the first funding round, NTIA and RUS received about 2,200 applications seeking $28 billion in combined funding for broadband facilities as well as broadband awareness, training, support and construction of local computer centers.

To say the least, that was a strong response, and we are scheduled to learn in November the names of the first entities to receive funding.

Without diminishing the level of support for NTIA and RUS funding so far, I should explain that turnout from ACA members would have been even better if NTIA and the RUS had not attached funding restrictions that made it difficult or impossible for small cable companies to apply.

For example, ACA members that didn't seek funding noted that the federal government's insistence on holding the first lien would have violated terms and conditions contained in many of their bank loan agreements, making applying for the program impossible.

The 10-year prohibition on the sale of federally funded projects was also cited as a deterrent to participation by ACA members.

I will discuss later some of these restrictions and highlight both how they affected my company in particular and the ACA membership in general. We hope these onerous restrictions will be lifted before applications for the second round are due.

In my own company's experience with the stimulus programs and our applications, we have noted the following concerns:

DIVIDING THE PROGRAM BETWEEN TWO AGENCIES WITHOUT CONSISTENT RULES CAUSES CONFUSION AND INEFFICIENCIES.

Depending on the geographic location of their projects, RUS applicants were forced to compete for loan/grant combinations instead of simply the grant money. Meanwhile, Broadband Technology Opportunities Program (BTOP) applicants were free to request grant funds only; however, if your project was rural you were required to file at the RUS. While you could also file at BTOP, RUS has the first review of the application and thus you faced the uncertainty that funding for your project would be a grant/loan combination.

Because all of my company's projects are in rural areas and only two happened to be located in "non-remote" areas, meaning it was within 50 miles of a non-rural community, NewWave could only request a loan/grant combination through RUS. We would have preferred having access to a larger portion of the grant funds as that would have allowed us to do more in the rural areas we serve, including expanding the scope of our project.

The rules of eligibility for grants should be the same for both agencies. Companies, including ACA members, wanting to serve rural areas should not be placed at a disadvantage by being forced into loan/grants when companies serving non-rural areas do not have similar obligations.

THE RULES GIVE CURRENT RURAL UTILITIES SERVICE (RUS) BORROWERS A LEG-UP ON THE COMPETITION.

The broadband program's scoring criteria automatically awards five points to applicants that have borrowed under Title II of the Rural Electrification Act. Awarding previous borrowers a five-point advantage discouraged companies like NewWave that built their networks on private investment from applying for broadband funds all together.

The scoring of an application should be made on the merits of their project, not the applicant's history with the agency.

THE NOTICE OF PROPOSED FUNDED SERVICE AREA PROCESS FORCES COMPANIES TO INVEST RESOURCES TO DEFEND THEIR CURRENT SERVICE AREAS WHETHER THEY WANTED TO ENGAGE IN THE PROGRAM OR NOT.

NewWave is investing additional funds to defend its current service area from hastily prepared applications that propose to build on top of systems that adequately serve the market with affordable broadband internet access. We fail to understand why NewWave and other ACA members had to invest their limited resources to respond to applications that weren't even vetted for completeness.

In addition, the response process, for the reasons stated below, was burdensome and time-consuming, and problems with the mapping tool and response form made it difficult for existing service providers to respond to all applications proposing to overbuild their service areas. As recently as yesterday, the mapping tool has been down for periods of time during the response process, limiting the ability of existing service providers to respond.

NewWave alone – a small company – will spend in excess of $30,000 simply telling the government where we already serve.

In light of this, we would hope that the agencies will not presume, as suggested in the Notice of Funds Availability, that there is no existing service provider in an area if they did not receive a response, and that the agency and applicants will engage in their own due diligence to determine if an area is already served, and therefore not eligible for funding. Doing so will help avoid using scarce taxpayer resources in areas that already have broadband service.

Remember, our members already tell the FCC the broadband areas we serve, along with the number of subscribers and speeds, twice a year by census tract locations through the FCC's Form 477.

THE GOVERNMENT PROGRAM IS DISCOURAGING PRIVATE INVESTMENT IN RURAL AREAS.

Private expansion and M&A activity have slowed with the uncertainty of private enterprises having to compete with government-funded entities. While broadband stimulus can be very helpful to encourage broadband deployment in areas that are truly unserved or underserved, it should not be at the risk of losing private capital investment, which will ultimately achieve more deployment than any stimulus program.

In addition to the experiences of our company with the stimulus programs, our members noted the following concerns:

THE MANDATORY BIP LOAN REQUIREMENT DISCOURAGED APPLICATIONS FROM SMALLER, INDEPENDENT CABLE COMPANIES.

As noted, the BIP loan requirement concerns my company, because we could have done more had we been able to file for grants rather than loan/grants. Many companies, however, did not participate because the rules would have forced them to apply for a loan if they served a non-remote

rural area. Let me explain. The NOFA requires that rural area applicants must first file with RUS through the BIP program. The rules also provide that BIP applications for non-remote rural areas must include a loan component of at least 50% of the funds received. The definition of remote is very restrictive and thus many members would have been forced to file for a loan or loan/grant at BIP as the first option.

We heard from various members that the building of some projects simply could not be economically justified by a loan or loan-grant application. By contrast, if the area was non-rural, the applicant could apply for a grant at BTOP and not worry about a loan. The rule has the effect of discouraging applications in the rural areas where they are drastically needed.

THE STIMULUS RULES CREATE TAX UNCERTAINTY AND DISPARITY.

The uncertainty over the tax implications of an award, combined with the tax exempt status of other applicants, was also a deterrent for small companies like mine and other members of the ACA. The Frequently Asked Question section on the Broadband USA website noted that non-tax exempt applicants should consult their tax advisors as to whether the proceeds would be taxable and noted that the payment of taxes was not an eligible cost under either the BIP or BTOP program. In addition, taxable co-ops and other tax-exempt entities competing for the funds would not have to incur such liability creating a competitive disadvantage for many of our members.

The government should remove any uncertainty and specifically state whether the grant proceeds are taxable.

THE "FIRST LIEN" RULE DISCOURAGED MORE APPLICATIONS.

ACA members that didn't seek funding noted that the federal government's insistence on holding the first lien would have violated terms and conditions contained in many of their bank loan agreements, making applying for the program impossible.

While we understand why such a restriction was placed in the rules to protect stimulus funds in the case of a default, the effect of the rule is to simply disenfranchise a whole class of industries and applicants, like ACA members, who have done nothing to date other than to deploy broadband to their customers in smaller markets and rural areas *without* the need for government help.

Now, when government help through the stimulus programs could actually assist to fund unserved or underserved areas that capital markets can't, program rules prevent such funding unless all private funding is subordinated. The effect of this rule is to favor current borrowers of the RUS funding programs and put new applicants with legitimate projects at a disadvantage, despite the fact that the funding programs are truly supposed to be technology neutral.

THE 10-YEAR LIMITATION ON SALE DISCOURAGED MORE APPLICATIONS.

The NOFA generally prohibits the subsequent sale of the funded facilities and limits the ability of a recipient to sell the funded facilities for 10 years and places restrictions on the sale after 10 years. Many of our members were concerned over the no-sale restrictions. The problem is that the NOFA states that the agencies are not allowed to consider sales until after 10 years. While a company could

seek a waiver of the entire rule, the uncertainty caused by the rule and the seemingly high yet unknown, standardrequired to obtain a waiver caused members not to apply.

Most of all, the restrictions failed to recognize an important business principle: Sometimes capital is needed to improve a company and make it a better target for an acquisition by a larger company that can provide even *more* services to consumers.

We believe the funding agencies should be sensitive to the important business concerns of our members and liberally provide waivers of the 10-year rule where it can be demonstrated that lifting the rule will benefit consumers in those markets.

REVISIONS ARE NEEDED TO THE APPLICATION REVIEW PROCESS.

Our member companies and our colleagues at the National Cable & Telecommunications Association, OPASTCO, ITTA, Western Telecom Alliance and USTA share and support the goal of achieving universal broadband availability while maintaining the highest level of integrity in the agency broadband initiatives established to achieve that goal. Unfortunately, the application information made available by the agencies about pending applications for areas listed as "unserved" and "underserved" makes it difficult, and in some cases impossible, for our members to examine and respond fully and completely to those applications within the 30-day deadline set by the agencies.

Ultimately, we are concerned that the data before your agencies may inadvertently provide an inaccurate or incomplete picture and potentially compromise the integrity of the process.

In many, if not most, instances the proposed funded service areas are not congruent with the service areas of our members, and our members can only supply complete and accurate data for their own service areas.

The agencies' independent due diligence and review of the entire proposed funded areas will be critical in determining the extent of broadband service in each area – whether these areas are actually "unserved" or "underserved" – using the best available data (including the FCC's Form 477 data I mentioned and state broadband maps and deployment information) even in the absence of a filing from an outside party.

This will help avoid situations in which scarce government funding is unintentionally awarded to ineligible applicants.

I have attached our letter for the record outlining the following problems and solutions with respect to the mapping tool and response form:

1. The format of the broadband mapping tool creates a significant barrier to submitting data in a timely fashion. Providing a dataset of census block/group/tract information with application numbers would simplify and speed the process for responding.

2. The database's 7,500 Census Block limit creates a barrier to obtaining information about areas where funding is proposed and should be lifted.

3. The mapping tool/database does not link applications to all states covered by proposed funded service areas. This should be corrected to permit complete responses from existing service providers.

RISKS TO AFFORDABLE BROADBAND – NEED FOR CONTENT NEUTRALITY

The effort by the American Recovery and Reinvestment Act of 2009 to make broadband service available to everyone in the country enjoys wide public support.

For many, broadband's promise of improving life in so many ways, on so many levels, is building excitement for a government-backed technology mission that we really haven't seen since the days when the U.S. entered and won the space race after the launch of Sputnik by the Soviet Union.

But successful broadband policy can't focus exclusively on availability. It also must focus on affordability, bearing in mind that those on the lower end of the income scale may choose to use their disposable income on things other than the purchase of a broadband subscription.

To keep the price of broadband affordable for all, ACA has urged Congress and the FCC to prevent broadband content providers, especially media conglomerates with market dominance, from imposing closed Internet business models on broadband access providers, especially those small businesses which have no real bargaining power.

Failure to police anti-consumer and anti-competitive practices will end up forcing all consumers to pay higher monthly broadband access fees to receive content that a large percentage of them have no intention of viewing.

Here is a real world example of what I mean: ESPN360, owned by the Walt Disney Co., is pioneering such a closed Internet business model.

Disney wants ACA members to pay fees for ESPN360 based on the cable company's total number of broadband subscribers or else none of the broadband subscribers may view ESPN360 content. A consumer cannot individually subscribe to ESPN360.

Disney's plan is designed to force customers who have no interest in viewing sporting events over the Internet to pay for ESPN360 and subsidize the cost of the service for consumers actually interested in viewing ESPN360 content.

Disney's ESPN360 business model is bad for competition and bad for consumers.

Disney's quest to extract per-subscriber fees from broadband access providers will drive up the cost of broadband for all existing customers; put the price of broadband service beyond the means of low-income consumers; and obviously delay the arrival of affordable broadband access for every American.

RISKS TO AFFORDABLE BROADBAND – NEED FOR CONSUMPTION BILLING

Another risk to affordable broadband is the potential adoption of regulations that would not allow broadband access providers to experiment with flexible-pricing models.

U.S. House legislation has already been introduced that would effectively ban large broadband access providers from being able to charge higher prices to consumers who download catalogs of HD movies than to casual users who limit their Internet time to checking e-mail and visiting a few Web sites. Obviously, more usage requires more investment, but why should casual low-bandwidth-consumption users have to pay for the high-bandwidth behavior of a few?

Consumption-based billing is pro-consumer in every respect.

Under such a system, high-bandwidth users would be required to shoulder the cost of their heavy Internet activity and would not be allowed to shift that financial burden onto less energetic Web surfers. Without it, there would be no disincentive on the high-bandwidth users to curtail their behavior.

Without consumption-based billing, extreme demands placed on the network by a small minority would have to be paid for by everyone else. That's simply unfair.

In addition to being unfair, a ban on consumption-based billing would frustrate the goal of universal and affordable broadband access.

In a recent paper released in association with Georgetown University, widely respected economists Kevin Hassett and Robert Shapiro concluded that flexible-pricing models will speed broadband adoption, rather than deter it, because network providers won't need to raise prices on everyone in order to recover the cost of network investments largely undertaken to satisfy the needs of those who consume the most bandwidth.

Hassett and Shapiro's paper found that when flat-rate plans were in use, broadband access providers were forced to recover their network upgrade costs from all users equally, which drove up the monthly price of broadband for everyone and made it harder for the most price-sensitive consumers to purchase a broadband subscription.

Reliance on flat-rate plans, the economists said, would delay broadband adoption by low-income consumers and fail to close the digital divide.

Customers who rely on the Internet just to find a job by e-mailing resumes should not have to pay more for broadband simply because other customers are watching the latest blockbusters in HD.

CONCLUSION

On behalf of ACA and my company, we appreciate what Congress and the funding agencies are doing to support broadband expansion and growth in smaller markets and rural areas. We support you and pledge to be there beside you in this effort.

Our hope is that reasonable revisions to the funding programs as outlined here will provide even greater use of the funds by ACA members and others and provide the benefit the government intended for consumers in smaller markets and rural areas.

Thank you for your attention, and I would be pleased to answer your questions.

YVETTE D. CLARKE
11TH DISTRICT, NEW YORK

1029 LONGWORTH HOUSE OFFICE BUILDING
(202) 225-6231

EDUCATION AND LABOR COMMITTEE

HOMELAND SECURITY COMMITTEE

SMALL BUSINESS COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515-3211

HEALTH, EMPLOYMENT, LABOR, AND PENSIONS SUBCOMMITTEE

HEALTHY FAMILIES AND COMMUNITIES SUBCOMMITTEE

CHAIRWOMAN: EMERGING THREATS, CYBERSECURITY, AND SCIENCE AND TECHNOLOGY SUBCOMMITTEE

INTELLIGENCE, INFORMATION SHARING AND TERRORISM RISK ASSESSMENT SUBCOMMITTEE

CONTRACTING AND TECHNOLOGY SUBCOMMITTEE

RURAL DEVELOPMENT ENTREPRENEURSHIP AND TRADE SUBCOMMITTEE

Rep. Clarke
House Small Business Committee
October 29, 2009
"The Recovery Act and Broadband"

- Thank you Madame Chair and Ranking Member Graves for holding this tremendously important hearing.
- This is a timely hearing given the fact that our economy is at a crossroads. Given our near 10% unemployment situation and an increasingly competitive global environment, I am a firm believer in the 3 I's to bring our economy back.
- We must focus on INVESTMENT, INNOVATION, and INFRASTRUCTURE.
- Installing broadband technology such as fiber optic cables and wireless towers can create jobs in the short term. The increased productivity the technology brings will bring economic growth and job opportunities in the long term.
- Increased broadband deployment will and must be an engine of economic development in our nation. More investments in this broadband infrastructure will support innovation by American small businesses and households which had previously been shut out of all that broadband had to offer.
- The efficiency and productivity gains are well known to us all. My concern is that these Recovery Act programs will not be followed by MORE investment in these initiatives.
- Now is not the time to relent! Now is the time to maximize public investment in broadband deployment in order to attract more private capital to deserving projects, thereby creating jobs and building out the networks which will be used to further increase economic opportunity.
- As an important sidebar, I am the Chair of the Subcommittee on Emerging Threats, Cybersecurity, and Science and Technology, I would be interested to hear how the process of broadband deployment is including security that can defend and mitigate against cyberattacks and data breaks that could have disastrous consequences.

PRINTED ON RECYCLED PAPER

TESTIMONY OF MR. DELBERT WILSON

GENERAL MANAGER

HILL COUNTRY TELEPHONE COOPERATIVE

INGRAM, TEXAS

SMALL BUSINESS COMMITTEE

OCTOBER 28, 2009

Chairwoman Velazquez, Ranking Member Graves, members of the Committee, I would like to thank you for holding a hearing to review the American Recovery and Reinvestment Act's (Recovery Act) broadband programs. I offer the following testimony on behalf of Hill Country Telephone Cooperative of Ingram, Texas and the National Telecommunications Cooperative Association (NTCA), which represents more than 580 small, rural, community-based communications service providers throughout the nation.

Hill Country, where I serve as the General Manager, provides telecommunication services in 15 exchanges located in 14 counties spread over 2900 square miles in rugged terrain – equivalent to the combined size of Rhode Island and Maryland. Organized as a cooperative, Hill Country's top priority has always been to provide every one of our consumers, who are also our owners, with the very best communications and customer service possible – an entrepreneurial spirit that is representative of our 1,100-plus rural counterparts that together serve 50% of the nation's land mass but only 10% of the population.

Hill Country came into being, like many other telecommunications systems, soon after the 1949 passage of the Telephone Amendment to the Rural Electrification Act, which made Rural Utilities Service (RUS) loan funds available to finance rural telecommunications systems. At that time, the Bell companies and other large telecommunications companies were already well established in the nation's cities and growing suburban areas. However, they often did not provide telephone service, much as they often today do not provide broadband service, to the most sparsely populated rural areas. Therefore, in part due to support from RUS, the unfulfilled need for telephone service was been met by the men and women of rural communities who joined together to develop, finance, and build their own community based telecommunications systems. If it were not for RUS and crucial federal cost recovery mechanisms, like the universal service program and the intercarrier compensation regime, many rural areas of our nation would still be without adequate telephone services.

Now, the focus and the need have appropriately shifted to more advanced communications services. Working in tandem with the aforementioned cost recovery mechanisms and private investment, the Recovery Act's broadband initiatives are additional tools that will help rural communications service providers continue the effort to replicate the success of their telephone service build-out by steadily deploying broadband infrastructure and related services to an increasing percentage of their subscribers.

Listening to the needs of rural consumers and understanding the ever-growing importance of broadband in everyday life, Hill Country is actively engaged in a major outside plant modernization project. This $57 million initiative involves the deployment of 560 miles of fiber optic cable, 280 digital loop carriers and state-of-the-art soft switches throughout a substantial portion of our market area. Why are we doing this? Quite simply, in an effort to provide the broadband infrastructure that is necessary to support the growing bandwidth needs of our members.

However, even in spite of all our efforts tied to this modernization project, including the maximization of our debt load, 543 households - approximately 5 percent of our market area - will remain unserved from a broadband perspective, because the costs of providing service in these remote, economically challenging areas are simply overwhelming. These 543 households are in outlying areas that are beyond the 18,000 kilofeet standard where DSL will typically operate effectively. According to a recent study conducted by Hill Country, 522 miles of fiber optic cable would need to be installed to provide broadband service to the 5 percent of our market that remains unserved. This effort would cost $20 million at an average cost of $37,000 per subscriber – about four times the average cost per subscriber of the other 95 percent of our market.

A typical business plan that would sustain itself simply cannot be constructed for this segment of our market. It is in these unserved areas that support from the RUS and National Telecommunications and Information Administration (NTIA) broadband funding incentives, which are associated with the Recovery Act, could be critical in enabling our system to overcome the economic challenges of providing broadband to 100% of our customers. Clearly, there is a real and true need for these dollars and undoubtedly they would have an immediately stimulating effect during the construction stage and thereafter during the consumer usage stage.

While we had hoped to apply for a RUS Broadband Initiatives Program grant to serve the 543 households in our outlying areas, we were disappointed to discover that because the proposed project was within 50 miles of a community with a population of slightly more than 20,000, the project did not meet the program's definition of a remote area and could not be considered for a grant. While I respect RUS's efforts to ensure funding is not directed toward projects located near urban areas, I think it is difficult to argue that the 543 households we wish to serve are not in a remote area. I know many members of the House of Representatives have raised similar concerns, and I hope RUS will make changes to this definition in subsequent rounds. Since it is not financially feasible to provide service to these households, without a stimulus grant or some other similar form of outside support, these households, and many households like them throughout the country, will continue to be left without broadband service.

Rural areas throughout our nation are low density and even higher cost. Some refer to these unserved areas as "market failures," where competition and existing federal programs have failed to help provide consumer choice. I like to refer to these areas as "economic realities." Serving our nation's rural citizens with telephone service has always been challenging and bringing broadband to these sparsely populated areas is even more challenging. It is these "economic realities" that lead to our discussion today about the potential impact of the Recovery Act's broadband programs.

As a recent USDA study report found, rural communities with greater broadband Internet access had greater economic growth than areas with less access. The study compared counties that had broadband access with similar counties that had little or no broadband access. It's not surprising that the study showed that employment growth was higher and

non-farm private earnings greater in counties with a longer history of broadband availability.

Broadband is not only the great equalizer between rural and suburban/urban areas of our nation, but also with the United States in relation to the rest of the world. Broadband infrastructure deployment is critical to the economic development and national security of our nation. As applications evolve over broadband, all Americans connected will experience untold opportunities for employment, health care, education, as well as entertainment. As the world is getting increasingly competitive, it is essential that the United States have a ubiquitous national broadband network where all Americans, whether urban, suburban, or rural have access. Although our rural areas are sparse in population, these people are critical in our nation's economy and security - providing food, fiber, and energy for a growing nation.

As the process continues to move forward for the BIP and BTOP, we would like to highlight several areas we believe could be improved upon for subsequent rounds:

1) As I mentioned earlier in my testimony, BIP's definition of remote should be reconsidered. In addition, the BIP evaluation criteria rewards one point to a project for every 10,000 unserved households that receive broadband service. Considering that many small, rural communication service providers have only a few thousand access lines in their service area, it is nearly impossible to collect points based on this scoring criteria. For these smaller companies, perhaps a system that rewards points based on a project's expansion in percent of households served would be more equitable to providers of all sizes.
2) As everyone knows, as a result of technical problems during the first round, many applicants had difficulty submitting applications. This had a significant impact on small broadband providers with limited staff and other resources. We understand the server capacity and browser incompatibility issues are being addressed. Therefore, we remain cautiously optimistic that applicants will not be confronted with delays caused by these technical problems in subsequent rounds.
3) It's important to ensure that states and municipalities do not receive stimulus funding to compete with private, incumbent providers for the same services in the same location. We believe the Recovery Act broadband programs should first focus their resources on unserved areas, and are particularly concerned that states and municipalities have submitted proposals to overbuild areas which can, at best, support only one broadband provider.
4) We are concerned about the apparent conflict of interest posed by the ability of states to both apply for BTOP funds and to make recommendations concerning the allocation of funds for qualifying projects in each state. States must not be able to prioritize their own applications above other applicants' proposals without sound justification.
5) We hope that the lessons learned from the first round of funding can be used to make the application process for subsequent rounds more streamlined and efficient - taking into consideration the considerable time and costs for very small broadband providers with limited resources.

6) Without a challenge mechanism or verification measures, inaccurate "advertised" broadband transmission speeds may block broadband service providers from submitting applications to serve areas that, based on actual transmission speeds, would qualify as underserved and unserved areas.

We believe that the funding provided by the Stimulus Bill, in combination with other programs, such as the RUS Broadband Loan and Loan Guarantee Program, the Community Connect Program, Universal Service, and the intercarrier compensation regime will help enable America's rural, community-based telecommunication system providers to meet the broadband needs of our nation's rural citizens. The nearly 2,200 applications for broadband stimulus funding are an indication of the strong interest in and support needed to extend broadband service to unserved and underserved areas – particularly in rural areas. However, once these Recovery Act programs are over, it's important to remember that much more will have to be done if we are to achieve the national goal of ubiquitous broadband. According to a recent FCC task force study, preliminary estimates indicate that investments in the range of $20 billion to $350 billion may be needed for broadband infrastructure, depending on the speed of service.

As for rural independent telecom providers, we emerged in these markets where no one else was willing to go. We understand these areas and what their needs are. We are committed to these markets because our systems are locally owned and operated. And we understand the programs, like the stimulus broadband programs, and how to utilize them to achieve your goal of ubiquitous broadband deployment that will reclaim our international leadership in the communications sphere.

Thank you again for your work to address these important matters.

The Computing Technology Industry Association

"The Recovery Act and Broadband:

Evaluation of Broadband Investments on Small Businesses and Job Creation"

U.S. House of Representatives, House Committee on Small Business

Wednesday, October 28, 2009

Statement for the Record

Dear Chairwoman Velázquez Ranking Member Graves, and Members of the Committee – On behalf of the Computing Technology Industry Association (CompTIA), we thank you for this hearing concerning the investment in broadband under the American Reinvestment and Recovery Act ("ARRA"), and we appreciate the opportunity to submit this statement. In short, CompTIA supports deployment of broadband throughout the nation, especially for rural and underserved areas. Accordingly, we are very optimistic concerning the various funding programs provided under ARRA. Even so, our members have not yet seen the expected job growth.

About CompTIA. The Computing Technology Industry Association (CompTIA) is the voice of the world's $3 trillion information technology industry. CompTIA membership extends into more than 100 countries and includes companies at the forefront of innovation; including, the channel partners and solution providers they rely on to bring their products to market, and the professionals responsible for maximizing the benefits organizations receive from their technology investments. The promotion of policies that enhance growth and competition within the computing world is central to CompTIA's core functions. Further, CompTIA's mission is to facilitate the development of vendor-neutral standards in e-commerce, customer service, workforce development, and ICT (Information and Communications Technology) workforce certification.

CompTIA's members include thousands of small computer services businesses called Value Added Resellers ("VARs"), as well as nearly every major computer hardware manufacturer, software publisher and services provider. Our membership also includes thousands of individuals who are members of our "IT Pro" and our "TechVoice" groups. Further, we are proud to represent a wide array of entities including those that are highly innovative and entrepreneurial, develop software and hold patents. Likewise we are proud to represent the American IT worker whom relies on this technology to enhance the lives and productivity of our nation. Based upon a recent CompTIA survey, we estimate that one in twelve, or about 12 million American adults, consider themselves to be an IT worker. This is larger than the number of American adults classified by the Bureau of Labor Statistics ("BLS") as employed in farming, mining, and construction combined. This is also close to the number of adults classified by BLS as working in manufacturing or transportation. CompTIA has concluded that the IT workforce is now one of the largest and most important parts of the American political community.

Broadband Deployment under ARRA. Realizing the clear importance of broadband on the economic health and wellbeing of our nation, the ARRA provides $7.2 billion to expand access to broadband services in America. CompTIA and its members support the various broadband deployment programs enacted under the ARRA, including the Broadband Technology Opportunities Program (BTOP) – funded at $4.7 billion – administered by the

Department of Commerce National Telecommunications and Information Administration; and the Broadband Investment Program (BIP) – funded at $2.5 billion – administered by the Department of Agriculture Rural Utilities Service.

On July 9, 2009, the Obama administration began the first round of competition for these funds, making available $4 billion for the BTOP and BIP programs (at $1.6 billion and $2.4 billion respectively). By August 20, well over 2,200 applications were received by the agencies. According to agency analysis, the applications in all called for more than $28 billion in funding, well beyond the $4 billion in available funds. It is estimated that winners of the broadband stimulus grants will be announced sometime in November. All awards – including the remaining $3.2 billion – must be made by September 30, 2010, with full completion of projects occurring no later than three years after their issuance.

We would like to note at the outset that the application process, though imperfect, has thus far played out as fair, open and inclusive. Those of our members who have applied for awards have few complaints. Admittedly, the application itself was complex and lengthy. Additionally, the time to accurately and fully complete the applications could have been longer – the initial 30 days was not enough time, even for the largest companies, let alone small enterprises. Yet, on the whole, the agencies have worked hard to help this process move relatively smoothly. Consequently, we trust at the end of this round of awards, many more Americans – such as those in rural, remote, underserved and disadvantaged areas,

among others – will have access to the broadband services they need and deserve due to these ARRA-spawned programs.

The $787 billion ARRA represents a radical but necessary policy response to perhaps the most severe economic crisis America has experienced since the Great Depression. As noted by President Obama, its goal was to lift our nation out of this crisis, and to lay the foundation for future growth. Thus, among other important purposes, the ARRA was designed to preserve and create jobs, which promote recovery; and invest in infrastructure – like broadband services – that provide long-term economic benefits to Americans.

The stimulus was crafted to yield its largest effect in the years 2009 and 2010, more or less evenly. But, this is where Congressional intent and experience seem to diverge. As Christina Romer, Chair of the Council of Economic Advisors recently stated before Congress: *"Most analysts predict that the fiscal stimulus will have its greatest impact on growth in the second and third quarters of 2009. By mid-2010, fiscal stimulus will likely be contributing little to growth."* Thus far, few of our members have seen direct ARRA opportunities. Yet, if this is the peak, so-to-speak, one might surmise that the ARRA's effect on small IT business and other small enterprises can be no more than *de minimis*.

Bearing this out, a recent survey conducted by CompTIA found that most small IT businesses feel the ARRA has not, and likely will not, benefit them in this Recovery. Alarmingly, nearly 90% of those surveyed believe the law has had virtually no effect on their current business. And though the administration projects a lion's share of ARRA funds to arrive in 2010, over the next 12 months, a combined 67% either do not expect, are not sure, or feel that those opportunities are not applicable to them.

For our members – the bulk of whom are small IT companies – perennial challenges abound. Despite some positive economic indicators, many small businesses still cannot find credit or get access to needed capital to grow their businesses. Perhaps more importantly, however, are the burdensome, systemic hurdles that impede small IT firms and other small enterprises as they try to compete in the expanding and complex government procurement marketplace.

The ARRA represents just one recent, albeit immense, government procurement challenge. At a macro-level, it also reveals Washington's growing and evolving role in our economy. We suspect and hope that few new ARRA-like bills will present themselves in the years to come. Still, for the small company – already strapped by their own resource limitations, as well as the vacillating economy – if circumstances dictate more direct government involvement in the marketplace, access by small companies to those contracting opportunities must improve. Small companies represent some of the most potent engines

of job and wealth creation America has ever known. To disenfranchise them because the system cannot see fit to accommodate their size would be a short-sighted travesty.

Hopefully, what happens in the present and future rounds of ARRA broadband applications will dispel some our small business members' concerns. It appears numerous small companies have applied for funding. Consequently, a significant number of successful applicants should hail from the ranks of small business. From this, it is likely that direct jobs will grow from the ARRA. Indirectly, other small businesses will benefit by having greater access to powerful IT-driven tools, such as the Internet. Jobs should arise from this new access, too.

Also on the horizon, within the next couple of years, the health information technology (HIT) and Green IT portions of the ARRA (approximately $20 billion apiece) should start to bear fruit. For small IT companies, HIT may hold particular promise because the greatest growth in this market is in the small healthcare practice, which has strong ties to the small IT provider. Green IT, too, will start to come online, as more Americans and U.S. small businesses use IT to become more efficient and better stewards of our environment.

All of this is to state we remain cautiously optimistic. Still, the system needs improving.

Conclusion. Our members stand ready to help America in the Recovery. High-paying, sustainable jobs can and should result from the ARRA. To date, however, that opportunity has seemingly not presented itself to our members. No doubt, the ARRA contained a number of important economic and jobs provisions, and CompTIA believes those provisions have helped to blunt the impact of the current recession. At this time, though, the perception of small tech companies is that the promised job growth has not been realized. Accordingly, we call upon this committee to continue to explore ways to restore jobs growth in the small business tech sector through the ARRA, and beyond.

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