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DIGITAL DIVIDE: EXPANDING BROADBAND ACCESS TO SMALL BUSINESSES

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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CONTENTS

OPENING STATEMENTS

	Page
Hon. Sam Graves	1
Hon. Nydia Velázquez	2

WITNESSES

The Honorable Julius Genachowski, Chairman, Federal Communications Commission, Washington, DC	3
The Honorable Jonathan Adelstein, Administrator, Rural Utility Service, United States Department of Agriculture, Washington, DC	6
The Honorable Lawrence E. Strickling, Assistant Secretary, National Telecommunications & Information Administration, U.S. Department of Commerce, Washington, DC	8

APPENDIX

Prepared Statements:	
The Honorable Julius Genachowski, Chairman, Federal Communications Commission, Washington, DC	30
The Honorable Jonathan Adelstein, Administrator, Rural Utility Service, United States Department of Agriculture, Washington, DC	34
The Honorable Lawrence E. Strickling, Assistant Secretary, National Telecommunications & Information Administration, U.S. Department of Commerce, Washington, DC	42
Questions for the Record:	
Rep. Peters Questions for the Record for Mr. Genachowski and Mr. Strickling	60
Rep. Mulvaney Questions for the Record for Mr. Genachowski	61
Rep. Hahn Questions for the Record for Mr. Genachowski	63
Rep. Schrader Questions for the Record for Mr. Genachowski	64
Answers for the Record:	
Mr. Strickling Answers for the Record	65
Mr. Genachowski Answers for the Record	68
Additional Materials for the Record:	
eBay Letter for the Record	77
Statement of the American Farm Bureau Federation	80

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DIGITAL DIVIDE: EXPANDING BROADBAND ACCESS TO SMALL BUSINESSES

WEDNESDAY, JULY 18, 2012

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

The Committee met, pursuant to call, at 1:00 p.m., in room 2360, Rayburn House Office Building. Hon. Sam Graves (chairman of the Committee) presiding.

Present: Representatives Graves, King, Mulvaney, Tipton, Landry, Herrera Beutler, West, Ellmers, Hanna, Schilling, Velázquez, Schrader, Owen, Critz, Chu, Cicilline, and Richmond.

Chairman GRAVES. I call this hearing to order. I apologize for the delay. Obviously, we had a vote and sometimes that messes us up when it comes to hearings but I very much appreciate everybody coming out today, and particularly to our very distinguished panel of witnesses who are testifying today. And I very much appreciate your participation.

Today we have an opportunity to hear from three key federal agencies on their efforts to expand broadband access to small businesses all across America. These agencies play an important role in developing the policies aimed at incentivizing broadband deployment by the private sector.

Access to broadband has the potential to transform the way small businesses operate and compete in today's economy. It provides small firms the opportunity to utilize a variety of new tools to help reduce costs and increase productivity. E-mail, online marketing, video conferencing, and access to cloud computing are just a few examples. Moreover, access to high-speed Internet is a catalyst for economic growth and entrepreneurship, especially in rural areas.

While it is easy to understand the benefits of broadband Internet, those capabilities would not be available if not for the contributions of private Internet providers. Earlier this year our Subcommittee on Healthcare and Technology, chaired by Ms. Ellmers, held a hearing on this subject with private carriers and users. The consensus response we heard, and will continue to hear today I am sure, is the need for regulatory certainty. They need to know what regulatory changes are coming, and when, so that they can obviously make the necessary adjustments to their business operations.

This brings me to a couple of very key, important points. First, when agencies consider new policies, like reforming the Universal Service Fund, we need to ensure that these changes do not diminish the incentives for private sector investment to deploy

broadband. And second, I encourage you to accelerate the supply of spectrum for wireless providers to keep up with the growing demand. The boom in wireless smartphones and tablets has created a new market of innovation and capabilities for small businesses that have to continue.

Without private sector investment in broadband infrastructure, many small firms in rural areas, like my area in northwest Missouri, will be disconnected from one of the most powerful tools of our generation, which will in turn hamper their success, obviously.

So again, I want to thank all of our witnesses for being here. I very much look forward to your testimony.

I now yield to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Chairman Graves.

Today's hearing will offer an opportunity to summon the benefits and challenges of broadband deployment, acknowledging telecommunication sectors as substantial contributors to the U.S. economy and an engine for growth. Opportunities in this industry are likely to expand as they build out broadband and new wireless networks. Collectively, investments are projected to generate between more than 300,000 jobs and contribute over $70 billion in GDP growth.

Our nation's small firms stand ready to capture many of these economic gains. Innovation is leading the way in today's economy, and small companies are at the forefront. Not only does broadband facilitate innovation by small firms, it allows them to use the most cutting edge products available. More small businesses are embracing broadband than ever before, and it is rapidly changing the way business is conducted. Innovative applications and services such as videoconferencing are helping small companies reduce costs, increase productivity, and expand their businesses into new competitive markets. Firms can save more than $16,000 in start-up costs just by conducting activities from land.

We have seen the benefits broadband technology can bring to our daily lives in a variety of ways. Those fortunate enough to have access to broadband know how it improves efficiency and reduces costs. Because of the lack of network infrastructure, rural and low income community access is being outpaced by the rest of the country. Unfortunately, the adoption path may further widen without adequate support for broadband deployment. Eliminating the digital divide is vital not only to assist distant rural and low income communities but also helping our nation's job creators. By making the virtual marketplace more accessible, more entrepreneurs can grow their companies and invest in hires.

The Recovery Act loan and grant benefits are twofold. As disadvantaged businesses are building their networks and expanding their services, small businesses and communities gain access to high speed Internet. In the long term this results in attracting more businesses, lower unemployment rates, and skilled workers. However, this program has not done enough to completely overcome the cost issue small businesses face.

As we learned during the Committee's February hearing, broadband availability continues to be a challenge in some communities, both rural and urban. We even heard how recent USDA and

ICC reform have proven difficult for many of the nation's small rural carriers.

This hearing will focus on improving broadband access in order to strengthen the small business economy. The insights gathered today will ensure that policies coming out of Congress are effectively supporting network deployment without burdening small telecom providers. This Committee will also make certain that the needs of small firms are taken into account in upcoming spectrum options and in moving forward with U.S. reform.

In advance of the testimony, I want to thank all the witnesses for being here today. With that I yield back, Mr. Chairman. Thank you.

Chairman GRAVES. Thank you, ranking member.

Before I get started it gives me a great deal of pleasure to recognize my daughter who is in the hearing room today and just started—is starting law school this fall and this is the first time she has been in one of the Small Business Committee hearings and I appreciate her being here today.

And with that I want to introduce our first witness, The Honorable Julius Genachowski, who is the chairman of the Federal Communications Commission. Chairman Genachowski was confirmed by the Senate in 2009 and oversees an agency of over 1,700 employees, which is responsible for regulating the interstate and international communications. Thank you very much for being here. I appreciate it and look forward to your testimony.

STATEMENTS OF THE HONORABLE JULIUS GENACHOWSKI, CHAIRMAN, FEDERAL COMMUNICATIONS COMMISSION; THE HONORABLE JONATHAN ADELSTEIN, ADMINISTRATOR, RURAL UTILITY SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE; THE HONORABLE LAWRENCE E. STRICKLING, ASSISTANT SECRETARY, NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

STATEMENT OF JULIUS GENACHOWSKI

Mr. GENACHOWSKI. Thank you, Chairman Graves, Ranking Member Velázquez, and members of the Committee. I appreciate the opportunity to be here today, and I am pleased to join my federal partners, NTIA Administrator Strickling, and RUS Administrator Adelstein.

My primary focus as FCC Chairman has been promoting innovation, investment, competition, and consumers in the communications and technology sector. We have focused the agency on maximizing the benefits of broadband communications and on helping harness wired and wireless broadband to grow our economy, enhance U.S. competitiveness, and create jobs, as well as advancing important goals like improved education, health care, and public safety.

A key element of our strategy has been empowering small businesses. As this Committee well knows, American small businesses are key drivers of economic growth and job creation. Broadband is increasingly important to the future of small businesses. It enables small businesses to grow and jobs to be created anywhere, not only

in urban markets but in small rural towns all over the country. Broadband allows small businesses to market their products and reach customers in the next neighborhood, the next city, the next state, and even overseas, increasing their revenue.

And broadband allows small businesses to lower their costs through cloud-based services. Increased revenue. Lower costs. More profits. More jobs.

More than one million entrepreneurs, a large percentage of which are small businesses, are already selling products on EBay, Amazon, and other platforms, but of course doing so requires broadband access.

Over the past three years, the FCC has taken a number of actions to help more small businesses seize the opportunities of broadband. Let us start with universal service reform. Today, about 18 million Americans, including many small business owners, live in areas where they cannot get broadband.

The Universal Service Fund we inherited was not addressing that gap. It was optimized for telephone service, not broadband. It had become inefficient and even wasteful, sending money, for example, to multiple providers in one community, and none to other communities. And it did not have adequate accountability, allowing recipients to control their own funding spigot.

Last December, I am proud that the FCC unanimously approved a once-in-a-generation overhaul of the Universal Service Fund, transforming this 20th century program that supported phone service into a 21st century, fiscally responsible Connect America Fund that supports broadband. These reforms put us on a path to connect all unserved Americans and small businesses by 2020. Just last week, one provider, Frontier, announced that it will be deploying broadband to about 200,000 unserved Americans as part of these reforms.

These reforms will also help ensure that consumers, including small businesses, paying into the fund get a fair bang for their buck. FCC staff estimates that roughly a quarter of all universal service contributions are paid by small businesses, over $2 billion per year. That is one reason we have set out to eliminate waste and inefficiency throughout USF.

Our efforts to expand broadband access are complementary to the important work to ensure broadband availability being done by NTIA and RUS. These cooperative efforts with our federal partners are helping more small businesses seize the opportunities of broadband.

The Commission is also taking a number of steps to help small businesses access the productivity and marketing tools of mobile broadband. The new Mobility Fund, which was established as part of our universal service reform, will spur the build-out of advanced mobile networks in unserved rural areas. We are working tirelessly to free up more spectrum for mobile broadband. The incentive auction legislation that Congress passed recently is a very important step forward. We are identifying other areas where we can remove regulatory barriers on spectrum use to free up spectrum for mobile broadband, and we are working closely with NTIA on new strategies to free up more government spectrum for commercial mobile broadband. We have also freed up a very significant amount of un-

licensed spectrum on the market, which is an important platform for innovation for small businesses.

And we can help small businesses not only by making sure they have access to broadband, but also helping ensure they have the basic digital skills to use online resources and applications. That is why the FCC, working with the Small Business Administration, created a public-private partnership to leverage SCORE, SBA's network of more than 10,000 volunteer business counselors to provide broadband tools, training, and support for small businesses.

We are working with the industry to address the digital divide. Connect to Compete is a new public-private partnership program that will help families with children on school lunch programs get low cost broadband for under $10 a month.

Working with the Small Business Administration, the Chamber of Commerce, the National Urban League and private companies, we also are addressing cyber security and public safety issues in this area which is important for trust and security. We developed a cyber security tip sheet and small business cyber planner, describing a number of common sense steps that small businesses can take to improve their security. We worked with ISP to develop steps, including a botnet code of conduct that now 90 percent of all ISPs are putting in place to address cyber security concerns, which have a particularly negative impact potentially on small businesses.

Through our public safety responsibilities, the Commission also aids small businesses. The recent storm that caused significant power and communications outages in the Mid-Atlantic region cost small businesses and consumers severely and knocked out vital emergency communications. The FCC coordinated with FEMA and others to assess and respond to the outages, and immediately after restoration we launched an investigation into the Mid-Atlantic outages so that we can better avoid these problems in the future. We are now expanding that investigation to seek public comment from a broad set of stakeholders with the goal of identifying the necessary steps to make our communications and emergency services nationwide reliable and resilient.

We take seriously the directives of the President and Congress to minimize the impact of our rules on small businesses. We always consider the impact on small businesses, and we have eliminated many regulations that are unnecessary, and we have exempted small businesses from many requirements that we do have.

Spurred by small businesses, we have had a lot of good news in our broadband sector in the last three years. The chairman and the ranking member mentioned some of them. The apps economy, which is largely driven by small businesses, has already created nearly half a million jobs around the country.

For all our progress, there are still real challenges ahead, including the spectrum crunch, which the chairman mentioned that threatens to stifle mobile innovation and commerce; the need to drive continued improvements in broadband speeds and capacity; and the broadband adoption gap, the digital divide that leaves tens of millions of customers out of reach of small businesses.

I look forward to working with the members of this committee on all of these issues and to answering your questions.

Chairman GRAVES. Thank you, Chairman.

Our next witness is The Honorable Jonathan Adelstein, the administrator of Rural Utility Service at the United States Department of Agriculture. He was confirmed in July of 2009. He is the 17th administrator of the RUS. In his role, he oversees a $60 billion portfolio of rural electric, water, and telecommunications infrastructure lines. Thank you for being here, Administrator. We appreciate it.

STATEMENT OF JONATHAN ADELSTEIN

Mr. ADELSTEIN. Thank you, Mr. Chairman and Ranking Member Velázquez and members of the Committee. We appreciate the opportunity to testify on an issue of such high priority—expanding broadband access.

I am especially thrilled to join my friends, Chairman Julius Genachowski and Administrator Larry Strickling. Over the last several years we have really been partners in building out broadband as far and wide as we can in this country to carry out the president's vision of connecting all Americans no matter where they live to next generation broadband networks. I congratulate the Chairman for moving on USF reform as he indicated. Having tried during my time on the Commission, I know it is no easy feat. I look forward to continuing to work together as that process moves forward.

We share a common goal amongst us of maximizing Americans' access to broadband. This administration, including USDA, has made historic investments resulting in stronger rural communities and a stronger rural economy. In this effort, RUS is America's infrastructure bank, but also the first and longest serving, having brought rural electrification to the countryside and continuing to today's technology challenge, getting broadband out.

The $60 billion loan portfolio represents key investments in the foundation of rural America's future prosperity, its utilities networks. The small business and cooperative models work very efficiently to deliver utility services. Our U.S. telecom programs are available to any service provider, large or small, but it turns out that the vast bulk of our private sector borrowers are, in fact, small businesses serving small communities. They, in turn, provide broadband to small businesses, and they also use a network of technology and service vendors who themselves are also often small businesses. This virtual cycle, I think, really exemplifies public program seeding private sector growth.

Our U.S. borrowers are pillars of their communities. They lead local and regional economic development. I know you are familiar with them in your districts. You have seen the kind of work that they do. Businesses they help to spawn are often also financed by our sister agency, USDA's rural business service, which provides loans and grants for them to develop.

A big challenge faces all of us on this panel. America's appetite for bandwidth and speed is exploding. As you noted, Mr. Chairman, in your statement, as the Internet becomes more mobile and more video-intensive, businesses are using the Internet in new and innovative ways to create jobs, markets, and wealth, and we have all worked very hard to try to keep up with the bandwidth demands

that are growing and ahead of our foreign competitors to keep high wage jobs here at home. We need to meet the escalating demands for commercial and public safety communications.

Bandwidth benefits rural areas in especially profound and many different ways. It erases the disadvantages of density and distance. It opens new markets for small and large businesses. It connects our kids to advanced education and gives everyone access to expert medical advice and treatment via telemedicine.

Since 1949, my agency, RUS, has invested more than $22 billion in rural telecom systems, and our current outstanding balance exceeds $4 billion and it is growing rapidly with Recovery Act projects as they come online. And those RUS Recovery Act projects will provide broadband to nearly 7 million people; 364,000 businesses, many of them small businesses; and 32,000 anchor institutions, like schools and libraries and hospitals. These projects are on track and on schedule.

We provide affordable financing to capital-intensive projects, but we also provide engineering standards, careful scrutiny, and continuing oversight. Our U.S. programs have created jobs and economic opportunity and provided I think an excellent value to the American taxpayer. As a matter of fact, our largest telecommunications program operates with no federal budget authority. We pay back virtually every dime. Our ability to lend is linked to the availability of reliable sources of revenue, and the willingness of the private sector to invest, because after all, we are their partner but it is the private sector that makes these decisions.

And those revenues come from three sources: customer charges, payments among service providers, and universal service support. Private sector investment depends on the predictability and sufficiency of those revenues. And while the FCC's USF reform effort remains a work in progress, we are pleased the FCC is trying new approaches to further close rural coverage gaps in areas served by larger carriers that have not had the benefit of universal service and RUS in the past. Much like our considerably smaller Community Connect program and elements of the Recovery Act, the FCC's new Connect America Fund infuses new capital to support broadband expansion.

As we move to reform the system, we face the challenge of preserving and advancing the gains already achieved. RUS is the most successful role model in charting investments that have delivered real and significant gains and real broadband expansion. Each loan or grant is highly scrutinized by RUS staff, both in Washington and in the field and across the country. Each delivers broadband as promised.

Every RUS dollar has a name and address on it. We know where the dollars are invested, and we do not want to spend a penny more than necessary. Our approach is long-term and focused on building it right the first time.

Broadband not only improves the quality of life for rural Americans; it lifts the entire U.S. economy and spurs unparalleled economic development opportunities. It allows us to in-source jobs, rather than outsource them. Expanding broadband service makes our nation stronger, more connected, and truly more united.

Thank you for your leadership on promoting broadband in small businesses, and I look forward to any questions you might have.

Chairman GRAVES. Thank you, Administrator.

Our final witness is The Honorable Lawrence Strickling, the assistant secretary of the National Telecommunications and Information Administration and the Department of Commerce. He was confirmed in June of 2009 and directs the agency responsible for advising the president and executive branch on telecommunication and information policy. Thank you for being here.

STATEMENT OF LAWRENCE E. STRICKLING

Mr. STRICKLING. Thank you, Mr. Chairman. And I would also like to acknowledge Ranking Member Velázquez and other members of the Committee. And I thank you for the invitation to testify today regarding NTIA's work to expand and strengthen broadband access to small businesses. I also am pleased to be here with Chairman Genachowski and Administrator Adelstein, who have been long-term partners with us as we move toward accomplishing these goals.

Expanding the availability and adoption of broadband in America is a key element of building the innovation economy of the future. In the near term, investments and broadband infrastructure help create jobs and grow businesses through the construction of fiber optic networks, wireless towers, and other high-tech components. And our Recovery Act funded public computer centers and sustainable broadband adoption initiatives provide much needed job training for out-of-work Americans.

In the longer term, expanding broadband access and adoption facilitates economic growth and innovation, especially for small businesses, and lays a foundation for long-term economic development in communities throughout the country. The positive impact of broadband on the economic health of small business is clear. A 2010 report by the Small Business Administration found that Internet plays an integral role in helping small businesses achieve their strategic goals, improve competitiveness and efficiency, and interact with customers and vendors.

Surveys of small businesses confirm that they find high speed Internet as essential to their business as other basic services, such as water and electricity. The research firm Strategic Networks Group has collected data from more than 15,000 U.S. businesses and found that while broadband accounts for approximately 20 percent of new jobs across all businesses, it is responsible for 30 percent of new jobs in small businesses.

Our most important initiative at NTIA to improve broadband capabilities for small businesses is the broadband grant program created by the Recovery Act. We have provided $4 billion in grants to 230 recipients to expand broadband availability and adoption in the United States. About 20 percent of our grant recipients, representing nearly 800 million in grant dollars, are small businesses. To date, all of our grantees have deployed or upgraded more than 57,000 miles of broadband infrastructure. They have connected more than 8,000 community anchor institutions to high speed broadband service. They have installed more than 33,000 workstations in public computer centers. They have provided more

than 7 million hours of technology training to approximately 2 million users. And they have funded more than 4,000 jobs in the second quarter of fiscal year 2012.

To give you an example of how a small business is serving its community through one of our grants, let me describe Show Me technologies in Missouri. Show Me is using nearly $27 million of Recovery Act funds to deploy 500 miles of new fiber, completing a 1,400 mile network across 30 counties in the south and central parts of the state. It is already providing new or upgraded service to 48 community anchor institutions in Missouri, such as schools, libraries, and courthouses. In Ohio, another small business, Com Net, is using its $30 million of Recovery Act funds to install about 700 miles of high capacity fiber in its network in 28 western counties of the state. And this project hopes to serve more than 800 community anchor institutions.

Our requirement of open access to Recovery Act funded networks is helping to prime the pump for additional investment by public and private entities, including many small businesses. Recipients have already entered into nearly 400 interconnection agreements with third-party providers, which will reduce their costs of bringing last mile service directly to homes and businesses. For example, the Massachusetts Broadband Institute has already signed agreements with several last mile providers, including Crocker Communications, a small women-owned telecommunications provider in Greenfield, Massachusetts. And the town of Leverett says it wants to invest $3.6 million in the last mile fiber-to-the-home network that will utilize the middle mile facilities funded by NTIA.

NTIA is also helping small businesses by expanding public computer centers, which provide training that can help individuals find jobs, create new businesses, and impact their local economies. For example, public computer centers in West Virginia and Missouri report that people are using their NTIA-funded centers to start and manage their own small businesses, and the job training provided by the California Emerging Technology Fund has helped over 1,000 people find jobs.

These examples are just a few of the small businesses that are benefitting from our broadband investments, and as we perform our mission to expand broadband access and adoption, we expect small businesses, the engine of our economy, to be a particular beneficiary of the innovation economy of the future and the new and better jobs it will create for all Americans.

So I thank you for the opportunity to testify before you today, and I look forward to your questions. Thank you.

Chairman GRAVES. Thank you very much, Mr. Strickling. And we will start with questions today, and I am going to lead off with Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman.

Last November, the FCC reported the 7th Broadband Progress Report and Order on Reconsideration that about 100 million Americans still do not have broadband in their homes. This is about a third of our population and it is extremely troubling, especially in light of the fact that the U.S. is now competing in a global economy.

In Colorado, the state legislature commissioned the state's first-ever broadband mapping project and concluded that while almost every household in metro Denver can subscribe to broadband service, in the 50 most rural counties, most of which happen to be in my district, broadband availability is less than 80 percent. In the same report, Custer County in my district had the lowest rate, 56 percent. This is unacceptable.

The Census Bureau has reported that from 1998 to 2009, online annual sales grew from $4.9 billion to $145 billion. In his testimony, Chairman Genachowski cited a study that pointed out that having a broadband connection makes $200,000 a year difference in meeting annual revenues for businesses. Unfortunately, in Colorado, many of the areas where unemployment is at the highest also have the least amount of broadband connectivity.

This is more than just a coincidence. We must now ensure that resources are made available outside of the suburban areas so that we can get this broadband access into rural American communities, thereby increasing opportunities for small businesses and to be able to create jobs.

Given some of the budgetary limitations that we have in order to accomplish this, I believe we must think outside the box. And to that end, Chairman, I would like to encourage you to enact guidelines that provide for private investments into expanding the rural broadband access, in conjunction with more efficiently using some of the taxpayer funds that we currently have through the FCC to better serve some of these broadband needs.

Chairman, thank you for being here. I would like to ask you a couple of questions in regards to actually being able to deliver service. In La Plata County and Montezuma County in my district they are known as orphan counties and part of the Albuquerque designated markets, which falls under the FCC. Because of their location and distance, we are not able to receive Colorado Television. Do you think it is important for residents of the state to also receive weather emergency and sporting programs from the same state that they reside in? And if so, would you pledge to be able to work with me today to be able to assist bringing these Colorado communities in their entirety into that spectrum?

Mr. GENACHOWSKI. Yes, first of all, thank you for the focus in your initial comments on both the important needs to address broadband deployment gaps and broadband adoption gaps. I agree with what you said. We are focused on it.

With respect to broadcast television, I think we saw recently in the weather situation that we had in this area that all forms of communications to consumers are incredibly important. In any disaster, some will go down; others will stay up. And so making sure that whether it is by TV, radio, the Internet, a mobile broadband, consumers are connected. Both for our economy and for public safety it is vitally important, and I look forward to working with you on the issue.

Mr. TIPTON. Great. I certainly appreciate that. And, you know, you did speak to public safety. Recent legislation was put in place and we had several test markets. In the state of Colorado we had in Adams County where they were putting in their own public safety broadband systems. And as you know, the FCC granted waivers

for these systems to use 700 megahertz spectrum. There now appears to be some question as to whether this early deployment of the public safety broadband networks will be allowed to be able to move forward. And I understand that NTIA has asked that you terminate these thinning waiver applications. Do you continue to believe the state and the FCC order granting public safety waivers that these projects serve as test beds and can provide valuable lessons as we work toward deploying this national network? And additionally, do you believe that the interoperability commitments made by the waiver guarantees can be leveraged to be able to ensure that these systems will be interoperable and integrated into the national network?

Mr. GENACHOWSKI. We are working closely with NTIA on these issues. Congress, of course, in its incentive option law also, to its credit, finally funded a national interoperable mobile broadband public safety network for first responders. It is a very important thing. It directed the creation of a single network and so now we are implementing that law. We are working closely with NTIA on the waiver situations to make sure that we support the goals of the legislation and get one network up and running, while also recognizing circumstances in particular areas. Of course, we are looking at the one that you mentioned to make sure that we act in an appropriate way, consistent with the public interests and consistent with the law.

Mr. TIPTON. Mr. Adelstein, real quickly, you mentioned the ARRA program and 3.5 billion in broadband loans, grants, and guarantees had gone out. Can you tell us how much of that actually went into rural America?

Mr. ADELSTEIN. Yes. Virtually all of it went into rural America. We have 2 billion under contract and the law permitted up to 75 percent to be rural, 25 percent nonrural, but virtually all of our projects were in rural areas.

Mr. TIPTON. Thank you, Mr. Chairman. I yield back.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Genachowski, the FCC has provided the U.S.F. waiver process for small carriers but many carriers believe the process is burdensome and too restrictive. Could you please walk us through the waiver process and the documents required of applicants and also have you taken the concerns of these providers? Did you consider them when you were considering how the waiver was designed?

Mr. GENACHOWSKI. Yes. And thank you for that question. It has been widely recognized for some time that the Universal Service Fund needed to be reformed from telephone to broadband, from inefficient to efficient. As we were doing those reforms we had three goals in mind. One was finally getting broadband to unserved areas. A second was being fiscally responsible and cognizant of the consumers and small businesses paying money into the fund. And the third is recognizing business realities on the ground. And we created the waiver process because we recognize that reform is challenging and that specific situations would come up. And of course, we are paying close attention to those waiver requests.

In general, what is required in the waiver request is the basic financial information that we would need, similar to what Administrator Adelstein said to evaluate a waiver request to make sure

that money is going where it should be going; that money is not being wasted. We have 8 waiver requests now. We are taking those very seriously, but we are also focusing on the consumers and small businesses paying into the fund.

Ms. VELÁZQUEZ. Did you hear those concerns from small carrier?

Mr. GENACHOWSKI. Yes.

Ms. VELÁZQUEZ. That were restricted?

Mr. GENACHOWSKI. The concerns are what led us to create the waiver process, and now we are working very closely with the carriers to make sure that we have a waiver process that is both efficient and least burdensome as possible. We are also making sure that we are protecting the money that is in the fund.

Ms. VELÁZQUEZ. Okay, I have to share with you that we have been contacted by a lot of those small carriers expressing concerns that the process is quite burdensome.

Mr. Adelstein, RUS generally will not award a loan to an entity to compete with an existing RUS borrower, mainly to protect that borrower and to protect their ability to repay the loan. So my question is, is it fair for RUS to subsidize a competitor to an existing provider?

Mr. ADELSTEIN. We do our best to focus on our funding where there is not an existing provider. As a matter of fact, Congress provided in the Farm Bill 2008 some very clear guidelines to limit any overlap. Occasionally, broadband does not follow neat lines and there are times when in order to have adequate revenues in order to repay a loan, a network will go through an area that may be partially covered, but that is in order to enable them to finance to those areas that do not have broadband, the more rural areas. Some providers will stop at the town line and will not make it out to rural areas and as they are building out their network with our loan they may include the town in order to make that work financially.

Ms. VELÁZQUEZ. You know, this is an issue that has been raised by the inspector general where it shows that almost 31 percent of the agency loans served to foster competition in some areas that are already being served.

Mr. ADELSTEIN. The inspector general report concerned statutory requirements from 2002. Actually, we have closed out all of the concerns that were raised by the IG. Under this administration we put the program on hiatus while we evaluated to ensure that it was going to the most rural parts of the country. During the pendency of the Recovery Act, we did not do any loans under it, and so far we have not done a number of loans, and none of them came under the IG's purview. So we have actually closed out that IG audit and have addressed each of the concerns that were raised by the IG back in 2005.

Ms. VELÁZQUEZ. Okay. Mr. Strickling and Mr. Adelstein, is it not only fair that before awarding any broadband loan or grant money, RUS and NTIA should provide a reasonable opportunity for existing providers to present data to demonstrate that in the areas already served?

Mr. STRICKLING. Absolutely. In the two rounds of funding that we did in 2009 and 2010, we provided carriers or anyone else exactly that opportunity.

Ms. VELÁZQUEZ. So you do that now?

Mr. STRICKLING. We have not given a grant since September 30, 2010. That was the deadline under the Recovery Act to make all grants.

Mr. ADELSTEIN. And we also gave all carriers the opportunity to publicly announce where they were providing service, if there was any overlap. We did not just take their word for it though. We sent our general field representatives and our field staff in to double check to make sure there was not broadband there.

Ms. VELÁZQUEZ. And this is the process for anyone?

Mr. ADELSTEIN. Yes. Yes, and going forward we have adopted that model for our broadband program that I talked about. We had a hiatus so that we have now the opportunity for individuals to contact us regarding any potential overlapping service areas.

Ms. VELÁZQUEZ. Mr. Genachowski, special access remains an issue important to small carriers. It is also one that the FCC hesitates—if I can describe it that plain—to take action on. So a March 2011 report found that special action pricing—if special access is provided, prices come down and it will stimulate the economy and create close to 100,000 jobs. Can you tell me why the FCC is not overhauling the rules governing special access?

Mr. GENACHOWSKI. Well, this is an important area.

Ms. VELÁZQUEZ. It is important. The process started in 2005 and still has not gone anywhere.

Mr. GENACHOWSKI. It has been going somewhere. We initiated a voluntary data request some time ago. That data is in. We are moving forward together with our colleagues now on the next level of understanding the situation and moving forward. What drives us is exactly what you said and I agree with it. For small businesses, where a lack of competition is leading to increased prices, that has real negative effects on our economy. The challenge is distinguishing between the areas where there is competition and the areas where there are not, and that is the work we need to do in terms of compiling data and then acting.

Ms. VELÁZQUEZ. And so in terms of the foreseeable future, when do you think you are going to be acting on special access?

Mr. GENACHOWSKI. We expect to take the next step in the next weeks. We are working hard at it and it is toward the top of our agenda.

Ms. VELÁZQUEZ. Special weeks?

Mr. GENACHOWSKI. Several weeks.

Ms. VELÁZQUEZ. Several weeks? Okay.

Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Landry.

Mr. LANDRY. Thank you, Mr. Chairman.

Chairman Genachowski, I am really concerned about the impact of USF reforms on small carriers. In making these reforms, is it possible that investments by some of these small carriers that were made in 2010 or before under the prior rules are not—that those investments that they made in 2010 or prior, could they be penalized for those investments today?

Mr. GENACHOWSKI. The challenge we have relates to the discussion topic before. Historically, the program we inherited did provide funding in areas where there were a number of different companies

receiving federal subsidies or provided subsidies to a company where there was an unsubsidized competitor. And it was an element of our reform to reduce that by phasing it out over time so that we could use that money.

Mr. LANDRY. So it is possible that some of the investments that they made under the prior rules, now that you changed the rules could affect their investment now?

Mr. GENACHOWSKI. It is possible.

Mr. LANDRY. Could it put them out of business?

Mr. GENACHOWSKI. I do not think so, and we are working with the carriers on this transition.

Mr. LANDRY. And like which way are you working with them?

Mr. GENACHOWSKI. We set up a waiver process that was mentioned before. We are being cognizant of business realities on the ground, and we are working very hard to get the balance right between being trustees of the public money that is being spent and recognizing the business realities on the ground.

Mr. LANDRY. Well, let me ask you this question. This waiver process that you spoke about earlier, what do you think it would cost a small carrier to go through the process?

Mr. GENACHOWSKI. I would not estimate—I could not estimate the cost. I would be happy to follow up with you.

Mr. LANDRY. I mean, $10, $20, $30? Or thousands of dollars? Or tens of thousands of dollars? Or hundreds of thousands of dollars?

Mr. GENACHOWSKI. I hesitate to make that recommendation. These are companies that——

Mr. LANDRY. Do you think it would cost in excess of $100,000?

Mr. GENACHOWSKI. I think it would cost a very small fraction of the millions of dollars of public money that they are receiving, and so making sure that we are insisting on accountability——

Mr. LANDRY. Have you designed this waiver process so it is simplistic and streamlined? I mean, do you know how many pages it consists of?

Mr. GENACHOWSKI. That is our goal. That is what we are trying to do. In many cases, the filings are large because they include preexisting documents, like financial reports and other information.

Mr. LANDRY. This is the waiver process, Mr. Chairman. I have a company in my district that has already spent over $124,000. They still have not been able to complete the process. They are telling me that if they do not get the waiver they are going out of business. That affects my rural residents down in south Louisiana, some of whom live on a very challenging part of our country out in coastal areas where communication is necessary, especially during hurricane season. I am trying to understand how sometimes this administration comes here and says, oh, we are for small businesses. Oh, we are doing everything we can to help them. Oh, I am telling you, it is going to be okay. Leave us with this warm and fuzzy feeling that it is being taken care of, but yet this does not look like a waiver process that is simple. And $124,000 is not chump change. I mean, can you not do—and this is going to affect these carriers today.

Mr. GENACHOWSKI. In my experience, most of the documents that are submitted to us are documents that have already been pre-

pared—financial reports, other things that we need to enforce fiscal responsibility and accountability.

Mr. LANDRY. Does the exemption—does the waiver process—is it a one-year exemption? A two-year exemption? I mean, it seems to me there is not a lot of clarification between the FCC and those small rural carriers. I have spoken to not just the one in my district but there is one up in Wyoming, I believe, and some in other parts of the country that are having a problem with this.

Mr. GENACHOWSKI. And I recognize this is important. We have received 8 waiver requests. In each case, the companies that are seeking waiver requests want federal subsidies equivalent to between $250 per month per customer to $1,300. And we do need to work with the companies to make sure that that level of spending can be justified.

Mr. LANDRY. It is my understanding that your model—you used a model in order to implement these reforms. Do you know what the accuracy of that model is?

Mr. GENACHOWSKI. We are committed to having it be accurate. That is why we have an ongoing——

Mr. LANDRY. But do you know what the accuracy of that model is? Because according to what—according to you all, the accuracy of that model is 62.34 percent. I did not make real good grades in school—I am going to tell you—I did a little better than 62 percent. And so my concern again is that you have put a model out there that basically would fail a student in high school. Okay? And then you created a waiver process that is unduly burdensome on these small carriers. Can you give us a commitment that you are all going to work with those small carriers to try to reduce the cost in the waiver process and ensure that those carriers continue to be able to provide services in rural areas?

Mr. GENACHOWSKI. Absolutely. Making sure that consumers do not lose existing service and that the 18 million unserved Americans get service is the fundamental purpose.

Mr. LANDRY. If they go out of business they will not get it.

Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman. I appreciate the panel for being here, pretty vast panel for Small Business Committee, and I appreciate everyone's testimony today.

I would like to thank all of you for your deployment of the American Recovery and Reinvestment Act. The money has made a huge difference in my district. In the rural parts of my district, a small town in Gervais was able to connect up the fire station and rural school thanks to the stimulus money, and I really appreciate—I have got one county that is trying to connect a lot of the public providers and in a thoughtful way drive down costs. Working through the tough things. Working with our local franchise potential provider, too, so it has made a huge difference in a lot of Americans' lives, keeping people alive, keeping people connected, and creating jobs. So I want to start with that.

And in 2003, it is my understanding—I was not here at the time—it was a pretty bipartisan FCC. It was able to develop a pretty hands-off, but thoughtful approach to fiber, very pro investment, pro deployment view of fiber and resulted almost four times

the amount of fiber being laid than was out there before. And I think it takes a while to connect. That middle mile and last mile is always going to be the tough issues, and I know you are struggling through in order to respond to the IG report of 2002. That is really welcomed news. So I appreciate all that.

I was curious, Mr. Chairman, if the FCC was going to have any new regulations coming down the road for fiber and you have been relatively hands-off but with thoughtful supervision, where do you see that changing? Or what are the next steps?

Mr. GENACHOWSKI. Ensuring that we preserve and indeed increase the incentives to invest in fiber, invest in mobile, invest in advanced communications infrastructure is a central priority of ours. Over the last few years that has been successful. Investment, both in networks and in applications and services, is up, and so the light touch approach is something that we are committed to as we also look at competition issues that exist that the ranking member mentioned and make sure that small businesses are not harmed in areas where there is a lack of competition.

Mr. SCHRADER. To follow up on that, I guess from each of the panelists here, ways to avoid interagency conflicts. I mean, where does NTIA stop? The RUS begin? Cable telephone back in my district begin? I mean, how are you working through those potential conflicts at this stage to encourage private enterprise?

Mr. STRICKLING. So in our case it relates to the grants that we issued back in 2009 and 2010, and, including one in your district, Clackamas County I know is one that I think you referred to a minute ago. And so throughout the grant-giving part of the program we were pretty much joined at the hip with USDA. In fact, the first round of applications were reviewed jointly by both agencies and we agreed to fund some and RUS took some to fund. Since then, in round two, we went our separate ways, but in that situation we focused on funding middle mile applications; RUS focused more on the last mile applications, again, as a way to make sure that we were not, in effect, duplicating our efforts on the same types of projects. Since then, there have been instances where an RUS recipient and a BTOP recipient, have been building in the same areas, and we have had a couple—I am not sure of the exact number—but there have been some incidents where there have been some questions raised as to whether or not we were getting into an area of duplication. In every one of those cases we have sat down with the parties and with RUS and have worked out those issues. And I am confident that if any of those appear in the future we will do the same.

Mr. ADELSTEIN. We do coordinate very closely. I think all three of us have a responsibility in different areas for getting broadband built out, including fiber. Ninety-two percent of what we do is fiber build, and we are thrilled to have done over $13 million in your district on the Recovery Act. It really was in urgent need of broadband in many places through Monroe, Cascade, Gervais, City of Sandy. We are happy to be your partners on that.

Larry and I talk all the time as we coordinate. We were just talking in the hall a few minutes ago, as a matter of fact, about one of the projects, and whenever we need to we see each other online. With the FCC, we regularly discuss issues that come up so long as

they are within the scope of what the administration can do vis-à-vis an independent agency. We have a great relationship with the FCC and we have been their partners long before our tenure in building out broadband in rural America. Universal service enables our loans to be repaid and enables those builds that otherwise would not be possible.

Mr. SCHRADER. Thank you. Thank you very much.

Well, just a quick comment, a short answer if it is at all possible, even though the lines are there, there are some small businesses in some of the rural communities as we have heard from the ranking member and some of the others on the panel that are not able to access or do not access. What are the barriers to those small businesses and individuals?

Mr. ADELSTEIN. Well, the biggest barriers—one of the biggest barriers is access to actual broadband networks. We find it is very expensive in certain rural areas to do that. Without support it is not possible.

Mr. SCHRADER. They have the access is my point, but they are not hooking up. Why are they not hooking up?

Mr. GENACHOWSKI. I would be happy to field that. We found a number of different reasons that work together. In some cases it is cost, too expensive, and that is why we did this Connect to Compete program to find a low cost tier where that is an issue. In some cases it is digital literacy. Not everyone knows how to use a computer, upload information, so we need to address that. In some cases it is a lack of appreciation of the benefits. Oh, you mean my small business can actually reach customers around the country if I do that? And so we have adopted measures on that. And in some cases it is trust, which is why the security and privacy issues are important because that keeps some people away.

Mr. SCHRADER. Thank you. And I yield back.

Chairman GRAVES. Mr. West.

Mr. WEST. Thank you, Mr. Chairman, and ranking member. And thanks to the panel for being here.

I want to go back to the regression analysis model for capping the USF support because on the 25th of April, an implementation order that was sent out, it was acknowledged that there were some errors still with that model. So my first question is does it concern you that we have implemented a model that we know has some errors as far as the cost, you know, capping recovery methods?

Mr. GENACHOWSKI. That is a good question. We used the best available data, and sometimes that data is not perfect. In areas where errors are brought to attention, we act quickly. And so there were two instances where companies said, "Hey, wait a minute. This is wrong." And we fixed that within two weeks. We understand that this does require cooperation from the companies to do that. But I also worry about the other side—the small businesses and customers paying into the fund, the public money that is being used. These are very important questions. It is our responsibility to get this balance right and insist on accountability without driving businesses crazy.

Mr. WEST. And that is what I talked—I talked to Jeff Leslie, who is the president and CEO of Indiantown Telecommunications down in Martin County, and he is very concerned about what you just

talked about; is, you know, how do they make sure that they are operating with the best possible model out there? Are we working toward eliminating more of these errors? Because obviously they are somewhat behind on the eight ball and we do not want to see all of a sudden businesses that are, you know, chasing this moving target because we really have not solidified the errors in this model.

Mr. GENACHOWSKI. Yes, it is important to us. We are working with the industries, with the principles that I laid out.

Mr. WEST. Okay. The other concern that Jeff gave to me is that it seems that the caps change every year. Is that correct?

Mr. GENACHOWSKI. Well, we have —

Mr. WEST. Yes or no?

Mr. GENACHOWSKI. Not every year. We put the benchmarks in place. They are settled until 2014 and we are working to determine the best method for the future to provide certainty and predictability while protecting —

Mr. WEST. That is a key word—certainty and predictability. I think that is a big thing that we are not providing to anyone out there in the private sector. So, you know, when you are a small business owner, I mean, you need to have a method by which you can come up with your business plan. So is it troubling for you and also Mr. Adelstein? We are not providing that certainty and predictability out there for them to know these caps year to year so they can plan out properly?

Mr. GENACHOWSKI. Respectfully, I'll make two points. One is, as the administrator mentioned, for years it was widely though that reform was necessary. It did not happen, and there was a shadow, a cloud of uncertainty and unpredictability, much of which we have eliminated by moving forward with reform. There is more work to do. There are people who argue that these programs should be eliminated completely, that the simplest way to have predictability and certainty is not to have the government in this business of helping private companies roll out broadband to rural America. I disagree with that, but it does raise these challenges of how to do this in an efficient, market-oriented way that gets the money out to companies in areas that need it while protecting the companies and the people who are putting money into the program.

Mr. WEST. Do you feel confident with your lending practices when you look at this, you know, uncertainty out there, Mr. Adelstein, as far as, you know, the errors that are in this model and also the year-by-year? Does that provide you some sense of comfort?

Mr. ADELSTEIN. Well, certainty is essential for a lender. I mean, we are basically a financial institution, so we do fairly long-term loans. These projects are very capital intensive, and as a result we have long amortization periods, up to 20 years. We will give a loan for the life of it to enable a small business to do a large capital build. In order to do long-term loans, in planning we do need visibility going forward as far into the future as we possibly can as any private lender would.

Mr. WEST. And that brings me back to doing a hearing on May 9th at the Senate Financial Services Appropriation Subcommittee. Mr. Genachowski, you stated that Congress may have to provide a

capital infusion to help the rural utilities cover losses that may be incurred when borrowers default on RUS loans due to the impact of your USF and ICC reforms. I mean, are we talking about a bailout here?

Mr. GENACHOWSKI. No, no, not at all. In our broadband plan several years ago we suggested that one way to accelerate the transition to broadband would be a one-time capital infusion from Congress. Congress elected not to act and I completely understand the fiscal responsibility pressures.

Mr. WEST. Yeah, we are broke.

Mr. GENACHOWSKI. Totally understand. The funding for broadband that we are providing to unserved communities in your state and in all the states here is coming from the program itself. So for the first time we put this program on a budget. We did it on a bipartisan basis. It does create challenging implementation issues as we honor fiscal responsibility, and I think all these questions are perfectly appropriate. We are working hard to address them. If money grew on trees it would be a lot easier. We are wrestling with the reality of the fact that it does not.

Mr. WEST. I would be a tree farmer.

Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. Mr. Cicillini.

Mr. CICILLINE. Thank you, Mr. Chairman. And thank you distinguished members of the panel for being here today.

Chairman Genachowski, the FCC has highlighted the importance of fiber technologies and has stated on several different occasions that fiber technology offers substantially more capacity than copper-based technologies. And according to a 2011 study by Pando Networks as reported in The New York Times, Rhode Island, my home state, is the state with the fastest average Internet speed in the country and broadband is available to 97 percent of Rhode Island residents. So part of the reason that my Rhode Island constituents have access to fast, very high quality Internet is due to the fiber optic network that spans our whole state, and there has been obviously an explosion of the fiber deployment and the number of fiber providers. And I am wondering whether you can talk a little bit about whether or not the FCC's hands-off framework has really helped to incentivize this deployment and investment across the country or has it presented a challenge in any particular way?

Mr. GENACHOWSKI. I think the light touch approach has been very helpful in triggering the investment that you mentioned, which is very important. Competition does that as well. Companies invest when they know they have to approve their product and their speeds and capacity. And we are charged by Congress to make sure that these markets remain competitive, but our approach is very consistent with the one you laid out, which is let the market and let competition drive investment we recognize that this is a global issue. All the topics we are discussing relate to our global competitiveness.

Mr. CICILLINE. Thank you. And Assistant Secretary Strickling, thank you for being here as well. I have a grantee in my district that benefitted from the Recovery Act broadband grants, the Ocean State Higher Education Economic Development and Administrative

Network, OSHEAN, and it is using $21.7 million in the American Recovery and Reinvestment broadband funds administered by NTIA to build a fiber optic network that will span out over 350 miles in length. And this obviously has huge value and benefits in the creation of the network, but I wondered if you would talk a little bit about what you see as the long term positive impact in communities of this kind of investment, which is maybe not immediately apparent to everybody when we make these announcements.

Mr. STRICKLING. Sure. So our philosophy in making that grant and it is a good example of what we call the comprehensive community type of grant that we made in primarily our second round of funding in 2010, where we focused on middle mile build out. We expressly did not look to fund the mass market last mile provision of services but instead focused it on getting the fiber built from the Internet exchange points into communities where then private enterprise could step in and build out and serve the homes and businesses in those communities. It was part of the project in Rhode Island because of the high speed demands of educational institutions we are also connecting a number of those anchor institutions directly off of the project that is being built in Rhode Island.

In terms of how we see this playing out, and I mentioned this in my opening remarks, we really think this is priming the pump for private investment in the sense that the government has provided funding to build the middle mile. It has open network requirements so that any provider, whether it is a large incumbent or a small new entrant, can get access to that capacity to offer their own services. And so if we have a wireless Internet service provider that wants to put up a tower and serve a community, they can do it very cheaply, very effectively, because one of the major barriers to entry of a company like that is getting the transport back to an Internet exchange point, and our projects provide that.

So we are already seeing that. As I mentioned, I think over 400 interconnection agreements have been signed already across the country with our projects and every one of those gives an opportunity to private business to step up, take advantage of this investment, and use it to provide services on their own within their community. So we see this, you know, multiplying over time as other companies are able to take advantage of this investment.

Mr. CICILLINE. That is precisely what happened in Rhode Island, was this public investment led to a great public-private partnership and a substantial leverage of that investment which I think is helping in other places around the country.

Thank you, and I yield back, Mr. Chairman.

Chairman GRAVES. Ms. Ellmers.

Ms. ELLMERS. Thank you, Mr. Chairman. And thank you to our panel for being here today.

Mr. Genachowski, my questions are for you. We had a Small Business, Health and Technology Subcommittee—I chair that committee—back in February in regard to this issue because of the importance of trying to provide the broadband for small businesses in the rural areas. I am hearing consistently from my constituents back in North Carolina, they have many concerns on the Universal Service Fund and how that plan went forward. Can you explain to

us—I know we have already touched on a lot of the small carriers and small businesses—can you again extend a little bit more on how much input you received from some of the small rural carriers on putting together that plan?

Mr. GENACHOWSKI. Yes. We ran a multi-month open process which consisted not only of asking for written comments from all stakeholders, but workshops, including workshops all over the country, in Nebraska and other states, where we went out and talked directly to carriers and consumers and small businesses. So it is a very important part of our process, and we continue that effort to make sure that we get full input from all stakeholders.

Ms. ELLMERS. So when you say full input from all stakeholders, are there instances where the agency treats different companies differently based on size? Have some companies been given more of a lengthy transition period? What kind of transition period have you provided? And I know you mentioned a few moments ago, you know, that you based these on your principles. Can you give us just a little bit of an outline of the principles that you are following when doing so?

Mr. GENACHOWSKI. Sure. The three core principles behind our reforms are, one, finally getting broadband to the 18 million Americans who live in areas that do not have it. Many of those people are not represented effectively because they are not on broadband, but if we can get broadband to those people we will spur our economy, help save small communities in rural areas around the country who without broadband, as you know, really have a challenge. That's number one. Number two, fiscal responsibility. Making sure that we do not grow the overall size of the fund as we do it.

And then third, being cognizant of business realities.

And so I think everyone would agree that where the fund is supporting, subsidizing one company and there is an unsubsidized competitor, we need to do something about that. Now, of course, that is hard for that company and so we have an obligation to say, well, what is the transition? How do we do it in a fair way? But indefinitely, spending that money in a way that we cannot defend and not spending it in areas in North Carolina and other states where there are unserved people and small businesses, that does not make sense. So those are the principles that we follow.

Ms. ELLMERS. My next question really has more to do with regulation, that by far being the biggest issue that my telecom providers and small—and the like are faced with and, you know, with what we have seen the explosion of business, you know, with entrepreneurs and the Internet, you know, at this point I know there is consideration for significant regulation. Why at this point when we have seen such growth, such job creation in this area of the economy, why would we be wanting to stifle that with regulation?

Mr. GENACHOWSKI. Well, of course, we would not. And in fact, consistent with the question we got before, the light touch approach is the one we are committed to. Across the broadband sector, investment is up. Innovation is up. Job creation up. So the story is a good one. We do have situations in the USF area like the one you mentioned. It is a challenge when a company says give us public money but do not have any rules around accountability. That is not acceptable. If a company is going to ask for public

money, it does have to make sure that the system is accountable and that they are spending it wisely. But in general, your philosophy is one that I think is on target.

Ms. ELLMERS. Okay, well, thank you very much. I yield back the remainder of my time.

Chairman GRAVES. Next, Ms. Chu. And I apologize for taking you out of order.

Ms. CHU. Well, this question is for both Commissioner Genachowski and Secretary Strickling.

There has been a great deal of discussion about how we address the current spectrum crunch as the demand for wireless services continues to grow each year. Recently, a May 2012 Cisco report found that wireless will account for 61 percent of global Internet traffic by 2006 up from 45 percent in 2011—in 2016 that is. Someone suggested that spectrum clearing should be the more preferable means for demand while others think that spectrum sharing is a more realistic approach given the high cost in time needed to clear federal agency users. What are your thoughts on this debate and what would create more opportunities for small business?

Mr. STRICKLING. We obviously manage the government use of spectrum; the FCC handles the commercial use. And we, since 2010, with the president's executive memorandum directing us to work with the FCC to find 500 megahertz of additional spectrum to make available for commercial broadband uses, we have been doing a very exhaustive study of government spectrum. Early on, we found about 115 megahertz of spectrum that we thought largely could be cleared and made available, and that was passed on to the FCC and they are working on that spectrum right now.

Most recently, a few months ago, we issued a report on the last real piece of beachfront property in terms of government spectrum that the commercial industry would like to use. It is the 1755 to 1850 band, 95 megahertz of very important spectrum. What we found was because of the increased number of missions that government agencies are performing these days using wireless technologies, we have in that band over 30 separate agencies with over 3,000 separate allocations of spectrum. And we looked at the question of what would be involved in clearing them out entirely, which requires, of course, finding other spectrum to move them into which is a challenge in and of itself. But also involves a tremendous amount of cost and a tremendous amount of time. And what we found in our reviews that were released a few months ago was that to do it the traditional way of clearing all of that band of all of the existing services, it would take over 10 years and it would cost probably about $18 billion. We felt in our role as stewards of this spectrum that that was too much money and it was too long. And plus, as I said, this is the last remaining bit of beachfront property, and we know that the spectrum needs of this nation go far beyond just another 95 megahertz that we might be able to put on the table out of this particular band.

So out of that report we have recommended, and we have already put in process, a mechanism to evaluate are there federal systems that can stay in place in this band and still allow commercial providers to come in and enter the band. We are going system by system, agency by agency, in a work effort that we expect will con-

clude by January. And what will come out of that will be a mix. There will certainly be services that we know we can move without a lot of difficulty and move the existing service into a spectrum band that probably would not be in question by the commercial industry in any near term. And by this I am talking about point-to-point microwave services.

On the other hand, we have some very large scale Department of Defense systems that are very difficult to move but are also operating intermittently. And the question would be, well, rather than spending the $5 billion to move the air combat training system, is there a way industry can operate in and around that system so we leave the system in place and allow commercial entry? That is what we are trying to focus on in a very engaged dialogue between industry and the agency. So these working groups we have meeting involve both agencies, as well as private industry, to try to see if we can find an accommodation. Long term, I have to tell you that sharing has got to be the path on which we go if we are going to meet the kinds of demands that are being bandied about by companies and by the press as we see this continued explosion of demand for spectrum. We have to find a way to do this.

Mr. GENACHOWSKI. I would just add briefly a few points. One, the premise of your question that we have a spectrum crunch that needs to be addressed for innovation in small businesses is completely correct and we both agree on that. And I agree with Larry's remarks. The reason we have it is something that we should be proud of. The U.S. is now leading the world in mobile. We are the first country in the world to get to scale at 4G, the next generation of wireless infrastructure. On the innovation side, we are booming. The number of smartphones around the world that have American operating systems in the last three years has gone from under 20 percent to 80 percent, and around the world people are using American apps.

So the spectrum crunch is being driven by huge increases in demand. In some respects it is the kind of problem we want to have because more demand is better than less. But it does raise these issues that the Assistant Secretary addressed. I think that we will need both of the solutions that you mentioned, clearing and sharing. It is not an either or. I agree with Administrator Strickling that there are enormous opportunities around sharing that are good for our commercial sector. Also good for federal users as it can be part of a strategy to reduce the gap between the cost and functionality of military communications equipment and commercial equipment. So I share the Administrator's view and the Assistant Secretary's view that this could be a win-win for everyone, but we also need to look at the clearing approach as well.

Ms. CHU. So the bottom line is, we are not going to wait for 10 years before we operate on this?

Mr. GENACHOWSKI. Absolutely not.

Ms. CHU. Okay. Thank you. I yield back.

Chairman GRAVES. Ms. Herrera Beutler.

Ms. HERRERA BEUTLER. Thank you, Mr. Chairman. And I am going to follow up on some questions, comments that Mr. West made about the regression analysis. And this is both for Mr. Adelstein and Mr. Genachowski. Am I saying it right? I apologize.

And I have to belabor this because I think folks in my district—I think of Dale Merten, who is the COO of Toledo Telephone, and some of the challenges they are facing with regard to certainty on the regression analysis.

So Mr. Adelstein is sitting right—a couple seats down from you, Mr. Genachowski. How would you advise him and other lender companies in this—who are in this space about how to forecast the risk of long-term loans in the face of caps that change almost annually and ways that really have not been made clear? And that is kind of the guts of that 650 signatory letter that went to you last week.

Mr. GENACHOWSKI. And I would say it is to continue to work with us, and we are working together to increase certainty and predictability so we can get broadband to unserved areas, ensure continued service in existing areas, and honor fiscal responsibility. And importantly, preserve the program. This is a program that some would eliminate. And for some people it is hard to understand why public money would be used to support private companies.

Ms. HERRERA BEUTLER. And let me jump in on that because I think you are right. In terms of mission, yeah, we all want to get there. It is how we do it and making sure we do no harm in the process. I am talking about small telephone companies who are doing this currently or who have received USDA loans to put infrastructure in who now are saying we will not be able to survive. And it is not profitable. No one is going to cover this area, right? And that is what we are talking about. Who is going to cover those areas that are unsearchable?

I guess I would also, ask to Mr. Adelstein, are you comfortable sitting here today that you know how to project the FCC's caps? How the FCC's caps may change each year? And if not, Mr. Genachowski, are you going to make sure that Mr. Adelstein has that capability ASAP? So I guess it is a two-parter.

Mr. ADELSTEIN. Well, as I mentioned to Mr. West, we do long-term analysis in terms of the revenues in order to justify a loan. Generally, we do a five-year analysis so we need to take into account what the regression impacts would be. We do have visibility in 2014 but not beyond. I think it is helpful for borrowers to have some kind of a stop-loss consistent with the no flash approach the chairman has talked about. He has already made a change in the regression analysis to phase it in more slowly. I think some type of way of making sure that we knew going forward what those changes might be so that we could loan into them would give us additional visibility.

Ms. HERRERA BEUTLER. So you are saying you are comfortable then projecting out, even if these accounts are changing year to year, you are comfortable with that?

Mr. ADELSTEIN. Well, we are working with the FCC on it now.

Ms. HERRERA BEUTLER. So you are not quite there yet?

Mr. ADELSTEIN. Well, we are still in the process of figuring out exactly what the long-term revenues would be in order to make a loan. I mean, we are going through a number of loan packages right now that were pending when the FCC order came out, and we asked those borrowers, those potential borrowers to resubmit

their loan materials based on what the FCC order was. So we are working through those now.

Ms. HERRERA BEUTLER. It is interesting you say that because the more I think about it, it was not a grant; it was a loan that this company got. And they are considering not cashing the check in all honesty because here on one hand they are being told go for it. Let us do it. Here is the build out. On the other hand, they are looking at this new proposal saying do you want us to just go bankrupt on this loan? I mean, how are we supposed to manage?

Mr. ADELSTEIN. We have 36 million in loans we have done in your district alone since I have become administrator, and it is I think an enormous amount to build out broadband to every corner of your district, and that is what our mutual goal is. So we are working with the FCC to make sure that we can continue to build out those projects consistent with the fiscal responsibility that the chairman talked about.

Ms. HERRERA BEUTLER. Thank you. And I yield back.

Chairman GRAVES. Mr. Richmond.

Mr. RICHMOND. Thank you, Mr. Chairman and ranking member, and the distinguished panel.

Mr. Strickling, I will start with you and maybe you can help me with something, especially as my friend and colleague from Louisiana raised issues about his rural district and the lack of broadband access and how it affects education and small businesses and the rural areas. Our governor returned $80 million to the federal government that would have provided over 900 miles of cable and linked our universities, and I think the question was whether that would compete with private companies. And I would like to get your opinion on that and anyone who would offer an opinion on how we are potentially competing with private businesses.

Mr. STRICKLING. Yes. So the grant you are referring to in Louisiana was a grant that we felt was a very important one that we awarded at the time we did it based on the showing that was made to us of the lack of broadband facilities in vast parts of Louisiana. The grant applicant, which was the Board of Regents of Louisiana State University, made a very compelling case that this would add infrastructure and connections to schools and libraries and anchor institutions in parts of the state where we understood they had only received dial-up, you know, regular telephone service in recent years. So the showing of need was demonstrably there. There was no question about it.

What happened with the project was that after the grant was awarded the state chose to try to change the project in a way that was not going to deliver the benefits on which we had decided to award the grant. And as a result of that we felt the grant had to be terminated at that point in time. So it is not something we are happy about. We would have liked to have seen the project proceed as it had been proposed to us and submitted to us, but that was the choice of the state not to do it that way.

Mr. RICHMOND. In your recollection—in the Board of Regents application, did they give an impact on how many people it would actually increase or provide first-time access to broadband or the impact to the state? And I will tell you as a former legislator and con-

gressman, the entire legislature, Public Service Commission and people in the state were very alarmed about the application and the fact that the governor wanted to change the scope of the application. But do you remember the impact of the numbers on what it would do for Louisiana?

Mr. STRICKLING. I do not recall, but that is an absolute pivotal showing that has to be made in the applications, the showing of need. And there was no question that the state of Louisiana needed this investment and would have benefitted from it. Again, as I mentioned earlier, our projects tend to focus on middle mile and then we depend on private industry to build out the last mile facilities. But again, this would have put a tremendous amount of middle mile infrastructure into very remote parts of Louisiana where there then would have been an opportunity for private industry to build off of that and offer service. I believe the potential affected population was quite large. It was quite a large part of the state that was affected by this project.

Mr. RICHMOND. Oh, I thought you wanted to add something.

Mr. GENACHOWSKI. No.

Mr. RICHMOND. I will not stay on it too long but I absolutely agree with you. I think it was absolutely critical and gave us great opportunity in a state that ranks at the bottom in education, the bottom in access to health care, and a bunch of other areas where access to broadband would certainly help us. To return $80 million to the federal government when you have a state like that troubles us considerably.

Let me move on to a different question and anyone who wants to answer this one can. But how do you envision women-owned and minority-owned businesses participating in the build out of the broadband infrastructure in rural areas?

Mr. ADELSTEIN. We think it is very important. We did a number of outreach efforts before the applications were open so we ensured that folks were aware of many diverse backgrounds of the opportunity to apply and we continue to work with them. We really believe it is important that the kind of companies that are taking advantage of these programs reflect the diversity of the United States and we have been fairly successful. We have been able to get to a lot of remote parts of the country. We are serving 125 persistent poverty counties, which is a large portion of them in the country, and we have been able to get to school children, a million school children that are in areas that have school lunch assistance. So we really have targeted those areas I think that are hardest to reach. And we hope that those who build out our networks as well also reflect that diversity.

Mr. RICHMOND. I see my time has expired. Mr. Chairman, thank you. And I yield back.

Chairman GRAVES. Mr. Wells.

Mr. WELLS. Thank you, Mr. Chairman.

Chairman Genachowski, welcome. I am sure you have discussed darn near everything I was going to ask you but let me just highlight a couple things.

This impressive fiber explosion that we have been discussing would not be available without investment from small businesses. The private sector has invested billions to upgrade the networks

and we obviously still have a long way to go particularly in our rural areas. For the past decade, the FCC's commitment not to regulate fiber services has yielded real results. Following up on the earlier questions, do you plan on regulating fiber optic technology or hybrid technology?

Mr. GENACHOWSKI. No, we do not plan on changing our approach in this area.

Mr. WELLS. Okay. So it is safe to assume that this less obtrusive approach on fiber does send the right message to the private sector to keep doing what they are doing?

Mr. GENACHOWSKI. Yes. And in fact, in the last three years, investment in infrastructure, wired and wireless in the U.S. and fiber, which supports both wired and wireless, is up very significantly even in a troubling economy. So the approach is working.

Mr. WELLS. Great. Thank you.

Chairman Adelstein, the Farm Bill broadband loan program's new interim final rules that were released last March in 2011 still allow loans to be made in areas that are 100 percent served. Why right now, especially in this environment, are we spending money in areas that already have broadband when Congress has repeatedly instructed you to focus on communities that lack broadband?

Mr. ADELSTEIN. We absolutely focus on communities that lack broadband. Congress, in the Farm Bill, directed us to implement new metrics to limit eligibility to areas that have three or fewer broadband providers. So Congress in the act recognized that there might be some broadband there but they wanted to bring the broadband up to a higher standard. As you indicated in your fiber question, of course, fiber is key, and we want to make sure that the level of quality of service that is going to rural areas is very high, but also giving highest priority to projects in areas with no broadband at all. We did that in the regulation but we also have to make sure that the projects are financially feasible. In order to do that I think it is difficult to do that with no broadband there, but it is also difficult for a project to demonstrate financial feasibility if there is already broadband availability there. So naturally, our program does militate towards places that have less service. If it is already well served, we are not going to do a loan there because there will not be a business case to repay it. And that is how we have kept our default rates very low.

Mr. WELLS. In your estimation, does the program require overbuilding in certain areas?

Mr. ADELSTEIN. It does not require it. It does——

Mr. WELLS. Does it lead to it? Has it led to it?

Mr. ADELSTEIN. Well, it permits some overlap because, again, broadband does not always follow neat lines. In order to build a business case it does not always make sense. Just go there. That is the most remote, difficult to serve, absolutely nobody has been there because there is no revenue. It would be enormously expensive, and there are not enough customers there to be able to pay that freight. So what networks tend to do is they build over a broader network and sometimes there will be broadband in parts of that network that enables it to build out to the rural areas, the most remote areas by having essentially a broader network in

which to recover the expensive costs that were incurred in building out the network.

Mr. WELLS. Are there more efficient ways to target funding at the areas in most need?

Mr. ADELSTEIN. Well, the most efficient way is grant funding frankly, but that is very difficult to come by given the fiscal situation we find ourselves in. During the Recovery Act, we did have substantial grant money. I think we were able to get to places that otherwise would not be gotten to and create jobs in the process. But at this point I think that Congress is considering whether to expand grant programs and the Farm Bill is being debated. And there is a difficulty, as you know, in getting real budget authority to do that in a significant way.

Mr. WELLS. Thank you. Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Critz.

Mr. CRITZ. Thank you, Mr. Chairman. Thanks to our witnesses for being here. I think it looks like I am last in line so I am going to throw you some softballs here. You can let me know if that is true.

Chairman Genachowski, the Universal Service Fund was originally designed to ensure telecom services for all Americans—and I represent a very rural district—including those rural and high cost areas at reasonable rates. So how does phasing the high cost program into the Connect America Fund and the Mobility Fund advance the objectives of the Universal Service Fund?

Mr. GENACHOWSKI. It is right at the core of updating the Universal Service Fund for the 21st century, moving from telephone to broadband, and then making sure that about 18 million Americans who live in areas without broadband infrastructure finally get access to broadband.

Mr. CRITZ. And this is for you, again, Chairman, and Mr. Adelstein. Rural carriers have complained that the FCC's USF award will cause them to default on RUS—and I think you said something about this earlier, Mr. Adelstein—to default on RUS loans and impact their investments. Are you aware of this? And am I wrong in this statement?

Mr. ADELSTEIN. We are aware that a number of our borrowers have come to us and indicated that they could be put in default situation. Some have applied for waivers and have indicated in their public filings that if they did not receive the waiver they would default. So we have heard those concerns raised.

Mr. CRITZ. What is the solution? The waiver?

Mr. ADELSTEIN. Well, the waiver is certainly something that we had requested of and the chairman included in a certain version in his order, so that is certainly the way that we are working with the FCC on these cases to prevent those kind of defaults so that we can protect the taxpayer funding at the same time that we are, as he indicated, reforming the program and moving it into a new direction.

Mr. CRITZ. Well, speaking of the waiver process, reforms to the universal service high cost program, the FCC contends there is a simple $8,000 fee. Now, some of my small carriers argue that besides the fee, extra costs are incurred in order to compile the data. And actually, the cost could range upwards of $300,000. Is that

true? I mean, is this something that is going to put these small carriers at a real disadvantage?

Mr. GENACHOWSKI. Well, we are committed to making sure that our waiver process is as streamlined as it possibly can be. When we are talking about annual funding in the millions and millions of dollars, we do have an obligation to make sure that the waivers are appropriate and that working with the carriers to make sure we have the information we need is very important.

Mr. CRITZ. Okay. As I stated earlier, I represent a rural district and obviously there is a lot of discussion going on now about Verizon Wireless and the talks with Comcast, Time Warner and all that. My concern always is making sure that rural America is not left behind and that they are given access and there is some ongoing concern on this discussion. Can you comment on how the discussions are going with this marketing agreement, or whatever it is, and how it impacts what we are talking about here?

Mr. GENACHOWSKI. Respectfully, I cannot because talking about a specific pending transaction is something that I cannot do, but at the higher level I will tell you that certainly we run an open process and the concerns that have been raised are ones we are taking very seriously.

Mr. CRITZ. So are you saying that as things move forward there is going to be a chance for public comment, public review of the agreements that are taking place?

Mr. GENACHOWSKI. That is happening right now.

Mr. CRITZ. Okay, wonderfully. Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. With that, I want to thank all of our witnesses for being here today. This Committee is going to be closely following the actions of obviously the program and when it comes to expanding broadband to small businesses. And I look forward to working with my colleagues to ensure that their policies do not obstruct the private sector investment and broadband infrastructure. Obviously, this is usually an adverse impact on small businesses and their ability to grow.

So with that, again, I want to thank all of our witnesses for being here very much, taking time out of your schedule. And I would ask unanimous consent that all the members have five legislative days to submit statements and supporting materials for the record. Without objection that is so ordered. And with that, this hearing is adjourned.

[Whereupon, at 3:11 p.m., the Committee was adjourned.]

Statement of Chairman Julius Genachowski
Federal Communications Commission

Hearing on "Digital Divide: Expanding Broadband Access to Small Businesses"
U.S. House of Representatives
Committee on Small Business
July 18, 2012

Chairman Graves, Ranking Member Velazquez, members of the Committee, thank you for the opportunity to be here today. I'm pleased to join NTIA Administrator Strickling and RUS Administrator Adelstein on this panel.

This is my first time testifying before this Committee. I look forward to discussing how the FCC has been working on expanding broadband access to small businesses and ensuring that small businesses have the information and tools they need to harness the opportunities of this transformative technology.

My primary focus as FCC Chairman has been promoting innovation, investment, competition, and consumers in the Information and Communications Technology sector. We've focused the agency on maximizing the benefits of broadband communications, and on helping harness wired and wireless broadband to grow our economy, enhance U.S. competitiveness, and create jobs, as well as advancing important goals like improved education, health care, and public safety.

A key piece of our strategy has been empowering small businesses. As this Committee well knows, American small businesses are key drivers of economic growth and job creation. Small businesses employ more than half of all private sector workers, and they have generated about two-thirds of net new jobs over the past fifteen years. And, small businesses drive innovation. Small firms produce 13 times more patents per employee than large ones.

Broadband and information technology are increasingly important to the future of small business. Broadband connectivity and online business tools enable small businesses to grow and jobs to be created anywhere, in urban markets and small rural towns. Broadband allows small businesses to market their products and reach customers in the next neighborhood, the next city, the next state, and even overseas, increasing their revenue.

And broadband allows small businesses to lower their costs through cloud-based services. Increased revenue. Lower costs. More profits. More jobs.

Cloud-based services have been adopted by over 40% of small businesses, according to one analyst, a significant increase over three years ago. And one study found that having a broadband connection makes a $200,000 a year difference in median annual revenues for businesses, by helping them reach new markets and increasing productivity.

Over the past three years, the Commission has taken a number of actions to help more small businesses seize the opportunities of broadband. Let's start with universal service reform. Nearly 18 million Americans – including many small business owners – live in areas where they can't get broadband.

But the Universal Service Fund we inherited was not moving the needle on that gap. It was optimized for telephone service, not broadband. It had become inefficient and even wasteful, sending money, for example, to multiple providers in one community, and none to other communities. It paid large guaranteed returns to some carriers, over 11%, and it did not have adequate accountability, allowing recipients to control their own funding spigot.

I'm proud that last December the FCC unanimously approved a once-in-a-generation overhaul of the Universal Service Fund – transforming this 20th century program that supported phone service into a 21st century, fiscally responsible Connect America Fund that supports broadband. These reforms put us on a path to connect all unserved Americans and small businesses by 2020. Just last week, one provider, Frontier, announced that it will be deploying broadband to approximately 200,000 unserved Americans as part of our reforms.

Our reforms will also help ensure that consumers – including small businesses – paying into the fund get a fair bang for their buck. FCC staff estimates that roughly a quarter of all universal service contributions are paid by small businesses – over $2 billion per year. That's one reason we've set out to eliminate waste and inefficiency throughout USF. The Connect America Fund puts our universal service support on a budget for the first time, and with our Lifeline reforms alone, we've already saved more than $50 million by scrubbing over 400,000 duplicate subscriptions from the rolls and are on track to meet our $200 million savings target for this year.

These efforts are complementary to the work to ensure broadband availability by NTIA and RUS. Altogether, these coordinated efforts with our federal partners are helping more small businesses seize the opportunities of broadband.

The Commission also is taking a number of steps to help small businesses access the productivity and marketing tools of mobile broadband. The new Mobility Fund, which was established as part of our universal service reform, will spur the build-out of advanced mobile networks in unserved areas. We're removing barriers to the flexible use of spectrum in several bands to make more airwaves available for broadband. And we freed up the largest amount of spectrum for *unlicensed* use in 25 years – giving small businesses a new platform for wireless innovation.

The freedom and openness of the Internet have enabled small businesses in dorm rooms and garages to grow into some of the most successful companies in the world. The open Internet has helped small start-ups drive the apps economy, which has created nearly 500,000 jobs already. The FCC has adopted common sense rules of the road to preserve Internet freedom and openness and ensure the Internet remains a platform for small business innovation and job creation.

The Commission also has taken significant steps to help small businesses protect themselves from the growing risks of cyber attacks. According to a Symantec survey, three-quarters of small and medium businesses report being affected by cyber attacks, and these attacks typically

cost businesses tens of thousands of dollars.

Working with the Small Business Administration, the Chamber of Commerce, the National Urban League, and many private technology companies, we developed and released a Cybersecurity Tip Sheet for small businesses, describing a number of commonsense steps small businesses can take to increase their security. Password protecting your Wi-Fi router is one example. Working with our partners, the FCC also released an easy-to-use tool – our Small Biz Cyber Planner – to help small businesses develop a customized cyber plan.

And as the result of an FCC-led process on cybersecurity, ISPs serving 90% of all U.S. residential broadband subscribers have committed to adopting voluntary, concrete measures to combat three major cyber threats: botnets, IP route hijacking and domain name fraud.

Through its public safety responsibilities to promote network reliability, the Commission aids small businesses. The recent storm that caused significant power and communications outages from the Midwest to the mid-Atlantic region cost small businesses and consumers severely and knocked out vital emergency communications. The FCC is investigating this event and taking this issue seriously.

We're also working to overhaul our special access rules, which govern dedicated broadband connections to mobile providers, competitive carriers, and – critically – small businesses. These rules protect small businesses from anticompetitive conduct and increase their access to competitive offerings.

We need to not only make sure small businesses have access to broadband – we need to make sure that they have the basic digital literacy skills to take advantage of online resources and applications. That's why the FCC, working with the SBA, created a public-private partnership to leverage SCORE – SBA's network of more than 10,000 volunteer business counselors – to provide broadband tools, training and support for small businesses. SCORE has been hosting broadband workshops across the country, and earlier this year, the Commission, SBA and SCORE co-hosted a broadband training event at the DC convention center, which attracted more than 400 small businesses.

In addition, the FCC, NTIA, USDA and six other agencies have partnered to provide librarians, teachers, workforce trainers, and others a forum in which to collaborate and develop best practices – DigitialLiteracy.gov.

The Commission's Office of Communications Business Opportunities has conducted multiple workshops to educate small business owners on the opportunities of broadband, in addition to hosting networking events to connect small business owners with potential partners.

We take seriously Congress' directive that we minimize the impact of our rules on small businesses, and the Commission always considers the impact of our actions on small businesses and limits that impact when possible. For example, we exempted smaller cable systems from annual spot check obligations under the CALM Act, and we gave small broadcasters a two-year exemption from new requirements to disclose "public file" documents online.

We've made real progress on broadband in the last three years.

- The U.S. has regained global leadership, particularly in mobile.
- The U.S. leads the world in 3G subscribers by a wide margin, and we are leading the world in deploying 4G mobile broadband at scale, with 64% of the world's LTE subscribers.
- The percentage of smartphones globally with U.S. operating systems has grown from 25% to more than 80%.
- The apps economy continues to grow, and U.S. firms and developers continue to lead the way.
- In the last three years, we've gone from less than 20 percent to more than 80% of Americans living in areas with broadband infrastructure capable of delivering 100+ megabits per second, putting us near the top of the world.

For all our progress, there are still real challenges ahead. Explosive demand for mobile data is increasingly straining wireless spectrum, and the failure to make more spectrum available for broadband and use spectrum more efficiently will result in a spectrum crunch that stifles mobile innovation and eCommerce.

Foreign competitors are focused on the opportunities of broadband. To ensure continued U.S. global leadership in broadband-related innovation, and to fully realize broadband's potential to address key national challenges, we need to drive continued improvements in broadband speeds and capacity. For our innovation economy to continue to thrive, we want to be on a path where we're speaking about gigabits, not megabits,

Also, we need to keep working to close the broadband adoption gap. We have nearly 100 million Americans who still haven't adopted broadband at home. That's 100 million potential customers who can't be reached by small businesses selling and marketing their goods online.

I look forward to working with members of this committee to implement our initiatives and reforms, tackle these challenges and harness the power of broadband to promote the success of small businesses and our economy.

Thank you.

Statement of Jonathan Adelstein, Administrator, USDA Rural Utilities Service
Hearing Before House Small Business Committee
7/18/2012

Chairman Graves, Ranking Member Velazquez, and Members of the Committee, I appreciate this opportunity to discuss the efforts the United States Department of Agriculture's (USDA) Rural Utilities Service (RUS) is making to encourage broadband deployment in rural areas, and the impact these projects have on small business.

The RUS is a policy, planning and lending agency that makes loans, loan guarantees and grants available to finance rural electric, telecommunications and water and wastewater infrastructure. It oversees the $65 billion portfolio of rural infrastructure loans that it has awarded. These investments build sustainable local and regional economies, and attract and leverage private capital in rural and tribal areas.

RUS is one of three USDA Rural Development (RD) agencies. The Rural Housing Service offers programs in housing and community facilities and the Rural Business Service offers business development and finance programs. As part of RD, RUS is focused on the entire rural community—infrastructure, facilities, business and residents. Together, RD agencies work very hard to help communities improve their quality of life and assemble the building blocks for long-term economic growth.

USDA recognizes that helping create, sustain and support small rural businesses are a key component of maximizing this growth. Affordable, available and reliable capital is the lifeblood of economic development. For rural America to thrive economically, it must have improved access to capital—particularly long-term equity financing. RD programs provide capital access, business-based training and technical assistance to all types of small businesses, including the smallest of small businesses.

In telecommunications, the agency has two basic loan programs, which provide financing at or near Treasury rates of interest for telecommunications and broadband infrastructure.

The agency also has two modest grant programs. Community Connect provides grants to connect single rural communities to broadband services, offers two years of free service to community anchor institutions and creates community computing centers which give community members a free broadband access point. The Distance Learning and Telemedicine (DLT) program provides grants to finance end-user equipment for educational or medical settings.

Through the American Recovery and Reinvestment Act (ARRA), RUS, alongside NTIA, was given responsibility to promote the expansion of broadband infrastructure throughout the United States. Under ARRA, RUS awarded an unprecedented $3.5 billion in broadband loans, grants and loan-grant combinations, investments that have a multiplier effect on the long-term economic prosperity of those unserved and underserved communities they reach. RUS was also given significant responsibility for providing $3.2 billion in grants and loans for rural water projects. As soon as these broadband infrastructure projects are announced, they spur businesses to invest in those local areas and to create jobs there, they create additional jobs as projects are built, and even more jobs when the networks become operational and are available to rural communities and businesses.

Once all of these Recovery projects are complete, they are expected to provide broadband service to nearly 7 million people, 364,000 businesses and 32,000 anchor institutions. Today I am pleased to report that these projects are on track and on schedule.

Broadband investments not only make existing local businesses more sustainable, they make certain kinds of businesses possible for the first time in these rural areas. Ag Connections, for example, a company that develops crop management software to help farmers more efficiently manage production, control inventory, develop financial reports, map fields and make marketing decisions using technological tools was able to set up shop in Murray, Kentucky and hire 16 employees because a rural telephone cooperative brought broadband to the area. Without the infrastructure to support it, this entrepreneurial endeavor would not have gotten off the ground—not in Murray, in any event. As Pete Clark, a co-owner of Ag Connections said, "We would not be the company we are today without broadband. Moving out of a rural area would have hurt us

because our business is rural. A move would have required new investment and would have hurt our growth and jobs. Without broadband, business cannot function."

Our telecommunications programs are technologically neutral. We are an incentive lender, and not a lender of last resort. In recent years, private lending in the rural telecommunications market has contracted substantially. As a result, for many rural service providers, RUS is the only source of affordable financing. Our loan programs are open to large and small carriers alike. Historically, smaller, independent companies and cooperatives have been the most active participants in our programs, and have built their systems to RUS standards.

At USDA we value the successful contributions that small, independent rural companies and cooperatives are making to their communities and to the national economy. They are true economic development heroes. Many are pillars of their local communities and contribute not only to their economic development, but to numerous social and charitable community undertakings, as well.

The rural telecommunications, electric, and water utilities our agency has financed got their start by tackling challenges that have eluded some of America's mightiest, best financed and most technologically advanced companies. Most often, they were formed because no other entity was willing to bring affordable services to the service provider's home town community. Rural service providers have stepped forward knowing the difficulty of the task, the thinness of the margins and the realities of distance, density and terrain. They created institutions and partnerships that not only get the job done, but get the job done well. They remain committed to the quality of life in their communities, and reinvest with the assistance of RUS to ensure that small businesses and residents they served receive top-quality service that is comparable in price and quality to that received by their larger urban counterparts.

Rural utility service is always very challenging. And, in the telecomm world, rural service providers have the hardest jobs in America. Hundreds of organizations are involved in the delivery of rural broadband service. They are innovators and adaptors with a continuing commitment to deliver services that are as good as what would be available in urban areas with a

conscientiousness and reliability that is unmatched. They do, however, have a secret weapon. It's their employees. They work hard, do multiple jobs and provide good customer service. On a per square mile basis, they can be counted among the most productive workers in America.

I would like to take a moment to address the benefits of the small company and co-op business model. I know that some "industry experts" have questioned the need for so many rural telecommunications providers. The conventional wisdom is that scale equals efficiency, and that size delivers economies of scale. While there is some truth to that in the telecommunications field, I'd like to offer some additional insights from my experience among rural companies about the inherent efficiency of smaller, community-focused telecommunications service providers that challenge the conventional wisdom and why consolidation, in itself, should not be a policy objective.

What is often missed when outsiders consider rural telecommunications service is that rural local exchange carriers have achieved an impressive level of operational efficiency thanks in part to the institutions rural carriers helped create and sustain and thanks in part to their successful partnership with government agencies like the RUS, the Federal Communications Commission (FCC), NTIA, and State regulators. These institutions allow service providers to share resources and leverage revenue streams.

Consider, for example, the complex services rural carriers receive from the National Exchange Carriers Association (NECA). They provide database management, rate design, settlements administration, compliance services, distribution of pooled revenues, fee processing and education to name a few. Those services are efficiently delivered by NECA, a carriers' conference, and not replicated hundreds of times across the rural telecommunications industry. Similarly other industry trade associations provide important shared services including affordable and effective access to training, education, insurance, retirement benefits, technical advice and representation. The industry also uses a network of highly specialized and highly talented consulting engineers, accountants, lawyers and cost consultants whose talents are employed on an efficient, "as needed" basis.

A continuing relationship with RUS gives rural utilities access to a reliable source of low cost capital. And with interest rates tied to Treasury rates of borrowing at or near historic lows, those dollars are ready to be put to work. Not only is that capital affordable, it is available. RUS loans also leverage private lending and equity investment. Those affordable rates help provide reliable and affordable service to consumers.

The RUS partnership does not stop with financing. RUS has helped define the standards for contemporary rural telecommunications services. By following those standards, reviewing system designs and operational plans and using vendors that offer products and services which meet RUS standards, the hundreds of small companies and co-ops that participate in our program have a scope and scale in the marketplace that rivals the largest telecom providers. That market strength is further reinforced by standard RUS warranty and contract terms which protect rural consumers from shoddy manufacturers, unreliable equipment and technology fly-by-nighters.
I am especially proud of the RUS staffers who provide engineering, operational, accounting and financial oversight. They ensure that RUS financed projects are rock solid, built to last and are prudent. We like to say that every RUS dollar has a name and address on it. We know where every penny of taxpayer's investment is spent by our borrowers and grantees and we do not want to spend a penny more than necessary.

With RUS financing and collaboration with other lenders, rural telecommunications companies providers are able to leverage revenue streams and collaborate to make long-term infrastructure investments and deliver services, which would not otherwise be possible. Broadband takes local markets and makes them global. Broadband can overcome the barriers of time and distance to create unparalleled business opportunities, deliver quality, affordable health care to rural residents, and help rural schools offer the most advanced physics and foreign language classes to students.

Rural telecommunications providers often use the small business and cooperative models because they focus on service and it makes sense for the community. Community based service, whether in a rural community or city center focuses on economic development because it helps

the community grow and prosper. Rural telecommunications providers have a history of working with schools, business and the community to contribute to growth and stronger economies.

For example, Triangle Telephone Cooperative provides broadband services for rural Montana communities that have created and expanded business operations, improved rural economies and helped create jobs. Among the businesses and services that have resulted from broadband efforts are medical centers that can offer technologically advanced services for rural residents. A rural cookware manufacturer can market products worldwide. Women thousands of miles away can purchase work pants made in Montana. Red Ants Pants, has seen its sales double from last year because of its ability to use broadband to market its merchandise nationwide. Sarah Calhoun, founder and co-owner of the company, has been honored as Entrepreneur of the Year by the Small Business Administration. Not only is Red Ants succeeding financially, but is active in the community, sponsoring music festivals to aid family farms and help rural communities.
Web hosting, design and search services around the globe depend on a growing Montana company. These rural communities benefit not only from broadband services, but from the jobs that they create when companies expand their markets.

Thousands of miles from Montana, Telecom Management Services in West Kentucky and Tennessee deliver a range of technology services, including "megasites" designed to attract large business—one such site serves the Tennessee Valley Authority. Rural telephone cooperatives help their communities compete by providing internet services that can be used to draw employers and employees. Technology allows business to provide jobs, products and services in areas where, in the past, it was not feasible. Rural telecommunications providers help ensure that their communities are part of the global economy. Because of rural telecommunications providers in Tennessee, a public power utility now offers smart grid applications that increase the utility's efficiency through automated meter reading and can help manage electric load. Without broadband buildout, many of these rural small businesses would not exist. And they do exist because rural telecommunications companies made the commitment to build and maintain quality service at affordable rates.

The FCC is a critical partner in the rural telecommunications success of our borrowers. Working together, RUS and FCC policies have made it possible for millions of rural Americans to join the digital age.

The big pay-off of this public and private sector partnership is that rural companies and co-ops create good jobs, create demand for products and services throughout the high tech supply chain, empower rural businesses, schools, libraries and health care providers and most importantly help make rural America an even better place to live, work and raise a family. They are the most successful model for how rural broadband networks get built. I applaud the FCC's efforts to extend that success.

Our goals continue to be to modernize our nation's infrastructure, create or save jobs and work toward rural economic development goals. USDA's Economic Research Service (ERS) studied the economic effects of having broadband access in rural communities. The result of this effort was the publication about six months ago of a report titled, "Broadband Internet's Value for Rural America." This report concluded that employment growth was higher and non-farm private earnings greater in counties with a longer history of broadband availability. In addition, this report found key benefits of broadband access in rural communities, such as access to online course offerings for students in remote areas and the access to telemedicine and telehealth services for rural patients in need of urgent and often specialized care. Agricultural producers and farm based businesses rely 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 are tangible and significant. Specifically, rural businesses use broadband to expand markets and sales through e-commerce and reduce marketing costs. The report noted that total nonfarm employment growth was significantly related to broadband lines per capita.

The report also clearly notes that areas with low or dispersed populations, or demanding terrain, generally have difficulty attracting broadband service providers. These characteristics can make the fixed cost of providing broadband service too high to make a business case for investment. That is also where our years of expertise with a variety of technologies have a distinct advantage.

More recently, the FCC's June 17 2011 report, *Bringing Broadband to Rural America: Update to a Report on a Rural Broadband Strategy*, noted that while there is not a significant difference between metro and rural markets in terms of business need for broadband, there are significant differences with respect to availability of high-speed options, performance and price. We still have work to do, and that is precisely why we are working with the FCC, NTIA and across the Federal Government to promote the speediest possible rollout of broadband service to every corner of America.

Conclusion

The RUS is proud of its investments in rural America. The small business model of many rural utilities is sound. This is true because of shared resources and public/private partnerships. Perhaps most importantly, America's rural utilities – telecommunications, water, and electric – are the foundations of economic growth.

With a combined portfolio of close to $5 billion in telecommunications investments alone, the RUS has a deep understanding of the costs, and challenges of distance, density and geography. We also have witnessed lives transformed, communities enlivened and futures secured when affordable, reliable and robust utilities services finally arrive to communities that have been asked to wait far too long to enjoy the benefits of modern life and the rewards of the digital economy.

It is our mission, our passion and commitment that rural Americans should enjoy all of the blessings of modern technology. Not only because it improves the quality of life for rural Americans, but because it improves the quality of life for all Americans. Our nation needs the dedication, the work ethic and genius that reside outside our great cities. Modern broadband service offers an opportunity to make our nation stronger and more united.

Thank you for the opportunity to testify and I am happy to respond to any questions you may have.

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 entitled
"Digital Divide: Expanding Broadband Access to Small Businesses"

July 18, 2012

I. Introduction

Chairman Graves, Ranking Member Velazquez, and Members of the Committee, thank you for your invitation to testify regarding the National Telecommunications and Information Administration (NTIA)'s efforts to expand and strengthen broadband access to small businesses. I am very pleased to highlight NTIA's progress in helping to achieve our vision of a nationwide, 21st century communications infrastructure and our efforts to expand broadband access and adoption in the United States.

II. Expanding Broadband Access and Adoption Has the Potential to Increase Small Business Creation and Expansion in the United States

A key element of building the innovation economy of the future – one that supports new and better jobs, and enhances America's global competitiveness – is expanding the availability and adoption of broadband access in America. In the near-term, investments in broadband infrastructure help create jobs and business growth by supporting the installation and upgrade of fiber-optic networks, wireless towers, and other high-tech components. Public computer centers

provide much-needed training and broadband for those without access to this empowering technology in their homes. Sustainable broadband adoption efforts help to educate vulnerable populations about the benefits of broadband and enable them to become proficient in computer-related skills. In the longer-term, expanding broadband access and adoption facilitates economic growth and innovation, especially for small businesses; enhances health care delivery; improves public safety; and lays a foundation for long-term economic development in communities throughout the United States.

Small businesses benefit from the Internet economy in a number of important ways. Broadband reduces geographic barriers and the costs of doing business. The Internet offers the opportunity for anyone with a connection and an innovative idea to create and grow a business. Indeed, online retail sales in the United States totaled an estimated $169 billion in 2010 alone.[1] Just a decade ago, the companies that are now household names – Google, Facebook, Twitter, and many more – were small businesses. These innovators and countless others have used their creativity, determination, and the power of broadband to grow the Internet economy.

The positive impact of broadband technologies on economic growth and small business creation is clear. A November 2010 report by the U.S. Small Business Administration (SBA) found that the Internet plays an integral role in helping small businesses achieve their strategic goals, improve competitiveness and efficiency, and interact with customers and vendors.[2] Respondents to SBA's survey generally agreed that high-speed Internet access is "as essential to

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[1] U.S. Census Bureau, "E-Stats" (May 2012), p. 2-3, *available at:* http://www.census.gov/econ/estats/2010/2010reportfinal.pdf.
[2] Columbia Telecommunications Corporation for Small Business Administration Office of Advocacy, "The Impact of Broadband Speed and Price on Small Business." (Nov. 2010), p. 20, *available at:* http://www.sba.gov/sites/default/files/rs373tot_0.pdf.

my business as other services such as water, sewer, or electricity."[3] A more recent report from Connected Nation also shows that broadband connectivity is an increasingly essential component for business growth in the United States.[4] It states that over four million U.S. firms have web sites, including more than two million businesses with fewer than five employees, and that broadband-connected businesses report annual median sales revenues approximately $300,000 higher than revenues for businesses without broadband.[5]

The research firm Strategic Networks Group (SNG) collected data from more than 15,000 U.S. businesses between 2010 and 2012 and found a significant positive impact of broadband on small business. Overall, small businesses report significant efficiencies, revenue increases, and cost savings directly attributable to the Internet, and nearly a third of new jobs at small businesses derive from the Internet.[6]

The smaller the business, the bigger the impact that broadband can have. For example, broadband is responsible for approximately 20 percent of new jobs across all businesses, but it is responsible for 30 percent of new jobs in businesses of fewer than 20 employees.[7] Data also demonstrate that higher speed and quality broadband technologies increase the benefits to businesses in the form of growth, productivity, reducing costs, and enabling innovation.[8] A SNG study of 600 North Carolina businesses demonstrated a direct correlation between revenue

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[3] *Id.* at 20.
[4] Connected Nation, *The 2012 Jobs and Broadband Report* (May 2012), *available at:* http://www.connectednation.org/sites/default/files/cn_biz_whitepaper2012_final.pdf.
[5] *Id.*
[6] *See, e.g.*, Strategic Networks Group, *available at:* http://www.sngroup.com/broadband-lifecycle/strategies-for-broadband-initiatives/.
[7] *Id.*
[8] *Id.*

growth and the use of broadband technologies (what SNG terms "e-solutions").[9] Those firms that had most heavily incorporated "e-solutions" showed significantly higher revenues. Further, smaller firms with less than 50 employees were shown to be creating more jobs due to Internet technologies compared to larger firms.[10]

For state and local economic development officials, the results are equally important, as broadband expansion results in small business creation, job growth, economic output, and increased tax revenues. A SNG case study of Virginia estimates a return in GDP for the state that is 26 times greater than the investment in broadband technologies, and a return in tax receipts that is 2.8 times the investment.[11] According to SNG, almost 60 percent of small businesses report that broadband availability is an essential factor in making a decision on their location. For local communities, investments in broadband technologies have the potential for significant returns in the form of economic activity and quality of life.

These data reveal that broadband has become vital for small businesses in the United States to grow and compete in the twenty-first century. NTIA is taking a number of important steps to increase the availability and adoption of broadband in the United States to ensure that our workers, entrepreneurs, and small business owners have every opportunity to succeed.

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[9] Strategic Networks Group, *SNG Study Shows Broadband and e-Solutions Linked to Business Growth* (Sep. 2011), *available at:* http://www.sngroup.com/sng-study-shows-broadband-and-e-solutions-linked-to-business-growth/.
[10] *Id.*
[11] SNG Economic Impact Estimate, Professional & Technical Services Sector, *available at*: http://www.sngroup.com/wp-content/uploads/2012/05/SNG-Economic-Impact-Estimate-professional-and-technical-services-summary.pdf.

III. NTIA Invested Almost $4 Billion in Projects to Expand Broadband Access and Adoption in the United States

To improve broadband capabilities for small businesses and, indeed, the entire economy, NTIA is engaged in a number of important initiatives. The first is through $4 billion of investments in approximately 230 Broadband Technology Opportunities Program (BTOP) projects to expand broadband availability and adoption in the United States. Today, about a year and a half into the projects, recipients are making significant progress in achieving their anticipated outcomes and delivering meaningful benefits to their communities. Our grantees have:

- deployed or upgraded more than 57,000 miles of broadband infrastructure;
- connected more than 8,000 community anchor institutions to high-speed broadband service;
- installed more than 33,000 workstations in public computer centers;
- provided more than 7 million hours of technology training to approximately 2 million users;
- generated approximately 330,000 new broadband subscribers; and
- funded more than 4,000 jobs in the second quarter of Fiscal Year 2012.

In all, NTIA broadband grant recipients have spent approximately $2 billion in federal funds and, as of March 31, 2012, nearly $700 million in non-federal matching funds, towards building the nation's 21st century infrastructure. NTIA expects the pace of construction to remain strong over the next several quarters and we expect communities to begin to fully realize the impact of these investments.

IV. Small Businesses Are Benefitting from NTIA's Broadband Investments

Small businesses are benefitting from NTIA's broadband investments not only through improved broadband services and increased capacity-building and training opportunities from the grant projects, but also as direct grant recipients. Approximately 20 percent of BTOP grant recipients, representing nearly $800 million in grant dollars, are small businesses.[12] Based upon our regular interaction with recipients, we know that many more direct awardees are utilizing small businesses as partners or vendors.[13] In soliciting applications, NTIA encouraged small business participation in projects as both an applicant and as a subrecipient/vendor. NTIA conducted approximately a dozen workshops throughout the Nation to encourage applications, including several workshops targeting small and disadvantaged businesses. In reviewing applications, NTIA gave additional consideration to projects that included small and disadvantaged business participants.

Below are several examples of small businesses that received NTIA broadband grants:

- In **Missouri**, Sho-Me Technologies, LLC is deploying approximately 500 miles of new fiber to complete a 1,380 mile network across 30 counties in south and central Missouri.

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[12] As reported in the Central Contractor Registration (CCR), https://www.bpn.gov/ccr/default.aspx, using the small business size standard established by the Small Business Administration (SBA) according to the firm's North American Industry Classification System (NAICS) code. Notably, the majority of BTOP awards went to local, county, and state government entities, and another significant percentage went to higher education institutions and non-profit organizations, which do not qualify as small businesses.

[13] NTIA does not collect data from its grantees regarding the size of the businesses they utilize as vendors or subrecipients. As a result, we do not have specific data on the extent of small businesses participating as vendors or subrecipients.

- In **Oregon**, Bend Cable is constructing a 132-mile ring of new fiber to connect underserved areas of central Oregon, including at least 25 anchor institutions and four business parks.
- In **Ohio**, Com Net is installing approximately 700 miles of high-capacity fiber-optic lines to expand an existing network in 28 western counties of the state. The project will expand and enhance broadband for a region with more than 150,000 businesses and 2,900 anchor institutions, and upgrade capabilities for almost 300 public safety entities.
- In **Alabama**, JKM Consulting, a small woman-owned business, is deploying more than 80 miles of new fiber-optics to serve anchor institutions and public safety entities in several east-central Alabama counties.
- In **Montana**, Ronan Telephone Company is constructing nearly 300 miles of fiber to connect several communities to high-speed broadband, including the Blackfeet Reservation community of East Glacier Park, and plans to partner with Health Information Exchange of Montana to utilize telemedicine to improve healthcare delivery for residents.
- In **Puerto Rico**, Critical Hub Networks, Inc. is providing broadband connectivity for wholesale and last mile Internet service providers, and service to underserved areas, by establishing a broadband "bridge" to the United States mainland and deploying a high capacity middle mile network on the island.
- Pine Telephone Company—a family-owned company that has built and operated communications networks in rural **Oklahoma** for nearly 100 years—is using wireless technology to deliver affordable broadband service to portions of rural,

remote, and economically disadvantaged areas of southeast Oklahoma, including the Choctaw Nation.

- Small and woman-owned business Axiom Technologies received funding for a sustainable broadband adoption project to provide broadband education, training, access, equipment, and support to community-serving institutions and economically vulnerable populations in Washington County, **Maine**. The project also will help local small businesses by providing training for healthcare professionals and by equipping local farmers and fishers with wireless broadband equipment and rugged laptops. It has also developed a software program to assist farmers and fishermen streamline their data collection and reporting using digital technologies.
- In **Washington** State, Toledo Telephone Company, in partnership with the Cowlitz Indian Tribe, has helped more than 300 community members learn basic computer functionality, Internet, and email skills through intensive classes. Upon successful completion of the course, participants receive a laptop and two years of free broadband service.

V. BTOP "Middle Mile" Investments Prime the Pump for Additional Economic Activity

The approximately $4 billion we are investing in BTOP projects will not address all of America's broadband needs, but it is helping to "prime the pump" for additional investment by public and private entities. NTIA's broadband infrastructure projects invested primarily in "middle mile" broadband infrastructure – the fundamental link between the national Internet

backbone and the local broadband connections to homes and small businesses – as well as to provide community anchor institutions with new or improved Internet connections at significantly higher speeds.

Adequate middle mile infrastructure is a critical enabler of "last mile" broadband service to homes and local businesses. Investments in middle mile facilities have the potential to catalyze millions of dollars in additional private sector investment as local broadband providers utilize the new infrastructure to expand or enhance their own Internet service for households and businesses throughout America. In particular, BTOP's open access and interconnection requirements are encouraging other last-mile and incumbent broadband providers to tap into grant-supported middle mile networks to expand broadband services and speeds for American consumers and businesses. Recipients have already entered into nearly 400 interconnection agreements with third-party providers to leverage or interconnect with their networks and we expect that number to increase significantly in the coming months. For example:

- In **Massachusetts**, OpenCape is constructing a regional collocation center for large and small businesses to lease space for the placement of company servers. OpenCape also plans to deliver direct retail services to a number of small businesses. They have received interest from architectural and engineering firms, graphics and video firms, medical firms, and other businesses with significant demand for high-speed broadband. OpenCape also is working with Wireless Internet Service Providers (WISPs) to expand their broadband capabilities to end users, households, and businesses. In a second project, the Massachusetts Broadband Institute (MBI) plans to deliver high-capacity broadband to several industrial parks and dozens of businesses in the western areas of the state. These

businesses include small machine, manufacturing, and printing shops that rely on the Internet for product development, sales, and marketing. By also dramatically reducing the cost of backhaul transport in western areas of the state, MBI will make it possible for numerous third-party broadband providers to expand and enhance their services for small businesses and households. The recipient has already signed agreements with several last-mile providers such as, for example, Crocker Communications, a small and woman-owned regional telecommunications provider based in Greenfield, MA that itself provides communications and data services to other small businesses.

- In **Ohio**, several WISPs plan to take advantage of the open access middle mile services offered by Horizon Telcom to expand their small business and household broadband offerings. Horizon has already signed several agreements with smaller last-mile providers such as Country Connections, Hocking Internet, Intelliwave, JB Nets, New ERA Broadband, and Southern Ohio Communications Services. Horizon also plans to provide backhaul to over 200 wireless towers in the region that will enable third-party broadband providers to offer 4G LTE services to small and large enterprises and households. Additionally, Horizon plans to directly serve 34 industrial parks that will enable new and existing businesses to expand.

VI. Public Computer Center and Sustainable Broadband Adoption Projects Help Job Seekers and Small Businesses

In addition to its investments in fiber-optic and wireless broadband infrastructure, NTIA is also helping small businesses by expanding public computer centers and providing training in broadband technology that can help individuals find jobs, create new businesses, and impact their local economies. For example:

- The **Mission Economic Development Agency**, working with the National Association for Latino Community Asset Builders, created Latino Tech-Net, a network of 12 non-profit organizations providing customized bilingual, small business training to Latino entrepreneurs in 11 cities throughout the country. This training includes basic digital literacy and Microsoft office software, as well as Quickbooks, Excel for Budgeting, E-Commerce, and Online Marketing. Classroom instruction supports the overall project goals of increasing broadband and technology usage by low and moderate income Latino families and helping entrepreneurs establish and expand businesses. To date, Latino Tech-Net has delivered more than 130,000 hours of training to more than 11,000 participants.
- The **C.K. Blandin Foundation** works with the University of Minnesota Extension (UME) to provide technical assistance and training to small businesses in rural areas of the state. UME conducts training and outreach events and provides technical assistance to small businesses with fewer than 10 employees in the retail, food and tourism industries. UME also produces instructional materials on how a strong Internet presence can help businesses grow. To date, UME has held more than 170 training events involving 1,300 businesses; almost 90

technical assistance activities reaching 100 businesses; and 22 outreach events reaching about 1,000 individuals.

- The **Vermont Council on Rural Development** works with the Vermont Small Business Development Center to provide workshops, webinars and one-on-one advising to help rural small businesses take advantage of online resources to improve their operations. Training topics include business development strategies, basic business website design, and social media marketing. To date, the Vermont Small Business Development Center has delivered training and consulting to nearly 1,000 users.
- The **City of Chicago's** Smart Communities program created the Business Resource Network (BRN), an initiative designed to help local businesses become sustainable, profitable entities by providing them free access to broadband, business software, and technology workshops. The BRN helps local companies acquire the broadband services, computer applications, and skills needed to succeed in today's digital economy. Small and medium-sized businesses participating in the BRN first conduct a technology needs assessment, which helps them identify new computer resources and skills. Once they identify their needs, these businesses develop an action plan and timeline for acquiring computer equipment and business training. Businesses then participate in workshops and one-on-one consultations on a variety of topics, including software training, business planning, marketing, and website development. Through December 2011, more than 180 businesses completed a technology assessment, 105 developed action plans, and 220 participated in workshops. For

example, one local restaurant owner who participated in the BRN was able to increase his customer base by developing a marketing plan to promote the restaurant's newly-installed wireless Internet network.

VII. State Broadband Initiative Projects Help Communities Use Broadband for Economic Development

NTIA's State Broadband Initiative (SBI) projects collect detailed data on broadband access and adoption in America, and support states and territories in their effort to use broadband technology to attract employers and better compete in the digital economy. In February 2011, NTIA released the National Broadband Map – America's first public, searchable nationwide map of broadband availability – and we continue to update it twice a year. Each update is powered by an extensive, publicly available dataset – more than 20 million records collected from nearly 1,800 U.S. broadband providers – that shows where broadband is available, the technology used to provide the service, the maximum advertised speeds, and the names of the service providers. It is the most extensive dataset of its kind. The Map includes data from the FCC's "Consumer Broadband Test" that show that small businesses have a median download speed of 4 megabits per second (Mbps) and a median upload speed of 1.2 Mbps,[14] speeds that many businesses may find do not adequately meet their needs.

The National Broadband Map is a powerful tool for researchers, economic developers, state government leaders, and business owners seeking to better harness the power of broadband to improve their communities. In addition, our SBI grants are supporting states and local

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[14] *See, e.g.*, National Broadband Map, *available at:* http://www.broadbandmap.gov/summarize/nationwide.

governments in incorporating broadband into their economic development strategies to attract businesses and empower new businesses to grow and expand. For example:

- In **Utah**, a medical record and health information technology firm considered moving its call center out of the state because of poor broadband connectivity, which resulted in work interruptions and lost productivity. The Utah Broadband Project, a SBI grantee, utilized broadband mapping data to identify other broadband providers in the region that could provide enhanced connectivity and redundancy, and, as a result, the firm obtained the broadband capabilities it needed to stay in the state.
- In **Kansas**, the SBI grantee utilized its broadband availability data to identify communities with the requisite broadband capabilities necessary for Convergys, a customer relationship management firm, to establish call centers in multiple locations and increase job opportunities in the state.
- In **South Dakota**, Eleutian Technology, a provider of English-as-a-Second-Language online courses, utilized broadband availability data made possible by the SBI program to identify communities with the necessary broadband capabilities to conduct real-time video conferencing. As a result, the firm has hired over 100 teachers in several small South Dakota communities such as Spearfish, Rapid City, and Winner.

VIII. NTIA and the FCC's Joint Efforts to Make Spectrum Available for Commercial Broadband Use Will Benefit Small Businesses

The second principal way NTIA is helping expand broadband for the benefit of small businesses, the public, and the economy generally is by expanding wireless broadband capabilities. We have been working in close collaboration with the Federal Communications Commission (FCC) to make available an additional 500 megahertz of spectrum over the next decade for commercial wireless broadband use.[15] NTIA identified 2,200 MHz of spectrum for evaluation, and has already recommended 115 MHz of spectrum that could be made available for wireless broadband use within five years.[16] In March 2012, NTIA announced that the 1755-1850 megahertz band – another 95 megahertz of prime spectrum – could also be repurposed for wireless broadband use.[17] We are now hard at work on the next steps toward making this spectrum available.

Because of the challenges in relocating federal users – including the scarcity of spectrum, the complexity of federal operations, and the time and cost of relocating federal users – NTIA has also proposed a new path forward for spectrum repurposing that relies on a combination of relocating federal users and sharing spectrum between federal agencies and commercial users. This path offers many potential benefits, such as allowing earlier access to the spectrum by commercial broadband providers, making additional spectrum available due to efficiencies, and

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[15] Memorandum for the Heads of Executive Departments and Agencies, *Unleashing the Wireless Broadband Revolution* (Jun. 28, 2010), *available at:* http://www.whitehouse.gov/the-press-office/presidential-memorandum-unleashing-wireless-broadband-revolution.

[16] National Telecommunications and Information Administration, *Plan and Timetable to Make Available 500 MHz of Spectrum for Wireless Broadband* (Nov. 15, 2010), *available at:* http://www.ntia.doc.gov/reports/2010/TenYearPlan_11152010.pdf.

[17] National Telecommunications and Information Administration, *An Assessment of the Viability of Accommodating Wireless Broadband in the 1755 – 1850 MHz Band* (March 27, 2012), *available at:* http://www.ntia.doc.gov/files/ntia/publications/ntia_1755_1850_mhz_report_march2012.pdf.

advancing innovation in the wireless marketplace. In May 2012, NTIA initiated discussions between industry and the relevant federal agencies under the auspices of the Commerce Spectrum Management Advisory Committee (CSMAC), with the goal of finding ways to work together through sharing or other means to reduce the time and expense of repurposing the 1755-1850 MHz band, while maintaining essential Federal capabilities and maximizing commercial utilization. These discussions over the coming weeks and months will play a critical role in helping find new ways to free additional spectrum for commercial broadband use and at the same time ensuring that federal agencies can continue their critical functions for the Nation.

Increasing commercial use of wireless spectrum for broadband will transform multiple areas of the United States economy, including small businesses creation, productivity, employment, consumer welfare, health care, government services, and public safety. Researchers estimate that increased investment in new wireless broadband networks will boost national income,[18] significantly expand GDP growth,[19] and create hundreds of thousands of new jobs.[20] A study for CTIA (the wireless industry trade association) estimated that the productivity gains from wireless broadband adoption result in nearly $100 billion in annual cost savings in the

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[18] *See, e.g.*, Pearce, Alan and Pagano, Michael, *Accelerated Wireless Broadband Infrastructure Deployment: The Impact on GDP and Employment,* Media Law and Policy, (2009), *available at:* http://www.nyls.edu/user_files/1/3/4/30/84/187/245/Pearce%20&%20Pagano,%20SPRING%202009%20&%20Pagano,%2018%20MEDIA%20L.%20&%20POL%E2%80%99Y.pdf.

[19] Deloitte Development, LLC, *The impact of 4G technology on commercial interactions, economic growth, and U.S. competitiveness* (Aug. 2011), *available at:* http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/TMT_us_tmt/us_tmt_impactof4g_edited060612.pdf.

[20] *See, e.g.*, Crandall, R. and Singer, H., *The Economic Impact of Broadband Investment,*" (Feb. 23, 2010), released by the Broadband for America coalition, *available at:* http://www.ncta.com/DocumentBinary.aspx?id=880; *See also*, Sosa, D. and M. Van Audenrode, *Private Sector Investment and Employment Impacts of Reassigning Spectrum to Mobile Broadband in the United States,* Analysis Group, Inc. (Aug. 2011).

United States.[21] Small businesses will be well poised to reap significant benefits from additional spectrum for wireless broadband.

Already, we are seeing tremendous innovation and economic activity due to increased wireless broadband use. For example, the surge in the development and use of mobile applications ("apps") is creating jobs, supporting small businesses, and generating remarkable economic output. A recent TechNet study estimated that the "App Economy" (that is, the goods and services resulting from the growth in mobile apps) is responsible for approximately 466,000 jobs in the United States, up from zero in 2007.[22] Mobile apps already account for more than $10 billion in annual revenues, and could exceed $50 billion in annual revenues in the next several years.[23] According to Apple, users of more than 300 million of the company's mobile devices[24] have downloaded more than 30 billion apps from the App Store.[25] One study estimated that small businesses developed more than 88 percent of the 500 most popular mobile apps.[26] A survey by AT&T found that one-third of small businesses in the United States use mobile apps to save time, increase productivity, and reduce costs. About half of the survey's respondents said they could not survive without mobile apps.[27]

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[21] Entner, Roger, *The Increasingly Important Impact of Wireless Broadband Technology and Services on the U.S. Economy* (2008), *available at:* http://files.ctia.org/pdf/Final_OvumEconomicImpact_Report_5_21_08.pdf.
[22] TechNet, *Where the Jobs Are: The App Economy* (Feb. 7. 2012), *available at:* http://www.technet.org/wp-content/uploads/2012/02/TechNet-App-Economy-Jobs-Study.pdf.
[23] Juniper Research, *Consumer Mobile App Revenues to Pass $50bn by 2016 Fuelled by Smartphone & Tablet Growth* (Feb. 7, 2012), *available at:* http://juniperresearch.com/viewpressrelease.php?pr=286.
[24] *See* http://www.apple.com/pr/library/2012/03/05Apples-App-Store-Downloads-Top-25-Billion.html.
[25] *See* http://news.cnet.com/8301-13579_3-57450369-37/apple-30b-apps-downloaded-400m-app-store-accounts-set-up/
[26] Morgan Reed, *The Surprise Behind the Mobile App Numbers,* Huffington Post (July 12, 2011), *available at:* http://www.huffingtonpost.com/morgan-reed/the-surprise-behind-the-m_b_895397.html.
[27] AT&T, *AT&T Poll Says Use of Tablets, 4G Devices, GPS Navigation Mobile Apps on the Rise Among Small Businesses*, (Feb. 15, 2012), *available at:* http://www.att.com/gen/press-room?pid=22394&cdvn=news&newsarticleid=33865.

IX. Conclusion

NTIA is committed to expanding broadband access and adoption in the United States so that we may boost America's competitiveness, build the innovation economy of the future, and support new and better jobs for Americans, particularly for small businesses which are the engine of the U.S. economy. Our efforts to ensure that its broadband grant projects achieve their intended benefits for American communities, and our work to fulfill the President's goal of making available 500 megahertz of spectrum for wireless broadband by 2020, are important steps towards achieving our shared goal of an economy built to last.

I appreciate the opportunity to testify before you today and welcome your questions. Thank you.

House Committee on Small Business: Full Committee Hearing
Digital Divide: Expanding Broadband Access to Small Businesses
July 18, 2012
Rep. Peters Questions for the Record – Submitted July 25, 2012

1) Chairman Genachowski, could you provide an update on the "Broadband Adoption Lifeline Pilot Program" and any details on approved projects targeting urban areas?

2) Chairman Genachowski and Secretary Strickling, can you tell us about FCC and NTIA efforts to expand digital literacy in urban areas? Do you coordinate with other agencies on these efforts?

3) Chairman Genachowski, will Universal Service Fund (USF) reform provide adequate funding for expanded broadband adoption programs beyond the Broadband Adoption Lifeline Pilot Program?

4) Chairman Genachowski and Secretary Strickling, do you believe that new legislation to provide support for broadband adoption in the form of tax incentives or new appropriations could help increase adoption rates? Are there additional tools that Congress could provide that would allow your agencies to expand broadband adoption and digital literacy efforts?

Congressman Mick Mulvaney

Questions for the Record

Committee on Small Business Committee Hearing entitled

"Digital Divide: Expanding Broadband Access to Small Businesses"

July 18, 2012

For Julius Genachowski, Chairman of the Federal Communications Commission:

Q: The FCC has had special access under consideration for number of years and it has issued two voluntary data requests that sought to obtain data from providers and customers about special access facilities, pricing and competition. This data is necessary to determine whether the special access pricing flexibility granted by the FCC in 1999 is still appropriate and warranted. I understand the vast majority of special access competitors had not responded to the FCC's data request. Why has the FCC not pursued a mandatory data request?

Q: Does the FCC have any plans to set price controls on special access arrangements?

Q: The current USF charge for telecommunications customers is around 18% of their bill. What is the FCC doing to ensure USF rates stay as low as possible?

Q: Currently, almost 90% of Americans have access to wireless services and at competitive, reasonable prices. I'm also told that 95% of Americans have access to broadband from at least one provider. Additionally, there are a number of small business providers that are deploying these services without receiving support from the high-cost fund.

1. What policies are necessary to encourage more companies to use innovative measures to provide cutting-edge technologies to rural or underserved communities as opposed to relying on government-backed subsidies?

2. At what point do you think that USF subsidies will no longer be necessary?

Q: I understand that the FCC under the Reagan Administration required interoperability of devices to ensure that smaller carriers were able to provide analog services to their customers on a competitive basis with larger carriers. Are the market conditions now the same as they were during that time? Should we be considering another interoperability rule?

Q: WBFF 45, a television station in Baltimore, Maryland, recently reported on the Universal Service Fund Lifeline Program. The data referenced in the report showed an increase in Lifeline subscribers in Baltimore from 6,000 subscribers in 2008 to 231,000 subscribers in 2011. This is a 3750% increase in 3 years. To what do you attribute such an explosion in Lifeline participation in Baltimore?

Q: The report said that it only takes 5 to 10 minutes for a person to receive a Lifeline phone. What information and what steps are necessary for an individual to receive a Lifeline phone? About how long would you expect the application, verification, and activation process to take?

Q: The report mentioned the FCC's new efforts to track and remove individuals from the program who were receiving more than one Lifeline phone. That is a step in the right direction. However, it is my understanding that it is the participating provider's job to ask whether a person seeking a new Lifeline phone already has one, and to obtain the individual's information and share that information with the FCC's database to track fraud and abuse. The report showcased individuals who were in possession of multiple Lifeline cell phones, received a Lifeline phone while carrying another Lifeline phone, or received Lifeline phones only to turn around and sell them to drug dealers. It seems like there is a disconnect between FCC's plans to address fraud and abuse and what is happening at the cell phone provider level. What is the FCC doing to ensure that participating providers are asking the right questions and collecting accurate, verifiable data on individuals seeking Lifeline phones?

Q: Since implementing your new processes for Lifeline, has the FCC been made aware of any participating providers who routinely are providing phones to individuals who have already received a Lifeline phone? If so, how have you responded to both the provider and the individual? Is there any penalty for engaging in such activity?

CONGRESSWOMAN JANICE HAHN (CA-36)

SMALL BUSINESS COMMITTEE

HEARING:

"Digital Divide: Expanding Broadband Access to Small Business"

WEDNESDAY, JULY 18, 2012

2360 RAYBURN

Questions – Promoting Broadband & Fiber Deployment

Broadband investment provides substantial benefits to consumers and small businesses. Thanks to the FCC's thoughtful and inclusive approach, investment in fiber has skyrocketed since 2003.

In April, the Wall Street Journal reported that 19.2 million miles of fiber were installed in the United States compared to the 5 million miles installed during 2003. There are now 770 carriers deploying Fiber-to-the-Home around the country.

Fiber now passes over 22.6 million U.S. homes compared to only 180,000 in 2003. Analysts report that 8 million American homes are now connected by fiber and that roughly 32% of commercial buildings in the United States have access to fiber. Thus, we must make sure that future regulation continues to promote competition and foster growth as we continue to make these much needed investments.

So with these facts in mind, I have a question about the FCC's role in future fiber deployment.

Q: What are the future plans for the FCC to regulate fiber services?

HOUSE COMMITTEE ON AGRICULTURE

SUBCOMMITTEE ON
CONSERVATION, ENERGY AND FORESTRY

SUBCOMMITTEE ON
LIVESTOCK, DAIRY AND POULTRY

HOUSE COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE ON
ECONOMIC GROWTH, TAX AND CAPITAL ACCESS
(RANKING MEMBER)

SUBCOMMITTEE ON
CONTRACTING AND WORKFORCE

The 112th Congress
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Washington, DC 20515

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July 27, 2012

Chairman Graves and Ranking Member Velazquez,

I respectfully request that the following question be added to the record for the "Digital Divide: Expanding Broadband Access to Small Businesses" hearing that took place on Wednesday July 18, 2012.

Addressed to Federal Communications Commission Chairman Julius Genachowski:

QUESTION: "The Notice of Proposed Rulemaking (NPRM) on interoperability in the Lower 700 MHz band that was issued this past March considers requiring interoperability in the Lower 700 MHz band. The deadline for comments was June 1st and reply comments July 16th. One of the frequent comments I receive is the lack of certainty with FCC actions and as a result there is often an inability for many businesses to proceed with building out their networks to ensure they will have access to devices. Can you please provide the committee with an exact timeframe of when the Commission will make a decision on interoperability?"

Sincerely,

KURT SCHRADER
MEMBER OF CONGRESS

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Communications and Information
Washington, D.C. 20230

AUG 24 2012

The Honorable Sam Graves
Chairman
Committee on Small Business
House of Representatives
Washington, DC 20515

Dear Chairman Graves:

Thank you for the opportunity to testify on July 18, 2012 before the Committee on Small Business at the hearing entitled "Digital Divide: Expanding Broadband Access to Small Businesses." I appreciate your forwarding additional questions for the record to me on July 25, 2012.

My responses to the questions are enclosed. If you or your staff have any additional questions, please do not hesitate to contact me or James Wasilewski, NTIA's Director of Congressional Affairs, at (202) 482-1840.

Sincerely,

Lawrence E. Strickling

Lawrence E. Strickling

cc: The Honorable Nydia Velázquez
Ranking Member, Committee on Small Business

Enclosure

Responses to Questions from the Honorable Gary Peters

1. **Chairman Genachowski, could you provide an update on the "Broadband Adoption Lifeline Pilot Program" and any details on approved projects targeting urban areas?**

NTIA defers to the FCC for a response to this question.

2. **Chairman Genachowski and Secretary Strickling, can you tell us about FCC and NTIA efforts to expand digital literacy in urban areas? Do you coordinate with other agencies on these efforts?**

In the Recovery Act, Congress recognized that, even in locations where broadband facilities do exist, many people do not subscribe to the service and therefore miss out on the benefits that broadband can provide. NTIA invested approximately $250 million in more than 40 projects that use innovative approaches to increase sustainable broadband adoption (SBA) among vulnerable populations. The projects address barriers to adoption and provide broadband education, training, and equipment, particularly to groups that traditionally underutilize broadband technology regardless of where they are located. Already, grantees estimate they have provided more than 7 million hours of technology training to approximately 2 million users, and generated approximately 350,000 new broadband Internet subscribers.

For example, Michigan State University is using an approximately $5 million grant to increase broadband subscribership and use while conducting training for high school students, displaced workers, and small businesses in 11 cities across the state, including several urban areas. In Detroit, Highland Park, and Hamtramck, the project is training high school students in basic web design, citizen journalism, online safety, and online business development. In Lansing, project partners are offering adult learners training in the practical uses of broadband technology as a bridge to later opportunities and as a prerequisite for community college courses. In Jackson, the local community college is tailoring existing digital literacy curricula to displaced former industrial workers, training them for jobs in systems administration or network installation. The project is also serving residents through training and access enhancements in Benton Harbor, Flint, Kalamazoo, Muskegon, Pontiac, and Saginaw. As of the end of 2011, the project had delivered approximately 25,000 hours of training to almost 5,000 residents. This is just one example of how BTOP sustainable broadband adoption projects are making a difference in both rural and urban communities in the United States.

NTIA collaborates closely with other federal agencies in promoting broadband adoption. For example, in May 2011, in collaboration with the Department of Education and other federal agencies, NTIA created DigitalLiteracy.gov to provide librarians, teachers, workforce trainers, and others access to resources and tools to teach computer and online skills necessary for success in today's economy. The portal now contains more than 500 resources (*e.g.*, videos, tutorials, and lesson plans) and receives more than 2,500 unique visitors per month. In the coming year, NTIA will continue to collaborate with partners to promote the use of the portal and acquire

more resources to help users search for jobs, create resumes, and locate career-enhancing training.

3. **Chairman Genachowski, will Universal Service Fund (USF) reform provide adequate funding for expanded broadband adoption programs beyond the Broadband Adoption Lifeline Pilot Program?**

NTIA defers to the FCC for a response to this question.

4. **Chairman Genachowski and Secretary Strickling, do you believe that new legislation to provide support for broadband adoption in the form of tax incentives or new appropriations could help increase adoption rates? Are there additional tools that Congress could provide that would allow your agencies to expand broadband adoption and digital literacy efforts?**

Considering that only approximately 68 percent of Americans subscribe to broadband, there is clearly more work to be done to promote broadband adoption and digital literacy. In total, NTIA received more than 600 SBA applications requesting in excess of $4 billion, approximately fifteen times greater funding than available for SBA projects. The large volume of applications underscores the strong demand for broadband training and support that exists across America. Should Congress determine to make additional funding for broadband adoption programs available, efforts in this area could produce meaningful benefits for Americans in the form of improved job training, education and workforce development.

Going forward, NTIA is working to leverage our projects to the fullest extent possible to help ensure that the benefits they are delivering are sustainable after the projects are completed. One of the ways we will do that is by sharing successful strategies among grantees across the grant portfolio. In addition, NTIA will develop, with the input of BTOP grantees, a "toolkit" of successful adoption strategies to help inform future efforts to promote broadband adoption in the United States.

Federal Communications Commission
Office of Legislative Affairs
Washington, D.C.20554

Office of the Director

November 8, 2012

The Honorable Sam Graves
Chairman
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Graves and Ranking Member Velazquez:

Please find attached responses from Federal Communications Commission Chairman Julius Genachowski to the post-hearing questions from the Committee's July 18, 2012 hearing on the role of the federal government in expanding broadband access to small business in rural America. Please let me know if I can be of further assistance.

Sincerely,

Greg Guice
Director
Office of Legislative Affairs

Enclosure

House Committee on Small Business
"Digital Divide: Expanding Broadband Access to Small Businesses"
July 18, 2012
Additional Questions for the Record

The Honorable Mick Mulvaney

1. The FCC has had special access under consideration for number of years and it has issued two voluntary data requests that sought to obtain data from providers and customers about special access facilities, pricing and competition. This data is necessary to determine whether the special access pricing flexibility granted by the FCC in 1999 is still appropriate and warranted. I understand the vast majority of special access competitors had not responded to the FCC's data request. Why has the FCC not pursued a mandatory data request?

Response: On October 9th I circulated an order to my colleagues at the Commission to conduct a mandatory, comprehensive data collection order that will enable us to evaluate the extent of competition in special access markets and adjust our rules as appropriate.

2. Does the FCC have any plans to set price controls on special access arrangements?

Response: Special access services currently are subject to different levels of regulation, including price caps in some areas. The Commission is actively considering whether and how to modify the regulations that govern special access, and the information obtained through the Commission's mandatory data collection will enable us to move forward.

3. The current USF charge for telecommunications customers is around 18% of their bill. What is the FCC doing to ensure USF rates stay as low as possible?

Response: Fiscal responsibility has been one of the central principles of all aspects of our USF reforms under my chairmanship. Because the contribution factor on consumers' bills is driven by the size of the USF programs, I have focused the Commission on combating waste, fraud, and abuse and controlling spending across USF. For example, in the Lifeline program, which helps ensure affordable service for low-income families, our bipartisan reforms have already produced substantial savings this year, putting the Commission on target to meet our savings goal of $200 million in 2012. In 2011 we acted unanimously to put the USF high-cost fund on a budget for the first time, as we transition from supporting phone service to the broadband-focused Connect America Fund. Along with the existing caps for E-Rate and the Rural Health Care program, these reforms are helping limit the overall contribution burden.

After acting to address waste and inefficiency on the demand side, in April of this year the Commission put forward proposals to reform the contribution side of USF. Contributions reform is part of a broader agency effort to modernize outdated programs, eliminate unnecessary rules, and improve program efficiency and effectiveness. Commission staff is currently reviewing the record developed in the USF contributions proceeding.

4. Currently, almost 90% of Americans have access to wireless services and at competitive, reasonable prices. I'm also told that 95% of Americans have access to broadband from at least one provider. Additionally, there are a number of small business providers that are deploying these services without receiving support from the high-cost fund.

What policies are necessary to encourage more companies to use innovative measures to provide cutting-edge technologies to rural or underserved communities as opposed to relying on government-backed subsidies?

Response: The Commission is taking a number of steps to promote private-sector efforts to deploy broadband in rural and underserved communities. The *USF/ICC Transformation Order* for the first time reformed the high-cost program to ensure that support will no longer be provided in areas where an unsubsidized provider is already providing service. This reform saves universal service funding that would otherwise be wasted or used inefficiently and removes disincentives for private-sector investment. The Commission has also taken important steps to reduce barriers to investment through our Broadband Acceleration Initiative, which has included landmark reforms of the Commission's rules governing pole attachments, tower siting, and access to wireless backhaul. And the Commission has freed up spectrum that can be used to deliver wireless broadband in rural areas, including through innovate solutions like the TV whitespaces.

At what point do you think that USF subsidies will no longer be necessary?

Response: In the Telecommunications Act of 1996, Congress directed the FCC to advance the availability of communications services to all consumers, including those in rural, insular, and high cost areas at rates that are reasonably comparable to those charged in urban areas. With nearly 19 million Americans living in areas that lack basic broadband, the Connect America Fund is critical to satisfying the mandate Congress gave the FCC and connecting all Americans. We have focused our reform efforts on ensuring that broadband is available to all Americans while ensuring the public's dollars are spent wisely and within a defined budget.

5. I understand that the FCC under the Reagan Administration required interoperability of devices to ensure that smaller carriers were able to provide analog services to their customers on a competitive basis with larger carriers. Are the market conditions now the same as they were during that time? Should we be considering another interoperability rule?

Response: The Commission sought comment earlier this year on proposals to ensure interoperability in the lower 700 MHz band, and solicited input on the role of interoperability in enabling a competitive wireless market. Commission staff is currently reviewing the record developed in this proceeding.

6. WBFF 45, a television station in Baltimore, Maryland, recently reported on the Universal Service Fund Lifeline Program. The data referenced in the report showed an increase in Lifeline subscribers in Baltimore from 6,000 subscribers in 2008 to 231,000 subscribers in 2011. This is a 3750% increase in 3 years. To what do you attribute such an explosion in Lifeline participation in Baltimore?

Response: For more than 25 years, the Lifeline program has played a vital role in ensuring that the neediest among us stay connected to our communications networks. When this Commission inherited Lifeline more than three years ago, the program faced real and serious challenges, including rules that failed to keep pace with the boom in mobile service; created perverse incentives for some carriers; and, as we came to see, invited fraud and abuse. Since then, we've rolled up our sleeves to put this program on a sound path and strong foundation. Earlier this year the Commission fundamentally overhauled the program by enacting rules to strengthen Lifeline by eliminating waste, fraud and abuse and getting rid of outdated rules.

In recent years, the primary driver of the increase in the Lifeline program has been the fact that prepaid wireless companies are now eligible for support, a decision made by the previous FCC. In fact, in Maryland, well over two-thirds of Lifeline support goes to prepaid wireless service providers. Unfortunately, much of the fraud and abuse, including duplicative Lifeline service for the same individual, has been from customers of these services. Our reform efforts tackle this challenge head on.

In our recent *Lifeline Reform Order*, the Commission found that Lifeline participation increased significantly in states where consumers were permitted to sign up without showing proof of eligibility (*e.g.*, self certification), and that failing to require proof of eligibility contributed to waste, fraud, and abuse. To correct for this, in the *Lifeline Reform Order*, the Commission required that all subscribers demonstrate their eligibility by showing proof of income or participation in a qualifying program.

The Commission has also been working to eliminate duplicative support payments, which occurs where there is more than one reduced price Lifeline plan in a household. In Maryland, the Commission reviewed over 170,000 Lifeline subscriptions and eliminated support for over 20,000 duplicative subscriptions, which has resulted in over $1.5 million in savings to the Fund in 2012. The Commission plans to review more Lifeline subscriptions in Maryland later this year to continue preventing and eliminating duplicative support. As a result of the Order and steps taken in advance of the Order, over 700,000 duplicate subscriptions have been eliminated in 2011 and 2012, for a total of $80 million in annual savings.

In addition to the steps to eliminate duplicative support, the *Lifeline Reform Order* includes a number of other reforms to constrain program growth, including establishment of national eligibility criteria and a national database, and independent audits in addition to setting an annual savings target for Lifeline. The Order also eliminated Link-Up support on non-Tribal lands, saving nearly $160 million annually. In July, the Wireline Competition Bureau (WCB) issued a Progress Report estimating that Lifeline reforms had already yielded approximately $43 million in savings between April 2, 2012, the effective date of the Order, and July 31, 2012, putting the Commission on target to meet our savings goal of $200 million in 2012. On August 13, 2012, USAC issued a Request for Proposal for a vendor to build the National Lifeline Accountability Database, which will improve detection and prevention of duplicative support going forward.

7. The report said that it only takes 5 to 10 minutes for a person to receive a Lifeline phone. What information and what steps are necessary for an individual to receive a Lifeline phone? About how long would you expect the application, verification, and activation process to take?

Response: Before enrolling an individual in Lifeline, either the phone company or the state Lifeline administrator must verify the consumer's eligibility by reviewing proof of either income or participation in a qualifying program, or by querying a state eligibility database (where available). The *Lifeline Reform Order* requires that consumers show proof of program or income eligibility to the eligible telecommunication carrier's representative and that the representative review the proof for compliance with Commission rules. Once the consumer's eligibility has been verified, the consumer then fills out a Lifeline Eligibility Certification Form. If the consumer states that he or she lives in a multi-household residence, he or she must also fill out a multi-household worksheet. Wireless subscribers must personally activate the service once they receive their wireless handset. Finally, all carriers must annually verify the eligibility of all of their subscribers. This process involves receiving a completed certification from the subscriber that they remain eligible for the program and are not receiving more than one Lifeline service for their household.

8. The report mentioned the FCC's new efforts to track and remove individuals from the program who were receiving more than one Lifeline phone. That is a step in the right direction. However, it is my understanding that it is the participating provider's job to ask whether a person seeking a new Lifeline phone already has one, and to obtain the individual's information and share that information with the FCC's database to track fraud and abuse. The report showcased individuals who were in possession of multiple Lifeline cell phones, received a Lifeline phone while carrying another Lifeline phone, or received Lifeline phones only to turn around and sell them to drug dealers. It seems like there is a disconnect between FCC's plans to address fraud and abuse and what is happening at the cell phone provider level. What is the FCC doing to ensure that participating providers are asking the right questions and collecting accurate, verifiable data on individuals seeking Lifeline phones?

Response: Waste, fraud and abuse in the Lifeline program, by consumers or providers, will not be tolerated while I am Chairman. Even before adopting the *Lifeline Reform Order* earlier this year, the Commission created procedures to detect and de-enroll subscribers with duplicate Lifeline-supported services, identifying more than 200,000 duplicative Lifeline subscriptions for elimination – saving tens of millions of dollars. In February, the Commission fundamentally overhauled the program by enacting rules to strengthen Lifeline by eliminating waste, fraud and abuse and getting rid of outdated rules.

In the *Lifeline Reform Order*, the Commission established new procedures for how consumers are enrolled in Lifeline, including what information must be conveyed to the consumer at sign up. Specifically, all prospective customers must be provided with the following information: 1) Lifeline is a federal benefit and willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program; 2) only one Lifeline service is available per household; 3) a household is

defined for purposes of the Lifeline program, as any individual or group of individuals who live together at the same address and share income and expenses; 4) a household is not permitted to receive Lifeline benefits from multiple providers; 5) violation of the one per household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; and 6) Lifeline is a non-transferable benefit and that subscribers may not transfer his or her benefit to any other person.

In addition, carriers are required to collect the following information from each subscriber, which the subscriber must attest to under penalty of perjury: the subscriber's name, residential address, whether the address is permanent or temporary, the subscriber's billing address if different from the residential address, subscriber's date of birth, the last four digits of the subscriber's social security number or Tribal ID number, and proof of eligibility (if a database is not available to determine eligibility.)

Pursuant to the Lifeline Reform Order, USAC will audit carriers to ensure that this information is being conveyed to subscribers. Any carrier that violates the Commission's low-income rules faces stiff penalties, including monetary forfeitures of up to $150,000 for each violation, and up to a maximum of $1,500,000 per continuing violation. In addition, a carrier could face revocation of its eligible telecommunications carrier (ETC) designation for failure to comply with program requirements. One company has already been stripped of its designation to participate in the program, and the Commission has other investigations ongoing.

Finally, it is important to note that, as required by the *Lifeline Reform Order*, the Universal Service Administrative Company (USAC) recently released an RFP to establish the National Lifeline Accountability Database. This database will be the permanent solution to detect and eliminate duplicative Lifeline support. Using the information each carrier collects (as described above), carriers will be required to input subscriber information into the database so that other carriers can check to see if a potential subscriber is already receiving a Lifeline benefit from another provider. This automated process will be in place in 2013 and will be a major step forward in ending duplicates within the Lifeline Program.

Since implementing your new processes for Lifeline, has the FCC been made aware of any articipating providers who routinely are providing phones to individuals who have already ceived a Lifeline phone? If so, how have you responded to both the provider and the dividual? Is there any penalty for engaging in such activity?

Response: One company has already been stripped of its designation to participate in the program, and the Commission has other investigations ongoing. Any carrier that violates the Commission's Lifeline rules may face penalties including monetary forfeitures of up to $150,000 for each violation. In addition, a carrier could face revocation of their authorization to operate as an eligible telecommunications carrier. In addition, all Lifeline subscribers are required to acknowledge that providing false or fraudulent information to receive Lifeline benefits is punishable by law. Consumers willfully making false statements

open themselves up to penalties of perjury and can be punished by fine or imprisonment or can be barred from the program.

The Honorable Kurt Shrader

1. The Notice of Proposed Rulemaking (NPRM) on interoperability in the Lower 700 MHz band that was issued this past March considers requiring interoperability in the Lower 700 MHz band. The deadline for comments was June 1st and reply comments July 16th. One of the frequent comments I receive is the lack of certainty with FCC actions and as a result there is an inability for many businesses to proceed with building out their networks to ensure they will have access to devices. Can you please provide the committee with an exact timeframe of when the Commission will make a decision on interoperability?

Response: Staff is currently evaluating the record of more than 200 comments filed in this proceeding. The comment cycle in this proceeding closed on July 16, and staff is already engaged in evaluating the record, including information that has been added to the record as recently as the end of October. The Commission is actively working to address this critical issue.

The Honorable Gary Peters

1. Chairman Genachowski, could you provide an update on the "Broadband Adoption Lifeline Pilot Program" and any details on approved projects targeting urban areas?

Response: The Broadband Adoption Lifeline Pilot Program was created in January 2012 using savings from the reforms we instituted in the Lifeline program of the Universal Service Fund. On April 30, 2012 the Commission released a Public Notice announcing the deadline for applications for the pilot program of July 2, 2012. The Commission received more than 20 applications and is currently evaluating them.

2. Chairman Genachowski and Secretary Strickling, can you tell us about FCC and NTIA efforts to expand digital literacy in urban areas? Do you coordinate with other agencies on these efforts?

Response: The FCC worked closely with NTIA and eight other agencies to develop an online forum called DigitalLiteracy.gov, which serves a resource for librarians, teachers, workforce trainers, and others to collaborate and develop best practices for improving digital literacy initiatives in their communities.

The FCC also helped catalyze the creation of Connect2Compete, a public-private partnership that not only provides low-cost broadband access and computers to low income Americans, but also connects consumers to digital literacy training in their communities to ensure that they are equipped to take full advantage of the benefits of broadband. In July,

Connect2Compete expanded to include the Department of Labor as an outreach partner. The Department of Labor's participation will bring digital literacy training to their network of nearly 2,800 employment and training centers across the country.

3. Chairman Genachowski, will Universal Service Fund (USF) reform provide adequate funding for expanded broadband adoption programs beyond the Broadband Adoption Lifeline Pilot Program?

Response: The Broadband Adoption Lifeline Pilot Program is a key step in transitioning USF to support broadband, including to increase broadband adoption. As we learn from the data the Program will generate, we will have a better understanding of how limited USF resources can best be used to increase broadband adoption.

4. Chairman Genachowski and Secretary Strickling, do you believe that new legislation to provide support for broadband adoption in the form of tax incentives or new appropriations could help increase adoption rates? Are there additional tools that Congress could provide that would allow your agencies to expand broadband adoption and digital literacy efforts?

Response: I welcome the opportunity to work with Congress to increase broadband adoption. The Commission's Broadband Adoption Lifeline Pilot Program requires participants receiving support to design projects that will generate important new data on how support for the monthly cost of broadband can increase broadband adoption among low-income Americans. This information will help inform potential next steps, including steps that Congress can take to help tackle this important issue.

The Honorable Janice Hahn

1. Broadband investment provides substantial benefits to consumers and small businesses. Thanks to the FCC's thoughtful and inclusive approach, investment in fiber has skyrocketed since 2003. In April, the Wall Street Journal reported that 19.2 million miles of fiber were installed in the United States compared to the 5 million miles installed during 2003. There are now 770 carriers deploying Fiber-to-the-Home around the country.

Fiber now passes over 22.6 million U.S. homes compared to only 180,000 in 2003. Analysts report that 8 million American homes are now connected by fiber and that roughly 32% of commercial buildings in the United States have access to fiber. Thus, we must make sure that future regulation continues to promote competition and foster growth as we continue to make these much needed investments.

So with these facts in mind, I have a question about the FCC's role in future fiber deployment. What are the future plans for the FCC to regulate fiber services?

Response: Ensuring strong incentives to invest in fiber, mobile, and other advanced communications infrastructure has been one of the FCC's top priorities under my leadership. And fiber deployment has been increasing: More than 19 million miles of optical fiber were installed in the United States in the last year, "the most since the boom year of 2000," according to *The Wall Street Journal*. Promoting competition and removing barriers to investment have been vital parts of this success.

I remain committed to policies that promote competition, remove barriers to broadband buildout, and protect and empower consumers, all of which are critical to robust network investment.

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July 18, 2012

The Honorable Sam Graves
Chairman
Committee on Small Business
United States House of Representatives
2361 Rayburn Office Building Washington, DC 20515

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
United States House of Representatives
2361 Rayburn Office Building Washington, DC 20515

Re: July 18, 2012, Hearing Entitled: *Digital Divide: Expanding Broadband Access to Small Businesses*

Dear Chairman Graves and Ranking Member Velazquez:

Thank you for convening a hearing on expanding broadband access to small businesses. This hearing is very important, and we appreciate the Committee's leadership on ensuring that our nation's small businesses have the tools necessary to remain competitive in the global economy.

Founded in 1995 in San Jose, Calif., eBay Inc. connects millions of buyers and sellers globally on a daily basis through eBay, the world's largest online marketplace, and PayPal, which enables individuals and small businesses to securely, easily, and quickly send and receive online payments. We also reach millions through specialized marketplaces such as StubHub, the world's largest ticket marketplace, and eBay classifieds sites. Currently, we have over 102 million users worldwide and in the first quarter of 2012 alone over $16 billion in goods were traded on our site.

Most relevant to the matter before the Committee is that for the past 17 years, eBay has consistently been an Internet platform that has empowered consumers and millions of small business retailers and entrepreneurs across the globe. eBay is dedicated to connecting consumers with small business retailers and entrepreneurs that can provide the opportunity to purchase quality products and services at competitive prices from the convenience of their homes.

eBay believes that access to the Internet and therefore unfettered access to global trade empowers consumers and promotes economic development, in particular among small businesses and entrepreneurs that use the Internet to reach a global audience. Over the past decade, broadband Internet has been a critical technological tool that has forever changed the way we live, think, communicate, conduct business, and even shop. The Internet is not only the product of innovation, but it is a tool for innovation itself and it has empowered consumers and small entrepreneurs from all corners of the globe to connect in a way that was impossible before the World Wide Web.

Due to the importance of the Internet and the ecommerce market to the success of small businesses across the country, eBay strongly believes that small business empowerment and access to broadband Internet should be an important principle as policymakers look to shore up our economy.

Internet Empowers Small Business Entrepreneurs

Over the past 15 years, the Internet has enabled millions of small business retailers and entrepreneurs across the country to engage in global commerce. Through these new opportunities, small business leaders and entrepreneurs have been able to grow their businesses, create new jobs, and contribute more effectively to their local economy.

The Internet and the global ecommerce market has been a very effective platform for small business retailers for a number of different reasons. In particular, the Internet has opened up new opportunities for small businesses by significantly lowering the barriers to enter into a global market. It is very expensive to establish and maintain a new brick-and-mortar store in today's economy. However, the ecommerce platform has enabled small businesses to quickly and cost-effectively create an online store and scale up with few of the costs or limitations associated with establishing a brick-and-mortar shop. In addition, many established small brick-and-mortar retailers have also taken advantage of the ecommerce market and have been able to survive on Main Street by selling a percentage of their inventory online. Without access to high-speed Internet, that wouldn't even be an option to our Main Street businesses.

In light of the low barriers to entry, we have also found that a number of the individuals that start a small online business on our site have experienced difficult personal circumstances. In a study recently commissioned by eBay, we found that 26% of the small business retailers in that country set up their business on eBay after being unemployed; 14% have physical disabilities; and 49% do not have a diploma higher than high school.

Access to the Internet also allows small business entrepreneurs to reach consumers across the globe with little difficulty or cost, which greatly expands their business opportunities. In fact, 30% of all of the transactions on eBay today comes from cross border trade and 90% of small businesses on eBay export. Without access to the Internet, cross border trade would be extremely difficult for these small businesses.

Furthermore, the Internet has also been a critical tool to disadvantaged communities or groups looking to thrive and not just survive. As this Committee is well aware, the

Telecommunications Act of 1996 required that consumers in rural areas have access to advanced services and rates that are reasonably comparable to those available in urban areas. When local communities are connected to the Internet, it creates a unique opportunity for small entrepreneurs of every walk of life and geographical area to engage in global commerce without needing to move to an urban location. The Internet is empowering these individuals, as well as augmenting local communities' economic development.

In fact, with the expansion of broadband to rural areas in particular, we have seen more and more rural merchants become eBay top-rated sellers. In 2011, rural-based top-rated sellers did over $2.9 billion in total sales so far this year. That's a $26 million increase in rural-generated sales over comparable 2010 data.

In today's current economic environment, it is imperative that policymakers strive to protect our small businesses and entrepreneurs and encourage their growth and sustainability by giving them the opportunity to access tools, like the Internet, that are critical to participating in the global economy. As we all know, small businesses are extremely important to the United States' path towards economic recovery. Small businesses are the lifeblood of America, and, according to a recent study released by the U.S. Small Business Administration, small businesses created 70% of the new jobs in the U.S. over the past decade and are responsible for half of all jobs in the private sector.

Small online retailers and entrepreneurs are helping to play a critical role in restoring our nation's economy and creating jobs. For example, eBay's highest rated U.S.-based sellers, those who provide the best overall experience to customers, increased their year-over-year same store sales by almost 14% in the second quarter of 2009, which was a significant achievement in a tough economy when many businesses were either laying off employees or closing their doors. Small online retailers and entrepreneurs have become an integral part of our nation's economy and this will only continue if they have continue to have access to high-speed Internet.

Conclusion

eBay thanks the Committee for its commitment to expanding broadband Internet to America's small businesses. Access to the Internet and the global economy is critical to the continued success of small businesses and entrepreneurs. eBay looks forward to working with the Committee in the months and years ahead on the various policies that have the potential to promote the growth of small online businesses and entrepreneurs, and ultimately create an environment for job growth and economic development.

Statement of the American Farm Bureau Federation

TO THE

HOUSE COMMITTEE ON SMALL BUSINESS

RE: EXPANDING BROADBAND ACCESS TO SMALL BUSINESS

July 18, 2012

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The American Farm Bureau Federation believes high-speed broadband services have great potential to bring business opportunities to rural Americans. Farm Bureau represents more than 6 million families who live and work in rural America.

The Small Business Administration (SBA) conducted a study in 2010 that evaluated the methods used by small businesses to access broadband services and the impact of broadband on small businesses. The study found that broadband service is vital for small businesses in "achieving strategic goals, improving competitiveness and efficiency, reaching customers, and interacting with vendors."[1] Farmers and ranchers in rural America rely on broadband access to manage and operate successful businesses, the same as small businesses do in urban America. Access to broadband allows farmers and ranchers to follow commodity markets, communicate with their customers and gain access to new markets around the world.

Many farmers and ranchers conduct their business operations from their homes. The U.S. Department of Agriculture reports a total of 62 percent of U.S. farms had Internet service in 2011, compared with 59 percent in 2009.[2] This upward trend of Internet access must continue if farmers, ranchers and other small businesses in rural America are going to thrive and be successful in a global economy. Thirty-eight percent of farms use DSL to access the Internet, the most commonly used method.[3] However, 48 percent of rural small businesses are not satisfied with the speed of their Internet connection.[4] According to the SBA study, the lack of competition within the Internet market limits Internet options available for small businesses to find the best package of speed and price.[5] Farmers, ranchers and other small businesses need competition within the Internet market to allow them to access the most cost-effective Internet option.

As government agencies rely increasingly on information technology to disseminate and collect information, affordable, high-speed, home-based broadband connectivity is becoming a necessary tool for farmers and ranchers. Farmers and ranchers without access to affordable, high-speed Internet connections eventually might be unable to comply with government regulations, take advantage of government services or gain market information. Therefore, affordable home broadband access is vital to keeping American agriculture competitive in the world marketplace.

America's farmers and ranchers need viable rural communities to supply the services needed to support their families and agricultural operations. To thrive, rural areas need access to health care, government services and educational and business opportunities. For many rural communities access can only be gained by using broadband services and sophisticated technologies that require high-speed connections. Rural business owners need access to new markets and well-educated employees for their businesses. Rural health care providers need access to health information technology. Rural students need access to educational resources and continuing education opportunities.

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[1] U.S. Small Business Administration, *The Impact of Broadband Speed and Price on Small Business.* 2010 Nov. http://archive.sba.gov/advo/research/rs373tot.pdf.
[2] U.S. Department of Agriculture, *Farm Computer Usage and Ownership*, National Agricultural Statistics Service. 2011 Aug. http://usda01.library.cornell.edu/usda/current/FarmComp/FarmComp-08-12-2011_new_format.pdf.
[3] Ibid.
[4] U.S. Small Business Administration, http://archive.sba.gov/advo/research/rs373tot.pdf.
[5] Ibid.

Current and future generations of rural Americans will be left behind their fellow citizens if they are without affordable, high-speed broadband service to tap into health care and educational services, government agencies and new business opportunities.

Farm Bureau calls on Congress to join it in making a commitment to revitalizing our rural communities and ensuring the health and welfare of present and future generations of rural Americans by expanding broadband access to rural America at an affordable rate.