

Statement of Alan J. Roth
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Before the House Small Business Committee
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Madam Chairwoman and Members of the Committee:

I am Alan J. Roth, Senior Executive Vice President of the United States Telecom Association (USTelecom), the nation's leading broadband industry trade group, representing service providers, manufacturers, and suppliers of advanced communications, applications, and entertainment. Our member companies offer broadband on a fixed and mobile basis, and provide a wide range of voice, video, and data services. We appreciate the opportunity to share with you our perspectives on the emerging American Recovery and Reinvestment Plan, and on what policy approaches in that package there can encourage broadband deployment and adoption in the United States – and thus, stimulate the growth of small businesses and the jobs they create.

While you are no doubt familiar with our two largest members, Verizon and AT&T, we are also proud to count many more mid-size companies and hundreds of small ones in our membership ranks. Indeed, the vast majority of companies we represent are rural providers. They are generally small businesses, serving small communities. Collectively, they are at the forefront of building America's broadband infrastructure, and they are united by a shared determination to deliver innovative voice, video, and data services to their customers, including,

in turn, the small business customers they serve – a commitment we know this Committee shares.

A trio of stories from a remote community on Washington State's Olympic Peninsula will help illustrate how useful broadband can be to starting or growing a small business anywhere in America. Forks, Washington, a town of just over 3,000 people, is a 4½-hour drive from Seattle, and was practically a world away in earlier times when the local economy relied on the logging and lumber industry. But as timber-related jobs were lost, the people of Forks came together as a community and concluded that broadband was the conduit that could overcome the town's historic impediment to attracting outside business – its geographic isolation. So they developed a public-private partnership with our member company CenturyTel to build a digital backbone along the coast of the Olympic Peninsula. DSL service was deployed to Forks beginning in January 2001. Suddenly, Larry Burtness, who had left urban life behind and moved to Forks in the late 1990s, discovered that there was a big demand for his skills as a freelance technology professional and entrepreneur. Pura Carlson, a language interpreter, was able to help create a pool of interpreters from around the country who could use broadband to work from home and serve clients around the world. Denise Dunne Devaney, a business writer who runs her own company 30 miles away in Sekiu, Washington, had grown frustrated trying to edit drafts via e-mails from her clients over a dial-up connection. By tapping into Forks' broadband infrastructure, she was able to dramatically improve her productivity, her responsiveness to clients, and thus her small business.

These small business examples from just a single community help explain why broadband has emerged as an essential driver in 21st century American life. Like the telephone networks,

electrical grids, and pipelines that advanced our nation in the 20th century, broadband is now propelling forward virtually every category of the U.S. economy – from community development to landmark innovations in health care, education, environmental sustainability, and other national priorities. We believe that broadband, and the many opportunities it brings into our homes and communities, should be universally accessible to all Americans. Achieving that national objective will require policies that encourage vigorous investment in both the sophistication and capacity of the nation’s broadband networks, as well as innovative public-private partnerships and a concerted, customized effort to reach remote pockets of our geographically vast nation.

Consumers benefit from the convergence of telecommunications around broadband.

Gone are the days of single service platforms and separate services offered by wireline telephone companies, cable, and satellite. Today consumers can get video service from their telephone company, voice service from their cable company, and broadband internet access by DSL, cable modem, wireless (both licensed and unlicensed), satellite – and in some places, by broadband over powerline.

Telecom companies make broadband service available to approximately 80-85% of U.S households. In addition, our member companies are rapidly and successfully entering the video market. A large number of USTelecom companies are offering video services in competition with incumbent cable providers – many over broadband infrastructure. Just as an example, USTelecom member company SureWest provides voice, data, and video services over an all-fiber network offering up to 50 mbps.

The most recent estimates indicate that more than one in six American homes have completely “cut the cord” and have only wireless voice service. The percentage is even higher among young and lower-income consumers. In fact, 92% of U.S. households live in areas served by 3G wireless broadband. Cable companies provide telephone service to more than 20 million consumers – approximately 15% of the market, with Comcast now the nation’s fourth largest residential phone company.

As a result of this intense competition for customers between wireline, wireless, and cable providers, DSL prices have fallen by at least half since 2001, while available speeds have accelerated rapidly. Today, consumers can get at least 10 to 20 times the speed for the same price as in 2001, and broadband subscriptions have increased across all demographics. In the last three years, according to the Pew Internet and American Life Project, the percentage of African-American adults with a home broadband connection has nearly tripled, from 14% in early 2005 to 43% as of early 2008. In the last year alone, high speed Internet usage has increased 19% among Hispanics; 23% among rural adults; and 24% among working families earning between \$20,000 and \$40,000 a year.

Competition and sound policies are what drive broadband investment.

Coupled with a favorable legal and regulatory environment, the sustainable facilities-based competition described above has driven the steady growth of broadband investment since the beginning of this decade. Indeed, private capital investment in communications equipment has increased 33% in real dollars from 2002 to the present. Collectively, broadband providers invested \$62.5 billion to build out, maintain, and improve their networks in 2007, compared to

\$45 billion in 2003. Although full-year numbers for 2008 are obviously not in yet, the industry's investment in the first half of last year was on track to match the 2007 pace. To give you some sense of the scale of this investment, it represents 2½ times the annual real dollar government spending for the construction of the Interstate Highway system from 1956 to 1981 (averaging approximately \$25 billion per year in today's dollars), and six times the average annual cost to develop the Apollo space program from 1961 to 1973 (approximately \$10 billion per year in today's dollars). All told, the Telecom, Media, and Technology ("TMT") sector accounted for nearly 7% of U.S. GDP in 2006, and it was the largest driver of real U.S. economic growth between 2001 and 2006. TMT also contributed up to half of U.S. productivity growth during that period.

President-elect Obama and the new Congress have no shortage of important issues calling out for attention, from our economy to education, health care to climate change. USTelecom is delighted that policymakers in both branches and on both sides of the aisle have recognized the importance of broadband and the innovative solutions it offers to many of our nation's most pressing concerns. Let me hasten to note that our industry is not asking Congress for financial help to fund our ongoing operations or to execute on our business plans, which call for the continued investment of very substantial sums in broadband buildout. But in response to the interest that the President-elect and leading Members of Congress have shown in using the economic recovery package to stimulate increased broadband deployment and adoption, particularly in unserved areas of the country where low population density makes the business case for deployment a more challenging proposition, we have developed a series of ideas and

basic principles aimed at identifying approaches that we believe will actually work to accomplish the desired ends.

In that regard, as you seek out ways to stimulate job creation in the short-term and address the infrastructure needs essential to our nation's long-term prosperity, U.S. policies should continue to encourage private sector investment in broadband infrastructure and simultaneously to promote broadband adoption. Thus, it is essential that Congress screen out proposals that, however well-intended, would create an unhealthy climate for continued investment or the kind of uncertainty that adversely impacts growth and innovation.

The 111th Congress should fund the broadband accomplishments of the 110th Congress.

The 110th Congress acted on two important aspects of the Speaker's Innovation Agenda. With full funding, the 111th Congress can bring the promise of those actions to fruition. Specifically:

Broadband Data Improvement Act: On September 30th, Congress gave final approval to S. 1492, the Broadband Data Improvement Act (Public Law 110-385), commonly known as "the broadband mapping bill." Among other things, the legislation authorizes the Department of Commerce to fund public-private partnerships at the state level to map the extent of broadband deployment and to establish programs to improve computer ownership and Internet access for unserved areas through collaborative work with broadband service providers and information technology companies. The Senate bill and its House companion (H.R. 3919) were strongly supported by a diverse coalition of 30 organizations and companies, including labor, education, and business groups. On December 22nd, that coalition came together again in a letter to the

Appropriations Committees calling for full funding of up to \$335 million for the initiatives in that newly enacted legislation.

RUS Broadband and Telecom Loan Programs: Where the high costs attendant to low population density make commercial lending impracticable, the U.S. Department of Agriculture's Rural Utility Service (RUS) administers a low-cost loan program to support the deployment of broadband in unserved areas. If the program is adequately funded, the RUS broadband loan reforms in the 2008 Farm Bill will hasten the deployment and adoption of broadband in rural America. Recognizing the particular interests of this Committee, we want to call your attention to the strong linkage between the RUS loan programs and the help they provide to small telecom businesses like most members of USTelecom. Among the recipients of RUS loans in 2008 were at least 15 companies that would meet the SBA definition for wired telecom carriers of having less than 1,500 employees. In fact, most of these companies have fewer than 100 employees, and four of them serve fewer than 1,500 phone lines. With more funding, more small telecom firms could take advantage of these programs and hence bring the benefits of broadband to other small businesses and residents in their communities.

Both the House and Senate Appropriations Committees proposed FY09 funding of the RUS broadband loan subsidy amount at the Administration-requested level of \$11.6 million, underwriting a program loan level of \$298 million. In addition, there is carryover loan authority in the amount of \$297 million. However, some rural areas of the nation are particularly challenging for the provision of broadband services. Loans for such areas may not be feasible even at the program's current loan rate of between 3% - 3.5%, depending on the length of the

loan. Additional funding of \$40 million would allow the RUS to provide loans at an even lower interest rate – conceivably even zero-interest rate loans.

Similarly, demonstrating the strong interest in broadband build-out among providers, the FY08 RUS telecommunications loan program was oversubscribed by approximately \$250 million. An additional \$500,000 would, we believe, provide underwriting authority for an additional \$250 million, fully addressing the loans that could not be funded last year. These loans are ready to be processed and could be finalized by the conclusion of the first quarter of 2009, with spending on new infrastructure beginning soon after. In order to spur deployment of broadband, these additional loans could be limited to jointly used facilities that include broadband.

Other investment and tax initiatives can also spur broadband’s benefits.

Certain other investment and tax initiatives can spur access to broadband – and with it, the good-paying American jobs and benefits that broadband deployment provides to both small businesses and consumers. Among them are the following:

Broadband Construction Grants and Bonds: Some of our member companies – particularly those operating in areas where the population density is very low, so that the cost of build-out and operations are conversely very high – have suggested the creation of a one-time grant program to assist in the cost of initial deployment, particularly to unserved areas. President-elect Obama has called for putting “a specific focus on reaching previously un-served communities” with affordable broadband. We support that objective, but it is a particularly challenging and

costly one in sparsely populated areas. One company, for example, has estimated that to reach the last 12% of its customers with broadband at current subscription rates, it would take more than 9 years to recoup its initial investment – by which time, of course, the technology would have become obsolete. For areas like this that private capital alone cannot reach, a 3-to-1 federal-private match would, according to that company, enable it to deploy broadband to all of its customers, driving new spending on equipment and labor. That would also help small businesses located in those more remote areas to grow by expanding their reach beyond only their local customers, thereby promoting economic development in their communities.

Similarly, assuming funding can be made available, Congress could create a broadband bond program to encourage the buildout of new broadband facilities. Provided that it is technology neutral and competitively neutral, we would be pleased to work with the Congress to develop the details of such a program. (We note parenthetically, however, that the time it may take to create these financial instruments and issue the necessary regulations would likely make this an item for a longer term infrastructure policy, rather than providing the immediate boost to job creations and the economy that most observers say is so urgently needed.)

Consumer Broadband Tax Credit: Tax incentives can help with both the demand and supply sides of the broadband access equation. For example, a refundable consumer tax credit of up to \$30 per month per household to offset the cost of broadband subscriptions for low-income, unemployed, and rural Americans will expand opportunities for those individuals who currently are least likely to be connected to the Internet, while also spurring economic growth and development in their communities. A 2008 report by Connected Nation suggests that just a modest 7% increase in U.S.

broadband adoption could create 2.4 million new American jobs and generate \$134 billion in new annual economic activity. A consumer-focused tax credit will help all Americans participate fully in those opportunities by creating conditions that will spur further broadband investment, particularly in areas that are now unserved and underserved, while giving small businesses a new source of potential customers.

Broadband Investment Tax Credits and Bonus Depreciation: An investment tax credit targeted to incentivize more, and more rapid, broadband deployment will also help to increase the availability of affordable broadband to small businesses and residential consumers across the country. An investment tax credit of at least 50% for deployment in rural and underserved areas, and perhaps more, would be needed to spur this important additional investment. In the rest of the country, a credit of at least 15% could benefit consumers by encouraging the deployment of more advanced services at a faster pace than would otherwise be the case. In order to spark near-term decisions about long-term investments, such a credit should be effective for three years. We encourage the Congress to consider these options.

The February 2008 stimulus package included bonus depreciation, which allows companies to write off 50 percent of the value of new investment expenditures in 2008 for items subject under current law to depreciation over 20 years or less. That provision expired on December 31, 2008. Extending it into 2009 would encourage companies to accelerate other capital expenditure plans, including broadband deployment projects.

Summary and Conclusion

As the new President and Congress work together to develop critical economic recovery legislation, we hope you will incorporate three basic principles into your consideration, whether you adopt the ideas we've set forth above or look at proposals being suggested by others:

- First, maintain an economic and regulatory climate that continues to encourage private sector investment in broadband infrastructure.
- Second, look carefully at the consumer side of the broadband equation by addressing barriers to broadband adoption. Recent research by Connected Nation found that 44% of Americans who don't subscribe to broadband say, "I don't need it." But if you ask them whether they want access to medical information, tools to help their children learn, assistance in finding a new job, or the opportunity to work from home, their answer is quite different. If they want any of these things, then they DO need broadband. Other barriers include access to computers and training in their use – this is where ideas like the refundable consumer credit for making broadband subscriptions affordable to low-income, unemployed, and rural Americans come into play.
- Third, make sure broadband deployment policies are focused on remaining unserved, underserved, and high-cost areas. Funding the recently passed mapping bill and continuing your support for programs such as the Rural Utilities Service broadband loan program would be an excellent start. The grant and tax incentives described above are similarly targeted measures.

We appreciate your invitation to appear today. USTelecom and its member companies have enjoyed working with this Committee and the Congress to extend the Internet tax moratorium, reform the RUS broadband loan program, and create an important broadband

mapping and adoption program. We believe a focus on broadband will advance the goals of Congress and President-elect Obama for both short-term economic recovery and long-term investment and prosperity. We look forward to working with you to achieve those ends, for the benefit of small businesses across the nation and for the nation as a whole.

Broadband and small business share an important characteristic – they are each an essential building block of every modern American community. If we want those businesses and communities to thrive, we must ensure that broadband’s many benefits are made accessible to all Americans. Thank you for your interest and your consideration of our views.