April 29, 2022

***Ex Parte* Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
45 L Street, NE
Washington, DC 20554

RE: *Connect America Fund*, WC Docket No. 10-90

Dear Ms. Dortch:

NTCA–The Rural Broadband Association ("NTCA") submits this correspondence to follow up on certain points raised in recent *ex parte* meetings and letters in the above-referenced proceeding regarding the impacts of the resurgent budget control mechanism on rural operators receiving cost-based Connect America Fund Broadband Loop Support ("CAF-BLS") and/or High Cost Loop Support ("HCLS") and the steps necessary to address them. *See, e.g.*, *Ex Parte* Letter from Michael R. Romano, Sr. Vice President, NTCA, to Marlene H. Dortch, Secretary, Federal Communications Commission (the "Commission"), WC Docket No. 10-90 (filed Apr. 28, 2022).

A significant increase in the budget control mechanism that will be announced in a few days – and the substantial reductions that would follow in CAF-BLS and HCLS support as a result – would undermine the efforts of hundreds of small providers to fulfill and sustain the mission of delivering better broadband to millions of rural Americans at affordable rates. As described further herein, these providers have made substantial efforts in the face of the pandemic to meet increasing needs for robust and affordable broadband connectivity in some of the most rural and remote parts of the country, accommodating demands not only from existing residents of such areas for upgraded service but responding as well to installation and service activation requests from the many Americans who have relocated to rural areas over the past few years during the pandemic.

As some examples of how demand has increased in rural areas, one NTCA member has identified growth of nearly 15% in its customer base since the start of the pandemic, while others have reported increases over this period ranging from 20% to nearly 40% in different rural communities that they serve. Still another NTCA member reports that, even as the population in its area did not change materially, its customer base has grown by just over 13% since the end of 2019 as more residents grasped the essential nature of broadband connectivity. These experiences are consistent with more general reporting with respect to the migration outward to rural areas nationwide and increased demand for broadband.[1] For example, in the thick of the pandemic, a study of housing values in rural Pennsylvania revealed marked increases in sales prices: the median home price in rural

[1] *See, i.e.,* Arian Campo-Flores, Paul Overberg, Joseph De Avilla, and Elizabeth Findell, "The Pandemic Changed Where Americans Live," Wall Street Journal (Apr. 27, 2021) (https://www.wsj.com/articles/pandemic-supercharged-changes-in-where-americans-live-11619536399) (visited Apr. 28, 2022).

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Pennsylvania increased more than 10% from 2019 to 2020.[2] These trends corroborate surveys finding increases in the percentage of U.S. adults who stated a preference to live in a small town or rural area, rather than a large city.[3] In fact, New York City and surrounding areas accounted for five of the top ten counties in population decline from April 2020 to July 2021.[4] The sustained and anticipated future strength of rural areas, and their resultant increasing demand for broadband services, can also be discerned from the fact that rural counties lost fewer jobs than urban counties in the economic downturn that was caused by the COVID-19 pandemic.[5] Future demand for broadband-enabled education, telework, and healthcare is expected to grow.[6]

This increased demand for broadband in rural America over the past few years has resulted in increased demand for universal service support to help recover the costs of deploying such networks and delivering higher-quality services at still-affordable rates. While growth in the number of customers served is of course positive from both an individual company and public policy perspective alike, the costs incurred in addressing such demand are not recovered instantaneously or even within a few years' time – and, in rural areas, they generally cannot be recovered entirely from consumers if rates for an evolving level of reasonably comparable services are to remain relatively affordable. Moreover, to the extent that an increasing number of customers are opting for "broadband-only" service (as many NTCA members report in recent years), this places an even greater strain on provider support mechanisms as the Commission is well aware. *See Connect America Fund*, *et al*., WC Docket No. 10-90, *et al*., Report and Order, Further Notice of Proposed Rulemaking, and Order on Reconsideration, 33 FCC Rcd 11893 (2018), at 11948-49, ¶¶ 200-204 (seeking comment on the potential effects of broadband-only adoption on CAF-BLS demand).

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2 Additionally, rural counties had an increase in residential property transfers, while urban counties experienced an overall decrease. *See,* "Welcome to Rural Pennsylvania: COVID-19 and Residential Property Sales," Center for Rural Pennsylvania, at 7, 27 (Oct. 2021) (https://www.rural.pa.gov/download.cfm?file=Resources/PDFs/research-report/COVID-19-and-Residential-Property-Sales-102721.pdf) (visited Apr. 28, 2022).

3 Willem Roper, "COVID-19 is Pushing Americans Out of the Cities and Into the Country," World Economic Forum (Jan. 19, 2021) (https://www.weforum.org/agenda/2021/01/rural-life-cities-countryside-covid-coronavirus-united-states-us-usa-america) (visited Apr. 28, 2022).

4 The counties are Bronx County, Kings County, New York County, and Queens County, which represent four of the five boroughs of New York City. The fifth county is densely populated Hudson County, New Jersey, which is directly across the Hudson River from Manhattan (New York County). "Over Two-Thirds of the Nation's Counties Had Natural Decrease in 2021," U.S. Census Bureau (Mar. 24, 2022) (https://www.census.gov/newsroom/press-releases/2022/population-estimates-counties-decrease.html) (visited Apr. 28, 2022).

5 Elizabeth A. Dobis, *et. al.,* "Rural America at a Glance: 2021 Edition" Economic Information Bulletin Number 230, Economic Research Service, USDA (Nov. 2021) (https://www.ers.usda.gov/webdocs/publications/102576/eib-230.pdf?v=2471.2) (visited Apr. 28, 2022).

6 *See,* Joshua Seidemann and Roxanna Barboza, "Rural Imperatives in Broadband Adoption and Digital Inclusion," Smart Rural Community, NTCA–The Rural Broadband Association, at 10-17 (2021) (https://www.ntca.org/sites/default/files/documents/2022-03/src-whitepaper-broadband-adoption-and-digital-inclusion.pdf) (visited Apr. 28, 2022).

Indeed, the efforts by NTCA members to serve new customers and deliver higher speeds have been considerable – but these investments and ongoing efforts come at a cost, especially in rural areas where distances are greater and densities are lower and amidst a pandemic where, as the Commission is well aware and has itself observed in other contexts, telecom supply chains have constricted and skilled workers can be harder to find and more expensive to hire and retain. For example, members consistently indicate that they are facing materially higher prices for labor and materials. In the wake of NTCA inquiries in the fall of 2021, 35% of responding members reported a 20% to 40% increase in the cost of finished products or components, with another 20% of respondents reporting costs have increased by over 40% for their supplies; if anything, all indications to NTCA are that supply chain delays and pricing issues have only grown in recent months. Moreover, efforts to carry more inventory in attempts to mitigate supply chain delays have affected cash flows in some cases.

Members report likewise the need to draw down on loans more quickly (and thus commence repayment more quickly) than initially anticipated to pay higher prices for equipment and contractors and to undertake more accelerated deployment, which can affect their cash flows as well. Another impact to be noted too arises out of efforts made by many NTCA members to help consumers in their communities during the pandemic through free or discounted Internet services for educational purposes, increased broadband speeds without significant rate increases, and write-offs of residential broadband bills and late fees where consumers faced difficulties in making payments. *See, e.g.*, *NTCA Members are Doing Everything They Can to Keep Customers Connected* (https://www.ntca.org/ruraliscool/newsroom/ntca-members-are-doing-everything-they-can-keep-americans-connected). Finally, yet another economic factor that cannot be overlooked is the effect of increased broadband usage on middle mile and backhaul/transit costs.

Nonetheless, the considerable and unrelenting efforts of small providers to address this increased demand in hard-to-serve rural areas even in the face of these many challenges can be seen clearly through a comparison of NTCA's annual broadband surveys for the most recent year before the pandemic and last year:

<u>December 2019 Survey</u>

- 60.8% of NTCA member customers on average could receive 100 Mbps service or greater, with 25.3% of those capable of receiving Gigabit-level service

- 63.8% of customers on average were served by fiber-to-the-premises networks

<u>December 2021 Survey</u>

- 75.6% of NTCA member customers on average could receive 100 Mbps service or greater, with 55.4% of those capable of receiving Gigabit-level service

- 75% of customers on average were served by fiber-to-the-premises networks

In short, over the past two years in the middle of a pandemic that presented challenges of all kinds and despite serving areas where the average density is approximately seven locations per square mile, NTCA members report increasing the availability of 100 Mbps broadband service on average by nearly 25% (up 14.8% from 60.8% to 75.6%) and the availability of Gigabit-level service on average by an astounding 119% (up 30.1% from 25.3% to 55.4%). If anything, these efforts highlight and underscore the remarkable effectiveness of the CAF-BLS, HCLS, and ACAM programs, indicating they are enabling the business case for investment in the best possible networks and delivery of the best possible services for millions of Americans at a time when they are needed most – even as there is clearly still work to do to enhance these programs and ensure that every American has sustainable access to the kinds of services described above. Applying increased budget cuts to CAF-BLS and HCLS support in the face of (and essentially as a "reward" for making) such efforts would cause significant harm to providers and consumers alike.

Importantly, it must also be noted that CAF-BLS and HCLS recipients are not paid upfront (as would be the case with a grant) or even provided with support on a fixed recurring basis at a certain amount (as is the case under other universal service programs) for deploying such networks and delivering such services. Instead, CAF-BLS and HCLS support start to help with recovery of the costs for these investments and efforts only several years *after* they are incurred – all in the face of the need to repay loans secured or other capital used upfront to finance the construction of these networks. This means that reductions or disruptions to CAF-BLS and HCLS support can introduce significant cash flow concerns, given: (a) loans have already been taken out in many cases; (b) the costs of delivering broadband have already been incurred; and (c) the requirement that rates charged to customers must be based upon the Commission's universal service reasonable comparability benchmarks (which are already higher than the average urban rate). It is further worth highlighting that significant parts of the investments over the past several years described above have been made without the benefit of grant programs and that, even where grants may have been obtained, such grants operate to reduce the amount of capital expenses recoverable through CAF-BLS and HCLS. This means that the costs for which support is sought – and for which support would be cut by the budget control mechanism – are costs that are not otherwise recovered through other programs and are instead costs that have actually already been incurred in delivering the increasingly robust networks and higher-quality services described above.

Finally, for all of the good work described above, the work is not done. Many of the hardest-to-serve customers still must be reached, and the loans and other capital used in the absence of grants to drive deployment in the past still need to be repaid or recovered, as applicable. Although recent and upcoming grant programs may help reach more of those still waiting to be connected at higher speeds, grants will not cover all costs of investment nor will they be provided in all areas – and there are separately the ongoing costs of operation to deliver services, ranging from dispatches to customer premises for service activation or trouble resolution to retaining staff resources to answer customer calls and maintain and protect networks. For these reasons, NTCA appreciates the Commission's recent announcement that it will consider longer-term enhancements and extensions to the ACAM support program, and we urge the Commission to address not only the immediate budget control mechanism concerns but to seek comment as well consistent with NTCA's recent filings on comparable questions regarding how best to update CAF-BLS and HCLS support and better align all of these programs moving forward to ensure sustainability in the mission of universal service.

Thank you for your attention to this correspondence. Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS.

Sincerely,

/s/ *Michael Romano*
Michael Romano
Senior Vice President –
Industry Affairs and Business Development