



MONTANA  
TELECOMMUNICATIONS  
ASSOCIATION

August 31, 2010

The Honorable Larry Strickling, Assistant Secretary  
National Telecommunications and Information Administration  
U.S. Department of Commerce  
1401 Constitution Avenue, N.W.  
Washington, D.C. 20230

The Honorable Jonathan Adelstein, Administrator  
Rural Utilities Service  
U.S. Department of Agriculture  
1400 Independence Avenue. S.W.  
Washington, D.C. 20250

Dear Messrs. Strickling and Adelstein,

The Montana Telecommunications Association (MTA) is concerned that recent broadband stimulus funding awards announced by your agencies confirm our worst fears that the broadband stimulus program may lead to negative consequences from which it will be difficult for rural broadband telecommunications providers and the communities they serve to recover.

Recent grants and loans awarded by RUS and NTIA duplicate existing network facilities, displace revenues needed to operate current networks, discourage private investment in broadband deployment, displace jobs, threaten increased rates for rural consumers, and put a pall over economic development opportunity across the nation. MTA's concerns about the misallocation of broadband stimulus funds, if anything, are heightened by recent awards announced by your agencies.

With only 30 days left in the Recovery Act's "funding window" during which your agencies may allocate remaining broadband stimulus funds, and with an apparent willingness by both RUS and NTIA to fund the construction of duplicate network facilities, MTA feels compelled to reiterate the concerns we have expressed previously.<sup>1</sup>

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<sup>1</sup> See, for example: 1) letter from Montana's rural local exchange carriers to Secretaries Locke and Vilsack. October, 28, 2009; 2) In the Matter of Broadband Initiatives Program and Broadband Technology Opportunities Program. Joint Request for Information. Comments of MTA to the U.S. Departments of Agriculture and Commerce. Docket No. 0907141137-91375-05. November 11, 2009; 3) letter from MTA to Asst. Sec. Larry Strickling. May 10, 2010.

The Honorable Larry Strickling  
The Honorable Jonathan Adelstein  
August 31, 2010

Consequently, we urge you to rededicate the remaining funds at your disposal to building broadband facilities where they most are needed: unserved areas. We urge you to deny applications pending before your agencies that would waste taxpayer funds by duplicating facilities in “underserved” areas.<sup>2</sup>

While your agencies have argued that many areas being funded by broadband stimulus money are “underserved,” there remain many areas that are unserved. It is the unserved areas that most need your attention. It is those areas that Congress had in mind as your top priority.<sup>3</sup>

By diverting the broadband stimulus program to funding projects in “underserved” areas, RUS and NTIA have invited unneeded controversy and a host of negative unintended short- and long-term consequences, distracting attention and resources from the potential benefits of the broadband stimulus program.

Moreover, NTIA’s emphasis on funding middle mile networks, and removing “anchor institutions” from existing networks, leaves “non-anchor” consumers on existing networks with the prospect of increased rates, as vital revenues from anchor institutions are diverted to government-funded networks. Existing network providers will be forced to reduce investment in human capital (i.e., jobs), as well as operations, maintenance and capital expenditure. This is not a formula for economic development or broadband deployment in rural America.

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<sup>2</sup> See letter from MTA to Assistant Secretary Larry Strickling. May 10, 2010. MTA “respectfully requests that you deny any BTOP applications which would duplicate existing network infrastructure, thereby wasting taxpayer dollars and discouraging long-term investment and sustainable economic development in rural Montana.” Several applications still pending before NTIA, for example, would further duplicate existing network infrastructure, including for example the following, as noted in the May 10 letter to NTIA: University Corporation for Advanced Internet Development (Application ID: 4589); XO Communications (ID: 5601); Ronan Telephone Company (ID: 6355); World Network International Services (ID: 7042); County Executives Telecommunications Initiative (ID: 7108); Native American Development Corporation (ID: 7638).

<sup>3</sup> The Recovery Act (P.L. 111-5) establishes the Broadband Technology Opportunities Program, the purposes of which are “to 1) provide access to broadband service to consumers residing in unserved areas of the United States; 2) provide improved access to broadband service to consumers residing in underserved areas of the United States...” The Act does not contemplate the creation of grants or loans for “middle mile” projects. Nor was the term “underserved” defined. Similarly, the Recovery Act’s establishment of the “Distance learning, Telemedicine, and Broadband Program” (a.k.a., Broadband Incentives Program, or “BIP”) does not address “underserved” areas. Instead, the Act stipulates that “grants, loans or loan guarantees shall be in a rural area without sufficient access to high speed broadband service to facilitate rural economic development” and, among other things, that “priority for awarding funds shall be given to projects that provide service to the highest proportion of rural residents that do not have access to broadband service...” In retrospect, it is clear that the agencies’ funding projects in areas already served by broadband providers has led to considerable controversy, wasteful funding of duplicate infrastructure and has diverted the stimulus program from its primary purpose.

The Honorable Larry Strickling  
The Honorable Jonathan Adelstein  
August 31, 2010

In addition to the threats to investment and economic development posed by misallocated broadband stimulus funds, rural telecom providers are facing a double-whammy from the federal government. The Federal Communications Commission (FCC) is threatening to freeze, and then cut federal support for telecom investment in high cost areas of the country—like Montana—at the same time the broadband stimulus program threatens to divert customers and investment from the same high cost networks—like those of Montana. In short, the major sources of revenue relied on for continued, and future, operation, maintenance and investment in broadband networks are threatened with substantial reduction, if not extinction.

The threats to rural telecommunications investment posed by the misallocation of broadband stimulus funding and the FCC's recommendations have raised substantial concern among private lending institutions whose confidence in rural telecommunications providers' ability to honor loan covenants is essential for continued broadband investment. For example, the Rural Telephone Finance Cooperative (RTFC) writes

The changes outlined in the FCC's National Broadband Plan will seriously inhibit investments in infrastructure necessary for the delivery of broadband service to rural America...[T]hese provisions, if enacted, will necessitate significant rate increases for rural Americans and will severely impede much-needed investment in rural telecom infrastructure. Without assured sources of revenues for rural telecom service providers, evidencing a federal commitment to broadband in rural America, lenders such as RTFC will be unable to underwrite and fund loans for rural broadband deployment. Without debt capital available to rural telcos, investment in network upgrades will be limited and inadequate to maintain the existing network, much less to upgrade the infrastructure to provide...broadband service.<sup>4</sup>

RUS is in the same position as RTFC and other telecom lenders. Misallocated broadband stimulus funds which threaten rural telecom networks' return on investment, combined with the potentially harmful effects of the National Broadband Plan, raise substantial default risk for RUS' loan portfolio.

In conclusion, MTA reiterates its concerns about the misallocation of broadband stimulus funds to finance projects which duplicate existing network facilities. Ironically, both the broadband stimulus program and the National Broadband Plan have the potential to limit, not optimize, broadband deployment in the United States.

MTA strongly urges RUS and NTIA to devote the remaining broadband stimulus funds to deployment of broadband services to unserved areas most in need of initial broadband deployment and to deny applications for middle mile or other projects which duplicate existing network facilities.

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<sup>4</sup> Rural Telephone Finance Cooperative Position on the National Broadband Plan. June, 2010.

The Honorable Larry Strickling  
The Honorable Jonathan Adelstein  
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Please do not hesitate to call me if you have any questions or comments.

Respectfully,

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cc. The Honorable Max Baucus  
The Honorable Jon Tester  
The Honorable Denny Rehberg