

MINUTES

JOINT INTERIM COMMITTEE ON ADVANCED COMMUNICATIONS AND INFORMATION TECHNOLOGY

Tuesday, December 7, 2015

1:00 p.m.

University of Arkansas Engineering Research Center, 700 Research Center Boulevard, Little Rock, Arkansas

The Joint Interim Committee on Advanced Communications and Information Technology met on Monday, December 7, 2015, at 1:00 p.m., at the University of Arkansas Engineering Research Center, 700 Research Center Boulevard, Fayetteville, Arkansas.

Members in attendance: Senators: Bill Sample, Vice Chair; and Greg Standridge. Representatives Stephen Meeks, Chair; Michael John Gray, Vice Chair; Charles Blake, Jim Dotson, Rebecca Petty, Mathew Pitsch and Brandt Smith.

Other legislator present: Representatives Bob Ballinger

Representative Stephen Meeks called the meeting to order.

Arkansas High Cost Fund Presentation

Mr. Larry Frazier, Manager, Rural Telcom Solutions (RTS), LLC, was recognized. He explained the Arkansas High Cost Fund (AHCF) is a complex mechanism that offers incentives to companies to invest in both utility payments and broadband. Mr. Frazier also gave a brief overview of RTS. According to Mr. Frazier, AHCF is contracted by the Arkansas Public Service Commission to administer Arkansas law related to Act 77 of 1997, as it created the AHCF. Mr. Frazier explained the AHCF is composed of two elements that include the revenue replacement element that is used to provide revenue to rural companies for changes in federal, state regulations and legislation; and the high cost element that stayed dormant for a few years. However, as anticipated by Act 77 and as services improved and expanded to rural areas, the HCF was re-created by Act 385 of 2007. Mr. Frazier explained the AHCF is used for outstanding obligations and broadband deployment. He said the main goal of the fund is the preservation and promotion of universal service. According to Mr. Frazier, \$44,000,476,000 is projected for project outlays per year.

In response to questions by Representative Meeks regarding how often is the AHCF contract renewed and who sets the administration fee, Mr. Frazier replied, the contract is renewed every four years which is required by state law, noting the administration fees were \$114,000. Mr. Frazier determines the cash outlay that is needed and reviews the revenue that is received. Projections are done every quarter to six months to determine how far it is extending out to decide whether to increase or decrease the fees. He explained the last six months of revenue is reviewed to project the next six months of revenue. An increase occurs when the last six months revenue does not cover the projected six months revenue. He noted that the 911 systems receive \$3 million per year. Quarterly payments are made to fund the 911 systems. Mr. Frazier will provide the committee with a list of who received funding from the AHCF, how those funds were used, and what the surcharge rate has been to cover the period of the last three to five years.

Discussion of Broadband in Arkansas: Challenges and Opportunities

Mr. Len Pitcock, Director, Government Affairs, Cox Communications, was recognized and presented a Power Point presentation entitled, "Cox Communications-Arkansas" [Handout 1]. Mr. Cox gave a brief overview of the company. He said Cox Communications is the largest traditional cable provider and the 4th largest telephone company in Arkansas. Cox Communications does not draw out/from the AHCF, as it is a Competitive Local Exchange Carrier (CLEC). Moreover, Cox Communications has 280 employees and serves 70 communities.

Cox Communications offers the following services: video, Internet, telephone and home security. These services are provided to residential customers, schools, private businesses, and government entities. Mr. Cox stated that current residential broadband speeds up to 200mbps are available to every customer in the marketplace. In addition, 10gbps up to 15gbps are available to businesses today.

Mr. Cox explained some rural challenges to Cox Communications and the cable industry include:

- legacy regulatory structure,
- return on investment remains an issue,
- adoption,
- concerns with government-subsidized competition; and
- reasonable access to utility poles.

Mr. Cox noted that Cox Communications has not accepted any government money to build out. He reported that Act 276 of 2013, the Statewide Video Franchise, gave Cox Communications some flexibility to move outside of its traditional footprint. Moreover, this legislation allowed Cox Communications to extend service to rural areas.

Mr. Keith Gibson, Legal Counsel, Madison County Telephone Company, and President, Pinnacle Communications (PC), was recognized and gave a brief overview of the company. He said PC is a fiber to the home company, noting that gigabytes are provided for business and residential customers in Arkansas. Mr. Gibson reported that PC is one of the largest private employers and taxpayers in his school district. Mr. Gibson reported many small, rural telephone companies in Arkansas want to partner with the state to accomplish the goals of the committee. According to Mr. Gibson, when telecommunications first started, small, rural, independent local exchange (ILEC) companies were the first to serve areas that other companies did not want to serve. Mr. Gibson explained that changes at the Federal Communications Commission (FCC) level will include reforming the Universal Service Fund (USF) that will put a lot of rural telephone companies in critical danger. Moreover, the FCC is considering issuing an order on December 17 to reform the how the USF is administered. Rural ILEC's are providing broadband in rural areas and are accomplishing this by making affordable high-speed broadband and Internet accessible throughout the state including rural areas of Arkansas. Fiber to the home is the preferred delivery system.

Mr. Gibson briefly discussed essential points for rural companies in his district that include:

- accomplishing the State's broadband goal,
- how the legislature has shown great insight in developing and implementing the USF,
- how to challenge FCC's decision to reform the USF, which appears to fund urban areas over rural areas. This burden on the state to help fund investments in broadband will increase; and
- how the USF works best to accomplish the legislature's goals when recovery is based on investment.

Mr. Jay Mitchell, President, Ozark Telephone Company (OTC), was recognized and gave a brief overview of the company. Mr. Mitchell is a third generation telephone company owner with over 30 years of experience in telecommunications. He reported OTC has three locations in Missouri. Currently, Missouri does not have a USF, therefore, Mr. Mitchell used the state general revenue funds and paid out-of-pocket to cover the costs of building out to provide broadband to its properties.

ARE-ON Presentation

Mr. Steven Fulkerson, Executive Director, Arkansas Research and Education Optical Network (ARE-ON), was recognized and presented a Power Point entitled, "Arkansas Research And Education Optical Network". He gave a brief overview of ARE-ON. ARE-ON's mission is to promote, develop, and apply advanced application and communication technologies to support and enhance education, research, public service, and economic development. Its directors consists of presidents and chancellors of 4-year public institutions and two representatives from the 2-year colleges. ARE-ON operates a 2,300 mile fiber optic based network that connects 33 higher education institutions, provides unlimited Internet bandwidth to serve its members, serves as the Internet2 research connector for Arkansas, facilitates technology research initiatives, and provides a secure telehealth backbone network for UAMS E-Link Program—currently over 500 sites are connected. Mr. Fulkerson stated that ARE-ON is not a telecommunications provider, but a private network. He also discussed ARE-ON's internet service. Regarding fiber and copper, it is important to note that bandwidth is capacity and capacity is measured in kilobits, megabits and gigabits. Mr. Ferguson explained fiber optic cable consists of a bundle of glass threads that are typically used in pairs. He said fiber is the best long term solution. Moreover, fiber leases are a long-term investment that is typically a 10 or 20 year pre-paid contract. Mr. Fulkerson concluded by recommending the Committee commission a group to look at Arkansas broadband investment related laws and administrative procedures to determine whether Arkansas is a broadband friendly state.

Representative Meeks announced that subcommittees will meet beginning in January. Representative Meeks said there are 74 ISPs within the state and as the Committee travels to various locations to hold meetings area legislators in those locations will be invited to attend. Senator Sample stated that the Committee would like a lot of participation from members at those meetings, noting that members that express interest in attending meetings in the rural areas would be assigned.

Other Business

Upon adjournment, the ACIT Committee will tour the ARE-ON Hub facility.

Next Meeting Date

The committee will meet on January 25, 2016 at 1:00 p.m., at the University of Arkansas Hope, Texarkana, Professions Building in Texarkana, Arkansas.

There being no further business, the meeting adjourned at 3:02 p.m.