United States Department of Agriculture
Rural Development

November 9, 2010

The Honorable Julius Genachowski
Chairman, Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Dear Chairman Genachowski:

The RUS is a policy, planning, and lending agency within the USDA. For over 75 years, the RUS and its predecessor, the Rural Electrification Administration, have been advocates for rural consumers, as well as a lender that supports the construction and deployment of modern utility infrastructure throughout rural America. The RUS, USDA, and the Federal Communications Commission have a shared mission to ensure that all Americans enjoy the benefits of modern telecommunications technologies and a history of working together to advance that goal. The RUS welcomes the opportunity to share our data and research with the FCC as it works to reform the universal service support system. Robust economic growth and job creation in rural America depend increasingly on the quality and reach of broadband networks. Nowhere is that as true as it is in rural America, where distance, density, and remoteness have restrained economic activity. Broadband networks not only create economic opportunity, but open unparalleled access to health care, educational, cultural, and public safety opportunities that are essential to the quality of life for over 50 million Americans who live in rural areas.

The RUS has gained great insight into the economics of providing safe, reliable, and affordable utilities service through the administration of its loan and grant programs. The agency currently manages a $56 billion portfolio consisting of loans that support the construction of water and waste treatment systems, electric systems, and telecommunications and broadband networks in rural communities. The RUS telecommunications program currently has over $4.2 billion in outstanding principal, which will increase substantially with awards this year under the American Recovery and Reinvestment Act (ARRA). The current rural Telecommunications Infrastructure and Broadband loan portfolio consists of approximately 2337 active loans to borrowers committed to building and upgrading broadband capable networks across rural America. In addition to ARRA programs, the agency also administers broadband grant and distance learning and telemedicine programs. The RUS finances fundamental infrastructure systems that are vital to the economic growth and sustainability of rural communities.
The RUS fully and enthusiastically shares the Commission's goal of expanding broadband deployment and adoption throughout America. Reforming existing Federal Universal Service Fund (USF) support mechanisms as well as the inter-carrier compensation (ICC) system for the broadband era can advance that goal. These revenue streams, often combined with affordable lending from RUS, have made otherwise high-cost rural areas more attractive and less expensive to serve, both for initial construction and for continuous upgrades, giving many rural consumers access to the latest telecommunications technology by supporting continuous improvements in

service quality. This has promoted the national interest in connecting all Americans to the most advanced telecommunications networks. This could not have been accomplished without such mechanisms to support rural areas that are higher cost due to lack of density. At the same time, as demonstrated by the overwhelming response to the broadband programs in the ARRA, there remain significant areas of rural America that lack access to modern broadband services.

RUS finances telecommunications infrastructure under two titles of the Rural Electrification Act. Title II of the Act is the basis for the traditional Telecommunications Program that started financing telephone service in 1949, but today lends for broadband infrastructure. Its borrower base is predominantly rural incumbent local exchange carriers (ILECs). Title VI is the basis for the Broadband Loan Program, which was specifically intended for broadband infrastructure, with a borrower base ranging from rural ILECs to broadband-only providers. The main differences between the programs relate to eligibility requirements. The Broadband Loan Program targets rural communities, while the traditional Telecommunications Program targets high cost service areas, including very high cost regions beyond communities.

Two other programs include the Distance Learning and Telemedicine (DLT) grant and loan program which funds the purchase of end user telecommunications equipment to enhance the quality of education and health care in rural areas, and the Community Connect grant program which funds the construction and deployment of broadband networks in some of America's poorest and most remote communities. These programs have provided over $500 million to improve rural networks and services. DLT alone has improved service in 1,428 counties receiving telemedicine facilities, and 1,758 counties receiving distance learning facilities. Over 3000 health care facilities have received telemedicine funding, and over 4000 educational facilities have received distance learning funding. Community Connect has established broadband in 195 small rural communities that were totally unserved.

RUS grant and loan programs are among the few sources of affordable financing available to small, rural independent providers and tribally-owned entities. The RUS maintains a strong technology neutral policy across its telecommunications and broadband loan and grant programs and encourages all borrowers to build the most efficient systems needed to meet consumer demand. The RUS Telecommunications Infrastructure and Broadband Loan programs have financed telecommunications and broadband network construction to some of the most remote and economically distressed regions of the country. The typical RUS borrower and grantee operate in markets with extremely low population density, often high unemployment rates, an aging workforce, and challenging topography.

In telecommunications, RUS financing is dependent on sufficient, specific, and predictable revenues. USF support and ICC revenues are among the factors evaluated in virtually every RUS loan. Only 4 out of the 480 active borrowers of the RUS Telecommunications Infrastructure loan program did not receive rural high cost USF support. RUS loans and loan guarantees are an efficient and effective means to expand broadband networks in rural areas. Loan programs and loan/grant combinations enable the RUS to finance more projects per dollar of budget authority than would be possible if the same amount of budget authority were dedicated to pure grant programs. In so doing, RUS lending programs advance the purpose of

the National Broadband Plan (NBP). For taxpayers, the repayment record of RUS borrowers has been excellent, with a less than 1 percent default rate.

RUS has required program participants to provide advanced services since the early 1990's. Under 7 C.F.R. Part 1751, which implemented the English Amendment to the Rural Electric Loan Restructuring Act of 1993, RUS requires borrowers to coordinate with state commissions on devising network modernization plans. This regulation led to the requirement that borrowers must provide digital voice and data services to end users to keep pace with metropolitan network infrastructure developments. Since 1993, RUS has required any company to which it provides financing to have the capacity to provide one Mbps broadband service. Today, RUS borrowers are building facilities that are comparable to those deployed in urbanized areas. The RUS engineering ethic is also designed to ensure that rural communities continue to receive a quality of service that is comparable to that enjoyed in urban and suburban regions, consistent with the mandate of section 254 of the Telecommunications Act of 1996. RUS engineering standards facilitate continuous upgrades in a network that is capable of seamlessly evolving over time. We are proud of that record of success.

The Commission and the RUS can work together to ensure that the right mix of incentives are available to attract private sector investment into otherwise uneconomic areas. The RUS is eager to continue its longstanding partnership with the FCC as it develops a framework for transforming universal service support mechanisms. Our agencies have a shared goal of increasing broadband deployment and adoption throughout rural America. RUS has decades of experience and data which can be used to test assumptions, compare models to reality, and validate ideas. Increasing broadband access to more households and businesses in rural areas is a national imperative. The Commission can consider the historic success of the RUS in financing rural broadband networks. I appreciate the time your staff has spent time with our team to understand how FCC programs and policies interact with RUS lending and grant making, and look forward to our continued discussions.

Sincerely,

Jonathan Adelstein

Jonathan Adelstein
Administrator
Rural Utilities Service

cc: The Honorable Michael J. Copps, Commissioner
The Honorable Robert M. McDowell, Commissioner
The Honorable Mignon Clyburn, Commissioner
The Honorable Meredith Attwell Baker, Commissioner