

**Statement of Jonathan Adelstein
Administrator, Rural Utilities Service
United States Department of Agriculture
Subcommittee on Communications, Technology and the Internet, House Energy & Commerce**

Chairman Walden, Ranking Member Eshoo, and members of this Subcommittee, thank you for the opportunity to testify on the U.S. Department of Agriculture's Broadband Initiatives Program (BIP) and legislation to amend the American Recovery and Reinvestment Act of 2009 (Recovery Act).

Under the Recovery Act, USDA has made great progress in delivering broadband to unserved and underserved areas. By providing grants and affordable financing for advanced rural telecommunications infrastructure, the Recovery Act is helping create and sustain jobs as new networks are built.

As the weather warms, broadband construction will increase. Once built, these broadband networks will facilitate job creation and economic development for years to come.

RUS worked closely with the Commerce Department's National Telecommunications and Information Administration (NTIA) and the Federal Communications Commission (FCC) in our efforts to fulfill the President's vision for expanding broadband access nationwide. Assistant Secretary for Communications and Information Laurence E. Strickling has been an invaluable partner throughout this process. The FCC, led by Chairman Julius Genachowski, has made significant contributions to the broadband program with the release of the National Broadband Plan and together with NTIA, the National Broadband Map. While these collaborative efforts mark a significant step forward, we recognize that much remains to be done.

The direct benefits of broadband to the rural economy are tangible and significant. Members of this Committee know that broadband is the communications infrastructure of the 21st century. Without broadband, rural areas will lag behind their metro counterparts. With it, rural areas have an unparalleled

means to overcome challenges presented by distance and better take advantage of new economic opportunities. Broadband has the power to diminish the geographic barriers of time and distance by delivering world-class health care, educational, and economic opportunities directly to rural residents. Broadband connections can help existing business owners increase efficiencies and expand their market reach. American farmers and ranchers can use broadband to monitor product prices, obtain weather forecasts, and find markets for their produce and livestock. The enhanced broadband access made possible by financing through USDA's Rural Utilities Service (RUS) allows rural Americans greater participation in the digital economy, which puts our Nation in a stronger position to out-innovate, out-educate, and out-build our global competitors.

It merits emphasis that the commitment to ensuring that the next generation of high-speed wireless connections reaches rural America—and at least 98% of the population—is a core part of President Obama's strategy to win the future. Notably, the President's Wireless Innovation and Infrastructure Innovation will enable a wide array of applications that will use high-speed wireless infrastructure, including medical applications and distance learning, and improve the quality of life and enhance economic growth in rural areas. This effort will also include the commitment to deploy a nationwide, interoperable network for our first responders, who will be able to use cutting edge technologies to perform their missions more effectively and will be more safe as they do their jobs aimed at keeping us safe.

A long history of broadband availability enhances prosperity for rural communities. USDA's Economic Research Service (ERS) studied the economic effects of having broadband access in rural communities. Its report, "Broadband Internet's Value for Rural America,"¹ ERS concluded that employment growth was higher and non-farm private earnings greater in counties with a longer history of broadband availability.

According to the report, key benefits from rural broadband access included access to online course

¹ More detailed information can be found in the ERS report on "Broadband Internet's Value for Rural America" available at http://www.ers.usda.gov/publications/err78/err78_reportssummary.pdf.

offerings for students in remote areas and the access to telehealth services for rural patients in need of urgent and often specialized care. Agricultural producers and farm-based businesses rely on Internet access to conduct sales transactions, marketing and advertising, monitor real time changes in the commodities markets and track global trends that impact US crop prices to stay in business. The report also clearly notes that areas with low population density, or rugged terrain, generally have difficulty attracting broadband service providers. These characteristics can make the fixed cost of providing broadband service too high to make a business case for investment. That is where RUS's resources and financing expertise with a variety of technologies offers a distinct advantage.

Improving access to affordable broadband is a pillar of USDA Secretary Tom Vilsack's strategy to rebuild and revitalize rural communities. It is a centerpiece of USDA Rural Development's effort to boost our rural economy. The programs Secretary Vilsack, the Administration, and Congress have put into place—infrastructure investment, renewable energy innovation, local and regional food system expansion, regional collaboration and building out broadband—are key components of USDA's efforts to spur economic growth in rural America. We use the term “investment”, because the major loan component of this funding is repaid. The RUS portfolio is over \$56 billion and the current delinquency rate is .22 percent. We are very proud of our borrowers' repayment history.

The Recovery Act

The American Recovery and Reinvestment Act of 2009 provided RUS with a unique opportunity to jumpstart rural economic development efforts by investing more than \$3.5 billion in loans and grants to expand broadband networks in hard-to-serve rural areas across the country. Through Recovery Act funding, RUS also invested \$3.27 billion in rural water and waste disposal systems to further bolster rural infrastructure.

Under the Recovery Act, RUS received applications totaling \$28 billion to provide broadband services in rural areas. RUS was unable to fund over 1700 remaining applications totaling \$24.5 billion, demonstrating a large unmet demand for assistance from across the country in building out rural broadband networks. While not all of those applications were meritorious, a large number could be modified and submitted for one of our existing broadband loan or grant programs.

In September, 2010, RUS completed the awards phase of the Broadband Initiatives Program (BIP). For both the first and second funding phases combined, obligations totaled \$3.53 billion, representing \$2.42 billion in budget authority. In total, 320 awards were obligated. Approximately 89 percent of the awards and 92 percent of the total dollars awarded are for 285 last-mile projects (\$3.25 billion), which will provide broadband service to households and other end users. Four percent of the awards and five percent of the total dollars awarded are for 12 middle-mile projects (\$173 million) that will provide necessary backbone services such as interoffice transport, backhaul, Internet connectivity, or special access to rural areas. RUS also made four satellite awards to reach totally unserved premises and 19 technical assistance grants.

These broadband investments will connect nearly 7 million rural Americans, along with more than 360,000 businesses and more than 30,000 critical community institutions like schools, healthcare facilities, and public safety agencies, to new or improved service. The projects funded will bring broadband service to 2.8 million households, spanning across more than 300,000 square miles in 45 states and 1 U.S. territory. These projects also overlap with 31 tribal lands and 125 persistent poverty counties, and they are estimated to create more than 25,000 immediate and direct jobs for rural workers.

While the full economic impact is not yet quantifiable, these Recovery Act broadband projects will generate long-term economic development opportunities in each rural community where a project is launched. Improved connectivity to community anchor institutions will ripple throughout the nation.

Data provided by the U.S. Department of Education show that more than one million K-12 students attend school within areas served by BIP awards. More than 100 colleges and technical schools are located in areas served by BIP awards. Data provided by the U.S. Department of Health and Human Services show that nearly 600 rural healthcare facilities are located in areas served by BIP awards. While approximately 65 (11%) of these facilities will receive broadband for the first time as a result of BIP, all of these healthcare facilities will gain access to substantially enhanced broadband services, which can expand the use of telemedicine and electronic medical records initiatives.

In addition, the Recovery Act enabled RUS to provide \$3.4 million in technical assistance grant funding to 19 projects for the creation of regional broadband development plans in 13 states. Many of the projects include Native American tribal areas. The Technical Assistance Grant Program provided funding of up to \$200,000 to infrastructure award recipients and Indian tribes. These grants will support planning efforts that will lay the groundwork for the future development of broadband infrastructure and increased broadband access in rural areas.

Several Recovery Act projects have already broken ground, including Audeamus in Fresno County, California. This “fiber-to-the-home” project will provide broadband access to 5,000 residents, businesses, schools and community facilities. The first phase of the project is scheduled to be completed in June. Eventually, this last-mile project will provide broadband service to 1,352 households, 125 local businesses and 24 anchor institutions.

The Confederated Tribes of Warm Springs Reservation Broadband Network in Oregon will bring broadband to the entire 1,000 square mile reservation, connecting government agencies, emergency facilities, homes and businesses. When complete, this project will make service available to 755 households, 22 businesses and 233 anchor institutions. It is expected to break ground this month.

In Michigan, Air Advantage applied for Community Connect funding to provide two small communities in the “Thumb Area” with 10 computers and wireless internet service. As their business grew, Air Advantage used loans to expand Internet service to other parts of Michigan’s Great Lakes region. Recent Recovery Act funding will allow Air Advantage to deliver service to an additional 5,000 customers in a 3,500 square mile service area, including six hospitals and 18 school districts. For their efforts, Air Advantage received the US Chamber of Commerce’s Blue Ribbon Small Business award.

Program Integrity

RUS shares your goals of ensuring that our program delivers broadband as effectively and efficiently as possible. Congressman Walden’s draft legislation to return unused or reclaimed funds under the Recovery Act to the U.S. Treasury is consistent with the standard process in place to recover and return funds awarded under all RUS programs including the Broadband Initiatives Program. We share similar concerns as raised by the Department of Commerce and we look forward to working with the Subcommittee on this draft bill.

The agency, as part of its standard operating procedures, vigorously monitors and evaluates its loan and grant portfolio. It has a long standing track record of monitoring struggling borrowers and grantees and assessing how it can mitigate risk and protect taxpayer investments. Funding is rescinded and de-obligated for projects that cannot meet program requirements. In instances where the agency has discovered inappropriate uses of government funds, remedies have been employed, including demand for restoration of funds or, in some instances, requests for criminal investigations.

In the BIP program, to ensure our continued success in prudent portfolio management and to mitigate risk of fraud, waste, and abuse, the agency took several preemptive actions. First, regional workshops were

conducted for all recipients that addressed in detail all program requirements regarding the use of government funds. Second, before one penny was advanced, the agency then assigned field personnel and accounting staff to personally visit every awardee to ensure that they understood the requirements and had adequate resources and accounting systems in place to track project expenditures.. In addition, our rules require quarterly financial reporting as well as annual independent CPA audits. Finally, in addition to routine site visits throughout the duration of the project, the agency performs loan and grant fund audits using a highly skilled and trained field accounting staff.

As noted earlier, RUS has a low delinquency rate. We have a solid record of oversight of funding, and have not hesitated to rescind funding in cases where the project no longer meets terms of the loan agreement. We will continue to work with you to help ensure that funding for broadband service will provide that service as intended.

Building on Recovery Act Investments

RUS has a history of funding rural infrastructure, dating back to the Rural Electrification Act of 1936. In 1949, RUS began funding telecommunications services, and since 1995, RUS has required that all telecommunications networks we finance be broadband capable. The 2002 Farm Bill established the first official broadband program in Title VI of the Rural Electrification Act. Congress enacted changes to the broadband loan program in 2008. This program, which was the subject of concerns recently expressed in this Committee by the USDA Inspector General, has been in hiatus throughout 2009 and 2010 as the RUS administered the BIP program and worked to develop new regulations to implement the 2008 Congressional changes to the Rural Electrification Act.

Over the past two years, RUS gleaned many lessons from the implementation of the Recovery Act program and from the history of the broadband loan program. These lessons, combined with comments on an earlier proposed rule change, and the recommendations of the Office of the Inspector General (OIG) informed the development of an interim final rule implementing the program changes enacted as part of the 2008 Farm Bill.

RUS published new regulations for the broadband loan program on March 14, 2011. This regulation and other measures taken by the agency have addressed all the concerns raised by the OIG. I am pleased to report that on March 24, 2011, the OIG notified RUS that it has closed its audits of the RUS broadband loan program.

The new broadband loan regulation incorporates “lessons learned” under the Recovery Act, along with revisions intended to strengthen the program, increase efficiencies, and better target limited resources to unserved and underserved areas. The new regulations will allow us to build on the momentum created by the Recovery Act’s BIP program and fill the gaps that persist in rural broadband access. This can provide BIP applicants that were not approved for \$24.5 billion they requested another avenue to obtain financing assistance they need to provide broadband in high-cost rural areas.

The Recovery Act program is proof that leadership, policy support, resources, and community support overcome barriers to broadband expansion. Rural communities are stronger today because of the partnership forged with USDA’s Rural Development. Our ability to facilitate rural economic development through rural infrastructure investments is a result of the support of Congress. It is an honor and privilege to work with you and our federal partners throughout the Obama Administration to make affordable broadband service widely available throughout rural America. As we continue to implement

the build-out phase of this critical infrastructure investment program, your continued support and guidance is deeply appreciated. We fully share your goal of continuing to improve access to affordable broadband service while combating waste, fraud and abuse.

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