Statement by

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On behalf of

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INTRODUCTION

The Rural Telecommunications Industry

Chairman Moran, Ranking member Merkley, and members of the subcommittee, thank you for this opportunity to testify before you about rural telecommunications and its impact on rural development. I am Brian Boisvert, CEO/General Manager at Wilson Communications. My remarks today are on behalf of Wilson Communications, as well as NTCA–The Rural Broadband Association and their several hundred small community-based members that provide a variety of communications services throughout the rural far reaches of the nation.

I have been part of the rural telecommunications industry for 37 years and with Wilson for the past 15 years. Wilson Communications is a local telecommunications provider serving 1,500 rural Kansans over a 1,000 square-mile area. Wilson has 17 employees. We provide wireline voice, high-speed broadband and video services over a fiber optic-based network. We have been REA/RUS borrowers since 1956 and have a current loan for our FTTH build.

Small, rural telecom providers connect rural Americans to the world. Moreover, these rural network operators have been at the forefront of the broadband and Internet Protocol ("IP") evolution for years, making every innovative effort to deploy advanced networks that respond to consumer and business demands for cutting-edge services. In rural America, that translates into economic development that produces jobs, not only in agriculture, energy and other industries with a strong rural presence, but in the healthcare sector, and just about any other retail industry that requires broadband to operate in this day and age. Broadband has become essential to delivering healthcare and securing the public safety. And much of the business world is already demanding higher broadband speeds to help it interact with and sell to customers near and far. Broadband and other services provided by the rural telecom industry serve as an incubator for small business ideas in rural America to be implemented and to flourish.

Fixed and mobile broadband, video and voice are among the numerous telecom services that rural Americans can access thanks to the rural industry's commitment to serving sparsely populated areas – and the rural development and other essential governmental programs that make it possible to carry out this commitment. Broadband-capable networks facilitate greater interconnection of the community's resources and can enable citizens' participation in the global economy, blue-ribbon education, first-rate healthcare, cutting-edge government services, robust security and more efficient energy distribution and use.

The rural telecom industry has always been at the forefront of technological innovation, being the first segment of the industry to completely convert to digital switched systems, provide wireless options to their hardest to reach customers, offer distance learning and tele-health applications, provide cable-based video, then satellite video, and now IP video to their markets, and it was a member of the RLEC community that first deployed an all-fiber system. The rural industry continues to lead in the deployment of broadband capable infrastructure.

RURAL BROADBAND BENEFITS THE ENTIRE U.S. ECONOMY

A series of studies confirms that significant benefits flow from rural broadband investment to broader urban and statewide populations. For example, the Hudson Institute has found that investment in rural telecommunications delivers real payback for the entire nation, generating $14.4 billion annually in economic activity as of 2011 -- $9.6 billion of which accrued to the benefit of urban areas, and more than

70,000 jobs, 45% of which were placed in urban areas.[1] In Colorado, rural telecom helped create 428 jobs, adding over $21 million per year to state payrolls.[2] North Dakota saw an additional $18 million in Federal tax revenue and $31 million in state tax revenue arising out 1,100 direct jobs and 800 secondary jobs generated by rural telecommunications activity.[3]

The converse holds true, however, from adverse changes – "reforms" that depress or cut investment in rural broadband hurt state economies. In Kansas, for example, potential cuts in Federal rural telecom programs were projected to result in $1.4 million in personal income tax losses and $1.3 million in retail sales tax losses.[4] A personal income loss of $14.1 million was projected for 2012 alone in New Mexico from the same proposed cuts.[5] Studies examining the impact of rural communications activity – including purchasing, employment figures, and projected tax revenues – confirm rural communications to be a powerful generator of urban economic growth and federal and state tax revenue. In short, rural broadband is an investment with real benefit and returns for the nation as a whole.

To not have access to high-speed Internet in this day and age is unimaginable to most people, yet millions of Americans live in areas – mostly in rural territory served by carriers other than small, rate-of-return providers similar to Wilson – where there is no robust broadband that enables meaningful access to the countless economic and educational opportunities available through the Internet. These people have small business ideas that need broadband to succeed and they need jobs that small businesses can provide. Yet, as important as it is to deliver broadband to the unserved, it's equally vital that those already receiving broadband remain served – the benefits that flow from broadband are ongoing. If a network is built in a rural area but then becomes unsustainable or the services over it unaffordable or of poor quality, such developments deny the benefits of broadband for small businesses and all consumers. Thus, the mission of universal service – and the economic benefits it delivers locally and to the nation as a whole – require ongoing operations, effort, and support to be realized.

RURAL UTILITIES SERVICE FINANCING

RUS Role in Rural Telecom Deployment

USDA's Rural Utilities Service (RUS) plays a crucial role in rural broadband deployment through its telecommunications programs that finance network upgrades and deployment in rural areas. RUS has been lending for broadband capable plant since the early 1990s. RUS lending and Universal Service Fund (USF) support are inextricably linked as more than 99% of RUS Telecommunications Infrastructure

[1] Kuttner, Hanns, The Economic Impact of Rural Telecommunications: The Greater Gains, HUDSON INSTITUTE, at 6, 8 (2011).

[2] Shields, Martin, Cutler, Harvey, and Marturana, Michael, The Impacts of Colorado Telecommunications Association Members on the Colorado Economy, REGIONAL ECONOMICS INSTITUTE, COLORADO STATE UNIVERSITY, at 9 (Oct. 26, 2011).

[3] McKee, Gregory, The Effect of Changes in Universal Service Funding on the Economic Contribution of Rural Local Exchange Carriers to the North Dakota State Economy, DEPARTMENT OF AGRIBUSINESS AND APPLIED ECONOMICS, AGRICULTURAL EXPERIMENT STATION, NORTH DAKOTA STATE UNIVERSITY, at 16-19 (Dec. 2011) ("Like other RLECs, North Dakota RLECs buy many specialized products and services not available in state economies. National and international markets typically provide these products and services.").

[4] Kansas Rural Local Exchange Carriers: Assessing the Impact of the National Broadband Plan, W. FRANK BARTON SCHOOL OF BUSINESS, CENTER FOR ECONOMIC DEVELOPMENT AND BUSINESS RESEARCH, WICHITA STATE UNIVERSITY, at 11, 12 (2011).

[5] Peach, James, Popp, Anthony V., and Delgado, Leo, The Potential Economic Impact of the National Broadband Plan on the New Mexico Exchange Carriers Group, OFFICE OF POLICY ANALYSIS, ARROWHEAD CENTER, NEW MEXICO STATE UNIVERSITY, at 18 (2011)).

borrowers receive high cost USF support. The presence of high cost recovery through USF support is therefore crucial to the RUS telecom and broadband loan calculus. RUS programs have helped rural providers deploy modern networks in many rural areas where the market would otherwise not support investment. Reliable access to capital helps rural carriers meet the broadband needs of rural consumers at affordable rates.

Unfortunately, the success, momentum, and economic development achieved from the RUS's telecommunication programs were put at risk as a result of the regulatory uncertainty arising out of USF reforms – some enacted, some revoked, and some still pending consideration – which are discussed in greater detail below. It will be all the more important to continue providing RUS with the resources it needs to lend to the rural telecom industry as demand for financing should increase when reforms are improved and small carriers are given certainty, hopefully through targeted updates to the existing USF programs designed to re-establish clarity and promote broadband investment. As Congress continues to grapple with where to best direct scarce resources, it's important to note that the RUS Broadband Loan Program and the traditional Telecommunication Infrastructure Loan Program make loans that must be paid back with interest – creating a win/win situation for rural broadband consumers and taxpayers. Rural providers look forward to building on an already successful partnership with RUS.

Appropriations

We appreciate the Appropriations Committee's efforts to ensure the FCC continues to receive direction with respect to USF cost recovery support and making sure that the RUS Telecommunications Program is adequately funded. The committee agreed as well with NTCA's request to extend the prohibition on the FCC from subjecting USF to the federal Anti-Deficiency Act through December 31, 2017, and to extend the long-running prohibition on any sort of primary-line restriction on USF support through the end of fiscal year 2016. The committee further agreed to reject the Administration's budget request to divert $25 million in USF funds for additional unnecessary reviews and investigations in the wake of a series of earlier costly audits that identified no noteworthy program issues to begin with. This subcommittee also favorably responded to NTCA's request for report language directing the FCC to complete the development of a fully functional, broadband-oriented USF program for rural rate-of-return carriers. Mirroring language was also included in both the FCC bill and the RUS appropriations bills directing the two agencies to work together to ensure that the USF and RUS programs operate in a coordinated fashion rather than to the possible detriment of one another. Clearly this subcommittee played an integral role in developing each of these initiatives and ensuring they were a part of the package agreed to by the full committee, and we applaud your leadership.

UNIVERSAL SERVICE

The FCC's Universal Service Fund Reforms

RUS programs represent one important side of the coin – governmental programs intended to provide capital to enable investment in infrastructure in rural areas. As mentioned earlier, however, there is another, equally important side of that coin – governmental programs intended to ensure that networks, once deployed, can be maintained and upgraded, and that services offered atop those networks will remain affordable and of high-quality for consumer adoption and use.

No issue is perhaps more important to the fundamental capability of small telcos to deliver services in high-cost, sparsely populated rural markets than the availability of sufficient and predictable universal service support. The ongoing availability of USF support is essential to ensure that rural telcos can make the business case to invest in robust advanced networks, to enable the operation of those networks over

many years, and to facilitate consumer use of services at affordable rates. (USF support is, in this regard, an essential complement to RUS programs that only serve to finance network construction in the first instance.) NTCA has made substantial efforts to restore regulatory certainty to the USF program, and has sought thoughtful upgrades to the USF mechanism consistent with a broadband-oriented world.

For rural areas like those served by Wilson Communications and other NTCA members, FCC rules still require customers to purchase landline voice telephone service in order for their connection to receive USF support. The customer is thus effectively denied the option of cutting the landline-voice cord and purchasing only broadband. Such outdated rules that undermine consumer freedom and inhibit technological evolution present an obstacle to the technology transition that consumers and industry are making and the FCC is working to expedite and facilitate in other contexts. While Universal Service programs should certainly support and require the offering of voice services, it should not compel consumers to buy voice to obtain affordable broadband. The FCC should move forward immediately to adopt and implement a carefully tailored update of USF that will provide sufficient and predictable support for broadband-capable networks in areas served by smaller rural carriers. Earlier this year, over 175 members of Congress (including 61 senators) wrote to FCC Chairman Wheeler, urging him to make targeted fixes to the existing USF mechanism to solve "the standalone broadband problem."[6]

The FCC is in the midst of considering such reforms now, and has made commitments to many in Congress to take action on "the standalone broadband problem" by year's end. We have been working closely as an industry with the FCC and other stakeholders to make this a reality. It is key, however, to ensure at the same time that these reforms are undertaken thoughtfully, with an understanding of the consequences of specific changes on investment incentives, access to capital, and ultimately consumers. As an industry that lived through a series of reforms in 2011 that created confusion and uncertainty and ultimately only depressed investment – until Congress helped to push the FCC to roll back some of the worst parts of that reform – it is essential to rural telcos that reform both gets done *quickly* ***and*** gets done *right*. We hope that the FCC will find a way to deliver on the requests of Congress to fix the standalone broadband problem, and we are committed to staying at the table to come up with a solution that responds to that call, fulfills shared principles for reform, and ultimately comports with the statutory mandates for a sufficient and predictable support mechanism that enables the offering of reasonably comparable services at reasonably comparable rates in rural and urban America both.

The broadband revolution presents major opportunities for small businesses to innovate and grow, but the business (or entrepreneur with an idea) must have broadband access to take full advantage. Markets will ensure many consumers realize the full benefits of innovation at the lowest possible prices, but in rural areas there are often no such markets to speak of. Though small, rural providers have been leaders in broadband investment under the current statutory and regulatory regime, further law and policy changes will be necessary to ensure high cost rural areas remain served. A faithful and disciplined approach to the core Communications Act principle of universal service must therefore ensure that, even in the event of any statutory or regulatory update, those areas served through support from federal and state USF mechanisms not only "become" served in the first instance, but that they "remain" served, and that consumers and businesses everywhere can make full use of sustainable advanced communications services at affordable rates.

Finally, Congress should consider an express directive to the FCC to ensure that all who use our nation's networks – by whatever service or technology – are responsible to contribute to the universal well-being and availability of those networks on an equitable basis. USF is still funded by assessing interstate and

[6] *See* US Senate letter led by Senators Thune and Klobuchar dated May 11, 2015 and US House letter led by Representative Kevin Cramer dated May 12, 2015, both sent to FCC Chairman Wheeler.

international long distance telephone service. The pool of assessable telecommunications service revenues is shrinking even as overall communications-related revenues grow. As a result, the USF program effectively has an artificial funding ceiling that lowers a bit each day due to the failure to broaden the contribution base. This de facto cap on the USF program will handicap severely our nation's ability to fulfill the statutory core principles unless changes are made. Indeed, broadening the contribution base to include the services that USF already supports has previously received bipartisan backing in the US House.[7]

CONCLUSION

Entrepreneurial small rural carriers have leveraged public and private capital, universal service support, and public-private partnerships to lead the ongoing IP Evolution. These small businesses play an essential role in deploying broadband to rural areas, and the services enabled by broadband are essential to the startup, operation, and growth of other rural small businesses. Rural America has a bright future powered by smart technologies that promote affordability, sustainability, and efficiency in the operation of rural industry and the delivery of essential services such as healthcare, education, and public safety – all key to rural population growth. The benefits that some rural communities are already experiencing will only be possible for all if robust broadband is available, affordable and sustainable. Rural telecom providers and lenders such as RUS must have regulatory certainty before they can make greater investments in the networks of the future. One important key to regulatory certainty is a broadband-oriented support mechanism for small, rate-of-return carriers that gives rural consumers options in selecting the services that best fit their needs on the networks that the mechanism helps to enable and sustain.

[7] *See* H.R. 5828 § 102(a), 111th Cong., 2d Sess. (2010).