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100% Employee-Owned

## **Testimony In Opposition to SB346**

**Gary Shorman; CEO – Eagle Communications**

**Senate Utilities Committee**

**February 3, 2016**

Chairman Olson and Members of the Senate Utilities Committee:

My name is Gary Shorman, I am the President and CEO of Eagle Communications, Inc. Eagle is a 100% employee-owned company headquartered in Hays, Kansas. We provide broadband, video and telephone services in 60 communities across Kansas, Nebraska and Northeastern Colorado. We are not a large national provider of services. Our largest community served is Hays, KS with a population of roughly 20,000. Our next largest community served in Kansas is Abilene with a population of 6,700 and from there we serve numerous communities with populations of less than 1,000 persons.

I am here today, on behalf of our 275 employee-owners who each have a financial stake in our company, to testify in opposition to Senate Bill 346 and to ask you, “When will enough subsidy finally be enough,” and “When will we begin having real discussion about ensuring that Kansas taxpayer dollars/subsidies get to where they are truly needed – communities and areas in Kansas where no reliable broadband service exists today?”

SB 346 reverses work done by this committee and Legislature that, not long ago, sought to put a cap on the Kansas Universal Service Fund and not allow for reductions in Federal Support to become the burden of Kansas taxpayers. Under Senate Bill 346, Rate of Return, rural telephone providers would be able to “game” a system, allowing them to maximize Federal Subsidies by potentially increasing telephone rates to their local customers and not be subject to reductions in Kansas Universal Service Fund. This support would become unnecessary given the additional revenues these carriers would receive from both the added revenues from higher phone charges, as well as the federal subsidy. It is important to note here, that the Federal Communications Commission is still in the process of finalizing their restructure of Federal Universal Service Fund support. Thus, this Senate Bill 346 is at the minimum

premature, and at worse, perpetuation of an old, outdated system of one-sided government subsidies that disrupt the competitive marketplace and does not solve the real problem.

Nearly all of us across the nation, in a variety of businesses, social services, and governmental agencies themselves, have become subject to reduced funding. We are all being asked to do more with less, consolidate, become more efficient and adaptive, and encouraged to be less dependent on the government to solve our problems. How long would the line be outside this statehouse if all of us wanted the State of Kansas to relieve our burden and shoulder the costs of this changing world and business environment?

Who will shoulder the burden of the Rate of Return carriers' requests – Kansas taxpayers? The fiscal note tied to this bill implies the assessment rate on phone charges for KUSF will need to increase to support the requests Senate Bill 346 would allow – and the estimates are that it will continue to grow in the years hereafter.

Let us provide you examples of where these dollars potentially will be used – yes even those dollars paid by many of your urban voter/constituents. In Abilene, Kansas, Eagle Communications provides broadband services to the community offering up to 50 Mb download speeds. AT&T, the incumbent phone carrier in Abilene also provides service – up to 12 mbps. Abilene, Kansas – a town of just under 6,700 people is about to have a third carrier, Tri-County Telephone, under the name of their affiliate TCT. In the last four years alone, Tri-County has received from the KUSF \$9.6 million, in addition to \$28.8 million from the Federal Universal Service Fund system over that same period. Tri-County's website touts High-Speed Internet services of up to 50 mbps, "Which is available with your subscription to Local Telephone Service." It also states, "Although service may not be available in all areas." Yet, a key area for growth for Tri-County is an already well served community, where this Rate of Return Carrier is not the incumbent, versus investing in completely serving their incumbent service area.

Eagle Communications customers, via USF surcharges on their monthly bill, pay into this system that then forwards money onto our competitor in the same community. Similar examples exist across our Eagle footprint in towns like Clay Center, Hays and Goodland.

SB 346 makes promotion, development, and enhancement of economic opportunities through STATEWIDE availability – a matter of public policy. Companies like ours, Eagle Communications through private employee-ownership and investment of private capital, are already engaged in these activities across the state of Kansas. What SB 346 will serve to achieve is putting our desire to continue investing in the state of Kansas at risk, while no real discussion is taking place to ensure that subsidies go where they should – to areas of our state where little to no broadband exists.

Thank you for your time and I now would be open to any questions you have.

