

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