Testimony of Jim Andrew to the House Committee on Agriculture Subcommittee on Specialty Crops, Rural Development and Foreign Agriculture

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Chairman McIntyre, Ranking Member Musgrave, and subcommittee members, thank you for the opportunity to testify today regarding broadband service in rural America. Some of you, who know me, know I live in rural America. I live outside of Millen Georgia, so far from town that I have to go back towards town to go hunting. I know what it means for a rural community to not have broadband service. I have been around long enough to have seen what has happened to too many of our small towns.

When the railroads passed some of our towns by, they dried up. When the interstate did not have an off ramp, the tourists and truckers did not stop to buy gas and meals, your town did not survive. Fifty-seven years ago when the telephone program was created in this very room, rural America did not have phones and it took a fourth of our population to produce the food and fiber needed for this Nation.

Rural America has changed but some things are still the same. We are still among the world's top producers of grains, soybeans, cotton, and other commodities. Down in Georgia, we still grow a few peanuts. But at the same time, rural America has diversified. The rural economy isn't just commodities anymore; it's manufacturing, services, and everything else as well.

So what does this have to do with broadband? Broadband is our railroad, our highway, our bridge to the rest of this country and to the world. With high-speed communications, we can bridge the barriers of time and distance to market our goods and services, have access to markets to both buy and sell.

Today's technology gives the student in the most rural school access to information and teaching that has long been available to more populated communities. With today's technology, advanced medical treatment and expertise is available to small rural hospitals. Today's technology gives our communities and their citizens the ability to build businesses that provide jobs for our children.

My wife and I have two children, now adults. One lives in Baltimore and one in Atlanta. When they were younger, Millen, Georgia did not have the career opportunities that they were interested in pursuing. The loss of the next generation has been the problem for rural communities all over this country. With modern technology, we have an important new tool to plug the leak.

As I indicated before, we have administered the rural telephone loan program since it was created by Congress in 1949. In the mid 1990's, Congress amended the telecommunications section of the Rural Electrification Act to require new plants financed by us to be broadband capable at the speed of one meg. Placing this updated capability with USDA Rural Development made sense because we were already stringing the lines.

In addition to the Broadband Access Program, authorized by the 2002 Farm Bill, we have also had the pilot broadband loan program that was a product of the appropriations process for fiscal years 2001 and 2002 and the Broadband Community Connect Grant program.

A third program -- the Distance Learning and Telemedicine Loan and Grant program (DLT) -- was created in the 1990 Farm Bill. The first DLT grants were made in 1994. While it is not a broadband program, it

makes use of broadband connectivity to improve educational opportunities and improve the quality of health care for rural citizens.

THE PRESENT

We have made important accomplishments with the Broadband Access Program. To date, we have approved 69 loans for $1.21 billion to finance facilities in 40 states. These projects, when fully functional, will serve a projected 520,000 households in 1,081 communities. Eight projects have been completed in Kansas, Louisiana, Michigan, North Dakota, Nebraska, South Dakota, Texas and Washington State.

Of these loans, approximately 40 percent of the communities approved for funding were unserved at the time of loan approval. An additional 15 percent had only one broadband provider at the time of loan approval.

To date, the program has received 198 applications totaling $4.3 billion. As of today, we have 21 applications under review for more than $950 million. We anticipate another $400 million in applications this

Comment [c1]: Should qualify since it is not clear that the bulk of these were not eligible for various reasons.

year. We have administered this program with no increase in personnel. In fact, we have fewer employees than we had when the program began.

From the beginning the loan applications have been larger and more complicated than anything else the Telecom Program staff has experienced. In 2003, the average loan size was $11.2 million. In 2006, the average was $44 million.

Comment [c2]: I would not say the agency since I would have trouble believing that a broadband loan is more complicated than a large electric generation facility.

During the past six years, we have made 129 Community Connect grants for a total of $57.8 million. Under the Pilot Broadband Program, we made 28 loans totaling $180 million. Since 2002, USDA has invested more than $166 million in its Distance Learning and Telemedicine (DLT) Program, allowing 3,796 rural educational facilities to expand their access to modern telecommunications technology, and 2,226 health care institutions to develop technologies needed to enhance local medical care.

Let me make one very important point….no one else is making loans for broadband service in rural America. We are committed to making this work.

SUCCESS STORIES

We have a number of success stories that you can review on our web site. I want to mention some of them here today. Nex-Tech, Inc. of Lenora, Kansas has received two loans totaling just under $12 million. This company has used a combination of fiber/coaxial cable and DSL to build a system that provides broadband data services, voice and video at speeds over six Mbps to Plainville, Smith Center, and Stockton, Kansas. These areas had poor or non-existent data services. The system will serve 2,251 voice lines, 1,855 video subscribers, 768 high-speed data and 528 dial-up subscribers with new or improved service.

What do these loans mean? What is the impact? Osborne Industries in Osborne, Kansas is only one example. The company has not only remained in town; it's more than doubled in number of employees. It has become the largest employer in the community, thanks to broadband capability that has allowed it to reach not only across the nation but to international markets. Just this year, the employees have been able to purchase the company. They are working for themselves because they took the tool of broadband and have been able to make the concept of "living locally and competing globally" a fact.

And just down the road, in Phillipsburg, Kansas, a new ethanol plant was built and depends on Nex-Tex for its broadband service. This $54 million business created 34 jobs and is expanding.

A second example is a small company that is headquartered in Frankenmuth, Michigan. Air Advantage began with a Community Connect grant and with that start was able to graduate to two loans totaling $1.5 million. They have used a fixed wireless system that provides broadband service to 37 rural communities in Michigan. This company and its parent, Zimco, were founded by local businessman Scott Zimmer and his wife with a mission to improve the education and communications in their community.

Air Advantage now serves 1,100 customers with another 1000 projected in the near future. Their subscriber rates exceed their original projections. In addition, Scott and his wife successfully assisted local schools with applications for distance learning grants.

A typical success story from the Pilot Broadband loan program is Consolidated Enterprises, Inc. With a loan of just under $20 million, this project brought broadband services to the town of Dickenson, North Dakota. With the broadband loan, this company was able to purchase

and upgrade an existing cable company and replace existing lines with new hybrid fiber/coax facilities in and around Dickenson. Last year, Consolidated reported more than 3,000 broadband customers receiving service. In addition, Consolidated's parent company, Consolidated Telecom, invested significant general company funds to ensure that the outlying rural areas were also upgraded and now offers advanced broadband services to those residents as well.

THE PAST

Now let's talk about some of the bumps in the road this program has incurred. The law creating the program instructed that regulations be issued without public comment. That meant we got them out faster, but it also meant that we did not have the amount of input that comes with proposed regulations published for comment.

We are now developing revised regulations, which are being reviewed by OMB and will be published for public comment very soon. We expect that the proposed regulations will receive extensive comments. We also believe the process will be of help to this subcommittee as you begin drafting the legislative language on the next farm bill.

In addition to the lack of public comment, the volume of loan applications has been an issue. In July and August of 2003, we received applications totaling over one billion dollars. Needless to say, we were overwhelmed. We had to rework how we handled loan applications. These were not our traditional telephone loan applications.

We were concerned from the beginning that the loans we made had to be good loans. First, this is not just the government's money. This is the taxpayers' money. It needs to be spent in the way that Congress intended it be spent and in a way that accomplishes the goals of Congress. Second, no one benefits from a bad loan. Not the applicant, not the taxpayer, and not the people who are looking for broadband service.

This agency has always been concerned about security of a loan. For utility programs, it is often more important to have an accurate projection of the revenue stream than it is to tie up the hard assets of a borrower, although we try to do both.

We have returned 108 loan applications for a variety of reasons. In some cases, review indicated that they did not have the credit support or equity needed. In others the applications were incomplete, had unsubstantiated or missing financial or technical information, or did not

meet other criteria in the statute or regulations. It takes just as long, and sometimes longer, to review an application that is not approved as it does one that is approved.

A great deal of concern has been expressed from applicants, private industry, and Congress, including the House Committee on Agriculture, that we were not getting a sufficient number of loans approved fast enough. In any business, time is money and in the broadband industry, the changes occur almost daily.

We understand those concerns and are trying to respond appropriately. We have worked to streamline our review process, make the applications more "user friendly" and opened up our process to the extent possible.

Another frequently raised concern is that we are lending into existing service. In many cases we are doing just that, lending into some level of service. Let me go over some of the questions we face as we approach each application.

The statute requires us to give first priority to applicants that will provide service where there is no service. We do that. We want to see

more applications that serve an unserved area. If you want rural citizens to have access to broadband, you are going to lend into competition.

For example, we had an application where we had two servers saying they were in one of the towns in question. Our review found that they were providing service in that community. But at the same time, I had a letter on my desk from the mayor of the town in question stating that they had lost two businesses because they could not get access to broadband and the college in the community could not get broadband service on the campus. We made the loan.

On the other hand, we hear and understand the concern. This is the first program in the utilities part of Rural Development where we lend into competitive areas. It raises new issues. We have met with every group that has asked to meet with us on this issue. The Assistant Administrator for Telecommunications Programs, Ms. Jacki Ponti, has made a concerted effort to improve the openness of the process:

- New USDA/RD web link on the Federal Communications Commission (FCC) Rural Home Page.
- New and improved web page design that is easier to use and easier to find information.

- New and improved weekly broadband report indicating companies with applications pending and the communities proposed to be served if the application is funded.

- Under construction is a new Community Search Function that will help everyone with an interest find out what communities are being served, which ones have applications pending, and which companies are providing service.

WHERE DO WE GO TOMORROW?

Congress has a challenging task on hand to write a Farm Bill for 2007 that will cover commodities, conservation, food and nutrition, and of rural development. We are committed to working with you on this task. My area of responsibility is small, but I think it is important. Here is what we are doing.

Comment [c3]: Housing is not really covered by the farm bill since it falls under a different committee. So the farm bill does not necessarily cover "all" of rural development.

We have proposed changes in the regulations that we hope will address some of the concerns that have been expressed. As these are published and comments come in, I expect I will hear from a number of

members of Congress. We will have an open discussion as to how this program should work.

In addition, we are working to improve program delivery in the field. This begins with strong leadership from the Rural Development State offices with 47 state offices covering all 50 states. These State Directors with their staffs provide the eyes and ears of where the needs are in rural America.

Under the supervision of the State Directors, Telecom Program Staff provide Financial and Engineering support and guidance in all 50 states with 28 General Field Representatives monitoring more than 1000 telecom and broadband loan and grant projects across the country.

Finally, twenty three broadband workshops and outreach events have been held to inform potential applicants and community leaders about the program, as well as assist existing program borrowers with compliance requirements.

In closing, USDA can successfully operate a rural Broadband loan program because:

- We have expertise with the program and a long history in administering loan and loan guarantee programs.

- There is an established distribution system with field representatives and state offices in the heart of rural America
- We have developed a qualified and dedicated headquarters staff of 16 in the national office comprised of Engineers, loan specialists, and economists to provide broadband expertise and detailed evaluation of proposals.

There is a demand for broadband in rural America. We see it and hear it every day. We want to do a better job of identifying where the holes in service exist. We can only make loans to those who submit applications. Local leadership is vital to every rural development program.

The technology is changing and so are the business plans. We cannot be much leaner, but we can be smarter in how we manage this program. I look forward to your questions.