



Statement by

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On behalf of the

National Telecommunications Cooperative Association,
Organization for the Promotion and Advancement of Small Telecommunications
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Subcommittee on Healthcare and Technology

Broadband: A Catalyst for Small Business Growth

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I. Introduction

Thank you for the invitation to participate in today's discussion on the role of broadband access in the startup and growth of small businesses. Broadband has quickly become an essential service that plays a key role in creating jobs in America's small business community. For the past two years I have served as General Manager of Yadkin Valley Telephone Membership Corporation, which is headquartered in Yadkinville, NC. Prior to my current position, I served as General Manager of Yadkin Valley Telecom, a subsidiary of Yadkin Valley Telephone, for four years. Before that I served as Controller of the Company for ten 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 Yadkin Valley Telephone, as well as NTCA, OPASTCO, and WTA and their collective several hundred 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, thereby providing an incubator for small business ideas in rural America to be implemented and to flourish. Yadkin Valley, 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, those rural providers that are family or commercially owned are also consumer-centric because they are locally owned and operated.

Yadkin Valley'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. Yadkin Valley has several lines of business, including incumbent local exchange service, competitive local exchange carrier service, Internet Service Provision, Video, Broadband, Long Distance, and Wireless. Make no mistake – while our headquarters are in Yadkinville, we in fact serve over 26,000 customer lines across our 670 square mile rural service area that is spread across the Piedmont portion of the state of North Carolina. This constitutes about 39 customers per square mile. We employ a total of 160 people and in 2011 our annual operating revenue was about \$34 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, Yadkin Valley is a Tier 3 carrier.

Let me give you a quick snapshot of how Yadkin Valley 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 Yadkin Valley's community-based limited-scale approach to doing business. And it is important to note that among the small rural Tier 3 carriers, Yadkin Valley is one of the larger carriers. So as I describe the difficulties that our company confronts, just multiply those for the hundreds of carriers that are even smaller than us.

The entrepreneurial spirit of Yadkin Valley 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, Yadkin Valley has always been an early adopter of new technologies and services. Yadkin Valley currently has 1.5 Megabit broadband service available to 96%, 3 Megabit broadband available to 82% of our service area, 5 Megabit broadband available to 61% of our service area, and 25 Megabit broadband service available to 45% of our customer base. We are currently working on a strategic network plan to deliver the 25 Megabit broadband service to the remaining 55% of our customer base. These speeds cannot be delivered with copper. Much of the small business world will be demanding these fiber-delivered speeds in the very near future.

When Internet first became widely available in the 1990s, Yadkin Valley donated time and material to wire local schools. We also provide dedicated broadband circuits to community colleges that have satellite campuses in our service area. Yadkin Valley recently provided dedicated fiber Metro-Ethernet circuits that connect a large hospital in Winston-Salem to doctors' offices and other medical facilities in our service area, empowering them to use state-of-the-art technology for transmitting patient files, medical records, and images efficiently.

Small businesses in the area are better equipped to startup and grow thanks to the efficiencies broadband delivers. The network we provide allows companies from around the world to reach our customer base through the internet. For residential customers, we are willing to go the last mile with broadband to provide them with opportunities to work from home or participate in on-line classes.

We provide fiber to the wireless towers in our service area. At these towers, wireless carriers such as Verizon, AT&T, and T-Mobile buy circuits from Yadkin Valley to connect to the land lines that carry the bandwidth-heavy data and voice services. Without the investment we have made over the years, the wireless carriers would either decline to serve these rural areas or be forced to make much larger investments in their plant facilities.

From 2005-2011, Yadkin Valley invested \$40 million in our Fiber to the Home project. This investment gave 42% of our customer base Fiber-to-the-Home. In the latter part of 2010, we were notified that we had been awarded a US Department of Agriculture Rural Utilities Service (RUS) Broadband Initiatives Program 50%loan/50%grant. This money is being used in the most rural underserved parts of our service area to provide broadband service.

Yadkin Valley is a carrier of last resort and has always operated under the premise that if someone wants service in our service area, then we do whatever it takes to provide them with that service. Ever since Yadkin Valley began operating in 1950 we've been proud to serve as the only provider to the most rural areas of North Carolina while the other carriers chose to serve only the most profitable and densely populated towns. Rural Americans throughout Yadkin Valley's service area, and indeed throughout the markets of NTCA, OPASTCO, and WTA members, are enjoying universal voice service, access to broadband Internet services, and enhanced emergency preparedness.

II. The Benefits of Rural Carrier Investments and Operations Flow to the Entire Economy

The American economy runs on broadband. As the Federal Communications Commission (FCC) stated in its February 2011 Notice of Proposed Rulemaking for Universal Service Fund (USF) and intercarrier compensation (ICC) 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

The Small Business Administration (SBA) reported in 2010 that the small business broadband adoption rate was at 90% and approximately 71% of small businesses had a website.² Among businesses with Internet service, the share that still uses dial-up connections decreased dramatically from 44% in 2003 to 6% in 2010, demonstrating how essential high-speed, high-capacity broadband has become to doing business in the US. In fact, it appears that many businesses want even faster speeds than they are currently receiving. That same 2010 report stated that almost half (48%) of rural respondents and more than one-third (37%) of metro respondents report that they are not satisfied with their Internet speed. It is impossible to estimate the economic impact that small business use of broadband has on the US.

Small rural community based telecommunications providers alone contributed \$14.5 billion to the economies of the states in which they operated in 2009.³ Of this, \$10.3 billion was through their own operations and \$4.2 billion was through the follow-on impact of their operations. Two-thirds (34

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 Intercarrier 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 Columbia Telecommunications Corporation. Small Business Administration, Office of Advocacy. (2010). *The impact of broadband speed and price on small business*

³ Kuttner, H. Hudson Institute, (2011). *The economic impact of universal telecommunications: The greater gains*

percent or \$4.97 billion) of the \$14.5 billion final economic demand generated by rural telecom companies actually accrues to urban areas. The rural telecommunications sector supported 70,700 jobs in 2009, both through its own employment and the employment that its purchases of goods and services generated.

If businesses want to reach today's consumers, then they must have access to robust, reliable broadband. 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 2009.⁴ Sixty-six percent of urban (metropolitan) Americans subscribe to broadband at home, as compared with 51% of rural (non-metropolitan) Americans.

The job-creating 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 by 0.2% to 0.3% a year.⁵ 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.⁶

So, we know that a robust broadband infrastructure is critical to economic development. We know from a technological standpoint that all broadband networks, whether wireless or wired, ultimately rely upon the wired network. And we know that wired networks provide the capacity to support the type of applications that this nation critically needs: telehealth, distance learning, civic participation, and interstate and global commerce.

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*.⁷ 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

⁴ (n.d.). Retrieved from website: <http://www.esa.doc.gov/sites/default/files/reports/documents/report.pdf>

⁵ (n.d.). Retrieved from website: http://www.brookings.edu/~media/Files/rc/papers/2007/06labor_crandall/06labor_crandall.pdf

⁶ (n.d.). Retrieved from website: http://www.ppic.org/content/pubs/report/R_110JKR.pdf

⁷ NPRM at para. 5.

applications,” and such housing units are more common in rural areas.⁸ These people have small business ideas that need broadband to succeed and they need jobs that small businesses can provide.

III. The USF & ICC Mechanisms are Essential to Broadband Availability, Service Quality, and Adoption in Rural Areas

The Universal Service Fund (USF) and intercarrier compensation (ICC) system have long played a role in connecting all of America by supporting telecommunication services in rural areas. The federal USF was created to provide predictable, sufficient, and specific support for operations in high-cost rural areas. As Congress recognized in the Telecommunications Act of 1996, these areas need support to ensure the availability of affordable, high-quality services for consumers. High-cost USF is a program that enables providers to deploy and operate advanced networks in places where low customer density, vast distances, and rugged terrain deter even the most optimistic business cases.

Without sufficient and predictable USF support to supplement customer revenues, rural carriers, who serve an average of 10 customers per square mile, would be forced to drastically reduce service or charge retail prices that no consumer could realistically afford. Both outcomes would be inconsistent with long-standing national statutory policy demanding that all Americans receive access to affordable advanced communications services that are comparable in price and quality. These networks connect rural communities and outlying farms and ranches with the rest of America and the world. Even if a wireless carrier were to operate in some portion of a rural area, that wireless carrier could not deliver high-quality broadband without the robust underlying capacity of the networks provided by these small entrepreneurial community-based carriers. There is good reason that Congress mandated universal service in the Telecommunications Act of 1996 – it helps fuel the rural and national economy and ensures the availability, affordability, and quality of communications products and services.

With the help of USF and ICC, rural carriers provide near-universal voice service to all Americans and have increased broadband penetration to 92% of their consumers with only 3% growth per year in USF support over the past several years (based on the FCC’s current broadband definition of 768 kbps down and 200 kbps up). But this task is not easy, and more remains to be done. In many cases, the

⁸ See *Connecting America: The National Broadband Plan*, FCC (rel. Mar. 16, 2010) at 20.

broadband that rural carriers have deployed is only DSL speed. This basic level of broadband often does not reach the speed – 4 Mbps downstream/1 Mbps upstream – that the FCC has now identified as a target level of “universal service” and it clearly does not meet the needs of many small businesses according to the 2010 SBA study referenced above. The time has come to update these important network support mechanisms to ensure that everyone can participate in the economy made possible by a nationwide integrated advanced communications network.

The FCC released its USF/ICC reform Order on November 18, 2011 with the aim of transitioning the program to explicitly support broadband service in rural America.⁹ At the request of the FCC, the rural carriers and larger providers reached agreement on a Consensus Framework for reform last summer that would’ve kept the fund at its current level while supporting faster broadband to more Americans.¹⁰ The parties to the Consensus Framework made many difficult compromises to reach an agreement in the hope of achieving universal broadband service and gaining some regulatory certainty. However, the FCC’s order failed to adopt provisions promoting broadband service in rural carriers’ service areas, cuts existing cost recovery mechanisms for rural carriers retroactively, and proposed a Further Notice of Rulemaking with the potential for more cuts. In sum, rural providers will be expected to do more with less opportunity for cost recovery and don’t even get the regulatory certainty they sought as the Further Notice hinders lending and investment. This “regulatory overhang” is undermining job creation, network investment, and the sustainable quality of broadband services in wide swaths of rural America.

We believed that with all of the facts before them, the FCC would’ve taken advantage of the opportunity to make bold recommendations that would include a call for a national commitment to invest in and maintain state-of-the-art communications technologies throughout all of America. Unfortunately, the agency’s narrow focus on delivering broadband to the completely unserved fails to acknowledge that America’s most rural areas can only be served with the help of ongoing high cost support.

⁹ *Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Inter-carrier Compensation Regime*, CC Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC Docket No. 03-109, *Universal Service – Mobility Fund*, WT Docket No. 10-208, *Report and Order and Further Notice of Proposed Rulemaking*, FCC 11-161 (rel. Nov. 18, 2011).

¹⁰ See Letter from Walter B. McCormick, Jr., United States Telecom Association, *et al.*, to Chairman Genachowski, FCC, WC Docket No. 10-90, *et al.* (filed July 29, 2011).

Missouri State University found that if USF were eliminated, 1,524 direct and 3,500 indirect jobs would be lost over the next five years. This would end up costing the state over \$604 million in lost economic output over that time period. Colorado State University found that if rural telecoms in that state lost 30% of their USF payments, payroll would be reduced by \$2.2 million resulting in lost economic output of \$10 million and \$608,000-873,000 in lost state and local tax revenue per year.

A study undertaken by New Mexico State University reported that, in 2012 alone, reductions in USF based upon early 2011 proposals by the FCC could lead to a total employment loss in New Mexico of 335 jobs, with more than 260 of those jobs being outside the telecommunications industry. Personal income in New Mexico would decline \$200.3 million, leading to a loss in state tax revenue of \$13.6 million.

Oklahoma City University predicts 3,000 lost jobs over five years in Oklahoma, with lost wages of \$123 million. The news from Kansas is no better – Wichita State University estimates that USF reductions proposed by the FCC in its February 2011 Notice of Proposed Rulemaking would cost rural Kansas 367 jobs and \$51 million in wages over a five year period. These results are not limited to the telecommunications sector, but instead extend to firms that do business with the carriers and their employees.

Rural providers sincerely hope that the FCC will expressly decline to act on several aspects of its Further Notice and instead signal service providers, lenders, investors, and consumers that it will allow adequate time for adjustment to the changes already made in its Order. Moreover, since carriers cannot “undo” loan commitments or “tear out” existing networks, the FCC should make clear that any caps or other limitations on cost recovery already adopted in its Order will be applied prospectively. As it has done for consumers in other areas, the FCC should adopt a Connect America Fund that will provide additional funding for broadband-capable deployment in areas served by rural providers.

Reforming USF and ICC properly is essential to achieving our national goal of universal broadband access and to the livelihood of thousands of job-creating small businesses that need broadband to compete in a global economy.

IV. The Rural Utilities Service is an Equal Partner

Another important tool helping advance state-of-the-art networks is the ability of small rural communication companies to obtain financing from RUS, which has been lending for broadband capable plant since the early 1990s. 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 are put at risk as a result of the regulatory uncertainty created by the ongoing cost recovery reform proposals I outlined above. RUS lending and USF support are inextricably linked as 99.2% of RUS Telecommunications Infrastructure borrowers receive high cost USF support. The presence of high cost recovery is crucial to the RUS telecom and broadband loan calculus. Dangerous cuts to USF, especially if applied retroactively, could put billions of RUS loans at risk of default. In addition, regulatory uncertainty has led to private lenders becoming less willing to provide financing for rural broadband projects – making RUS communications programs more vital than ever before.

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 programs are funded with loans that must be paid back with interest – creating a win/win situation for rural broadband consumers and taxpayers. Last year, during debate on the FY 2012 Agriculture Appropriations Bill, the full House of Representatives recognized the value and continued importance of RUS funding to the delivery of affordable, rural communications and voted in favor of an amendment to continue supporting the Broadband Loan Program. Rural providers look forward to building on an already successful partnership with RUS.

V. Broadband Gains

We can all be proud of our nation's broadband progress over the past decade and the opportunities that broadband creates for small businesses to compete and thrive. This success has only been possible due

to the unique cooperation that has existed between the industry, the American people, and policymakers. 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 to 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 (GAO) report that, among other things, considers the federal government's approach to broadband deployment.¹¹ 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. Industry stakeholders credit RUS and USF with helping to increase broadband deployment 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 completely convert to digital switched systems? What segment of the industry was a pioneer in providing wireless options to their hardest to reach

¹¹ (n.d.). Retrieved from website: <http://www.gao.gov/new.items/d09494.pdf>

customers? What segment of the industry produced the first company to deploy an all-fiber system? 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. Rural carriers are small businesses that dedicated to providing opportunities to other small businesses and individuals that might otherwise have to compete on an unlevel playing field. This is possible because cooperative and commercially structured systems are owned and operated by members of the local community. Clearly, these are entrepreneurs who care about their communities and their nation and are continually "thinking outside the box."

VI. Conclusion

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, if not 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. 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. Rural providers and the rural 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 for your attention to this matter.