

Summary of Greg Hale's Testimony

LTC Connect:

LTC Connect is a Smart Rural CommunitySM Cooperative based in Auburn, Kentucky serving more than 500 square miles in the rural South-Central part of the state.

The economics of deploying and sustaining broadband is the primary barrier to rural broadband.

Universal Service:

The fundamental and essential mission of universal service is not just *getting* customers connected but *keeping* them connected.

Even as grant programs have become more ubiquitous in recent years, and even as many providers of all kinds are leveraging them to connect neglected rural markets, many of the networks already in place today were *not* funded by grants. Instead, they involved a mix of community commitment, private capital, and loans to undertake construction in the first instance.

The FCC's Universal Service Fund (USF) programs are under attack in the courts, and the good work they do – and the sustainability and affordability of connectivity for millions of rural Americans – is at risk.

If USF support were eliminated, rural Americans' broadband rates could skyrocket, broadband and investments could drop significantly, and outstanding network construction loans, including many held by the federal government could default.

Congressional action may be necessary to prevent these negative impacts if the Supreme Court upholds the Fifth Circuit decision. We urge members of Congress to stand ready to support legislative efforts that could help to ensure the ongoing viability of USF initiatives and ultimately ensure that every American gets and stays connected.

Broadband Grant Programs:

Getting and keeping Americans connected – the BEAD program and other grant programs can play an important role in at least the first part of that mission.

There are several parts of the BEAD program that should be closely examined for potential modification – this review need not take a long time, and these changes need not take a substantial rewrite of the program.

If we want our rural communities to remain competitive in economic and quality of life issues with our urban and suburban counterparts, and globally, we need to build for the long-term wherever feasible, while still leaving room to pick the right technological solution for the specific application.

Other Issues:

Permitting, mapping, and taxing of broadband grants are also factors that can affect the mission of universal service.

Statement by

Greg Hale

Chief Executive Officer

LTC Connect

Auburn, KY

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Subcommittee on Communications and Technology

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Fixing Biden's Broadband Blunder

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Introduction

Chairman Hudson, Ranking Member Matsui, Chairman Guthrie, and members of the Subcommittee, thank you for the opportunity to participate in today's hearing focused on how best to promote ongoing access to broadband.

I am Greg Hale, Chief Executive Officer of LTC Connect in Auburn, Kentucky. Incorporated in 1954, LTC Connect is a Smart Rural CommunitySM Cooperative owned by our members. We provide broadband internet and voice services to an area of more than 500 square miles in rural South-Central Kentucky. Our mission is to serve our members, customers, and community by offering outstanding value and improved quality of life. In doing so, LTC has invested in hundreds of miles of fiber-to-the-home construction over the past 12 years. If we can get a break in the weather, we will soon finish our final fiber construction project and 100% of those we serve will have access to fiber services. We currently provide broadband service up to five Gigabits over our network. LTC Connect has also invested a great deal back into our communities through local sponsorships and community support, and we are a significant employer and driver of economic activity and civic engagement in these rural parts of Kentucky.

As a cooperative, community involvement is woven into everything we do. One example is our "Round Up" program which is a voluntary program in which a customer can elect to round up their monthly bill. Any additional revenue collected is then used to provide community assistance or donated to charitable causes. We have also committed to supporting education by providing scholarships to area college students and supporting various programs in our local schools. As a community-based organization, we take pride in giving back to the people we serve and understanding the needs of our communities in ways only a local provider can appreciate.

LTC Connect is a member of NTCA-The Rural Broadband Association (“NTCA”), which represents about 850 rural, community-based broadband providers that are deploying cutting-edge networks and offering advanced communications services in deeply rural communities. These operators collectively serve less than five percent of the population of the United States but nearly thirty percent of its landmass. Rural providers like LTC Connect operate in rural areas left behind decades ago when earlier efforts to build out our nation’s communications networks ignored them because they were too sparsely populated.

The Fundamental and Essential Mission of Universal Service

Connecting every American is not an easy challenge to overcome, but at the same time the primary barrier to rural broadband – the economics of deploying and sustaining broadband – is consistently identifiable across every rural market. I recognize that much of this hearing will likely be devoted to the question of how broadband grant programs have worked and how best to design them going forward, and we welcome this important conversation. But it is essential to not lose sight of the fundamental and essential mission of universal service – which is not just *getting* customers connected but *keeping* them connected. Building networks is not the end goal; if we just build networks but give no thought to sustainability or affordability or continuing reliability, we will have made inefficient investments and wasted money. We must focus on the ultimate mission of not just building networks but having Americans *use* robust, reliable, and affordable networks to participate in today’s and tomorrow’s digital eras. If we do not meet this challenge, we will see hearings like today’s being held five or ten years from now asking how we missed the mark again.

This is why it is so important to take stock of the full scope of the rural broadband economic problem. The rates that rural consumers pay are rarely sufficient to even cover the costs of ongoing

operations in rural areas, much less the upfront capital expenditures required to get there. There are other issues that affect the economics of rural broadband, such as obtaining permits to build or upgrade infrastructure and navigating complex bureaucratic application processes. However, it is clear that the single biggest challenge to connecting rural America and keeping it connected is simply making the business case to build and operate any broadband network at all. Put simply, obtaining permits and other impediments to deployment only become barriers after a provider can find a business plan for building and maintaining a network there in the first place. Because of NTCA members' mission to serve their communities our companies often try and build these business plans just to break even or at much smaller returns than would be accepted by larger public corporations.

Without this business case, community-based providers cannot justify borrowing funding or using our own capital to build to unserved or underserved locations if we cannot sustain those networks past a year of operation where consumer densities are so low, distances are so great, and terrain and topography complicate buildout.

For rural networks already out there, it is critical to note that many were not built using grants. Even as grant programs have become more ubiquitous in recent years, and even as many providers of all kinds are leveraging them to connect neglected rural markets, many of the networks already in place today – like the network that we have deployed to our member/owners – were *not* funded by grants. Instead, they involved a mix of community commitment, private capital, and loans to undertake construction in the first instance.

Recovering this capital investment and covering the ongoing costs of delivering services while keeping rates affordable is the full scope of the rural broadband challenge. This is where the Federal Communication Commission's ("FCC") high-cost Universal Service Fund ("USF") program makes its critical mark. With this support, providers can make the business case for investing in and then sustaining broadband services for the benefit of rural communities.

In Kentucky we have some providers that have completed broadband builds due to prior stimulus funding. We have some providers that have been successful in leveraging USDA Reconnect and Community Connect Grants to build to locations previously unserved. Many are using grants to reach outside their traditional service areas to reach new customers that have been ignored by larger providers. A few small providers are still involved in construction projects to reach unserved locations in their Incumbent Local Exchange Carrier (ILEC) service areas. These construction projects in very low-density areas were undertaken with a business analysis that involved the continued receipt of Universal Service funding to pay back capital over the depreciable life of the fiber network deployed. The high-cost USF does not reimburse capital expenses immediately but reimburses a percentage of capital expenses gradually over the depreciable life of the network. For NTCA Companies this cost recovery often takes place over a period of 18 to 30 years.

Even grants cannot completely overcome our economic challenges. Even where grants are available – like the funding planned through the National Telecommunications and Information Administration's ("NTIA") Broadband Equity, Access, and Deployment ("BEAD") program – most of these programs include matching requirements, meaning providers still must borrow or bring their own capital to the table. Moreover, there are some places so deeply rural and with populations so

sparsely scattered that, even if a grant were to cover 100% of initial construction costs, the costs of operations alone still deter investment without ongoing USF support.

At times, some confuse the roles of, and the interplay between, various grant programs and the high-cost USF program, thinking of them repetitive or redundant. However, this reflects a fundamental misunderstanding of the unique and distinct role each type of program has played and continues to play. Grant programs like ReConnect at USDA, the Treasury Department's Capital Projects Fund, and the BEAD program will neither *sustain* networks nor make services atop them affordable for consumers in all cases. Neither BEAD nor affordable customer rates will necessarily cover the costs of hours-long "truck rolls" in deeply rural areas or cover the portion of rural broadband investment that still must be covered by matching funds. ReConnect by itself will not assure that rural customers pay rates that are affordable and roughly equivalent to what urban communities pay. It is for this reason that the FCC's high-cost USF programs stand apart. USF helps cover the continuing costs of sustaining a network and making sure rural consumers do not pay substantially more than urban users to get and stay online.

The USF programs have been in place for decades and have garnered bipartisan support because of the good work they have enabled over the years. As we consider how to address rural broadband challenges, the essential role of this program cannot be lost or overlooked. Unfortunately, the FCC's USF programs are under attack in the courts, and the good work they do – and the sustainability and affordability of connectivity for millions of rural Americans – is at risk. In July of last year, the United States Court of Appeals for the Fifth Circuit declared that the contribution mechanism that funds the four pillars of the USF for the last thirty years is unconstitutional. The court's decision – which contradicts a prior decision in the same circuit and conflicts with

decisions in several other circuits – is based upon concerns over the specific combination of the congressional delegation of authority to the FCC to collect such contributions and the FCC’s use of a private entity in administering aspects of such collections.

This Fifth Circuit decision is now before the Supreme Court for review and a negative ruling could have substantial negative impacts for the state of connectivity in rural America. NTCA recently conducted a survey of its members to determine how this decision might affect the rates paid by their consumers, future broadband investment plans, and the viability of rural networks. Among the key findings of the survey were:

- **If USF support were eliminated, rural Americans’ broadband rates could skyrocket.**
 - Without high-cost USF support, rural broadband rates might reach nearly \$165 per month on average.
- **If USF support were eliminated, broadband network investments could drop significantly in the coming years.**
 - Sixty-eight percent of respondents said they would need to cancel deployment projects next year equaling over \$1 billion, representing nearly 79% of these companies’ planned broadband investments for 2025.
 - Similarly, 71% of respondents indicated they would need to cancel 2026 deployment projects, equaling nearly \$900 million and representing nearly 83% of these companies’ planned investments for 2026.

- **If USF support were eliminated, there is substantial potential for default on outstanding network construction loans, including many held by the federal government.**
 - Sixty-seven percent of respondents said they have outstanding debt for prior broadband network deployments. Of that group:
 - Sixty-one percent of those respondents indicated they would likely default on those loans within the next three years if USF support were eliminated altogether.
 - Seventy percent of respondents with outstanding network debt of any kind indicated their loans were with the U.S. Department of Agriculture.

Congressional action may be necessary to prevent these negative impacts if the Supreme Court upholds the Fifth Circuit decision. We urge members of Congress to stand ready to support legislative efforts that could help to ensure the ongoing viability of USF initiatives and ultimately ensure that every American gets and stays connected. Prompt, thoughtful, and well-crafted action by Congress could help to dispel uncertainty that otherwise might hang over the USF to the detriment of millions of rural and low-income Americans and schools, libraries, and rural healthcare facilities across the nation. We also believe it is essential to reform who contributes to the USF. To achieve and sustain core statutory and related public policy objectives related to universal service, it is essential that policymakers act to ensure: (a) that contribution responsibility is shared reasonably and equitably among all users of the underlying networks that universal service seeks to promote; and (b) that all those that benefit from broadband networks help to recover the costs of deploying and operating them, including large tech companies whose business models depend upon connectivity to potential customers.

Broadband Grant Programs

Against this backdrop of the broader mission of universal service – getting and keeping Americans connected – the BEAD program and other grant programs can play an important role in at least the first part of that mission. For example, many NTCA members (and many other providers of all kinds) have leveraged Treasury and USDA grant programs to upgrade existing networks and expand into other areas that lacked quality service. These programs have been successful in providing capital to help make the business case for investment, although in some areas it remains to be seen whether services will remain reliable and affordable over the long-term consistent with that broader mission of universal service.

This brings us to the BEAD program that has been and will be a significant focus of broadband funding debates. The BEAD program, if executed effectively, will provide substantial capital to help narrow, if not eliminate, persistent availability gaps. Many NTCA members and other providers are actively evaluating participation in the BEAD program, and some have already won awards in early states to deploy networks. But, as I will discuss below, there are several parts of the BEAD program that should be closely examined for potential modification – this review need not take a long time, and these changes need not take a substantial rewrite of the program. We have already waited long enough for this program to launch, and there are efficient ways to recalibrate specific pieces to make it more effective while it continues to move forward.

First, I would recommend that NTIA consider publishing all waivers that have been granted to various states to date in connection with the BEAD program and consider whether these can be made available across the board to all states. A more transparent sense of “what the goalposts or guardrails are” would help everyone and should not take a great deal of time.

Second, there are a few key areas where policy changes through guidance or other program mechanisms could be helpful (and the waivers described above may already address some of these). For example, NTIA could articulate a more reasonable approach to the “low-cost option” that better reflects those challenging economics of operating in rural areas noted in my testimony. Further changes with respect to relaxing the letter of credit requirements, workforce obligations, and other policies that do not relate directly to broadband deployment should likewise be considered for guidance from the agency.

One area where I would advise caution, however, is in overcorrecting in a way that could undermine the long-term efficiency and effectiveness of the program. Our nation is poised to put tens of billions of dollars into broadband investment. We need a long-term return on our investment – we should not build networks now that will need new investment again or substantial rebuilds in a few years. History has taught us that the capacity and speed required by business, education, healthcare and consumers will greatly exceed what is required today. Good stewardship of these federal dollars – and good results for rural America – means we need broadband built to last and capable of providing the service we will require well into the future.

Given the challenges we face, it is important to use every tool in the toolkit to achieve the BEAD program’s mission. We will not get the same kind of networks everywhere given challenges in terrain, density, and other factors that affect the economics. But this does not mean we should settle for a lowest-common denominator either. A way to think about this is that certain tools are better suited for certain jobs than others. An example is building a bridge. You can build it cheaper with wood, and a wooden bridge is undeniably a bridge that can carry *some* level of traffic. However, if you want to use taxpayer dollars most efficiently, you want to ensure the bridge can

withstand increasing levels of traffic in the future and remain a reliable asset to the community.

When you know what demand will look like over time, then a steel and concrete bridge is far more efficient as the smarter and safer investment. This is not to say that every bridge needs to be built with steel and concrete, but we certainly do not want every bridge built from wood because we do not take future needs into account and risk stranded investment.

Our strategy for broadband for rural communities needs to be the similar. If we want our rural communities to remain competitive in economic and quality of life issues with our urban and suburban counterparts, and globally, we need to build for the long-term wherever feasible, while still leaving room to pick the right technological solution for the specific application. For this reason, I would submit that the right answer is to leave this determination to the states. Just as we previously saw states struggle with mandates from Washington about how to design specific elements of their BEAD-funded broadband program, we should not repeat those mistakes by having Washington now tell the states how to choose their projects or what is the most efficient and appropriate choice given the funding they have. Therefore, I would recommend that each state be given the flexibility and autonomy to make the right choice for their citizens and their communities based upon their challenges – they are closest to these issues and best positioned to make these decisions. Our state broadband office, led by Meghan Sandfoss, has already done a good job of trying to fulfill the mission of sufficient broadband for all Kentuckians while working within the NTIA guidelines to try and not make the process any more burdensome than required by federal rules. We had no real broadband map in Kentucky to help determine actual BEAD eligible locations and they have been committed to trying to build the best list of eligible locations, so BEAD dollars are only deployed to truly unserved and underserved locations. Many states are doing good work that can serve as models for others.

Other Factors that Can Affect the Mission of Universal Service

While high costs represent the most imposing obstacle to deploying and maintaining reliable broadband in rural areas, other factors affect the mission of getting and keeping Americans connected as well. Several of these are discussed below.

Permitting Delays

Infrastructure investment depends on prompt acquisition or receipt of permissions to build networks. Roadblocks, delays, and increased costs associated with permitting and approval processes are particularly problematic for providers of service in rural areas. The review procedures can take substantial amounts of time, undermining the ability to plan for and deploy broadband infrastructure. Obtaining reasonable terms and conditions for attaching network facilities to poles, crossing railroads, historic property review, and environmental reviews can result in long delays and costly fees for providers seeking to build out networks in unserved rural communities.

One community-based provider in Kentucky has experienced great delays in providing broadband to customers anxiously awaiting its delivery. Environmental and historic reviews have taken seven months to complete. This same company also needed to add fiber to an existing pole line through some Army Corp of Engineers property near Green River Lake. It took \$15,000 and 18 months to receive approval. The only ground disturbances were adding anchors and the construction crew itself. We must find ways to improve these timelines for customers awaiting broadband connections.

Mapping

The National Broadband Map (“NBM”) has been critical in making broadband policy and funding decisions. These decisions should be driven by facts on the ground rather than claims made by broadband providers’ marketing departments. Since the passage of the Broadband DATA Act, the FCC has improved the NBM, but structural problems persist. We would hope that the FCC would be willing to learn from what we have seen in the map to date and consider improvements in reporting and challenge processes to make the map more reliable and realistic given its prominence in funding and policy decisions.

Some recommendations we think would help address the current flaws in the reporting process and its challenge process are:

1. Revise reporting standards to reflect proven technological capabilities on an objective basis.
2. Create public “heat maps” highlighting where numerous challenges and crowdsourcing concerns arise in an area or where coverage claims look questionable.
3. Enable greater use of performance data to inform challenges.
4. Apply meaningful consequences for chronic overreporting of coverage.
5. Do not reduce or eliminate broadband funding for an area based upon coverage claims unless, under objective technical standards, the reporting provider can serve **every** customer in that area.

Taxing Broadband Grants

Under current law, federal grants are considered taxable as income. With so much federal investment in broadband deployment, taxing broadband grants will dramatically reduce the impact of programs, like BEAD, and likely leave the hardest-to-reach communities without connectivity. As I stated previously, due to the market failure nature of rural areas, it is critical that every federal dollar for broadband, go toward network deployment. Instead, currently, a significant portion of those funds are going back to the government in the form of subsequent tax payments on the grants. Thankfully, legislation called the “Broadband Grant Tax Treatment Act” is already underway in both the House and the Senate to reverse this course.

Closing

Community-based providers like LTC Connect are deeply committed to the customers we serve and, given our experience and track record of success in serving the most rural areas, small community-based providers should be seen as critical components of any strategy seeking to achieve universal service in the United States. We look forward to working with policymakers and other stakeholders to ensure that all Americans will experience the many benefits of broadband over the best possible networks both today and for decades to come.

Thank you for the opportunity to testify, and the Subcommittee’s commitment to getting and keeping every American connected.