

**FIELD HEARING IN NEW YORK: EXPANDING
BROADBAND ACCESS AND CAPABILITIES TO
SMALL BUSINESSES IN RURAL NEW YORK**

HEARING
BEFORE THE
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OF THE
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EXPANDING BROADBAND ACCESS AND CAPABILITIES TO SMALL BUSINESSES IN RURAL NEW YORK

THURSDAY, MARCH 20, 2014

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON HEALTH AND TECHNOLOGY,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., at Orleans County Legislature, 3 South Main Street, Albion, New York, Hon. Chris Collins [chairman of the Subcommittee] presiding.

Present: Representative Collins.

Chairman COLLINS. The hearing is called to order.

Good morning. First of all, I want to thank David Callard, the chairman of the legislature here, and all the legislators from Orleans County, for hosting us on this first day of spring, or it will be in 2 hours and 57 minutes, according to the exact position of the sun and the moon.

But really, we are all appreciative of Albion hosting us for what we think will be a very appropriate topic as we are up here in a rural area.

You hear the numbers, 97 percent coverage, and you go, well, that sounds great, until you understand that 3 percent of 700,000 people is 21,000. So the 27th Congressional District is 105 towns. The average town just a little over 6,000 people. It is rural America. It is agriculture that is our primary economic driver. And 3 percent of 700,000 people is 21,000.

You don't want to be one of those 21,000 that doesn't have access to broadband.

So while a statistic like that may sound encouraging, in the 27th District, it is not as much so as you might otherwise think. So that is something to keep in perspective.

But again, I want to thank everyone who has joined us today. We have a full house. That is great. And again, I want to thank our four witnesses for taking time out of their busy day to schedule their testimony, which is focused on expanding broadband access to small business, which is the definition of all of our farms in rural areas of Western New York.

Access to broadband service has the potential to transform the way small businesses and organizations fundamentally operate. Small firms can sell their products to buyers around the world. Family farmers can utilize precision mapping equipment to in-

crease their productivity. And entrepreneurs can launch a Web site or application from their living room.

As a small-business owner, I fully understand the benefits and the necessity of having access to affordable broadband to run a successful business. Most importantly, broadband provides a gateway and opportunity for economic growth and job creation, especially in rural areas.

Last month, the House Committee on Small Business held a hearing regarding the innovation and growth around wireless technology. Thousands of entrepreneurs are developing dynamic products and services that utilize broadband to improve the way we live.

According to a McKinsey study, over 1 trillion devices can be connected through wireless technology by 2025, resulting in a potential economic impact of \$36 trillion.

This means thousands of new jobs created by small, innovative firms, in a variety of industries, as well as new tools for small businesses to improve their operations.

While it is easy to understand the limitless benefits of broadband Internet, those capabilities would not be available if not for the contributions of providers like those represented here today.

To keep up with the growing demand, private sector enterprises have invested billions of dollars to upgrade their networks to provide faster and more reliable services. It is because of these investments that we can enjoy broadband at the workplace or on a wireless device.

Currently, there are a variety of Federal initiatives aimed at providing broadband to everyone in the United States, 100 percent, not 97 percent. When considering these policies, we must first ensure that the regulatory changes do not diminish the incentive for private sector investment in broadband infrastructure. This is especially important for small Internet providers who don't have the resources or the time to comply with the onerous regulations.

Without private sector investment in broadband infrastructure, many small businesses in rural areas, like those here in Western New York, will be disconnected from one of the most powerful tools of our generation. And that would hamper the success of these small businesses and put them at a significant disadvantage in our increasingly connected economy.

We have a distinguished panel of witnesses here today, and I do look forward to hearing your thoughts on the importance of broadband and how best to provide broadband to small businesses across New York and the United States.

Now, we have a clock here, a timer, and when we are in Washington, we have the green light, and the testimony, we generally try to keep to 5 minutes. And then when the time is running down, the yellow light turns on. And then at 5 minutes, the red light. Today, we will have the lights on, but we are not going to be banging the gavel, if you run over. That is the luxury of having a field hearing like this. Afterwards, we have questions from the members. Since I am the only one, we will let you carry on.

I think, too, it is be probably important for those here, when we say broadband, what does that mean? It really refers to the upload and download speed of what you can do on the Internet. In a broad

definition, it is 4 MB on the download and 1 MB of upload, so that you can get things off the Internet at 4 MB per second versus loading back up into it at 1 MB. So that is the broad definition of broadband. Because there are cases where people are connected to the Internet, God forbid, I hope it is not through dial-up, but they may be able to connect but they are not really able to send data back and forth. So it is the 4 and the 1, the 4 coming down and the 1 going back up, that is the general thing we are talking about here today.

So our first witness is Mark Meyerhofer. He is the director of government relations of Northeast-Western New York for Time Warner Cable. Time Warner Cable provides a variety of Internet options for small businesses, including speeds ranging from 2 MB per second up to 100 MB per second. I want to thank you, Mr. Meyerhofer, for being here. We look forward to your testimony.

STATEMENTS OF MARK MEYERHOFER, DIRECTOR, GOVERNMENT RELATIONS OF NORTHEAST-WESTERN NEW YORK, TIME WARNER, LANCASTER, NEW YORK; JILL CANFIELD, DIRECTOR, LEGAL & INDUSTRY AND ASSISTANT GENERAL COUNSEL, NTCA, THE RURAL BROADBAND ASSOCIATION, ARLINGTON, VIRGINIA; ROBERT SMITH, GENERAL MANAGER, FRONTIER COMMUNICATIONS, NEW YORK, DANSVILLE, NEW YORK; AND KENDRA LAMB, OWNER, LAMB FARMS INC., OAKFIELD, NEW YORK

STATEMENT OF MARK MEYERHOFER

Mr. MEYERHOFER. Thank you. Good morning, my name is Mark Meyerhofer. I am the government relations director in the Northeast-Western New York region for Time Warner Cable. Thank you for inviting me to testify today regarding rural broadband.

Time Warner Cable is among the largest providers of video, high-speed data, and voice services in the United States, connecting more than 15 million customers to entertainment, information, and each other in 29 States, employing over 50,000 people across the U.S.

Based on year-end 2013 data, Time Warner Cable has approximately 11 million residential high-speed data subscribers and 517,000 business high-speed data services subscribers. Time Warner Cable is the leading broadband provider in New York State, offering reliable, affordable, high-speed broadband to over 2.3 million customers.

We have invested \$25 billion to \$30 billion of private at-risk capital since 1996 to deploy broadband across our footprint, and \$2 billion in New York State, in the last 4 years alone. In the 27th Congressional District in 2012 and 2013, we built over 335 miles of new lines, passing over 1,000 businesses and nearly 3,000 homes.

This investment of private at-risk capital has resulted in our company passing approximately 96 percent of homes and businesses in our New York State footprint. Access to broadband for New Yorkers is higher than the national average, with 95 percent generally having access.

These investments were made, and this success achieved, in a regulatory environment that encourages innovation and invest-

ment. However, it remains extremely challenging to extend broadband to the most rural areas of the State where geographic isolation and topographic issues make it economically infeasible for companies to reach these areas. Investment simply cannot be recouped before it is time to reinvest.

Time Warner Cable believes government has a role to play in helping to meet broadband needs in these unserved areas and that properly structured programs or partnerships can help achieve rural broadband deployment goals if guided by core principles.

First, such programs and partnerships must be focused on unserved areas so taxpayer dollars are not wasted duplicating existing privately funded networks. When taxpayer funds are used to overbuild an existing provider, the result is unfair competition for a limited number of customers.

Government should not pick winners and losers in this competitive environment, but instead focus limited taxpayer funds on unserved areas that need it the most.

Second, government programs need to focus on last-mile services, which is the most difficult and costly part of deployment.

Third, programs should be technology and provider neutral so all providers and technologies are eligible to participate.

Fourth, the cost of these programs should be broadly shared, rather than paid for by a tax or fee on a specific set of consumers or taxpayers. If rural broadband deployment is the public policy goal, the cost should be borne as broadly as possible, and the deployment costs to the individual consumer should be as low as possible.

Finally, to encourage the broadest possible private participation in any government-sponsored program, any funding or incentives should come with no strings attached, so companies can own and operate the new networks and integrate them fully into their existing infrastructure and business plans.

New York State's Connect NY program created by Governor Cuomo is a good example of an effective and well-structured public-private partnership program. Time Warner Cable received the largest Connect NY grant and is now investing \$7.1 million in partnership with New York State to provide rural broadband for 52 projects in 22 counties and more than 40 towns across the State. Our Connect NY project will connect more than 4,100 previously unserved homes, businesses, and community institutions to high-speed broadband.

While the government's role in spurring broadband deployment and unserved areas remains limited, we believe there is a broader role for government in broadband adoption. Roughly one-third of Americans and 30 percent of New Yorkers with access to a broadband connection choose not to get connected at home.

Further, adoption is not consistent across groups, where senior citizens, people with lower incomes, and lower economic status adopt at much lower rates. Aging populations, lower socioeconomic status, and lower educational attainment can often characterize New York's rural areas.

The principal reason cited for not adopting broadband are digital literacy and relevance. We should all work together to encourage adoption, and Time Warner Cable has participated in numerous

adoption programs, which I am happy to collaborate on during Q&A.

A small investment in educating consumers about why broadband is relevant to them can be highly effective in increasing adoption rates, especially in low adopting areas.

Thank you for the opportunity to testify today. I am happy to answer any questions you might have.

Chairman COLLINS. Thank you. Right to the second. That is pretty good.

Our next witness is Jill Canfield. She is the assistant General Counsel for NTCA, which is the Rural Broadband Association, so she is representing a variety of different interests here. The Rural Broadband Association represents 900 independent telecommunications companies in rural and small towns throughout the United States. They provide support for both wired line and wireless carriers.

Jill is a native of Derby, New York. She earned her B.A. and J.D. from Syracuse University and is a member of the Federal Communications and American Bar Association.

Are you watching the March madness now?

Ms. CANFIELD. I have my brackets.

Chairman COLLINS. Welcome back to New York, and we look forward to your testimony.

STATEMENT OF JILL CANFIELD

Ms. CANFIELD. Thank you. Thank you for the invitation to participate in today's discussion on expanding broadband access and capabilities to small businesses in rural New York. My remarks today are on behalf of NTCA, the Rural Broadband Association, and the Small Company Coalition.

Small rate of return rural telecom providers, commonly called RLECs, serve only about 5 percent of the U.S. population but roughly 40 percent of its land mass. These companies deploy and upgrade cutting-edge networks in rural and tribal areas, where no other carrier could find a business case.

As anchors in the communities they serve, rural providers use their networks to connect rural Americans to the health care, educational, economic, and public safety benefits of the broadband economy.

Moreover, these small businesses are at the forefront of the broadband and Internet protocol, or IP, evolution, deploying advanced networks that respond to consumer and business demands for cutting-edge services. Fixed to mobile broadband, voice, and video are among the numerous telecom services that rural New Yorkers can access thanks to the rural telecom industry's commitment.

Nearly all small rural carriers in New York have deployed broadband to 99 percent or more of the rural service areas and have a brilliant track record of collaborating to build fiber networks that benefit wide swaths of rural New York. The Adirondack-Champlain Telemedicine Information Network, or ACTION, now delivers up to 1 Gb connections to 49 hospitals and health care facilities from Massena to Plattsburgh, from Glens Falls to Hoosick Falls. Subsidiaries of RLECs like Champlain Telephone Company,

Nicholville Telephone Company, and Chazy Westport Communications. Each provide service to the individual locations.

The Independent Optical Network, or ION, was founded on vision of 15 small rural telecom providers. This Albany-based statewide fiber network connects more than 100 Upstate New York communities and their surrounding rural areas.

Through a recently completed \$50 million project that included a significant Federal investment supplemented with State investments, ION can serve more than 300 anchor institutions and make broadband more readily available to 250,000 households and 38,000 businesses.

Projects are underway in Allegheny, Cortland, and Otsego Counties to leverage the ION fiber backbone.

Broadband facilitates greater interconnection of the community's resources and can enable citizens' participation in the global economy, all key to rural population growth. IP, wireless, and other technological advances are changing the marketplace in ways unimagined even a few years ago. But technology alone will not overcome the high cost of deploying the networks that enable these technologies.

Though small, rural providers are leaders in broadband investment, law and policy changes are necessary. Reforms must be guided by the Communications Act's core principles of consumer protection, competition, universal service, and public safety.

Unfortunately, the FCC's 2011 USF reforms appeared to have missed the mark in serving these principles. And as a result, millions of investment dollars were sidelined while Congress pressed the agency to update the USF program the right way and get rid of opaque, unpredictable USF caps.

Small rural carriers still await a program designed to promote broadband investment while the legacy fund they currently use forces customers to take regulated voice service just to make broadband affordable. All the while, USF is funded by assessing a shrinking pool of long-distance voice revenue. This de facto cap on the USF will handicap our Nation's ability to stay seamlessly interconnected.

Sound reforms will also ensure that USDA's Rural Utilities Service has sufficient certainty to continue financing rural telecom projects.

The wireless industry also anxiously awaits an opportunity to bid on the 600 MHz spectrum, but the spectrum must be auctioned in a manner that provides a realistic opportunity for small wireless providers who have the incentive and interest in serving rural areas.

To that end, NTCA, the Rural Wireless Association, and the Competitive Carriers Association just announced a consensus proposal for the use of small geographic licensing areas.

Strict adherence to the spirit of the Regulatory Flexibility Act is important. It would have produced better USF reforms and freed more resources for broadband investment.

Numerous, costly, and sometimes redundant reporting requirements also divert resources away from the network operation and customer service.

Thankfully, the Regulatory Flexibility Improvement Act of 2013 would help by involving SBA throughout the rulemaking process.

The Federal Government has played a key role in promoting delivery of advanced telecom services to all Americans, but more work is needed to deliver broadband to the unserved and ensure that networks already built remain in place and are upgraded to keep pace with the IP evolution.

The House Small Business Committee's commitment to bringing about an environment conducive to broadband investment and small-business growth is always appreciated.

It is an honor to join you back home in Western New York, and I look forward to the discussion and your questions.

Chairman COLLINS. Thank you very much.

Our next witness is Robert Smith. Robert is general manager for Frontier Communications located up in Dansville, New York. Frontier Communication provides both voice and Internet service for small businesses. They also provide cloud and cybersecurity options to help small firms protect their network operations.

Thank you for being here. We look forward to your testimony.

STATEMENT OF ROBERT SMITH

Mr. SMITH. Thank you, Mr. Chairman. I appreciate you inviting Frontier to be here at this important meeting.

My name is Bob Smith, and I am general manager for Frontier Communications. I oversee Frontiers' service area in Western New York State. I am honored to be here representing Frontier.

Frontier is the largest communications service provider focused on rural America, providing broadband voice and video services to more than 3 million residential and business customers across 27 States.

The communications business has changed dramatically since Frontier began as a local exchange carrier, a provider of POTS, plain old telephone service, in 1935. But our commitment to providing customers with reliable and affordable products and services remains constant.

Over the past decade, Frontier has transformed from a 20th-century phone company to a 21st-century broadband company. We have made it our mission to deliver the life-changing benefits of broadband technology to rural communities across our footprint.

Broadband is a key driver for economic growth in America in the 21st century. Broadband availability in rural America offers more than simple entertainment and communications. It translates into increased economic development, employment and educational opportunities, and improved health care.

In July 2010, we completed a transformative transaction acquiring millions of rural and suburban communication lines from Verizon. As part of this acquisition, we committed to providing high-speed broadband access to hundreds of thousands of homes previously unserved.

The wire-line broadband services that we provide ensure that our customers and your constituents have unlimited opportunities for the future.

Frontier is relentlessly deploying and upgrading broadband to the communities that we serve, from midsize cities such as Roch-

ester, small towns like Dansville, my favorite, and to rural areas others consider too difficult to serve, like the hamlet of Wyoming, New York.

Since 2010, we have invested more than \$2.2 billion in company funds to increase broadband access to improve infrastructure and also an additional \$133 million from the FCC's Connect America Fund that supports broadband deployment exclusively to unserved high-cost areas.

We have significant operations in New York State, having acquired the former Rochester Telephone Company in 1995. We now have 2,300 employees serving more than 275,000 customers of New York in major cities of Rochester, Gloversville, Johnston, and Middletown.

In New York State alone, we have invested more than \$200 million in network enhancements and capital investments for operations over the past 2 years. We have been able to accept just recently \$9 million in the Connect America Fund Phase 1 process to provide broadband to more than 15,700 previously unserved locations in New York State.

It is interesting to note that our costs to deploy that \$9 million worth of grant will exceed the \$9 million, so we continue to make that private investment.

Efforts to deploy throughout New York State do not stop here. We recently worked with local governments and New York State economic development councils to ensure that areas most in need of broadband are getting access. We recently assisted Hamilton County in receiving a \$2.2 million New York State broadband grant to upgrade the data transfer backbone in Eastern New York from Gloversville to Eagle Bay. Upon completion, all of Hamilton County, which is in the Adirondacks, with very challenging geography and sparsely populated, will have access to broadband speeds of up to 10 MB.

Most recently, we worked with Wyoming County and New York State Senator Patrick Gallivan on broadband capacity for that county and also assisted in confirming their agricultural center will have the broadband capacity required to serve their needs.

Access to broadband in our rural counties provide farmers and spinoff agribusiness with access to world markets, expanding their products and services for markets from local to global. We are proud to be a provider of services to these rural communities and working with Senator Gallivan on this initiative.

We continue to seek out ways to work collaboratively with State and local governments and organizations to provide businesses and residents with the broadband services they need.

Like you, we know that high-speed broadband connectivity is life-changing and absolutely critical to our country's economic recovery and prosperity.

Communities with access to the Internet are ripe for economic development and job creation. We are modernizing facilities and services, because we believe that our time and treasure, the old cable lines as well, is best used by extending robust broadband and networks to these communities. That means giving communities access to high-speed Internet services.

Broadband technology offers rural America untold economic, educational, and social opportunities, and we consider it our job to deliver that access.

Thank you very much for inviting Frontier to this hearing, and as always, we look forward to answering any questions.

Chairman COLLINS. Good, thank you very much.

Our final witness today, before the Q&A, is Kendra Lamb. She is public relations manager of Lamb Farms in Oakfield, New York.

Lamb Farms is a family dairy operation with three milking facilities. They rely extensively on broadband Internet to operate their businesses, including the monitoring of milk output, managing their equipment, and various social media activities.

Ms. Lamb is testifying on behalf of the New York Farm Bureau.

Thank you for being here. We look forward to your testimony.

STATEMENT OF KENDRA LAMB

Ms. LAMB. Thank you to the Committee on Small Business and to Subcommittee Chairman Chris Collins for inviting me to testify before you today on broadband access and its impact on small businesses here in rural New York.

My name is Kendra Lamb, and my husband and his family own Lamb Farms, a dairy based in Oakfield with three milking facilities and a methane digester. We are a third-generation farm family with a passion for producing quality milk while providing excellent care to our cows and the land.

I am also speaking on behalf of the New York Farm Bureau, the largest general farm organization in the State, with 25,000 members representing all commodities, all production methods, and living in all corners of the State.

It might be hard for some people to imagine, but New York State has some very rural locations, and we have large gaps where broadband access is just not available, including here in Western New York.

In today's age, with access to the Internet, a small business can operate from anywhere, but it is hard to imagine a small business surviving and thriving in a rural area if it cannot be competitive in a world marketplace. The lack of reliable broadband access is a major barrier to growth in our rural areas, and we need the Federal Government to help solve this problem.

According to a 2013 survey conducted by the USDA, 31 percent of farms in New York, or more than 11,000 operations, do not currently have Internet access. A 2010 study conducted by the Small Business Administration found that rural businesses pay significantly higher prices than metro businesses for the same bandwidth, and small businesses in metro regions have access to higher bandwidth services than rural businesses do at higher costs.

These kinds of inequities cannot continue if rural businesses are expected to compete with their counterparts in more developed areas.

We are lucky that our main farm location has a broadband connection through our cable provider, and my home has DSL through our telephone service provider. Without access to this kind of reliable Internet service, our farm wouldn't be able to do many of the key things we do to educate and reach out to the community.

We have found that, working in animal agriculture, it is becoming increasingly important to be able to educate the community on what we are doing on the farm and to answer their questions in an honest and direct manner.

I am responsible for many of the public relations and outreach efforts of our farm. We have a Facebook page that I use to reach the community and educate consumers on our food supply.

Without high-speed Internet, I wouldn't be able to update this page with the large picture and video files that help us tell our story. We also have a farm Web site that we update ourselves and take requests from those who wish to visit the farm.

We also use the Internet across many business applications to take advantage of the latest technologies to collect and analyze data, and ultimately to make better decisions. We track the amount and quality of milk that we ship each day through our milk cooperative's Web site. We use dairy-specific software to help with recordkeeping, like tracking the milk production of each of our cows, which we download as large files off the Internet.

Similarly, we are able to monitor our methane digester, which uses waste on the farm to create energy, and get remote assistance from Pennsylvania, all over the Internet.

We grow most of the feed for our animals, and all of our crop recordkeeping is through Internet-based programs. These help us keep track of soil types, waterway locations, setbacks, and nutrient recommendations.

Much of our banking is done online now, and our employee time clocks and payroll software are Web-based programs linked directly to our bank. Even our employee benefits are updated and communicated through Web programs, so our workers have easy access to comprehensive information.

Businesses like our dairy need high-speed, affordable Internet to stay on top of the research and innovation that is available in our industry. As farm managers, we need to understand changes in trade and world markets, and in consumer demands, so we can make informed business decisions.

In addition, more and more Federal and State agencies are relying on electronic reporting by farms in order to comply with regulations. Efforts are afoot to make environmental and employee safety and health reporting electronic, completely getting rid of paper submissions. This places extreme burdens on farms and other small businesses that don't have reliable access to the Internet.

It is important that the Small Business Committee push back on electronic-only reporting requirements until all businesses have access to reliable broadband that is not cost-prohibitive.

While our farm does not direct market to consumers, many farms in rural areas do, especially fruit and vegetable growers through farm stands, farm markets, or CSAs. Web sites, social media, and online directories are invaluable tools for these farms to reach their customers.

Farmers looking for new outlets or monitoring a constantly changing marketplace must use the Internet to learn and explore new business models that can lead to success.

Rural areas can also feel isolated without broadband. Combined with fewer education and health care options, these locations be-

come less attractive places to live for the young people, families, and innovators who help drive economic vibrancy. But broadband can bring distance learning, telemedicine, and the world to anyone's door.

In conclusion, access to broadband is essential for farms and other rural small businesses to manage efficient and successful operations, to reach their communities and customers, to stay on the cutting edge of their industry, and for our rural communities to be attractive places to live for our employees, customers, and the next generation to run our businesses.

We can't do this on dial-up or undependable Internet connections.

Thank you again for the opportunity to speak with you today. I would be glad to take any questions you may have.

Chairman COLLINS. Thank you very much. That was great.

For all of you, I think, as we are here in the 27th District, and there is no question agriculture is the primary economic driver of our area, I was especially taken with your number 31 percent of the farms don't have access. So again, when we talk about this broad coverage, our rural parts, the farms, can be quite substantial, and there may not be many people exactly living on the farm.

But that is actually a number I haven't heard. That is a pretty staggering number.

To help everyone here understand, I would like to maybe first talk about the regulatory burden a little bit. We always hear regulations are stifling the economy in the United States, an impediment to job creation. In fact, sometimes regulations result in job losses, and that is very good at the 30,000-foot level. And I think we heard some of that here today from Mr. Meyerhofer, Ms. Canfield, and Mr. Smith.

But could you give us an example of perhaps one or two regulations that, in particular, are a thorn in the side that you have, and I think we may hear more about the USF here in a second?

But also, how that may have impacted you, in particular, with jobs at the businesses you represent or within the association, where someone would say, "Because of this regulation and the costs, I had to lay people off. I have done this or that," to try to bring home for this group a couple of particulars, especially come down off the 30,000-foot level, if you have something. That is fine, if not.

Mr. Meyerhofer?

Mr. MEYERHOFER. Well, as I stated in the testimony, in terms of the regulations themselves, the good part is, is it somewhat of a hands-off approach, in terms of how broadband is operated in this country and how we have grown, particularly on the cable side of it.

But what often comes up with these programs, particularly through Rural Utility Services, is the need to meet the unserved areas. That is not always at the top of the list.

And as the country has looked more and more to get to that last mile, if you will, I think there has been a change of mindset with FCC and RUS to do that, to focus on the unserved area instead of the "underserved" or what we call the overbuilt, where there is al-

ready another company in there, yet government programs continue to bring in an additional service to that area.

And as I said in my testimony, our focus as a company is really to look at those unserved areas.

So I think there is starting to be a change at the Federal level that we are seeing more and more as these programs go on. And I think that Connect NY, and maybe Bob can speak to Connect America, we are looking at that program as well. Maybe they are heading in the right direction in terms of that.

Chairman COLLINS. All right, thank you.

Ms. Canfield?

Ms. CANFIELD. Well, from our perspective, the Universal Service Fund is really the lifeblood of the independent telephone providers, telecommunications providers. And what happened in the last couple of years is the FCC did a major overhaul of the fund. The fund allows providers who serve the most rural areas to keep the rates comparable to what they are in urban areas.

But with this overhaul, they created a lot of uncertainty, and that uncertainty meant that our members no longer knew that they would be able to meet their commitments.

So we had members, without going into the specifics of the changes the FCC made, we had members who canceled broadband buildout fiber deployment plans. We had members who returned grants that they had received, that they decided there wasn't enough certainty for them to go ahead and use the grant to provide the broadband to the rural communities. We had members who laid off. We had one member who had to lay off 20 employees as a result of that uncertainty and the inability to move forward and not have that sort of guaranteed revenue stream going forward.

So it had a very dramatic impact on the rural carriers.

Fortunately, we are starting to see a change in the way it is being approached. Some things have been rolled back a little bit. They have been given a little bit of breathing room. There are still changes that we are waiting for.

The independent telephone providers do not have a Connect America Fund that allows them to have supportive broadband services to rural areas. In order to get broadband, rural consumers have to also get the voice service.

So that ensures that the small business cannot be competitive if there is a cable provider in the area that can offer a standalone broadband product. Our members are not able to do that.

And even in areas where there is not a competitor, we have very progressive consumers who don't want necessarily a landline telephone anymore. They want to move to an all-mobile product for their voice service, and to have the broadband connection to the home, so they no longer see that need. And our members are not able to meet that need right now.

Chairman COLLINS. Thank you.

Mr. Smith?

Mr. SMITH. Ours is very simple and very old. Frontier continues to be saddled with an outmoded regulatory structure designed to govern old-fashioned telephone service.

Regulations for ILECs in this country, particularly with switched access for telecommunications, it hurts us from a competitive standpoint, particularly against cable and wireless providers.

We must be able to compete on a level regulatory field, particularly in our urban areas, so that we can use that capital that would be saved from those regulations in order to expand our footprint in the rural areas.

Chairman COLLINS. Good.

I will come back maybe in a minute and ask a little bit more about spectrum, but, Ms. Lamb, because I know it is a staggering number, how many cows are on your operation?

Ms. LAMB. Between the three farms, we milk about 6,000 cows.

Chairman COLLINS. Yes, I think it was important to get that out. We sometimes talk about the definition of a large dairy farm being over 200. And in fact, in the farm bill that was just passed, there are some sections of the farm bill that deal with what we call the small dairy farms with under 200 cows.

Well, 6,000 is not only large but a very, very significant operation, and we should point out it is a 24/7 operation. You basically don't go on vacation. And every cow has to be milked at least twice a day. I don't know, you may have some that are three times. If you want the most milk production, you go to three times a day.

That is almost a mind-numbing kind of operation. And the fact that you are utilizing technology as you do, that is what I would like to talk about a little bit.

To the 31 percent of farms, as you indicate, and you are representing the Farm Bureau, that don't have access to broadband, versus your operation, can you give us even just a rough idea of what that means to Lamb Farms, bottom line or otherwise? Or could you even operate today the way you do with 6,000 cows and not have broadband?

Ms. LAMB. I don't think we could operate without having the broadband for our business. So truly, we still are a family operation, we just have a lot more family involved.

So in order to really put together all the information for this, I had to go and ask my husband, in what ways are you using the Internet for herd management? And to Jim Veazey, who manages our cropping, how does the Internet play into our environmental plans? And to his wife, Marlene, Marlene, how are you using the Internet for our bookkeeping and for our payroll?

And that was when it really all came together. And it is just incredible the way that it is such an integral part of our business. We could not do all of this without the Internet.

I should say I grew up on a small 70-cow dairy operation in the Catskills, and I still have family members in that area who milk cows, who have small dairy farms, and they do not have broadband Internet. And when I think about the impact to them, and the disadvantage they are at, it is significant.

Chairman COLLINS. I would imagine growth, at some point, if you don't have Internet, there is a point you just can't grow because just like any business, the more complex your business becomes, the more you need the tools of today—computers, technology, and the like—to be able to manage that growth, or things get out of control.

Ms. LAMB. Exactly.

Chairman COLLINS. So now, as you are looking at where you are going next, where do you think the Internet is going to help you save money, become more productive, et cetera, et cetera. Do you have an idea of where you are heading in the next year or 2 or 3?

Ms. LAMB. That is a good question. It does seem like more and more is coming available online.

So one of the newer things that we are going to be trying out for the first time this year is incorporating GPS and some of the satellite services that can actually, in the field, the person who is running the planter can give an exact coordinate to the next guy, so that they can see exactly where—these tractors can line up perfectly.

So we can, with that same amount of land, be even more efficient with the crops that we are growing on that land. So that is a major technology that is just coming out this year. But the tractors are almost going to be talking to each other, and it is going to take out some of that possibility for human error, so that will be really neat to see.

Some of the unique things that I thought of after I did my testimony, but Mr. Smith was mentioning some of the farms use Internet now for surveillance. So on our farm, just for employee management and also for security, we do have surveillance cameras, and my husband can log on at home. If they are saying that maybe the parlor stopped running, he can log on and see what is going on without actually having to go into the farm. That is something that is unique.

We also have a registered dairy sale every other year, and we have a live Internet feed so that people can bid from Japan or from anywhere around the world. They can watch the sale online and bid from there.

So those are all things that we have an advantage over someone who doesn't have broadband.

Chairman COLLINS. Yes, I think you put that in very good perspective. Thank you for that.

So, Ms. Canfield, back to the spectrum issue again, there is always the argument of breaking it into small chunks, which would allow the rural carriers to bid on and be able to be competitive bidding on a small piece of spectrum. And then there is the thought of well, let's just package it all up.

For the purpose of this hearing, could you maybe even just give the pros and cons of what you have heard—small, how small is too small versus packaging to where your carriers can't bid because they have no use for it?

Ms. CANFIELD. Right, the first thing I want to mention is that it is important to remember that wireless is not a substitution for wired communications, because communications don't hop from tower to tower to tower until they make it to your phone. They rely on that wired network. So I just wanted to put that out there.

The wireless, though, is incredibly important in rural areas, partly for a lot of applications that she's talking about over here, Ms. Lamb is talking about, and also, just to have mobile service in rural areas. Very often, the large carriers don't provide mobile

service in the most rural communities, so we rely on small, independent telecommunications providers to do that.

And when you are talking about a small telecommunications provider, these companies—very often are family-owned businesses, very often cooperatively owned businesses—are serving communities. They are not serving the entire State. They are not serving the entire Northeast, like someone like Verizon or AT&T actually serve the whole country.

So they are looking for spectrum licenses that allow them to serve the community. Now the way that the spectrum licenses are put out to carriers is that they are auctioned. At an auction, everyone who is interested signs up and then bids.

One of the difficulties is that when the FCC decides that they are going to auction the spectrum according to large geographic areas, you are taking the small companies completely out of the picture. They have neither the interest nor the resources to compete against someone like AT&T or Verizon to obtain the whole State of Wyoming, for example, or New York State.

So we have advocated as an association very often for cellular market areas, CMAs. There are 730-some-odd CMAs in the country, so the country is broken up into 700 areas for licensing.

The upcoming spectrum auction, which is a 600 MHz spectrum, is a really, really good spectrum. It has great propagation for rural areas, in particular. And it also allows the larger companies to relieve congestion in the urban areas. There is a tremendous amount of interest in the spectrum.

The FCC originally proposed auctioning that spectrum according to economic areas. There are 176 in the country. Again, way too large for any small business to participate in that auction.

So we have been advocating hard for the CMAs. We were told by the FCC that this particular auction is way too complicated for 700 times four auctions. So we have worked with all the other rural associations and also with AT&T and Verizon, Sprint, T-Mobile, to come up with an alternate plan that is an in-between plan. We call them PEAs, Partial Economic Areas. There is a lot of discussion about what to call them, PEA Pods.

But there are 416 right now, and we just presented that to the FCC as a compromise proposal that we think will provide a realistic opportunity for small businesses who are interested in serving the rural areas to obtain that spectrum and be competitive in providing not only a mobile product, but also a fixed wireless product, which is an essential way to get to the very most rural areas, that very last mile, the way out ranches and farms. It is an economic way to get broadband to that last mile.

Chairman COLLINS. I think, too, for the purpose of the hearing, we hear about gridlock in Washington, and that we don't get along, and we get nothing done. I would like to point out, certainly, on the Small Business Committee, even more so than most, there is unanimity when it comes to providing the tools small business needs. It is not a Democrat/Republican issue. When we talk about regulatory burdens, again, it is not a Republican/Democratic issue.

The concerns are, how do help small business grow? How do we get out of the way of small business? And so, again, hearings like

this, there is no partisanship in this. It is trying to seek ways the Federal Government can assist, can get out of the way.

Spectrum is a huge issue, because if it is not done properly, we won't get to those 31 percent of farms that need it. We won't get to the last mile.

So there is absolute agreement that we need to work together on this. So it is actually nice to be part of a Committee and chair a Subcommittee where we don't have the political infighting that goes on. We are actually looking to do what is best for America. And I think it is sometimes important to point some of that out.

We keep hearing last mile, last mile. And I think we all have a great picture. It is a good visual.

But, Mr. Smith, do you have any numbers on what it costs to go that last mile, to that last house, either cost per foot or per mile? And I am assuming, more than not, are we talking fiber when we are talking about that last mile for cable?

Mr. SMITH. Actually, there is this misconception, and Ms. Canfield's discussion there on the spectrum was very interesting and very exact. And I think it is a misnomer for people with the wireless telephone, that it is magically through the sky and satellites in the sky. But that is totally untrue. It is a wire-line connection.

Wire-line capabilities exist today. A telephone passes nearly every home in the country, and the technology that exists today, it is there that would allow a DSL signal or, for my worthy competitor, Mr. Meyerhofer, a coaxial signal.

The issue, as you just pointed out, is that cost per last mile. In some cases, with the CAF funding and the analysis that we did, each home past, and that is how we measure the cost per last mile, how many homes are we passing in order to provide that service, in some cases, those costs exceed \$500 per person, per household, just to get to that last mile. In many cases, it is even larger than that when you are in a sparsely populated area.

But it varies. Again, it depends on how many homes are within the last mile.

But to extend that technology, it exists today. And it doesn't have to be fiber. I think that is another misconception that people have. Technology that exists in our world, in our central offices and in our field remotes, is capable of providing people the Internet speed they need. The issue is the cost to deploy that equipment in order to provide that service to those people.

Chairman COLLINS. I think that there are so many misperceptions when we say "broadband." And again, starting with what is it, and it is the 4 MB down and the 1 MB up. But we go into much larger chunks as well.

The other point is, for our kids, we talked about small business, and that is the focus of this committee. But we hear a lot about Common Core, and we can agree or disagree with whether that is a good thing or how it is rolling out. But the fact is, our kids today rely on broadband to do homework assignments, to get homework assignments. And if someone is on living on one of the farms, 31 percent of which don't have access to broadband, we are leaving those kids behind.

And that is why I think, again, it is a national priority to get 100 percent coverage. It is a disservice when we talk about 98 1/2 per-

cent, because then you start doing the math across 300 million Americans, and that is too many being left behind.

So the purpose is to get it to 100 percent. The Federal Government does have a role to play in making sure we have a level playing field, and we are not picking winners and losers, and that regulations aren't standing in the way. Best efforts aside, that is, again, what we are looking at in the hearing.

I think we have pretty much covered what we wanted to cover. And the issues are well-understood. They are not partisan. These are bipartisan issues looking for solutions that we can initiate.

It is always nice to hear that the State has their programs and that some of those are working. The Federal Government, though, when it comes to spectrum, is the one that is controlling that.

And, certainly, the Universal Service Fund, that is a Federal program and it dates back to the days before wireless, before broadband. And so it has to be tweaked. It is understood it has to be tweaked. It is in the process of doing that, and hopefully in a way, again, that doesn't pick winners and losers, and helps us get to that last mile.

So as we bring the hearing to a close today, I just again want to thank all the witnesses for coming in. And I, certainly, have found your testimony—I always say if you learn something every day, that is a good day.

And, Ms. Lamb, the 31 percent really puts this in perspective.

And, certainly, I think what we heard about the spectrum is very useful.

And, Mr. Smith, your comments about wireless isn't magical, there are wires connecting it. I have to think, when people talk about cloud computing, I mean, I hate to say it, but there are people who think there is something in the clouds. They don't understand that it is the concept that it is not onsite, the server is not onsite. It is somewhere else, but it is really not in the clouds.

I am, certainly, today a little disappointed that the FCC, the Federal Communications Commission, and the Rural Utilities Service—we talked about the Department of Agriculture and their role—were not able to provide a witness today. I am sure if we were in D.C., they probably would have. But it is disappointing that they are not here.

But what we are going to do is, Andy, who is on the Small Business Committee—and thank you for your assistance. To the extent this went smoothly, it has nothing to do with me. It has everything to do with Andy and has preparation and his binder. And again, I can't say enough for my staff as well.

But we are going to send them a letter, and we are going to summarize today's hearing. And as we got some very specific questions, we are going to ask those questions and look for answers. And they will be forthcoming with answers. They generally don't ignore a letter from a congressional hearing. So we will be able to get those and then share those with those who are here.

So as I move forward, as the chairman of the Subcommittee on Health and Technology, which today is technology, it was delightful to have a field hearing. With budget crunches in Washington, last year we did not have them. The sequester we all heard about, and likewise, there was a lot of turmoil in Congress. We didn't know

budgets, what they were going to be, and so forth. With a two-year budget now, the discretionary budget in place, we do know with certainty what monies we are going to have, and we are very careful in how we spend it.

But I think sometimes it is very beneficial to come out into a district. And as chair of this Subcommittee, I have some latitude in where we have it. And I am very, very pleased we are able to hold this in Albion, which represents rural aspects of this district. And, certainly, the attendance today shows how concerned we all are, and this is quite an appropriate issue.

So with that, I want to thank everyone for coming and officially say this hearing is now adjourned.

[Whereupon, at 10:55 a.m., the Subcommittee was adjourned.]

A P P E N D I X

**TESTIMONY OF MARK MEYERHOFER
DIRECTOR, GOVERNMENT RELATIONS, NORTHEAST-
WESTERN NEW YORK**

TIME WARNER CABLE, INC.

on

Broadband Deployment and Adoption

before the

Committee on Small Business

Subcommittee on Health and Technology

Albion, New York

March 20, 2014

Good Morning. My name is Mark Meyerhofer, Government Relations Director in the Northeast-Western New York region for Time Warner Cable. Thank you for inviting me to testify today regarding rural broadband.

Time Warner Cable was formed in 1989 through the merger of Time Inc.'s cable television company, American Television and Communications Corp., and Warner Cable, a division of Warner Communications. Time Warner Cable offers residential video, broadband, digital phone and home monitoring and security services throughout its New York State footprint; as well as data, video and voice services to businesses of all sizes, cell tower backhaul services to wireless carriers, information technology solutions and cloud services. The Company also provides customers with exclusive, local, all-news TV channels in New York, North Carolina and Texas that provide viewers with content targeted to their community interests and concerns.

Time Warner Cable is among the largest providers of video, high-speed data and voice services in the United States, connecting more than 15 million customers to entertainment, information and each other in 29 states, employing over 50,000 people across the U.S. Based on year-end 2013 data, TWC has approximately 11 million residential high-speed data subscribers and 517,000 business high-speed data services subscribers. Time Warner Cable is headquartered in New York City.

Rural Broadband Deployment in New York

Time Warner Cable is the leading broadband provider in NYS, offering reliable and affordable high speed broadband to over 2.3 million customers. We also provide video service to 2.6 million customers and voice service to 1.2 million customers, as well as Intelligent Home security and monitoring. Time Warner Cable also serves approximately 120,000 businesses across the state. We are a major employer with roughly ten thousand employees and a local presence in communities throughout the state. We pay approximately \$450 million annually in employee wages, and our state and local taxes and fees exceed \$270 million each year.

Investing \$25–30 billion of private “at risk” capital since 1996, Time Warner Cable has deployed broadband infrastructure throughout its footprint. We continue to enhance our infrastructure to benefit our customers and the communities we serve, investing \$2 billion in New York State in the last four years alone. In the 27th Congressional District in 2012 and 2013, we built over 335 miles of new lines, passing over 1,000 businesses and nearly 3,000 homes.

Time Warner Cable's substantial and sustained investment of private, at-risk capital has resulted in our company passing approximately 96% of the homes and businesses in our New York State footprint. Access to broadband for New Yorkers is higher than the national average, with 95% generally having access and two-thirds of New York residential customers choosing cable

broadband. These investments were made, and this success achieved, in a regulatory and statutory environment that encourages innovation and investment. However, it remains extremely challenging to extend broadband to the most rural areas of NYS, where geographic isolation and topographic issues make it economically infeasible for companies to reach these areas—investment simply cannot be recouped before it is time to reinvest.

Government's Role in Spurring Deployment in Unserved Areas

Time Warner Cable believes government has a role to play in helping to meet broadband needs in these unserved areas, and that properly structured programs or partnerships can help achieve rural broadband deployment goals.

Any government-sponsored program or partnership should be guided by core principles. First, such programs and partnerships must be focused on unserved areas so taxpayer dollars are not wasted duplicating existing, privately funded networks. When taxpayer funds are used to overbuild an existing provider, the result is unfair competition for a limited number of customers. Government should not pick winners and losers in this competitive environment but instead focus limited taxpayer funds on unserved areas that need it the most. Second, government programs need to focus on last mile services, which is the most difficult and costly part of deployment. Third, programs should be technology and provider neutral, so all providers and technologies are eligible to participate. Fourth, the costs of these programs should be broadly shared rather than paid for by a tax or fee on a specific set of consumers or taxpayers. If rural broadband deployment is the public policy goal, the cost should be born as broadly as possible and the deployment cost to the individual consumer should be as low as possible. Finally, to encourage the broadest possible private participation in any government-sponsored program, any funding or incentives should come with no strings attached, so companies can own and operate the new networks and integrate them fully into their existing infrastructure and business plans.

NYS's ConnectNY program created by Governor Cuomo is a good example of an effective and well-structured public-private partnership program. Time Warner Cable received the largest ConnectNY grant and is now investing \$7.1M in partnership with New York State to provide rural broadband for 52 projects in 22 counties and more than 40 towns across the state. Our ConnectNY project will connect more than 4,100 previously unserved homes, business and community institutions to high speed broadband. We expect to complete these projects by the end of 2014. ConnectNY has a strong focus on unserved areas and a robust review process to prevent overbuilding; the costs are shared broadly through state bonds; it is provider and technology neutral; and there are few if any strings attached to network operations.

Time Warner Cable also supports the NYS Rural Broadband Deployment Act (S. 5481-A) advanced by state Senator George

Maziarz (NY SD 62, Newfane) because it focuses on unserved areas, is provider and technology neutral, and the costs are shared broadly through the state's general fund. This bill would create a 100% refundable tax credit for rural broadband deployment available to residents and small businesses. Deployment expenses are refunded over five years and available for unserved areas only. The tax credit program would be technology and provider neutral and the provider contribution is not eligible for the credit. This bill passed the state Senate unanimously in June 2013.

Rural Broadband Adoption in New York

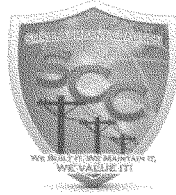
While the government's role in spurring broadband deployment in unserved areas remains limited, we believe there is a broader role for government in broadband adoption. New York's adoption rate of 70% is higher than the national average of 66%. Roughly one-third of Americans (and 30% of New Yorkers) with access to a broadband connection choose not to get connected at home. Further, adoption is not consistent across groups, where senior citizens, people with lower incomes and those with less education adopt at far lower rates. Aging populations, lower populations, lower socio-economic status and lower educational attainment can often characterize NY's rural areas.

The principle reasons cited for not adopting broadband are digital literacy and relevance. We should all work together to encourage adoption and Time Warner Cable has participated in numerous adoption programs, as noted in the attachment. A small investment in educating consumers about why broadband is relevant to them can be highly effective in increasing adoption rates, especially in low-adopting populations.

Conclusion

Time Warner Cable believes that private investment has resulted in remarkable deployment success in NYS and in the US. This investment has fueled innovation and the tremendous growth of broadband networks and services that we see today. As a general principle, we believe that government programs designed to address the needs of unserved areas in rural NYS and America must contain the guiding principles highlighted above. We also support government efforts to increase broadband adoption.

Time Warner Cable looks forward to working with this committee on this issue. Thank you for the opportunity to testify today. I am happy to answer any questions you might have.



Statement by

Jill Canfield

**Director, Legal & Industry and Assistant General Counsel
NTCA–The Rural Broadband Association**

On behalf of

NTCA–The Rural Broadband Association, and
The Small Company Coalition

Before the

United States House of Representatives
Committee on Small Business
Subcommittee on Healthcare and Technology

*Expanding Broadband Access and Capabilities
to Small Businesses in Rural New York*

Field Hearing
Albion, NY

March 20, 2014

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INTRODUCTION

Thank you for the invitation to participate in today's discussion on expanding broadband access and capabilities to small businesses in rural New York. I am Director of Legal & Industry affairs and Assistant General Counsel for NTCA–The Rural Broadband Association (NTCA), which represents seventeen small, community-based rural telecommunications providers in the state of New York and nearly 900 similarly sized rural carriers nationwide. My remarks today are on behalf of NTCA, as well as the Small Company Coalition (SCC), which represents small rural broadband providers and vendors serving them, located in eleven states. Small, rate-of-return rural telecom providers (commonly called "RLECs") serve about 5% of the US population and roughly 40% of the country's landmass. These companies operate in rural and tribal areas long ago left behind by larger service providers because the markets were too high-cost – too sparsely populated, too far from larger towns and cities, and/or just too challenging to serve in terms of topography or terrain.

As anchors in the communities they serve, these small businesses create jobs, drive economic activity, and 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.

Much of the small business world is already demanding higher broadband speeds to help it interact with and sell to customers near and far, and rural telcos – which are small businesses themselves in nearly every instance – 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. Fixed and mobile broadband, fixed and mobile voice, video, and Internet Service Provision are among the numerous telecom services that rural New Yorkers can access thanks to the rural industry commitment to serving sparsely populated areas.

Nearly all small, rural carriers in New York have deployed broadband to 99% or more of their rural service areas. Further, these small businesses have a brilliant track record of collaborating to build fiber networks that benefit wide swaths of rural New York. For example, the Adirondack – Champlain Telemedicine Information Network (ACTION) now delivers up to 1 Gbps fiber/Ethernet connections to 49 hospitals and healthcare facilities from Massena to the Tri-Lakes to Plattsburgh to Glens Falls all the way down to Hoosick Falls in Rensselaer County. The Development Authority of the North Country (DANC) served as the project manager for the ACTION build, with subsidiaries of Champlain Telephone Company, Nicholville Telephone Company, and Chazy Westport Communications providing service to individual locations.

The Independent Optical Network, more commonly known as ION, is an Albany, New York based, statewide fiber network that connects more than 100 upstate New York communities and their surrounding rural areas with its 3000+ mile redundant and diversely routed network. ION currently provides services to the four major cellular providers, national and regional telecommunications providers, hospitals and healthcare organizations, colleges and universities, governmental entities, and businesses across its robust fiber network. ION was founded through the vision and investments of fifteen small, rural telecom providers that have been supporting customers in rural upstate New York for decades. ION's state-of-the-art network was designed for geographic network diversity to ensure available and affordable telecommunications access for all, the ability to easily scale the size of the network for future growth and bandwidth requirements, and redundancy that drastically reduces network downtime. ION enables connectivity to over 190 national and international network providers, giving small businesses in rural New York the ability to compete nationally

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and internationally. ION's carrier neutral approach allows all of New York to access the latest in voice, broadband and video services.

Through a recently completed \$50 million project that included a significant federal investment supplemented with state investments, ION can serve more than 300 anchor institutions, including libraries, state and community colleges, state and county agencies, and healthcare organizations. In addition to these organizations, the project makes broadband more readily available to 250,000 households and 38,000 businesses. It also provides much-needed investment and job opportunities in these communities. For example, for decades now, rural institutions have had an extraordinarily difficult time procuring reasonably priced broadband. With the new ION network, affordable broadband is now available to Alfred University and institutions across the state. The results have truly been transformational," said Gary Roberts, Alfred University's director of information technology. James Wright, CEO for DANC, has said the project "will provide new opportunities for business, new jobs and greater economic development for the entire seven-county region."

Now under construction, the \$4.5 million, 127-acre Finger Lakes East Business Park in Cortland County is counting on the ION fiber build to draw future tenants. Also, the Otsego County Wireless Network will leverage the ION fiber backbone to deploy last-mile, wireless broadband to 24 towns, 9 villages and 1 city in Otsego County. The provision of affordable broadband will enhance the services offered by the educational, medical, commercial, and governmental entities within Otsego County, thus improving the overall health, welfare, and living conditions of all residents.

Similarly, Allegany County – where nearly 50,000 people reside in 38 towns and villages spread across 1,000 square miles – has plans to create a county-wide platform for providing access to the ION fiber optic network, delivering quality broadband to Allegany County operations, municipalities, libraries, residential neighborhoods, businesses, farms, emergency responders, and last mile communications providers. This will include 17,400 households that are currently without broadband service. Public safety will benefit tremendously, with capacity to deploy Next-Generation 9-1-1 equipment and develop mobile data services, video backhaul and Automatic Vehicle Locator (AVL) capability. The network will hand-off broadband access to the small, rural telecom providers to support their competitive capability.

Delhi Telephone Company in Delaware County, NY has more success stories, including a redundant fiber service built to a manufacturing facility that will remain in the Delhi area thanks in part to the availability of robust, advanced broadband. Many home-based businesses have relocated to Delaware County based on the increased fiber-to-the-home connectivity offered by Delhi. Anchor institutions benefit as well with fiber rings for both the Delaware County office buildings and the SUNY Delhi off-campus buildings. Delhi has already built fiber to half of its population, with 20 Mbps offered to every home – scalable to 1 Gbps in the future depending on customer demand.

One more example is Slc Network Solutions which is a wholly owned subsidiary of Nicholville Telephone Company, a 110 year old RLEC. Slc has been able to construct over 1000 miles of last mile fiber to previously rural unserved/underserved areas of northern New York passing more than 6,000 homes in some of the most rural areas of the Adirondack mountains. In addition, the network has brought affordable high speed connections to businesses, municipal office, libraries and other anchor institutions. It has also connected military personnel to their loved ones at home, enabled telecommuting and distance learning and reduced isolation of rural seniors bringing a higher quality of life to these previously unserved areas.

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Clearly, small, rural telecom providers in New York and around the country are aggressively pursuing ground-breaking broadband solutions through innovation and creative partnerships. These initiatives use broadband networks to enable applications that rural communities can leverage for innovative economic development and commerce, blue-ribbon education, first-rate healthcare, cutting-edge government services, robust security and more efficient energy distribution and use. Broadband-capable networks facilitate greater interconnection of the community's resources and can enable citizens' participation in the global economy.

RURAL BROADBAND BENEFITS THE ENTIRE U.S. ECONOMY

A series of recent studies confirms that significant benefits flow from rural broadband investment to broader urban and statewide populations. The rural telecommunications industry supported \$14.4 billion of economic impact in 2009, with \$9.5 billion occurring in 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 cut investment in rural broadband hurt state economies. In Kansas, for example, potential cuts in Federal rural telecom programs led to projections of \$1.4 million in personal income tax 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.

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.

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 RLECs – where there is no robust broadband that enables meaningful access to the countless economic and educational opportunities

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).

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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 just as vital that those already receiving broadband remain served – the benefits that flow from broadband are ongoing. If a network is built 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.

THE IP EVOLUTION AND UNIVERSAL SERVICE

The Communications Act's timeless goal of making advanced nationwide and worldwide wired and wireless networks available and affordable for all Americans is as important as ever in an increasingly interconnected and competitive broadband-based economy. This 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. "Market-based" frameworks 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.

Deployment and ongoing operation of communications networks in high-cost rural areas has to date relied on a combination of revenue derived from fees paid by subscribers, intercarrier compensation paid between carriers, universal service support, and privately-sourced capital. The latter includes an effective partnership of loan and grant opportunities administered by the U.S. Department of Agriculture's Rural Utilities Service and other agencies that help to finance in the first instance the deployment of networks to the benefit of the whole community. These programs were originally designed to provide cost recovery for voice oriented systems, but today support broadband deployment as well. Similarly, the universal service program needs to be reoriented to support broadband-capable networks. Though the FCC, with great encouragement from the telecom industry, has moved to establish such a fund for price cap regulated (large and mid-sized) carriers, it has yet to create a similar fund for rate-of-return regulated (small) carriers. As a result, RLECs are still forced to leverage the legacy voice USF program for broadband-capable network deployment, while larger price cap carriers have the Connect America Fund that is being designed to incentivize broadband investment. Though small, rural providers have been leaders in broadband investment even under the current statutory and regulatory regime, further law and policy changes will be necessary to ensure high cost rural areas remain served while providers edge out into unserved areas.

The Communications Act mandate of universal service, which builds upon decades of national policy, has been – and remains – essential in enabling small rural providers to deploy and upgrade cutting-edge networks over time where no other carrier or entity could find a business case to do so. Indeed, this mandate has already helped these small, community-based businesses deliver at least DSL-speed broadband to over 90% of rural America (even as there is more to be done and sustained). Furthermore, not only does this long-standing national policy promise rural Americans an opportunity to participate in the economic, educational, and public safety benefits of the broadband economy, but it allows the entire country to benefit from the ideas and ingenuity of rural residents and the resources and business opportunities that exist in rural and remote areas.

The delivery of voice and nearly every other telecom service is undergoing transformative change through the IP Evolution – that is, telecom and information services are increasingly converging as IP applications that run over broadband. This phenomenon has rendered the current legal regime outdated, as it regulates the same service differently based on the technology platform the service rides on. IP, wireless, and other technological advances are changing the marketplace in ways unimagined even a few years ago, but technology alone will not miraculously solve the high costs of rural broadband deployment. Indeed, the IP

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Evolution that is already occurring under existing regulatory frameworks will be promoted and sustained only through careful, focused statutory and policy updates that are guided by the Communications Act's core principles of consumer protection, competition, universal service, and public safety. Similarly, NTCA's IP evolution petition filed with the FCC in late 2012 called for a careful regulatory approach to the transition that considers what rules make sense in this broadband age if we're to remain true to those same core principles. Given the challenges to serving rural areas, the answer is probably not going to be the legal and regulatory status quo, nor will it be complete deregulation.

A faithful and disciplined approach to the core Communications Act principle of universal service must 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 advanced communications services at affordable rates. Further, Congress should ensure that specific, predictable and sufficient support will continue to be provided to help ensure reasonably comparable services at reasonably comparable rates in rural, high-cost areas, as mandated by current law.

A perfect example of a legacy regulation that makes no sense in the broadband age, and part of the fallout from the FCC's incomplete USF reforms, is the rule that essentially forces some rural customers to purchase regulated voice service just to make broadband affordable. Universal Service support should not be tied to a limited service, but available instead to advanced networks that provide consumers with access to a variety of essential, high-quality services from which each consumer may choose. Small, rural carriers need support designed to promote broadband investment – as large carriers receive through the Connect America Fund – that doesn't penalize customers for taking only broadband service.

Congress should also 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 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 and to stem the incentives (and abilities) that are in place today which encourage or allow entities to avoid contributing. This de facto cap on the USF program will handicap severely our nation's ability to fulfill the statutory core principles of universal service, competition, and public safety, unless changes are made. Indeed, broadening the contribution base to include the information services that USF already supports has previously received bipartisan backing in the US House.⁶

Finally, the recent Comcast/Netflix deal made clear that, while peering is the name of the game in the IP world, small businesses could be forced by larger providers to haul data traffic long distances and pay significant sums to interconnect in the absence of a backstop to ensure fair dealing in interconnection agreements. With the massive demand for data set to grow exponentially in the coming years, networks of all kinds must seamlessly interconnect, and clear "rules of the road" must be in place to promote universal service and prevent recurrence of consumer-affecting disruptions such as the persistent "rural call completion" epidemic described below.

Entrepreneurial small rural carriers have leveraged private capital, universal service support, intercarrier compensation, and public-private partnerships to lead the ongoing IP Evolution. A Communications Act update and attendant regulatory changes that adhere to the core principles of consumer protection,

⁶ See H.R. 5828 § 102(a), 111th Cong., 2d Sess. (2010).

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competition, and universal service will ensure that Americans already served remain served and will promote future innovation, investment, and adoption across the nation, independent of underlying technology.

CALL COMPLETION

The scourge of rural call completion failure encompasses many of the fears of what consumers can expect in the absence of a clearly defined, time-tested regulatory backstop that requires network operators to interconnect with one another on reasonable terms and precludes service providers and network operators of all kinds from blocking data. Despite the problem having been brought to its attention three years ago, the FCC has been unable to stem the tide of dropped and/or misidentified calls to rural areas, with their efforts bearing two enforcement settlements and a recording and reporting mandate that has yet to be implemented and is currently being challenged by some.

This widespread problem is seriously and negatively affecting not only consumers, but also public safety and the viability of businesses located in rural areas. The problem often appears to stem from choices made by originating long distance carriers to use the cheapest possible route to transmit calls to rural areas – with the apparent sense that, if the calls should happen not to get there because a contractor in the middle (often called a “least-cost router” in the telecom industry) fails to deliver the call, there is little regulatory or economic consequence (if any) for such failures. The solution to this problem would require the originating long distance carriers to better police their service quality and the contractors they use. Greater transparency into the least-cost routing market would also help, but unfortunately scant information is available regarding who provides such services and when and where they do so.

This is not to say that the FCC has done nothing to address this – we just need the agency to immediately do more in terms of enforcement. Congress has sent a number of letters to the FCC already urging quick action. The FCC is working to implement an Order that would force carriers to retain information so that the scope of the problem could be ascertained on a company-by-company basis and enforcement action could be pursued. While having access to such data would be an important step forward, complaints of calls failing to reach rural America continue. The agency has entered into consent decrees on the subject with a couple of companies, but this has done little to stop the problem. Unreliable and/or dishonest routers appear to be the crux of the problem, and resolution will require addressing the problem directly. Thankfully, Sen Tim Johnson just introduced the Public Safety and Economic Security Communications Act (S. 2125) to do just that by requiring least cost routers to register with the FCC and commit to abide by basic service standards in order to be part of the voice call system.

REGULATORY FLEXIBILITY

While the Regulatory Flexibility Act directs executive agencies to consider more flexible approaches that could save small businesses money without undermining the purpose of regulation, in practice the FCC has been able to get away with minimal adherence to the form of the Act while disregarding its spirit and intent. Greater devotion to the intent of the RFA could direct millions toward investment as small businesses save the costs of battling and eventually complying with poorly drafted rules. The best example in recent years would be the USF Transformation Order that created a broadband fund for large carriers and left the small, rural industry with legacy USF support capped in opaque and unpredictable ways, costing millions in broadband investment while Congress pushes the agency to change the rules – something Chairman Wheeler agreed to do in December 2013. The rural industry remains hesitant to invest while it awaits a more predictable and investment friendly replacement for the much derided caps and continues to seek its own broadband-focused fund that supports standalone broadband.

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Other examples of FCC rules that hinder small business growth include numerous, costly, and sometimes redundant reporting requirements that providers must wade through on a regular basis. Although NTCA and its RLEC members recognize the importance of accountability in the use of USF resources and the delivery of quality, affordable services to consumers, there is a need to strike a clear balance and take meaningful account of the costs associated with such reports. To the extent that small businesses are compelled to devote substantial employee or consulting resources to preparation of plans and reports, this necessarily detracts from the deployment of those resources for service delivery, network operation, and customer service. Stricter guidelines for action on waiver requests would also be welcomed. Currently, the FCC can sit on waiver requests indefinitely, leaving providers and investment waiting for years.

Thankfully, the Regulatory Flexibility Improvements Act of 2013 (H.R.2542) would improve the rulemaking process – for example, by requiring an agency, before publishing a proposed rule, to provide the Small Business Administration (SBA) with more information about a proposed rule. SBA could then solicit input on the rule from small businesses and convene a panel with the agency that results in a report on the rule's potential impact and a discussion of alternatives. Also, the Federal Communications Commission Process Reform Act of 2013 would implement a number of common sense process reforms such as publishing rules before adoption and soon after adoption.

RURAL UTILITIES SERVICE FINANCING

Another important tool helping advance state-of-the-art networks is the ability of small rural communications companies to obtain financing from RUS, which has been lending for broadband capable plant since the early 1990s. 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. 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 the aforementioned USF reforms. It will be all the more important to continue providing RUS with the resources it needs to lend to the rural telecom industry it knows so well as demand for financing will inevitably increase when reforms are improved and carriers are given certainty, hopefully through a program like the Connect America Fund that is designed to 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 programs are funded with 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.

MOBILE VOICE AND BROADBAND

Rural consumers require access to a strong and reliable wireless network and rural carriers are attempting to meet that demand despite monumental challenges. Essential to a robust wireless market is an interconnected wireline network. The demand for high capacity fixed wireline broadband to support wireless networks will only increase as usage of handheld devices grows. But rural carriers must also know they will have opportunity to fully compete in the wireless marketplace before they will attempt to continue expanding their networks through effective use of spectrum. A lack of interoperability across the 700 MHz spectrum may

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lead to spectrum lying fallow or islands of rural service with devices that cannot be used outside of a customer's home service area. A lack of fair and reasonable data roaming agreements with large carriers compounds the problem, creating barriers even when spectrum is interoperable. Furthermore, rural carriers often lack access to the equipment and handsets that are available to larger carriers. At a time when carriers are trying to diversify and make good use of spectrum assets, the lack once again of clear "rules of the road" leaves smaller operators largely at the mercy of larger carriers.

Finally, as the FCC moves forward with the upcoming 600 MHz auction plan it is essential that the agency allow meaningful participation by small rural and regional carriers. Most importantly, the FCC should allow carriers to bid on small license areas that will promote competition throughout the country. NTCA, the Rural Wireless Association (RWA), and the Competitive Carriers' Association (CCA) just announced a consensus proposal for the use of smaller geographic licensing areas in the upcoming 600 MHz auction. The proposal represents a historic industry collaboration and builds upon the FCC's proposed map of licensing territories by incorporating feedback from respective memberships and input from a variety of other industry stakeholders. The proposal consists of aggregated partial economic areas reflecting 416 territories. The best scenario for small wireless providers and greater deployment would be smaller cellular market area (CMA) licenses (over 730 territories). The consensus proposal was offered as a compromise between CMAs and earlier licensing proposals that contained oversized license areas that would significantly limit smaller carriers' ability to participate in the auction and leave rural consumers and businesses unserved as larger bidders focus on more densely populated markets.

CONCLUSION

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 and affordable.

Small, community-based rural telecom providers are eager to continue deploying advanced networks and delivering the advanced services that rural areas need to participate in a broadband economy, but the Core Principles of universal service, consumer protection, and competition are critical to the success of this mission. Universal service and interconnection have worked to enable deployment of advanced, affordable communications services. These principles are as valid today as ever. As statutory and regulatory updates that reflect the IP marketplace are considered, these principles must not be abandoned; to the contrary, they must be renewed and reaffirmed expressly as part of any reform.

Thank you for the opportunity to testify, and for the House Small Business Committee's commitment to bringing about an environment conducive to broadband investment and small business growth.

**TESTIMONY OF ROBERT SMITH
GENERAL MANAGER, FRONTIER COMMUNICATIONS
BEFORE THE
U.S. HOUSE COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON HEALTH AND TECHNOLOGY
FIELD HEARING: EXPANDING BROADBAND ACCESS AND
CAPABILITIES
TO SMALL BUSINESSES IN RURAL NEW YORK**

MARCH 20, 2014

Good morning Chairman Collins and Members of the Subcommittee. Thank you for including Frontier Communications in this important hearing.

My name is Bob Smith. I am the General Manager for Frontier Communications, overseeing Frontier's service area in western New York State. I am honored to be here representing Frontier Communications, the largest communications service provider focused on rural America, providing broadband, voice and video services to more than 3 million residential and business customers in 27 states.

The communications business has changed dramatically since Frontier began business as a local exchange carrier—a provider of POTS, plain old telephone service—in 1935, but our commitment to providing customers with reliable and affordable products and services remains constant. Over the past decade, Frontier has transformed from a 20th Century phone company to a 21st Century broadband company, and we have made it our mission to deliver the life changing benefits of broadband technology to rural communications across our footprint. Broadband is a key driver for economic growth in America in the 21st Century. Broadband availability in rural America offers more than simply entertainment and communications capabilities. It translates into increased economic development, employment and educational opportunities, and improved health care. In July 2010, Frontier completed a transformative transaction, acquiring millions of rural and suburban communications lines from Verizon. As part of this acquisition, we committed to provide high speed broadband access to hundreds of thousands of homes previously unserved. The wireline broadband services Frontier provides ensure that our customers—your constituents—have unlimited opportunities for the future.

That is why Frontier is relentlessly deploying and upgrading broadband to the communities we serve; to mid-sized cities such as Rochester, to small towns like Dansville, and to rural areas others consider too difficult to serve like Wyoming, New York. Since 2010,

we have invested more than \$2.2 billion in company funds to increase broadband access and improve infrastructure, and an additional \$133.2 million from the FCC's Connect America Fund (CAF) supports broadband deployment exclusively to unserved high-cost areas.

Frontier has significant operations in New York State, having acquired the former Rochester Telephone Company in 1995. Frontier now has 2,300 employees serving more than 275,000 residential customers in New York, and major offices in Rochester as well as Gloversville, Johnstown and Middletown. In New York State alone, Frontier has invested more than \$200 million in network enhancements and capital investments for operations over the past two years. Frontier has been able to accept \$9 million in the Connect America Fund's Phase One process to provide broadband to more than 15,750 previously unserved households in New York State.

Our efforts to deploy broadband throughout our New York service area do not stop there. We have worked with local governments, as well as with the New York State Economic Development Councils, to ensure that areas most in need of broadband are getting access. We have assisted Hamilton County in receiving a \$2.2 million New York State Broadband grant to upgrade the data transport backbone in eastern New York State, from Gloversville to Eagle Bay. Upon completion, all of Hamilton County—which includes the Adirondacks, challenging geography and sparsely populated in some places—will have access to broadband and speeds of 10 Mbps.

Most recently, we have been working with Wyoming County and New York State Senator Patrick Gallivan on broadband capacity in that County and to assist with confirming that their Agriculture Center will have the broadband capacity required to serve their needs. Access to broadband in this rural county provides farmers and spin-off agri-business with access to world markets, expanding their product and services market from local to global. Frontier is proud to be the provider working with Senator Gallivan on this initiative.

We continue to seek out ways to work collaboratively with State and local governments and organizations to provide businesses and residences the broadband services they need.

Like you, we know that high-speed broadband connectivity is life changing and absolutely critical to our country's economic recovery and prosperity. Communities with access to the Internet are ripe for economic development and job creation. Frontier is modernizing facilities and services because we believe that our "time and treasure" is best used by extending robust broadband networks to these communities. Today, that means giving customers access to high-speed Internet service. Broadband technology offers rural America untold economic, educational and social opportunities and we consider it our job to deliver that access.

Thank you for giving me and Frontier the opportunity to participate in this hearing.



Statement of the New York Farm Bureau

**To the House Committee on Small Business
Subcommittee on Health and Technology**

*"Expanding Broadband Access and Capabilities
to Small Businesses in Rural New York"*

Presented by Kendra Lamb

Thursday, March 20, 2014

Thank you to the Committee on Small Business and to Subcommittee Chairman Chris Collins for inviting me to testify before you today on broadband access and its impact on small businesses here in Rural New York. My name is Kendra Lamb and my husband and his family own Lamb Farms, a dairy based in Oakfield, N.Y., with three milking facilities and a methane digester. We are a third generation farm family with a passion for producing quality milk while providing excellent care to our cows and the land. I am also speaking on behalf of New York Farm Bureau, the largest general farm organization in the state with 25,000 members representing all commodities, all production methods and living in all corners of the state.

It might be hard for some people to imagine, but New York State has some very rural locations and we have large gaps where broadband access is just not available, including here in Western New York. In today's age, with access to the internet, a small business can operate from anywhere. But similarly, it's hard to imagine a small business surviving and thriving in a rural area if it cannot be competitive in a world marketplace. The value of businesses in rural areas is recognized by New York State, which has been focusing on economic development in our Upstate communities where farms and small businesses are often the primary drivers of jobs and economic opportunity. But the lack of reliable broadband access is a major barrier to continued growth and we need the federal government to help solve this problem.

According to a 2013 farm computer usage survey conducted by the U.S. Department of Agriculture, 69 percent of farms in New York have internet access. This leaves 31 percent of our farms—or more than 11,000 operations—that do not currently have internet access.

But access is not the only problem, so is affordability and bandwidth. A 2010 study conducted by the Small Business Administration found that “rural small businesses pay significantly higher prices than metro small businesses for the same bandwidth, and small businesses in metro regions have access to higher bandwidth services than rural businesses do (at higher costs).” These kinds of inequities cannot continue if rural businesses are expected to compete with their counterparts in more developed areas. Congress must work through sufficient funding of the Rural Utilities Service and the Universal Service Fund, combined with any tax incentives, grants or regulations that are appropriate, to help increase access and affordability of broadband services in rural areas.

We are lucky that our main farm location has a broadband connection through our cable provider and my home has DSL through our telephone service provider. Without access to this kind of reliable internet service our farm wouldn't be able to do many of the key things we do to educate and reach out to the community. We have found that working in animal agriculture, it has become increasingly important to be able to educate the community on what we are doing on the farm and answer their questions in an honest and direct manner and we like to be on the leading edge of communication.

I am responsible for many of the public relations and outreach efforts of our farm. We have a Facebook page that I use to reach the community and educate consumers on our food supply. Without high-speed internet, I wouldn't be able to update this page with the large picture and video files that help us tell our story. We also have a farm website that we update ourselves and take requests online from those who wish to visit the farm. Twice a year we publish a farm newsletter for all our neighbors; moving this file back and forth across the internet while we perfect it would be impossible with a slow internet connection.

But we don't just use high-speed internet for our communication initiatives. Like most other businesses, we use the internet across many business applications to take advantage of the latest technologies, to collect and analyze data, and ultimately, to make better decisions.

Our farm takes advantage of the internet to connect our multiple locations and provide better management for our herd and employees. We log on each day to our milk cooperative's website to check on the amount and quality of milk that we have shipped so we can monitor any changes. We also use dairy-specific software to help with record-keeping, like tracking the milk production of each of our cows, which we download as large files off the internet. Like any software, sometimes there are problems, so we can get remote technical support from the technology company that is located two hours away in Ithaca, N.Y. If a technician had to visit our farm each time there is a problem, we would lose valuable hours of work and it would be expensive to get that on-site assistance. Similarly, we are able to monitor our methane digester, which uses waste on the farm to create energy, and get remote assistance from Pennsylvania—all over the internet.

We grow most of the feed for our animals and all of our crop record-keeping is through internet-based programs. These programs help us keep track of soil types, where waterways are located, setbacks and nutrient recommendations as well, which helps keep us in compliance with our CAFO permit and better oversee our environmental stewardship plan.

Much of our banking is done online now and our employee time clocks and payroll software are web-based programs linked directly to our bank. Many of our vendors have gone paperless, so web applications allow us to view invoices online and keep our payments up to date. Even our employee benefits are updated and communicated through web programs so our workers have easy access to comprehensive information.

It would be hard to imagine our business, which has multiple moving parts from animal care to growing crops to human resources management, being as successful as we are without the efficiency and organization we gain from these internet-based systems.

Businesses like our dairy need high-speed, affordable internet to stay on top of the research and innovation that is available in our industry. As farm managers, we need to understand changes in trade and world markets and in consumer demands. This helps us

make business decisions from how many cows to milk, to what risk management tools we need to investigate.

In addition, more and more federal and state agencies are relying on electronic reporting from farms in order to comply with regulations. Efforts are afoot to make environmental and employee safety and health reporting electronic, completely getting rid of paper submissions. This is an untenable requirement that places extreme burdens on farms and other small businesses that don't have reliable access to the internet. While electronic reporting certainly can help streamline the work of government agencies, it is important that the Small Business Committee push back against exclusive electronic reporting requirements until all businesses have access to reliable broadband that is not cost-prohibitive.

While our farms does not direct market to consumers, many farms in rural areas do, especially fruit and vegetable growers through farm stands, farmers markets or CSAs. Websites, social media and online directories are invaluable tools for these farms to reach their customers. Today's local food movement means that farms are connecting with consumers in completely new ways and the marketplace is constantly changing as suburban and rural families evolve in the way that they seek product. Farmers looking for new outlets are exploring home delivery programs, buying cooperatives and community-based farmers markets—the internet is how they learn and explore new business models that can lead to success.

For many farms and small businesses in rural New York that are not connected to the world through the internet, they can face a feeling of rural isolation. This makes our rural areas less attractive places for people to live, spurring the brain drain and economic decline some of our formerly thriving small towns in rural New York have experienced. It is no secret that rural areas don't have the same access to education and health care as more densely populated areas. So rural broadband offers the opportunity for distance learning and telemedicine that can help make our communities even more attractive and viable places for young people, families and seniors to live. A large part of ensuring that our rural areas remain viable and contribute to economic development is making sure every citizen has access to broadband service.

In conclusion, access to broadband is essential for farms and other rural small businesses to manage efficient and successful operations, to reach their communities and customers, to stay on the cutting edge of their industry, and for our rural communities to be attractive places to live for our employees, customers and the next generation to run our business. We can't do this on dial-up or undependable internet connections.

Thank you again for the opportunity to share why reliable and affordable broadband access is important to rural New York and our farms and small businesses. I would be glad to take any questions you may have.

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Office of the Director

Federal Communications Commission
Office of Legislative Affairs
Washington, D.C. 20554

June 5, 2014

The Honorable Chris Collins
Chairman
Subcommittee on Health and Technology
Committee on Small Business
U.S. House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Collins:

Thank you for the opportunity to provide responses to the Questions for the Record regarding the Subcommittee's March 30, 2014, hearing entitled, "Expanding Broadband Access and Capabilities to Small Businesses in Rural New York." Enclosed please find responses, which have been prepared by the Office of Legislative Affairs.

If I can be of further assistance, please have your staff contact me at (202) 418-0095.

Sincerely,

A handwritten signature in black ink that reads "Sara W. Morris".
Sara W. Morris

Enclosure

cc (with enclosure): The Honorable Janice Hahn
Ranking Member
Subcommittee on Health and Technology
Committee on Small Business

**Expanding Broadband Access and Capabilities to Small Businesses
in Rural New York**

Committee on Small Business

Subcommittee on Health and Technology

U.S. House of Representatives

March 20, 2014

Questions for the Record

The Honorable Chris Collins

1. The FCC recently stated their intention to modify the formula for how the Universal Service Fund (USF) is distributed to carriers to expand broadband. How do you plan to update the USF in a way that accounts for the unique challenges of small carriers operating in diverse rural areas and allows all consumers the option of purchasing only broadband from their provider?

Response: In April, the Commission voted to move forward with Phase II of the Connect America Fund. We also took several steps to improve the climate for broadband investment in areas served by incumbent rate-of-return carriers. In a Further Notice of Proposed Rulemaking, we seek comment on establishing a Connect America Fund for rate-of-return carriers. Specifically, the Commission proposes to adopt a standalone broadband funding mechanism for rate-of-return carriers, and seeks comment on how to support the deployment of broadband-capable networks by rate-of-return carriers within the current budget for the program. We welcome a dialogue regarding how a standalone broadband mechanism could be structured to provide support consistent with the \$2 billion budget for rate-of-return territories. The Commission is focused on updating the universal service program to ensure that we are delivering the best possible voice and broadband experiences to rural America within the Connect America budget, while providing increased certainty and predictability for all carriers and a climate for increased broadband expansion.

2. Many small wireless carriers have stated they are unable to participate in spectrum auctions that only make spectrum available in large geographic sizes/blocks. Can you provide details on the steps the FCC is taking to ensure that small wireless carriers have an opportunity to participate and obtain spectrum from upcoming auctions?

Response: It is a priority of mine to ensure that wireless providers of all sizes are able to participate in upcoming auctions. The Commission has historically made spectrum

available in block sizes that vary by both geography and frequency to meet the needs of providers of all sizes.

On May 15, the Commission adopted service rules for the 600 MHz Band, which will be subject to competitive bidding in the forward auction component of the broadcast television spectrum incentive auction. The 600 MHz Band Plan is comprised of paired 5 +5 megahertz building blocks to facilitate the rapid deployment of networks, including by small carriers and new entrants. In addition, the Commission adopted Partial Economic Areas (PEAs) (416 license areas) as the service area for the 600 MHz Band, to permit entry by providers that contemplate offering wireless broadband services on a localized basis.

Earlier this year, the Commission also adopted service rules for the AWS-3 Bands, which will be auctioned this Fall. The 1695–1710 MHz band will be available in 5 and 10 megahertz unpaired blocks on an economic area basis (176 license areas). The 1755–1780/2155–2180 MHz band will be made available in a 5 + 5 megahertz paired block on a cellular market area basis (734 license areas), two 5 + 5 megahertz paired blocks on an economic area basis, and one 10 + 10 megahertz paired block on an economic area basis. Making these bands available in licenses that vary in both frequency and geography will meet the spectrum needs of providers of all sizes.

In addition, the Commission has historically administered an effective bidding credit program that promotes auction participation by designated entities, including small businesses. For the AWS-3 auction and the forward auction component of the incentive auction, the Commission adopted bidding credits of 15 percent for small businesses (entities with average gross revenues for the preceding the 3 years not exceeding \$40 million), and 25 percent for very small businesses (entities with average gross revenues for the preceding 3 years not exceeding \$15 million). The Commission will initiate a proceeding in the coming months to review its designated entity program to ensure that it continues to ensure that qualified small businesses can participate meaningfully in spectrum auctions. We will implement any appropriate changes prior to the incentive auction.

3. At the hearing, both carriers and users voiced concerns over the authenticity of the National Broadband Map (NBM). Even though the NBM showed they have access to broadband, the local carriers and residents explained how they were no access to broadband in that area. Considering that the FCC and policy makers use the NBM to direct funding, including through the Connect America Fund, what is the FCC doing to ensure that we're allocating funding to the most appropriate areas? And what is the FCC doing to ensure that carriers are not being passed over in funding opportunities because of errors in the NBM? Finally, how are you working with state and local communities to collect and analyze

the NBM data to ensure it reflects the most accurate rate of service?

Response: The Commission uses the National Broadband Map as the starting point for determining which census blocks are unserved, but it also has adopted a challenge process to allow all interested stakeholders, including incumbent providers, competitors, state regulators, and local communities, to provide evidence on whether a particular census block in fact is unserved. Commission staff undertakes a thorough review of all evidence submitted in the challenge process before making any determination.

4. On the day of the hearing, the FCC announced in a public notice that the Rate Floor, which requires small rural carriers to increase their telephone voice service rates to avoid losing universal service support, could increase from \$14 to \$20.46 in a few months. These rate hikes could lead to consumers dropping voice service which, under current Commission rules, could lead to a 2 to 3 times rate hike on broadband service. Does the Commission plan to take action on this issue to avoid these rate hikes?

Response: In the 2011 *USF/ICC Transformation Order*, the Commission unanimously adopted reforms to make universal service a fairer system for all consumers and businesses. The *Order* includes a phase-out of excessive subsidies for basic phone service, which allowed some phone companies to charge their customers as little as \$5 a month while average urban, suburban, and even some other rural consumers were paying over three times that amount. The Commission determined it was inappropriate to use limited federal high-cost support to subsidize local rates beyond what is necessary to ensure reasonable comparability between urban and suburban rates, and rural rates, as required by Congress. The reforms adopted in the 2011 *Order* gradually eliminate these excessive subsidies to level the playing field for all consumers and contain the cost of the program, which is funded by universal service fees paid by consumers.

Importantly, the Commission's rules do not require carriers to raise their local rates. Nevertheless, the Commission has recognized concerns over potentially sizable rate increases and possible difficulties some carriers may experience in making any rate adjustments at the state level in a short period of time. To address these concerns, the Commission adopted an order on April 23, 2014 that delays any potential universal service support reductions for lines that remain below the rate floor until January 2015. In addition, the universal service support reductions that go into effect in January will only be for those lines with rates below \$16, with no further increases until July 2016, at which time reductions in universal service support will be limited to an increase of no more than \$2 annually.

5. Is it true that FCC rules effectively force some rural consumers to purchase regulated voice service in order to make broadband affordable? That is—the customer’s broadband rates go up if they choose to stop buying voice service because the rules provide USF support for a line only when the customer actually purchases voice?

Response: Some small carriers have suggested that they should be able to receive support for delivering standalone broadband services (i.e., without providing a voice service). Our current rules don’t allow for this. However, as noted above, in a Further Notice of Proposed Rulemaking adopted last month, the Commission proposes to adopt a standalone broadband mechanism to provide support consistent with the \$2 billion budget for rate-of-return territories.

a. Doesn’t a policy that increases local voice rates more or less push people over time to take only broadband—why would we have a rule that leads broadband rates to increase when that happens?

Response: Although concerns regarding increased landline rates because of the increased rate floor are understandable, we have seen minimal impact on consumers since the Commission implemented this rule in 2012. The rate floor increased from \$10 in 2012 to \$14 in 2013, a 40 percent increase. However, consistent with our rules, many carriers continue to report lines with rates well below the \$14 rate floor, suggesting that they may have made a business decision to grandfather the lower rates for those customers and accept the associated support reductions. In 2013, carriers in 34 study areas in 16 states were still reporting a number of lines with residential local service charges of \$5 or less, further reinforcing that individual carriers may choose not to raise rates in response to the current rate floor.

As noted above, the Commission has adopted both a delay until January 2015 and a phase-in of the reductions in universal service support resulting from not meeting the 2014 rate floor. This will minimize any impact on service providers and customers.

