

**Statement of Jonathan Adelstein
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Chairman McIntyre, Ranking Member Conaway, and distinguished members of the Committee, thank you for the opportunity to testify on the U.S. Department of Agriculture's Broadband Initiatives Program (BIP).

Your support as we implement this critical program is invaluable and much appreciated. The Obama Administration and Secretary of Agriculture Tom Vilsack share your goal of improving access to affordable broadband service. You understand the role that broadband plays in bridging the barriers of time and distance. It is often the key factor that can level the economic playing field, provide rural businesses access to national and international markets, and allow new, small and home-based businesses to thrive. It is the element that makes rural areas competitive.

The funds we will administer in the next 12 months will cultivate new investment opportunities in as many rural communities as possible.

On behalf of Secretary Vilsack, I am here to say that USDA stands committed and ready to fulfill its rural broadband mandate outlined by Congress and the President. Improving the quality of

life for rural families and businesses is the centerpiece of USDA's overall mission, and we view broadband as an essential ingredient.

Secretary Vilsack has striven to identify the many ways this Congress and the Administration have worked for our rural economy. The programs you are putting into place—renewable energy, local and regional food systems, regional collaboration and investment in broadband—are key components of USDA's focus toward rebuilding and revitalizing economic growth in rural America. Broadband provides connectivity for efficient delivery of not just these programs, but of all of the major issues facing rural residents, including health care, educational and financial services. These are necessary to a vital economy, not just for rural areas, but nationwide.

To document the importance of broadband in renewing the rural economy, Secretary Vilsack directed the USDA's Economic Research Service (ERS) to examine the economic effects of having broadband access in rural communities. In August, the ERS published a report, entitled "Broadband Internet's Value for Rural America," which concluded that employment growth was higher and non-farm private earnings greater in counties with a longer history of broadband availability.

The report also cited certain key benefits of broadband access in rural communities. These include access to online course offerings for students in remote areas and the access to telemedicine and telehealth services for patients living in rural areas in need of urgent and often specialized care. Agricultural producers and farm based businesses are also more reliant on

internet access to conduct sales transactions, marketing and advertising, monitor real time changes in the commodities markets and track global trends that impact US crop prices to stay in business. The direct benefits of broadband to the rural economy, both on and off the farm, are tangible and significant.

The report also clearly notes that areas with low or dispersed populations, or demanding terrain, generally have difficulty attracting broadband service providers. These characteristics, as you know, can make the fixed cost of providing broadband service too high to make a business case for investment. Yet, we also know from experience that leadership, policy support, resources and social factors can overcome barriers to broadband expansion.

And that is why we are here. This Committee is aware that since 1935, beginning with the Rural Electrification Administration, we have been a premier lender for rural infrastructure investment. Our current loan portfolio is \$54.5 billion and includes federal financing for water and wastewater, telecommunications, broadband, electric and renewable energy infrastructure projects.

We are now applying our technical skills, historical knowledge and financial expertise gained over the past 75 years to meet the new challenge of deploying next generation broadband capability in rural communities. Our goal is to recreate the successes we have achieved in financing the rural electric grid for rural utilities and the rural telephone network toward building new broadband networks in the most rural and difficult to serve regions of the country.

We are grateful to Congress and the Administration for giving the USDA the opportunity to contribute its expertise towards rebuilding economic prosperity in rural America. Through the Recovery Act, Congress and the Administration entrusted the Rural Utilities Service with nearly \$4 billion in stimulus funds for infrastructure investment, dedicating \$2.5 billion for rural broadband deployment and \$1.38 billion for rural water infrastructure projects.

Since the enactment of the Recovery Act in February, we have worked side by side with our partners at the National Telecommunications Information Administration (NTIA) and the Federal Communications Commission to fulfill the President's vision for promoting ubiquitous broadband access across the nation. Assistant Secretary Lawrence Strickling has been an outstanding and visionary partner throughout this process. The Federal Communications Commission has also been an active contributor to this discussion.

RUS and NTIA are fully engaged in our respective reviews of applications for over \$28 billion in funding requests. There is a high degree of interest in our respective loan and grant programs that reflects the great demand for broadband in rural America.

It's worth noting that RUS has encountered several challenges as we have worked to review applications for this round of funding. These concerns have prompted us to consider alternative approaches that would simplify the application process and support our efforts to fund high-quality projects for the next round of funding.

In particular, we have seen applicants struggle to comply with the requirements of the “remote” definition for last-mile rural remote projects. This definition was an attempt to ensure that the program targets funding to some of the most remote and difficult to serve areas in the United States, which we understand is the intent of Congress. The use of this term was also part of an effort to address previous program criticism that RUS has historically funded less-remote project areas. We are contemplating major revisions that will continue to target highly-rural areas that are difficult to serve while making it easier for applicants to comply with any new definition we may establish.

Among other issues, we have also seen some applicants encounter challenges with our program’s rural definition. In addition, some applicants have found it difficult to comply with the 50% loan requirement for middle mile and last mile non-remote projects.

The Request for Information (RFI) that NTIA and RUS released last week asks questions about these items and many others. We would welcome the Committee’s input on these and any other issues of concern.

USDA’s Historic Role in Telecommunications Infrastructure Investment

Today, the RUS Telecommunications portfolio--built up over 60 years--totals \$4.1 billion. As technology continues to evolve, we will continue to find new ways to deliver next generation services and facilities to end users in rural and high cost areas.

We have also achieved considerable success and gained invaluable experience in deploying broadband and related services to remote rural and underserved communities. Through the Community Connect Grant Program and the Distance Learning and Telemedicine Loan and Grant Program, RUS has invested \$498 million in rural underserved areas.

Applying the Lessons Learned from the 2002 Farm Bill to Future Applications

Since the enactment of the Broadband Loan Program in 2002, we have gained tremendous insights into the unique challenges of deploying loan financing for next-generation internet architecture in rural high-cost markets. As we develop the regulations for the changes required under the 2008 Farm Bill, we are incorporating the lessons we have learned since 2002 regarding the funding of broadband networks in a competitive environment to improve our existing track record.

Once these regulations are published, we will launch a national outreach effort to help guide applicants on the new requirements and how to apply for funding. Outreach and education are important functions of our work in reaching as many rural populations as possible, and we will continue to dedicate resources and attention toward educating the American public of our Farm Bill once regulations are released.

To further assist prospective applicants with the new Farm Bill requirements, we will utilize the expertise of our nationwide network of Rural Development field offices and RUS' own General Field Representatives (GFRs), who are stationed in local communities across the country to hold workshops, deliver presentations, and respond to inquiries about the program. Rural Development has approximately 6,000 employees in over 470 offices nationwide. Through the

outstanding local outreach performed by our field staff, we have enormous capacity to coordinate our programs and provide assistance and guidance to our borrowers.

Implementation of the BIP Program under the American Recovery and Reinvestment Act: Building on our Service to Rural America

With the funds we received in the Recovery Act for broadband, we estimate that we can employ the \$2.5 billion in budget authority USDA received to deliver an even larger volume of program level in loans, grants and loan/grant combinations to prospective applicants, based on our ability to leverage our funding levels. This strategy is designed to build on RUS' demonstrated expertise in finance and to complement NTIA's Broadband Telecommunications Opportunity Program (BTOP), which is a grant-only program. Supporting investments through our loan authority will help leverage federal resources, and is a goal that we intend to continue to promote.

Under our first Notice of Funding Availability (NOFA), published on July 9, 2009, RUS made available up to \$1.2 billion for Last Mile projects, up to \$800 million for Middle Mile projects, and established \$325 million for a National Reserve.

Next Steps

We are now in the process of evaluating First Round applications and expect to begin issuing awards shortly. The first NOFA made available up to \$2.4 billion in program level (loans and grants) funding. Well over half of the total investment projected under the BIP program has

been reserved for subsequent funding rounds. There have been previous conversations regarding plans for subsequent funding. One suggestion, which we have now implemented, is to compress the planned-for second and third rounds into a single round to give applicants additional time to develop strong proposals and to ensure that we are able to meet the goal of obligating all funds by September 2010. RUS and NTIA announced this change on November 10.

Subsequent funding may also include enhancements to eligibility and scoring criteria used in Round One. We are cognizant of the concerns and suggestions that have been raised regarding a wide range of issues including the definition of rural and remote areas, eligibility standards for unserved and underserved areas, scoring weights for various factors and concerns regarding overlapping service territories for satellite providers. It would be premature to speculate about specific changes to our funding requirements until we have completed the evaluation of first round projects. But it is important to note that we are prepared to do a top-to-bottom review of what went right and wrong in the first round, and make major changes, as necessary, to improve the program and the application process. We will consider changes to these rules based on our experience and the feedback we have received during the RFI process.

We welcome input from the Members of this Committee on how best to move forward and apply the lessons learned in Round One toward the work ahead of us in the next round of funding, which we anticipate will be announced in the coming months.

We will continue to ensure that implementation of the ARRA broadband initiative is a collaborative and coordinated effort with our partners at the NTIA. We will continue to work to

make this process as transparent and as efficient as possible. The purpose of the Recovery Act is to spur job creation and stimulate long-term economic growth and investment. To date, we are on track to obligate the \$2.5 billion in broadband budget authority by September 30, 2010.

On October 28, RUS celebrated our 60 year anniversary of financing telecommunications infrastructure, which has evolved from delivering voice to distance learning, telemedicine and broadband. On behalf of all of us at USDA Rural Development and the Rural Utilities Service, thank you for your continuing and generous support of this critical mission. Our ability to offer programs to create economic opportunity and improve the quality of life in rural America is a result of your work. It is an honor and privilege to work with you on behalf of the 65 million Americans in our rural communities. We look forward to working closely with Congress and our federal partners throughout the Obama Administration in making affordable broadband service widely available throughout rural America.

Thank you again for inviting me here to testify and I will be glad to address any questions you have.