BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS
TESTIMONY OF ROSS J. LIEBERMAN
VICE PRESIDENT OF GOVERNMENT AFFAIRS
AMERICAN CABLE ASSOCIATION
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Chairwoman Velazquez, Ranking Member Chabot, and members of the Committee, thank you for inviting me to testify on the Internet tax moratorium and how its potential expiration would impact small cable and broadband providers, and consumers across the country.

My name is Ross Lieberman, and I am Vice President of Government Affairs of the American Cable Association. ACA appreciates the chance to testify before this committee, which understands the unique challenges that face small businesses. In a telecommunications world that is becoming increasingly dominated by industry giants, ACA is the voice for nearly 1,100 small and medium-sized cable companies that serve more than 8 million subscribers in all 50 states. Our members range from family-run cable businesses serving a single community to multiple system operators that focus on smaller markets and rural areas. The average operator size is about 7,500 subscribers, but some of ACA's members serve fewer than 1,000 subscribers.

<u>ACA members are key businesses in their communities</u>. In addition to providing broadcast and cable programming, many of our members offer unique local programming, such as high school sporting events and religious services,

which is not available from national providers. They also offer advertising opportunities for small businesses. Most importantly for the purposes of this hearing, our members are rolling out high-speed Internet access, providing a broadband connection in their communities where no other company offers it.

The ACA supports continuing the Internet tax moratorium. At a time when the costs of running their businesses are increasing, small cable operators are deploying broadband services, despite the financial hurdles of offering such services in rural America. Congress can safeguard these investments and ensure high-speed Internet access remains affordable for consumers by passing legislation that prevents state and local governments from imposing taxes on this service.

Our members are offering broadband to their customers, in spite of the economic challenges typical of service providers in rural America. First, the cost to upgrade a cable-only system to provide Internet access is significant and more difficult to recoup for operators with a limited number of subscribers. Equipment costs for upgrades are often the same regardless of the number of customers that will be served. Therefore, developing a business model to pay for a piece of expensive equipment is very different for a system that has only 5,000 subscribers versus one that has a half-million. Second, the cost of maintaining a cable network is high when the distance among subscribers is great. A small

cable company might need an employee to travel an hour or more to make a service call to a subscriber's home. Finally, access to capital can be difficult. To pay for the necessary upgrades and maintenance costs, many of our members must turn to bankers on their local Main Streets, not financiers on Wall Street.

ACA members are deploying high-speed Internet service to meet consumer demand. Our members know that their customers want broadband, and they are finding ways to offer it at reasonable prices, knowing their customers are price sensitive. Therefore, any potential increase in cost, including an Internet access tax, would cause some consumers to not purchase this service.

Small cable operators are investing in, and moving to, offering broadband services at a time when the costs of running their business are increasing. The most significant concern of ACA members is the rising cost of cable and broadcast programming. Small cable operators who serve a limited number of subscribers have no leverage in negotiations with network broadcasters and national programmers who come to the table demanding that operators pay double, even triple, the fees previously paid.

Small cable operators are also troubled by existing regulations, and new ones placed upon them by the Federal Communications Commission in the last

year. On June 1, the Commission mandated that cable operators begin deploying digital set-top boxes with separable security to their subscribers, which cost significantly more than the integrated devices that were commonly offered by our members. Then, on September 11, the Commission adopted rules that force cable operators to carry some broadcast stations in both digital and analog formats which require operators to make costly upgrades to their systems. Neither regulation has an exemption for small operators. These costs are making it more difficult for our smallest members to remain viable and reinvest in affordable advanced services for their communities.

The ACA supports continuing the Internet tax moratorium, and our members urge Congress to pass legislation before the ban expires on November 1. Small cable operators have made significant investments to offer high-speed Internet services in their service areas, and they are concerned that an expiration of the moratorium could have an unfavorable impact on their businesses and communities.

Without the moratorium, state and local jurisdictions are likely to impose a patchwork of new taxes on American consumers and businesses, including those in smaller markets and rural areas, simply for acquiring a broadband connection. These taxes would increase prices and make broadband access less affordable for consumers.

New taxes on Internet access would be especially problematic if excessive state and local cable taxes were simply extended to broadband services. Most cable subscribers already pay franchise fees up to 5%. Imposing similar taxes on Internet access at these levels would discourage some consumers from signing up for the service. To tax a service that is neither fully deployed nor adopted seems to contradict Congressional intent to expand broadband coverage and penetration.

Our members, who live in the towns and rural areas they serve, also support the Internet tax moratorium because they know first hand how broadband access has improved their communities. It has made their towns a better place to live, work and raise a family. In addition to offering the service to consumers, some of our members provide broadband to hospitals and schools, enhancing their hometown's health care and education. They also offer service to their community's small businesses, allowing them to sell their goods and services throughout the country and the world. In some rural areas, cable operators also provide high-speed Internet access to their local government. At a time when the benefits of these services are coming to smaller markets and rural areas, our members believe government should continue to take a hands-off approach with respect to taxes.

Chairwoman and members of the Committee thank you again for the opportunity to testify on this topic of importance to small cable operators. We urge Congress to continue the Internet tax moratorium.