U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
RURAL UTILITIES SERVICE

Statement of Hilda Gay Legg
Administrator
before the Federal Communications Commission

Mr. Chairman, Commissioners, I appreciate the opportunity to address the Commission today on behalf of the U.S. Department of Agriculture's Rural Utilities Service.

The Rural Utilities Service (RUS) is a Rural Development agency within the United States Department of Agriculture, which actively supports and promotes the universal availability of telecommunications as well as the expansion of information services in rural America through its Telecommunications Program. The agency also administers programs to help finance the provision of reliable and affordable electricity, safe drinking water, distance learning and telemedicine services, and the removal and disposal of wastewater in rural areas. It is the successor agency to the Rural Electrification Administration (REA) and has been helping rural communities finance modern telecommunications facilities and services for over fifty years.

As you are aware, on July 2, Chairman Powell and Commissioner Martin joined with RUS to announce our joint partnership and outreach efforts to ensure that our rural citizens have access to advanced telecommunications services. We are excited about this partnership and truly believe that by combining our efforts we will be able to excel far beyond what either of us could do alone. I believe we have a unique opportunity for two government agencies to work together in a collaborative endeavor to make policies that complement each and to develop initiatives to work with the public in a way that is more effective and efficient because ultimately, our goal and end result should be – an improved quality of life in rural America.

There are approximately 65 million people living in rural America today and almost 62 million of those people are **not** involved in production agriculture. Not only do rural Americans deserve the same opportunities as everyone else in this great country of ours, it is in the National interest for rural Americans to be economically strong and that means having access to high-speed information networks – whether they reside in the Delta region, the Appalachian Mountains, or our nation's Indian reservations and tribal lands. In today's Rural America, you cannot survive as a small business, as an aspiring entrepreneur without this access. You cannot create sustainable wealth in your community if you cannot reach out and access other communities within our global marketplace.

What is the current status of broadband deployment? What does the future hold? And, why is this issue so important to rural America? As a former school teacher, I like to discuss this in terms of the three A's – Awareness, Access, and Applications.

How do we create awareness? Our joint partnership with the FCC is a key element in broadening the awareness of the need for broadband service in Rural America and an awareness of the programs that our agencies administer to provide that access. As we move forward with this initiative and bring other public and private partners together to discuss ideas and to showcase our successes, we can create awareness in rural communities of what neighboring communities have been able to achieve and what the future could hold for them, as well.

Last year at the Economic Forum in Waco, President Bush said:

> "In order to make sure the economy grows, we must bring the promise of broadband technology to millions of Americans . . . And broadband technology is going to be incredibly important for us to stay on the cutting edge of innovation here in America."

He noted that both public and private sectors have important roles to play in this deployment. As Rural Development Under Secretary Tom Dorr said earlier this year in an address to the National Association of Regulatory Utility Commissioners:

> "What electric and telephone service were to the 20th Century, telecommunications is to the 21st Century. This is an exciting time filled with endless possibilities – rural communities are beginning to access the technology and infrastructure essential to enabling them to compete in the 21st Century.

Which brings me to the second A – Access. Awareness has no value without access. The demand for and deployment of broadband is at the heart of keeping our rural communities viable. In Rural America, technology can play a vital role in solving the problems of time, distance, location, and lack of resources. RUS has always believed that demographics should not define degrees of opportunity and prosperity. From our beginnings 67 years ago, when REA joined with cooperatives to bring electricity to rural communities, our vision has been that all people in rural American should have access to quality, affordable utility infrastructure.

Demographics are, however, important in understanding the issue of and impediments to access. Rural America comprises over 2,300 counties, 80% of the Nation's land mass, and 65 million people. Seven out of eight communities are dominated by a combination of manufacturing, service oriented, and other non-farming activities.

The last few years have been difficult for the Telecommunications industry. If we are going to provide access for rural America, we must understand the challenges, recognize the risks, and be willing to embrace change. RUS is prepared to play its role in sharing these risks and balancing the need for rural investment and the needs of rural communities with prudent lending decisions. To mitigate these risks and continue to

build on the strength of the rural Telecommunications industry, we must work with communities to develop sound business plans, build on our best practices, and ensure system reliability.

What is RUS' role in providing this access? We are a lending agency with a 67-year history of providing the capital necessary for rural America to grow and develop. We are a facilities-based financier, on a technology neutral basis. We finance the infrastructure – the hard assets, if you will, that are required to bring advanced telecommunications technologies to rural subscribers. In our Telecommunications Program, we provide this funding through two primary programs – our Infrastructure Program and our Broadband Program.

Our Infrastructure program is designed to provide local exchange service to communities of 5,000 people or less. For the past several years, the President and Congress have made $670 million in funding available under this program. We can lend to any local exchange carrier – whether it is an investor-owned utility, a small family-owned company, a cooperative, a Tribal organization, a municipality, or an LLC. We finance new construction and improvements, and, in certain instances, acquisitions and refinancing. In accordance with legislation passed in 1993, all funding in this program must be for facilities that are broadband capable at a rate of 1 megabit per second. Within our Infrastructure Program, we have four types of financing available – hardship loans, cost of money loans, Rural Telephone Bank loans, and Federal Financing Bank loan guarantees.

Hardship financing, with a fixed interest rate of 5%, is targeted to areas with low population densities and systems with lower profitability ratios. On an annual basis, $75 million is made available for hardship loans. Each year, we also receive $300 million in cost of money loans. These loans do not have a fixed interest rate – the interest rate is set at the time funds are advanced. The rate is based upon the cost of money to the Treasury at that time. Cost of money loans are made concurrently with loans from the Rural Telephone Bank with approximately 65% of each loan being funded from the cost of money program and 35% funded by the Rural Telephone Bank. The Rural Telephone Bank is a governmental entity which is, in accordance with its enabling legislation, currently undergoing privatization with the eventual goal of becoming a private source of capital for rural telecommunications systems. $175 million of funding is available each year from the Rural Telephone Bank. The fourth and final funding stream in our Infrastructure Program is a Federal Financing Bank loan guarantee. Loans are made by the Federal Financing Bank – a division of the Department of Treasury – at the cost of money to the Treasury plus 1/8 of a percent. RUS provides a 100% guarantee of these loans. $120 million annually is appropriated for this program. One of the unique features of this program is the borrower's ability to borrow on a short-term basis with the continual ability to roll-over its debt up to the total life of the facilities financed. Borrowers with the financial ability to monitor and track interest rates can, therefore, avail themselves of much lower, short-term, interest rates. All loans in the RUS Infrastructure Program are made for a term equal to the useful service life of the facilities financed.

In January of this year, RUS announced the opening of its "Access to Broadband" Program, as authorized by the Farm Bill. This program is the culmination of a 2-year pilot program, under the Bush Administration, that financed $180 million of loans dedicated to bringing broadband service to rural communities with a population of 20,000 residents or less. In this year alone, RUS has more than $1.4 billion in funding available. Similar to our Infrastructure Program, loans are made for a term equal to the useful service life of the assets funded. Three distinct funding mechanisms are available in the broadband program – a 4% loan program, a cost of money program, and a guarantee program. Under the 4% program, loans are targeted to those communities with a population of less than 2,500 and a maximum density of 10 subscribers per square mile, where broadband service does not currently exist, and whose density and whose per capita personal income is less than 55% of the national average. $80 million has been allocated to the 4% loan program. Loans in this program only are capped at $5 million. In the cost of money program, with $1.255 billion in funding this year, the interest rate is fixed at the time of the advance and is equal to the cost of money to the Treasury at that point in time. The loan guarantee program enables private lenders to participate in this program with an 80% guarantee from RUS. This year, $80 million has been allocated to the guaranteed program. As of this week, we have received more than 60 applications requesting almost $900 million in financing.

This past year, as part of the pilot program, RUS made broadband grant funds available in a program called "Community Connect". The Community Connect program is an exciting approach to community-wide funding. It encompasses a holistic approach to providing broadband service by connecting schools; libraries; police, fire, and rescue stations, hospitals; community centers; businesses; and residential subscribers – virtually everyone in the community. Under this grant program, broadband service to the critical community facilities – the schools, hospitals, police and rescue, and the community center were free for the first two years. In response to this program, which was originally funded with $20 million, we received in excess of 300 applications totaling more than $185 million in funding request. In May, we announced the funding of 40 projects, including 10 projects serving Native American communities. Twenty-five of the 40 projects utilized wireless solutions. Within the next month, we will announce another $10 million in Community Connect projects.

Once broadband telecommunications infrastructure is in place in a community, the RUS' Distance Learning and Telemedicine Program can provide loans and grants to bring enhanced educational opportunities and life-saving telemedicine technologies to that community. In Fiscal Year 2003, RUS has $27 million in grant funds and $300 million in loan funds available under this program. Grant funds are generally restricted to financing end-user equipment; however, loan funds can be utilized for a myriad of purposes, including ambulances equipped with telemedicine technology, land, and buildings. In this year alone, we received more than 300 applications for grant funding under this program.

Which brings me to the final A – Applications. An article in the Financial Times recently addressed the application issue, noting that"

> "Claims have been made that Information Technology will produce tangible benefits, but many remain to be convinced of this."

Especially now, when the industry is struggling, we must do a better job of telling the story, showing the need, demonstrating the applications. Ann Mulchahy, Xerox's Chairman said:

> "Business improvement does not come in a box. Technology requires changes in the way humans work, yet companies continue to inject technology without making the necessary changes. Why? It's easier to write a check than to re-think the way you work."

It is the stories of how broadband services have improved the lives of rural citizens that we must tell. It is the story of Osborne Industries in rural Kansas that develops software monitoring systems for large commercial hog farms with customers from Texas to Minnesota, Kansas to the East Coast, and in several foreign countries. And it employees 100 people in a town of 1800.

It is the story of students from a rural Spokane Indian Reservation where high school graduation rates were abysmal. Ten years ago, the school district began a campaign to change their education system. Through a Distance Learning and Telemedicine grant, they created "global classrooms" where students have access to education opportunities world wide. Just this spring, the senior class graduated 100% of its students and every one is going to college.

It is the story of a baby born with a rare, life threatening heart defect that was not detected by the doctors in his small, rural hospital. Through a telemedicine consult, a pediatric cardiologist was able to properly diagnose the baby's condition and prescribe the treatment necessary to stabilize the baby's condition.

It is the story of a young man in rural Kentucky who works as a janitor and collects arrowheads in his spare time. Through the Internet, he discovered that there was a market for these arrowheads. I remember well, the day he showed me a stack of checks that he had received from his online auction site.

What we do affects real people, with real problems, every single day. Our goal should be to deploy a seamless, nation-wide broadband network, where the only thing distinguishing to users is their zip code. There is no one solution to this complicated issue. Government incentives, cost support mechanisms, changes in technology, private investments must all play a role. We look forward to working with our partners at the FCC to achieve this goal.

Thank you, Mr. Chairman, for this opportunity to address the Commission.