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Subcommittee on Agriculture, Energy and Trade

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Chairman Blum, Ranking Member Schneider, and Members of the Subcommittee, thank you for the opportunity to testify today on the important topic of improving broadband deployment in rural America.

Introduction

I am the Chief Executive Officer of the **VTX1 Companies**, a rural telecommunications provider based in Raymondville, Texas, which is about 35 miles north of the US border with Mexico on US-69E. I have served in this position for over 12 years, and prior to that worked for several large telecommunications equipment manufacturers. My beginning in the industry dates back to July, 1970, when I started with Southwestern Bell in downtown Dallas, Texas. I progressed with them in jobs of increasing responsibility in Dallas, St. Louis, Ft. Worth, Kansas City, Houston, and finally Morristown, NJ, at AT&T's company headquarters. Thirty plus years later, after leaving AT&T in the mid-1980s, I now reside in the Texas Rio Grande Valley in my current position. Today, I am representing ***WTA – Advocates for Rural Broadband***, a national trade association, on whose board of directors I serve.

VTX1 got its start as **Valley Telephone Cooperative, Inc.**, or "VTCI", in April 1952, when a group of local farmers and ranchers formed a non-profit telephone cooperative under the Texas Telephone Cooperative Act of 1946. They did so because Southwestern Bell and General Telephone of the Southwest, GTE, had refused to bring telephone service out to the rural south Texas communities due to the enormous expense of doing so. With the help of several loans from the U.S. Department of Agriculture, our cooperative finally began providing service in 1957 after laying cables and establishing equipment switching centers. We began with four brand new

"exchanges", or geographic service areas, and grew by continued construction and by purchasing exchanges from General Telephone. By 1979, we had 17 exchanges within 19 counties in deep South Texas that comprised a total of 7,300 square miles. Our current density is only .7 access lines per square mile which is one of our state's lowest density ratios.

In the late 1980's, VTCI saw an opportunity with transporting long distance up from Mexico and back and partnered with AT&T in this endeavor. An unregulated, for-profit, subsidiary **VTX Communications, LLC**, was formed in December, 1987, to provide carrier transport services for almost a dozen Mexican carriers through fiber-optic bridge crossings at Laredo and Hidalgo, Texas. Long distance service was added around 1991, fixed-wireless broadband service in 2004, then finally television entertainment service in 2005. **VTX Telecom, LLC**, a for-profit subsidiary, was formed in December 2000, after the Telecommunications Act of 1996 was signed into law to provide telephone, and now internet and television service to underserved communities *outside* of the VTCI communities. VTX Telecom receives a nominal amount of Federal support (i.e., federal Universal Service Fund (FUSF) support) and some Texas USF funds (TUSF); VTX Communications is not eligible to receive either FUSF or TUSF because, as stated above, it is an unregulated entity. The primary recipient of FUSF support is the original cooperative entity, Valley Telephone Cooperative. Utilizing a very complex accounting system of cross charges for work-time and other expenses, we are able to run our company efficiently as a single entity, and to avoid confusing customers with all the different company names, we took the name **VTX1 Companies** in 2012.

Through expansion, diversification, and acquisitions, **VTX1** now provides broadband internet access, television, security, and voice telephone service to approximately 16,000 residents, businesses, schools, libraries, government buildings, and other anchor institutions in a 10,000 square mile service area – the boundary is loosely defined by Laredo, San Antonio, Corpus Christi, and Brownsville, Texas. We have just under 200 employees, around 120 buildings and around 150 service trucks and vehicles. Our impact on the South Texas economy is significant.

Solutions for Rural America

I intend to focus on three main areas where I think Congress can work with regulators to encourage broadband deployment in rural America.

1. Universal Service Policy

Serving rural America is incredibly costly, and we couldn't do it in the rural areas we serve without the federal Universal Service Fund (USF). The principle of universal service, that every American, regardless of where he or she lives, should have access to communications technology, has its roots in the Communications Act of 1934. The USF, as we know it today, was created by the Telecommunications Act of 1996. Without the support we and other rural telecommunications providers receive from the fund, our cooperative members would never be able to afford the services we provide. According to the Telecom Act, USF support is supposed to be "predictable and sufficient" to the task of providing "advanced telecommunications and information services…in all regions of the Nation." Unfortunately, the principle of sufficiency seems to become less and less important to federal policymakers over time.

For the past several years, the Federal Communications Commission (FCC) has labored to modernize USF, most recently after the release of the National Broadband Plan in 2010, which recommended freezing support for small, rural broadband providers at 2010 funding levels. The reform efforts culminated in an Order in March of 2016, which has resulted in companies similarly situated to VTX1 seeing their support reduced because of a budget target reflecting 2011 funding levels. Incidentally, the 2011 support levels were based on support for voice networks as opposed to broadband networks, which is what the reformed USF would focus on post-2011. This approach attacks the problem of getting broadband to rural America from the wrong angle. Instead of setting a goal for broadband in rural America and attempting to determine what that would cost, the FCC has arbitrarily set a budget and essentially said "see what you can do with this."

So far, VTX1's USF reimbursement from mid-2016 to June 2017 is down approximately a half million dollars on an annualized basis with greater reductions anticipated in light of the caps and constraints the FCC has placed on the overall High Cost Fund to stay under its self-imposed budget cap. This despite the fact that we have had to increase our fiber to the home investments in fiber, electronics and maintenance fees to meet the FCC's goals of no less than 10 mbps down with a preferred 25 mbps down broadband service. In the last two and a half years, VTCI has spent almost $27 million in capital expense (CAPEX) dollars that had been previously committed to as part of our five-year CAPEX plan to bring high-speed broadband service to our rural cooperative members. These federal support reductions have now reduced our capital expansion within our VTCI service areas and slowed the conversion to fiber-optic technology. It is important, and necessary, to upgrade all terrestrial networks to fiber because, while it does cost money to upgrade to a fiber-optic infrastructure, a fiber-optic network will have a service life several times longer than that of a copper one – plus the maintenance costs of a fiber-optic network are much less than a copper infrastructure. Additionally, serving the needs of our national cellular companies to "backhaul" their soon to be deployed 5G LTE traffic from their towers to their regional switching centers will be very important. Because of the speeds involved, cellular carriers will be hard pressed to backhaul their traffic by radio technology alone.

Instead of caps and cuts to support, the High Cost Program within USF needs to be fully funded so that carriers can upgrade their networks to deploy broadband further throughout their service territories. If that cannot be done *at the very least* an inflationary adjustment to the High Cost Program is warranted so that high-quality broadband can be pushed further out into rural America. If the country wants to get serious about catching up with the rest of the world's broadband deployment, the High Cost Program support should actually be *increased*.

2. Streamlining the Permitting Process for Existing Rights of Way

If Congress wants to improve the efficiency by which USF dollars are put to use, it should review and reform the permitting process for access to federal lands and other

rights of way. Small companies like mine wait years and spend hundreds of thousands of dollars per project on environmental, archaeological, and historical preservation reviews. It is not uncommon for small companies like mine to experience delays of up to 18 to 24 month in getting broadband projects going because of these types of reviews. This is particularly problematic in parts of the country that have shorter construction seasons than Texas.

While some of these reviews are necessary and important, particularly when it comes to previously undisturbed ground, it makes little sense to require extensive reviews for projects that make use of existing and operational rights-of-way. I'll share an anecdote from my own experience, which is not atypical.

VTX1 received both a Broadband Initiatives Program (BIP) loan/grant combination from the Department of Commerce and a Broadband Technology Opportunity Program (BTOP) grant from the Department of Agriculture to construct a fiber-optic infrastructure as part of the American Recovery and Reinvestment Act (ARRA) stimulus program. The intent of these projects was to be shovel-ready, and ours was but for the fact that we had to wait nine months for our environmental reviews needed to bore underground within 20 feet of "center line" along a U.S. federal highway.

Obtaining environmental permits to use rights-of-way that have been and are continually being disturbed should be fast-tracked for approval.

3. Regulatory Reporting Burdens

We continue to be concerned with the increased quantity of reporting obligations and reporting burdens placed upon us involving regulatory reporting to the FCC, the Universal Service Administrative Company (USAC), and the National Exchange Carriers Association (NECA) and other federal agencies when the recovery of those costs has been capped by not only the FCC's Corporate Operations cap but the maximum $250 per line per month cap. VTCI performed a detailed labor study in 2016 and found that we spend around 3,200 hours completing just the federal reporting

requirements placed on us. This costs us about $100,000 a year in wages and another $50,000 a year in benefit costs alone with none of these dollars being recovered by any federal support. A copy of our spreadsheet showing the regulatory burden wage analysis is attached. Total benefit cost was estimated at fifty percent of wage cost. While we recognize the need to justify all of our support expenditures and requests, we believe the FCC must take all necessary steps to ensure that high cost rural companies such as VTCI are allowed to recover every dollar of these regulatory burden expenditures from the high cost support mechanisms. Without such assurances, small rural companies such as ours may very well be squeezed by having ever increasing reporting requirements while receiving ever smaller support due to caps and constraints on the high cost fund.

Conclusion

Our conclusions are straightforward:

- The High Cost Fund component of Federal USF needs to continue in remote rural serving areas as well as having a cost of living escalator to keep the fund viable during periods of inflation. An increase in High Cost Fund monies should be considered as well to speed up broadband deployment;
- Permitting timelines should be greatly reduced in areas and along roads where the land has been previously and continuously disturbed;
- Regulatory reporting should be streamlined and limited to items that have a significant, measurable impact on broadband deployment in America.

This concludes my testimony. Thank you for your attention and I look forward to answering any questions you may have.