



Statement by

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On behalf of the

National Telecommunications Cooperative Association

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Committee on Agriculture

Subcommittee on Rural Development, Research,

Biotechnology, and Foreign Agriculture

"To review the Role of Broadband Access in Rural Economic Development"

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I. Introduction

Thank you for the invitation to participate in today's discussion on the role of broadband access in rural economic development. Broadband has quickly become an essential service that plays a key role in creating and keeping jobs in rural America.

For the past year I have served as the Legislative and Government Affairs Manager of McDonough Telephone Cooperative, which is headquartered in Colchester, IL. Prior to my current position, I served as a data processing commercial office supervisor for 29 years. I regularly work with the National Telecommunications Cooperative Association (NTCA), which represents small, community-based telecommunications cooperatives and other small telecom providers in Washington, DC. My remarks today are on behalf of McDonough, as well as NTCA and its more than 570 small community-based members that provide a variety of communications services throughout the rural far reaches of the nation.

We believe our industry is uniquely qualified to participate in today's discussion because we are consumer-centric small businesses that are leading the way in deploying high-speed, sustainable broadband to rural America. McDonough, similar to nearly half of NTCA's other members, operates and functions as a cooperative. In a cooperative structure, the consumers are also the owners, so every idea and every action is made from both an owner and a consumer perspective – the two are truly one and the same. Likewise, with regard to the other half of NTCA's members, those that are family or commercially owned and operated, again their focus is consumer-centric because they are locally owned and operated. And, very importantly, in both cases these companies exist to provide service rather than to generate owner value.

McDonough's top priority has always been to provide every one of our consumers, who are also our owners, with the very best communications and customer service possible. McDonough has several lines of business, including ILEC, CLEC and ISP. Make no mistake – while our headquarters are in Colchester, we in fact serve over 3,400 customer lines across our 1,016 square mile rural service area that is spread across the western portion of the state of Illinois. This constitutes about 3.4 customers per square mile. We employ a total of 48 people and in 2010 our annual operating revenue was about \$6.5 million

dollars. Our service area is rural and sparsely populated, requiring great effort to get advanced services to our customers. In our industry's parlance, as a small rural provider of this size, McDonough is a Tier 3 carrier.

Let me give you a quick snapshot of how McDonough compares with several other industry entities. Verizon, AT&T, and CenturyLink are classified as large, or Tier 1 carriers, and also operate in multiple states. Verizon has a workforce of nearly 194,000 and annual revenues of \$106.6 billion. AT&T has a workforce of 266,590 and annual revenues of more than \$123 billion. CenturyLink has a workforce of 45,000 and operates in 37 states. Clearly with operations of this size, the priorities, objectives, and sources of capital are generally far different from McDonough's community-based limited-scale approach to doing business.

The entrepreneurial spirit of McDonough is representative of our approximately 1,100 small rural counterparts in the industry, who together serve approximately 40% of the nation's land mass, yet about 5% percent of the population. Like the vast majority of our rural colleagues, McDonough has always been an early adopter of new technologies and services. McDonough currently has 5 Megabit broadband service available to 100% of our service area and we are currently working on a strategic network plan to deliver even higher speed services that our members are demanding. Rural Americans throughout McDonough's service area, and indeed throughout the markets of NTCA members, are enjoying universal voice service, access to broadband Internet services, and enhanced emergency preparedness.

II. Broadband Drives Economic Development

The American Economy runs on broadband. As the FCC stated in its February Notice of Proposed Rulemaking for Universal Service Fund and intercarrier compensation reform:

Ubiquitous broadband infrastructure has become crucial to our nation's economic development and civic life. Businesses need broadband to start and grow; adults need broadband to find jobs; children need broadband to learn. Broadband enables people with disabilities to participate more fully in society and provides opportunity to

Americans of all income levels. Broadband also helps lower the costs and improve the quality of health care. As important as these benefits are in America's cities—where more than two-thirds of residents have come to rely on broadband—the distance-conquering benefits of broadband can be even more important in America's more remote small towns, rural and insular areas, and Tribal lands. Furthermore, the benefits of broadband grow when all areas of the country are connected. More users online means more information flowing, larger markets for goods and services, and more rapid innovation.¹

To not have access to high speed Internet in this day and age is unimaginable to most people, but as many as 24 million Americans—one in thirteen of us—live in areas where there is *no access to any broadband network*. According to the FCC's National Broadband Plan, 14 million people do not have access to terrestrial broadband capable of download speeds that "can support today's and tomorrow's applications," and such housing units are more common in rural areas.

The National Telecommunications and Information Administration's November 2010 report titled "Exploring the Digital Nation: Home Broadband Adoption in the United States" stated that home broadband usage went from 51% in 2007 to 64% in 2009.² Since 2001, household broadband Internet use has grown from 9% to 64%, an increase of more than 600%. Sixty-six percent of urban (metropolitan) Americans subscribe to broadband at home, as compared with 51% of rural (nonmetropolitan) Americans. If rural America is going to keep pace with urban America, then rural Americans need to understand the benefits of broadband and have affordable access to it.

The economic benefits of broadband have been reported far and wide. Recent studies conclude that every one percentage point increase in broadband penetration in a state increases overall employment

¹ *Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing a Unified Inter-carrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up: Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, FCC 11-13, at para. 3 (2011) (NPRM).

² <http://www.esa.doc.gov/sites/default/files/reports/documents/report.pdf>

by 0.2% to 0.3% a year.³ Further, an area moving from no broadband providers to one to three providers during the years 1999 through 2006 realized 6.4% employment growth on average.⁴

Consumers view broadband as an advantage: 66% of consumers see the lack of broadband access as a disadvantage in identifying job opportunities and gaining job skills, 62% see the lack of broadband access to be a disadvantage in obtaining health information, and 56% see lack of broadband as a disadvantage in using government services.⁵

The numbers demonstrate that broadband is being deployed to rural America. USDA's National Agricultural Statistics Service's August 2011 report on Farm Computer Usage and Ownership revealed that 62 percent of U.S. farms now have Internet access, compared with 59 percent in 2009. Broadband DSL is now utilized on 38% of US farms. Dialup access on farms went from 23 percent in 2009 to 12 percent in 2011. Rural providers have made basic levels of broadband service available to over 90 percent of rural consumers in sparsely populated areas.

At the same time, USDA's Economic Research Service reports that over the course of the past decade the rural population has grown at less than half the rate of the metropolitan population. And as Chairman Johnson stated when he announced this hearing, many rural communities are experiencing "more deaths than births." Broadband deployment and adoption in rural America must increase at a faster rate in order to reverse the trend of rural flight. As more and more commerce, government services, and education moves over broadband, it will only become more important to provide this service to rural areas to bolster economic activity that will be necessary to attract and retain more Americans.

III. Universal Service/Intercarrier Compensation Reform

The Universal Service Fund (USF) and intercarrier compensation (ICC) have long played a role in supporting telecommunication services in rural areas. These programs enable a public-private partnership and have ensured that Americans living in rural areas of the country receive voice service

³ http://www.brookings.edu/~media/Files/rc/papers/2007/06labor_crandall/06labor_crandall.pdf

⁴ http://www.ppwc.org/content/pubs/report/R_110JKR.pdf

⁵ <http://pewinternet.org/Reports/2010/Home-Broadband-2010.aspx>

comparable in performance and price to those living in more urban areas. However, the time has come to update these important network support mechanisms to ensure that all Americans have the opportunity to experience the benefits offered by a nationwide integrated advanced communications network.

Today, telecom providers and policy makers alike are shifting their focus from voice services to broadband, which offers the promise of being the great equalizer between rural and non-rural areas of our nation. Rural communications service providers are working to replicate the success of their telephone service build-out by steadily deploying broadband infrastructure and related services to an increasing percentage of their subscribers.

But this task is not easy, and more remains to be done. A typical self-sustaining business plan in an urban area is much more difficult to implement in rural markets. It is in these high-cost areas that universal service remains critical to overcome the economic challenges of deploying communications networks.

The Federal Communications Commission (FCC) is currently undergoing a proceeding to reform USF and ICC and may act as early as October on a final ruling. As part of this effort, the rural local exchange carriers submitted a reform proposal in April 2011, and later modified it to reach a Consensus Framework agreement with larger providers. This agreement advances the Commission's objectives for reform while targeting the current budget as a goal and adhering to the principles for universal service mandated by the Telecommunications Act of 1996.

The Consensus Framework reflects extensive discussions and development efforts among representatives of the nation's largest and smallest telecommunications service providers. It represents a landmark agreement among parties whose individual views of USF and ICC reform diverge greatly. Difficult and meaningful compromises were made in the negotiating process, as parties sought to promote broadband deployment and support network maintenance in a way that would meet Commission goals and restore regulatory certainty. Adopting the Consensus Framework will restore investor confidence in the telecommunications industry and better enable carriers to deploy broadband in rural areas.

If implemented as proposed, consumers and businesses in the rural areas served by rural rate-of-return carriers will see continued access to high-quality, affordable broadband services, without loss of access to quality voice services or unreasonable increases in rates. In addition, the plan will lead to increased broadband build-out to areas currently unserved.

While technological advances may help to reduce some costs associated with broadband deployment, it is still always going to be more expensive to serve rural America due to low population density, expansive distances, and often-rugged terrain. Without federal policies such as universal service to ensure adequate and predictable cost recovery mechanisms for broadband, our national goal of universal broadband access may never be realized.

IV. Rural Utilities Service

Another important tool that has helped achieve broadband deployment in rural areas is access to financing from the Department of Agriculture's Rural Utility Service (RUS). Many rural communication providers were at one time RUS borrowers and many continue to borrow from RUS today. There can be no question regarding the ongoing essential nature of RUS's telecommunication programs.

Broadband is critical to providing access to economic growth, job creation, distance learning, health care, and national security in rural America. As noted above, millions of Americans still lack access to effective broadband. Therefore, the job is not done.

As Congress continues to grapple with deficit reduction efforts, it's important to note that RUS Broadband Loan Program and the traditional Telecommunication Infrastructure Loan programs are funded with loans that must be paid back with interest – creating a win/win situation for rural broadband consumers and taxpayers. To address other concerns with the program, including findings that some loans had been approved for areas that were not truly rural or unserved, Congress reformed the RUS Broadband Loan Program as part of the 2008 Farm Bill (new loans were not approved until these reforms were finally implemented in March 2011).

In addition, as a result of the regulatory uncertainty created by ongoing cost recovery reform proposals at the FCC, private lenders have become less willing to provide financing for rural broadband projects, which has further slowed broadband penetration in high-cost areas. Therefore, the RUS Broadband Loan Program and other RUS communications programs have become more vital than ever before. We also would like to take this opportunity to thank Subcommittee Chairman Johnson for leading a letter in March of this year that encouraged the FCC to implement USF/ICC reforms in a manner that manages a provider's transition. In addition, the letter asked the FCC several important questions regarding the impact of such reforms on RUS borrowers' ability to repay loans. We appreciate your leadership on these important matters.

Rural providers have a history of working with RUS to provide modern communications infrastructure to rural America, and we look forward to continuing that partnership.

V. Government Role in Broadband Deployment

In my testimony thus far, I have outlined the status of broadband deployment in America today, and particularly how critical such deployment is to economic and community development. Additionally I have reviewed the commitment of rural providers to consumers throughout their markets and how essential the cost recovery mechanisms and structure they rely upon have been, and will be, to meeting their consumers' needs. And, finally, I have detailed the crucial reasons why reforms to the communications industry's cost recovery structure must closely adhere to the carefully crafted parameters of the industry's Consensus Framework.

Truly, we can all be proud regarding just how far our nation has come over the course of the past decade regarding the evolution of broadband and the resulting penetration and adoption of this technology and its related services. I cannot state emphatically enough that this success has only been possible due to the unique cooperation that has existed between the industry, the American people, and policymakers to make this a reality. Together, through a spirit of entrepreneurship, a can-do attitude, and a deep national confidence, the appropriate mix of programs and policies have been cultivated and maintained that ensure widespread broadband deployment and adoption.

This commitment and partnership will be essential to America's quest to secure and maintain a level of global broadband preeminence. To underscore this assessment I draw the committee's attention to a May 2009 U. S. Government Accountability Office report (GAO-09-494) that, among other things, considers the federal government's approach to broadband deployment. In the study's opening remarks it notes that according to government officials, "the federal approach to broadband deployment is focused on advancing universal access."

The GAO report goes on to state that historically the role of the government in carrying out a market-driven policy has been to create market incentives and remove barriers to competition, while the role of the private sector has been to fund broadband deployment. It continues that under this policy, broadband infrastructure has been deployed extensively yet, doing so in rural areas is more difficult and in some instances gaps remain, primarily due to the limited profit potential associated with such initiatives. The Rural Utilities Service (RUS) Telecommunications Program and the high cost element of the Universal Service Fund (USF) exist to help fund advanced telecommunications infrastructure deployment. Industry stakeholders credit such programs with helping to increase broadband deployment – especially in rural areas – and that to achieve universal access, support of this nature will be essential in the future.

Despite the long history of success associated with these programs, a small but vocal minority of voices exists that refuse to accept this reality. Throughout this debate over the government's role in broadband deployment, the rural sector of the industry has routinely been directed to "think outside the box" in a search for more economical solutions to communications infrastructure deployment. If I do nothing else here today, it is my overarching desire to ensure that everyone participating and listening to this discussion ultimately leaves with the recognition and understanding that rural carriers always have and always will "think outside the box." Truly, they have no other choice.

What segment of the industry was the first to have completely converted to digital switched systems? What segment of the industry was a pioneer in providing wireless options to their hardest to reach customers? From what segment of the industry did the first company to deploy an all-fiber system come? What segment of the industry was the first to offer distance learning and tele-health applications? What segment of the industry was an early leader in providing cable-based video, then

satellite video, and now IP video to their markets? What segment of the industry quickly moved into Internet Service Provision in the early stages of the Internet's public evolution? And what segment of the industry continues to lead in the deployment of high speed broadband capable infrastructure? In every instance the answer to those questions is – the small rural segment of the communications industry. Many might be asking why these carriers care or have this unique perspective and approach to their mission. The answer to that question is relatively simple, because in the case of cooperative and commercially structured systems alike, the businesses are owned and operated by members of the local community. Clearly, these are entrepreneurs who care about their communities and their nation and obviously these are individuals who are continually "thinking outside the box."

It is obvious to the rural sector of the communications industry that the Rural Development Subcommittee has an appropriate perspective on such matters. As the panel with oversight responsibilities over the RUS, this subcommittee has a long history of allocating the RUS Telecommunications Program in the manner best suited to ensuring rural needs are met. But there may be others with us here today that are not as familiar with this program and what it, the USF, and the rural sector of the industry have accomplished. I invite them to take a closer look at what is happening in my company's service area as well as throughout our state. McDonough Telephone Cooperative completed a network upgrade in 2003. This upgrade deployed fiber to within 2 miles of our rural customers. This upgrade was made possible by a \$14 million dollar loan from RUS. We are currently in the application process for a \$15 million dollar loan to take fiber to the home to our rural/rural customers. We began this process in May of 2009 and the engineering portion of the application has just been approved. Perhaps best of all, the federal programs that have helped make this a reality have simultaneously helped ensure that all Americans can uniformly enjoy advanced communications connectivity that is comparable in price and scope.

There can be no doubt regarding the grave nature of the debt crisis confronting our nation, the interest of the public in appropriately responding to it, and the absolute necessity of doing so in a manner that is consistent with legal precedents and mandates. Yet the federal response to this calamity has at times given cause for concern that solutions under consideration could harm rural America and hurt taxpayers when the full effect of cuts is accounted for.

Our concern first materialized upon reviewing the dangerous and defective recommendation in the December 2010 report of the National Commission on Fiscal Responsibility and Reform that identified the private USF and the venerable RUS as a source of public debt reduction. Some months later we were further troubled to learn that congressional debt negotiators were giving serious consideration to raiding the USF program. And in recent days our alarm has grown as we have learned that the Joint Select Committee on Deficit Reduction may also consider raiding USF as well as cutting the RUS program which congressional appropriators in both the House and Senate just agreed to maintain.

With regard to the USF it is particularly imperative that policymakers and the public alike understand the unique nature of the federally mandated, yet privately funded and managed, USF. The USF has a long history and since its inception, has been maintained outside the U. S. Treasury and managed by a non-governmental entity. Were this private fund to be raided in the name of federal debt reduction, it would amount to little more than a governmental taking and would qualify as a stealth tax on an unwitting public. Surely this is not the sort of deception the America people want or deserve.

Today we are on the cusp of fully moving into a world where data, video, and mobility are the primary objectives of consumers and voice will be secondary, or even an afterthought. Yet, regardless of whether consumers are focused on voice or some other form of communication, they will still require the underlying infrastructure to ensure their communication gets to its destination. The only difference is that with regard to broadband and advanced-services-capable infrastructure, the costs and subsequent need for support are even greater than they are for voice-only infrastructure. Thus, again I underscore the ongoing need for a strong USF and a vibrant RUS.

VI. CONCLUSION

America stands at a crossroads between a narrowband and broadband world. The choice is clear. The rural industry has long been the leader in deploying advanced telecommunications services to America's rural areas. The rural providers and associations are eager to continue working with you to move forward aggressively to fulfill the national objective of making broadband universally available as is envisioned by so many and indeed mandated by statute. Thank you.

Committee on Agriculture
U.S. House of Representatives
Information Required From Nongovernmental Witnesses

House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Lester D. Fowler
2. Organization you represent: McDonough Telephone Cooperative
3. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee: _____
McDonough Telephone Cooperative, Inc. 30 years
Data Processing/Commercial Office Supervisor - 29 years
Legislative/Government Affairs - 1 year
4. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee: _____

5. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold: McDonough Telephone Cooperative Employee
NTCA Member

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF
TESTIMONY.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2008.

Name: Lester D. Fowler

Organization you represent (if any): McDonough Telephone Cooperative, Inc.

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2008, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2008, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: X

Signature: 

** Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.