January 13th, 2023

Dear Senator Thune:

Thank you for your December 6th letter requesting comment on federal broadband spending, especially as it relates to the Infrastructure Investment and Jobs Act (IIJA). Americans for Tax Reform appreciates this opportunity to contribute our voice to this important conversation on behalf of the American taxpayer.

The private sector has already invested $1.7 trillion in broadband infrastructure since 1996 and nearly 93% of American adults use the internet regularly.1 As you consider how to best implement the billions of federal dollars recently authorized for broadband expansion – chiefly through the $42.5 billion Broadband Equity, Access, and Deployment (BEAD) program, but with billions available from other programs as well – Congress’ top priorities must be to preserve robust private-sector competition by avoiding overbuilding and to protect taxpayers from these inefficient and duplicative programs by stretching each federal dollar as far as possible. Your letter rightly noted that the United States suffers from a bureaucratic labyrinth of 15 competing agencies running 130 duplicative programs. Our current broadband regulatory structure is a Byzantine mess that will require years of work to untangle.

Fortunately, Congress recognized this state of affairs and designed the BEAD program as a grant to states, minimizing the role of federal agencies, allowing states to set their own rules to meet local needs, and funding it through non-tax means. If this federalist approach is honored by the administering agencies, taxpayers can rely on guardrails in the IIJA to protect against some of the pitfalls of the past. The Federal Communications Commission (FCC) and National Telecommunications and Information Administration (NTIA) should be able to work together to provide states the data and technical assistance they need to design fiscally responsible programs. If the letter of the law is not followed, however, federal agencies will foist wasteful, anti-competitive, and ultimately counter-productive policies on states, consumers, and taxpayers.

With those priorities in mind, we offer the following answers to corresponding questions in your initial letter:

*Infrastructure Investment and Jobs Act-specific Issues:*

1. The NTIA not only failed to honor Congressional intent that preferred a technology-neutral approach for the BEAD program, they flagrantly ignored it. The BEAD Notice of Funding Opportunity (NOFO) explicitly states that fiber is the only technology that can

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meet the definition of a priority project. States know what they need to serve their local communities and Congress gave them the flexibility to use whatever method works best, so the NTIA should not dictate which technologies to prioritize. While fiber is a very reliable delivery method, there are certain areas where fiber internet service providers (ISPs) will not bid or build even with BEAD subsidies, such as towns in the valleys of West Virginia or remote islands off the coast of Maine. In these cases, a non-physical connection through fixed-terrestrial wireless or satellite service could be the only option. Trying to force fiber to work everywhere will waste taxpayer dollars and leave a number of areas unserved. This notion is further confounded by the fact that the largest provider of satellite internet, Starlink, uses a combined approach in some parts of the United States where internet connectivity is beamed from space to a ground station that is connected via fiber optic cable to served locations. This could allow satellite providers to squeeze into the program on a technicality while unfairly disqualifying competitors using the similar technology.

Congress could address this legislatively by amending the IIJA to clarify that states must award subgrants in a technology-neutral manner, specifically by adding a tech neutral component to the eligible entity obligations listed under Section 60102(g)(2). Short of a legislative fix, Congress should also apply pressure through oversight and appropriations until the NTIA retracts this provision of the NOFO.

2. As a practical matter, the NOFO’s imposition of additional administrative burdens on subgrantees who do not employ union labor clearly favors applications from subgrantees who do. Different reporting requirements that have nothing to do with the technical peculiarities of broadband discriminate against workers who make their own considered decision that they do not need a union. The added administrative burden to subgrantees that do not employ unionized labor will have a chilling effect on participation in the BEAD program, especially in states where unions are not common. This will make it harder to meet buildout deadlines, find qualified providers, and award grants to the most cost-effective bids.

Had Congress wished to employ inefficient and expensive union labor for all broadband buildout projects, including for those in parts of the United States where unionized workers are hard to find, it would have required states to favor union labor in statute. Instead, the IIJA simply directs states to give priority to applicants who have historically complied with federal labor law. By putting its thumb on the scale in favor of union labor without statutory authority, the NTIA has not only violated Congressional intent; it has also nakedly attempted to line the pockets of union bosses. The NTIA should remove this requirement from the NOFO because it is inconsistent with the letter of the law, and if they are unwilling to do so Congress should consider adding a clause to the IIJA clarifying that no additional labor requirements shall be imposed on subgrantees beyond those already enumerated in federal law and provide a legal cause of action to subgrantees who are subject to different reporting requirements.

3. Government-owned networks (GONs), while eligible for subgrants under the statute, are the least effective ISPs that deliver broadband. ATR opposes any federal money going to
GONs for broadband expansion because they have a history of driving private competitors from the market by offering service at a lower rate, taking on their private competitors’ customers, and then going bankrupt just a few years later. In case after case, GONs either fail and leave consumers without any ISPs, or taxpayers are repeatedly asked to bail out these failing entities. For example, the public phone utility company in Brookings, South Dakota launched its Swiftel internet service in 2007 and, according to a study by the University of Pennsylvania, will turn a profit in 349 years at the current rate, necessitating continual cash injections from the city budget and loans on city credit.²

Private sector ISPs, on the other hand, respond to market realities, responsibly manage debt, and avoid unnecessary risk. They are run like profitable businesses, not bloated Chinese-style state-owned enterprises, and therefore sustain themselves over time. GONs use tax dollars to undersell their more experienced and reliable competitors only to come back to the trough to stay alive. Responsible states should avoid awarding subsidies to GONs and rely instead on proven ISPs.

4. Given current supply chain issues and the highest inflation in four decades, the Buy American provisions of the IIJA have become more of a hinderance than a help to states. It is understandable that Congress would seek to keep dangerous equipment manufactured by entities close to the Chinese Communist Party (CCP) out of U.S. networks. In requiring American-made equipment, however, Congress has risked exacerbating shortages of supplies (in addition to the aforementioned shortage of labor) that will result in delays and cost overruns. Congress should consider revising to a “Buy Friendly” requirement, where subgrantees are permitted to import supplies from trusted allies and partners to meet their needs while continuing to exclude manufacturers tied to the CCP. Indeed, Sec. 60201(g)(1)(D)(ii) of the IIJA specifically prohibits the use of fiber optic cables manufactured in China, but does not prohibit imports from other countries. It is a later provision of the law, Sec. 70911, that imposes Buy American requirements on each preceding provision. This sloppy drafting will be the source of future fiber shortages, so it would behoove Congress to honor the original intent of the Broadband Division by restoring a narrow prohibition on CCP-tied fiber, rather than a prohibition on anything manufactured abroad.

5. In the interest of transparency for the public and ease of oversight for Congress, the BEAD FOIA exemption should absolutely be removed from federal law. The idea that basic transparency requirements are a hinderance to the successful execution of any federal program is absurd on its face. As a matter of principle, the American people are entitled to the documents and records that they paid for with their tax dollars as long as the documents do not compromise national security or violate privacy. Further justification for the Freedom of Information Act should not be required, but in this case it is also important that consumers and businesses are able to review the internal decision-making process at the NTIA as they administer billions of dollars in subsidies. State governments and Congress, who unlike the employees of the NTIA are elected by the

American people, must also be privy to any internal deliberations regarding funding decisions to properly assess the program’s efficacy. Eliminating this basic principle of American government only serves to insulate federal agencies from scrutiny and will do virtually nothing to expedite the process. Congress should pass Broadband Buildout Accountability Act once it is introduced in the 118th Congress without delay.

6. There are any number of adjustments that Congress could make to improve such a complex program, but we will highlight just two: removing certain eligible uses of grant funds to focus the program on unserved areas, and clarifying the pricing requirements imposed on subgrantees.

Sec. 60201(f) of the IIJA enumerates the eligible uses for BEAD grants and attempts to cover as many uses as may be necessary for deployment, but the provision goes too far in authorizing BEAD money to pay for “broadband adoption, including programs to provide affordable internet-capable devices; and any use determined necessary by the Assistant Secretary to facilitate the goals of the Program.” A separate competitive grant program is established in Sec. 60305 under the “Digital Equity” title to facilitate adoption; additional funds do not need to be diverted from the BEAD program for this purpose. Furthermore, the Assistant Secretary (referring to the administrator of the NTIA) is given far too much latitude to determine what is necessary to facilitate the goals of the program. This power can easily be abused to direct funding away from the unserved areas truly in need, which were the original intended recipients of the bill.

The NOFO issued by the NTIA also imposed a “middle-class affordability plan” requirement on states. This is a novel term that does not appear in the law. The NTIA had no authority to require such a plan from states, and doing so pushes states into rate regulation. Elsewhere, the NOFO requires states to consider offered speeds in its prioritization of applications. States may include such a requirement in their own grant programs, but are not required by statute to do so. The minimum speed for new builds is set explicitly at 100/20 Mbps; the NTIA should not be allowed to raise it arbitrarily. These are two examples where the NTIA has attempted to engage in back-door rate regulation by overstepping their authority on tiers and quality of service, and Congress should not tolerate them.

General Broadband Issues:

1.

a. Americans for Tax Reform will be the first to tell you that no federal program is perfect, but to date the Rural Development Opportunity Fund at the FCC and the Rural Utility Service at the Department of Agriculture have been the most successful at reaching truly unserved areas. This is largely due to the fact that they only address rural areas where most unserved Americans live. Other programs taking a broader view have historically been duplicative. We are most optimistic about the future of the BEAD program because it is a state grant that allows local representatives to address their local needs. BEAD will not be perfectly free of
waste, fraud, and abuse, but it will put the decision-making in the hands of state
governments that are closer to the problem and represent unserved communities.

b. Congress should eliminate most or all of these programs. As mentioned above, the
private sector has already invested $1.7 trillion in broadband infrastructure since
1996 and covers 93% of American adults. BEAD’s substantial investment should
be enough to get the last unserved areas over the finish line, making any future
broadband expansion programs unnecessary and enabling Congress to eliminate
the 130 different programs dedicated to this issue. In the short term, the Universal
Service Fund should undergo substantial reforms and return its focus to its
original jurisdiction, which was telephone service. Since the IIJA made the
Affordable Connectivity Program permanent, this voucher program should absorb
other consumer subsidy programs for internet access, while remaining a voucher
that maximizes consumer choice. Congress should also consider eliminating the
Broadband Infrastructure Program from the the 2021 Consolidated Appropriations
Act, which subsidizes middle-mile broadband and is unnecessary alongside IIJA
spending.

c. Though we believe that RDOF and RUS have been more successful than other
programs, there is little reason to continue both of them. At the very least, these
programs ought to be merged, and Congress should further consider rolling them
in with existing programs at the FCC, which has greater expertise in broadband
than USDA. USDA’s rural ReConnect and the Rural Broadband Access programs
should also be folded in, as there is no reason these grants cannot be administered
through one funding source at the FCC. Further, there are myriad telehealth
programs that could be merged either under HHS or merged with the FCC’s Rural
Healthcare Program, putting an actual telecommunications agency in charge.

2. The federal government should avoid competing with the private sector where they can
successfully deliver service. To prevent overbuilding, Congress should rely on the
updated broadband coverage maps that the FCC is in the process of refining. When the
maps are completed, Congress should prohibit any future subsidies to areas that are
served, at least until all unserved areas are addressed. Additionally, coordination between
agencies to prevent duplicative spending has long been deficient. Given that the IIJA also
added funding to RUS and that RDOF has recently completed reverse auctions, Congress
should consider prohibiting duplicative funding from going to projects and areas where
enforceable commitments have been made through these programs. Congress should
further consider requiring better coordination between agencies and require mandatory
audits of past and future expenditures that sent multiple rounds of subsidies to the same
areas.

3. In addition to the above, Congress could enact a prohibition on any subsidies going to a
local market already served by the private sector. Private ISPs do a better job of
delivering reliable broadband service and should not have to compete with taxpayer-

funded efforts that do not need to charge market rates. Furthermore, one provision of the IIJA, Sec. 60201(h)(1), risks encouraging overbuilding by allowing BEAD funds to be used in “underserved areas”, which do have broadband internet but at below-average speeds. Subsection (h)(1) rightly requires states to prioritize unserved areas and only allows BEAD funds to be spent on underserved areas after all unserved Americans are fully connected, but diverting remaining funds to areas with internet access is the definition of overbuilding. Legislation to address this could involve striking the parts of subsection (h)(1) that allow funding to be spent on underserved areas, anchor institutions, or devices. All federal grants should be directed to unserved areas where no one can get high-speed internet, not to Americans who already enjoy broadband service.

4. As Congress recognized in the text of the IIJA, federal rate regulation should be prohibited. As a form of price fixing, the practice prevents the price mechanism from fulfilling its purpose of sending signals through the market that communicate the vast, decentralized knowledge of market participants. Prices must fluctuate organically to prevent shortages, which tends to happen when they are set artificially. Additionally, rate regulation is completely unnecessary in the broadband marketplace because rates have organically fallen by nearly 50% since 2015, and fell nearly 15% in just the last year despite widespread inflation in nearly every other sector.4

Ideally, Congress should not need to take further action to prevent rate regulation through the BEAD program since the NTIA is explicitly prohibited from engaging in rate regulation by Sec. 60201(h)(5)(D) of the IIJA. However, back doors remain. For example, the NTIA does have the authority to approve all state broadband plans, including their plans to ensure a low-cost option. The NTIA also added language to the NOFO requiring a “middle class affordability plan” from each state that was not authorized by the statute. These provisions could have the effect of pressuring states into regulating rates while it remains prohibited on the federal level. Congress should use its oversight and appropriations powers to force the NTIA to follow the law as written and prevent rate regulation. Legislatively, Congress might consider strengthening the existing rule of construction in subsection (h)(5)(D) that prohibits rate regulation by adding a provision to the law that prohibits state-level rate regulation as a condition of receiving a grant.

More broadly, no federal agency has ever been empowered to regulate the rates of broadband service offerings, but other agencies may follow the NTIA’s lead when rulemaking. These abuses of power are only possible when agencies have authority to define “low-cost” and “reasonable” offerings, as they are under the IIJA. Therefore, in addition to prohibiting state-level rate regulation through BEAD reform, Congress could further prohibit all federal agencies from engaging in any behavior that has the effect of artificially setting specific prices for goods or services, and should be more precise in drafting future laws to deprive agencies of the opportunity to cross the line. It is a well-established law of economics that the price mechanism is the only means of mitigating

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the knowledge problem; if vendors cannot set prices freely, a healthy market cannot long endure.

5. Net neutrality is an ill-conceived, outdated, and overbearing approach to internet regulation that should be consigned to the ash heap of History. Whether called “net neutrality” or by another name, it is the classification of internet service as a Title II public utility subject to common carrier obligations similar to older telecommunications services like telephones. In the 2014 case Verizon v. FCC, the DC Court of Appeals ruled as much and invalidated significant portions of the Open Internet Order that established so-called “net neutrality.”\(^5\) The FCC did not have any authority under Title II of the Communications Act to reclassify internet service this way, so the imposition of the Open Internet Order in 2010 was little more than a bureaucratic power-grab that was rightly reversed by the FCC in 2017.

The Open Internet Order was adopted as the result of a disinformation campaign that sought to scare consumers into thinking ISPs would throttle internet speeds without net neutrality, despite the fact that there was no evidence that throttling was occurring. There was also no evidence that anything changed in internet service after the order was partially then fully repealed. While in effect, however, net neutrality could significantly hamper innovation by prohibiting providers from charging market rates for internet service. Technology has passed the idea of net neutrality by, as its restoration would create barriers to new consumer experiences such as personalized local WiFi networks between interconnected devices in one’s home. No federal agency is authorized to condition funding on the imposition of net neutrality on the state level, and Congress should use all available levers of power at its disposal to prevent agency lawlessness in trying to reimpose this antiquated big-government solution in search of a non-existant market problem.

6. The Memoranda of Understanding between various federal agencies to coordinate broadband efforts has been a welcome development, but it should not be necessary because there should not be such a multitude of agencies involved in this space. Congress should encourage and applaud better coordination when it happens, but legislators’ long-term goal should be to streamline the bureaucracy doling out funding and ultimately eliminate most or all of it in favor of state block grants.

7. Congress should increase transparency in all agency decision-making. As stated above in reference to the FOIA exemption, the American people are entitled to the documents and records that they paid for with their taxes and elected officials should have easy access for oversight. In addition to the FOIA exemption, Congress should also correct another anti-transparency provision of the IIJA that exempts the BEAD program from the Administrative Procedures Act (APA). The APA was enacted in response to a growing sense of agency lawlessness and unaccountability, and sought to ensure the public had adequate notice of administrative actions for comment and preparation. There is no

reason the NTIA should be exempt from this basic requirement in the BEAD program, so Congress should repeal Sec. 60102(o)(3) of the IIJA that creates this carve-out.

8. ATR believes that the greatest obstacle to broadband expansion is not a lack of funding (recall that the private sector has spent more than $1.7 trillion building networks) but rather regulatory barriers that increase the expense of projects and delay their completion. While geography and topography remain the key impediments to cost-effective rural broadband expansion, federal land-use permits drive up the baseline cost of all deployment.

Western states in particular have to contend with large swaths of federal land isolating unserved communities, and permits are required to build fiber across much of it. Congress should take up the bipartisan Accelerating Rural Broadband Deployment Act, which leaves excessive environmental reviews in place but requires agencies to act within 60 days of receiving a permit application for broadband deployment before automatic approval is granted. Separately, Congress could address the excessive environmental permitting requirements by imposing a similar automatic “shot clock” for applications and better insulating projects that start building from vexatious litigation that could interrupt construction. These legislative changes would reduce the cost of all deployment but especially fiber, helping to get more Americans than ever connected to high-speed broadband.

9. States also have numerous permitting barriers similar to those discussed in the previous question. The FCC nearly possesses sufficient authority to preempt state and local requirements that impede broadband deployment, and has adopted a number of productive reforms since 2018 to accelerate fiber and 5G deployment nationwide. Reforms have included preempting local moratoria on building, regulations of wireless antennae, and automatically approving equipment upgrades. These were adopted under existing authorities that were added to the Communications Act in 1996. Initial evidence suggests that both wireless 5G and high-speed fiber deployment increased rapidly with these regulatory improvements.6

Congress can nonetheless strengthen some of these powers by codifying reforms made under these existing authorities. For example, the 2018 Small Cell Order removed onerous environmental reviews for small wireless installations but was struck down by the DC Court of Appeals for failing to adequately explain why the relevant considerations did not apply.7 Congress could accelerate the restoration of this sound policy by legislatively granting the FCC the explicit authority to do so. While Congress should consider further empowering the FCC, it must remain judicious, narrow, and

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specific in what authorities it grants and what ends they serve, lest the FCC abuse its
authority as it did with the Open Internet Order.

10. We have already covered how Congress and the Biden Administration should streamline
permitting and remove the cumbersome Buy American and union labor provisions from
the BEAD program, which will help lower the cost of materials and labor. Similar
provisions should not be applied to other federal programs, and Congress could further
consider exempting federally-subsidized broadband expansion from Davis-Bacon
prevailing wage requirements, further ensuring that the taxpayer is not overpaying for the
labor necessary to deploy new connections and that companies can afford to hire workers
at competitive wages. To increase the supply and thus lower the cost of materials,
Congress must also continue to improve our trade relations with other countries and
reduce the tax and regulatory burdens on domestic manufacturing.

Another concrete step Congress can take would be to pass the Broadband Tax Treatment
Act, which was introduced in the 117th Congress and prevents the taxation of broadband
grants. ISPs should be allowed to use their full awarded grant and not have to kick back a
portion to the Treasury, decreasing the amount of money they have available to spend on
deployment. Finally, consistent with ATR’s central mission, we believe that Congress
should repeal the new minimum book profits tax included in the partisan Inflation
Reduction Act (IRA). Short of full repeal, Congress should extend the IRA provision that
allowed licensees to amortize prior license purchases as credit against their book tax
calculation to apply to future spectrum licenses as well.

11. When they are not buried, the fiber optic cables that deliver the majority of broadband
internet service in America are attached to existing telephone polls and follow telephone
lines to homes. There are approximately 185 million utility poles across the American
landscape, and there is an unfortunate incentive for some pole owners to maximize the
costs of pole attachments — be it by blatantly charging excessive, anticompetitive
attachment rates or by forcing attachers to shoulder all future replacement and
maintenance costs. The FCC already has the authority to adjudicate disputes between
owners and attachers and has recently promulgated regulations intended to expedite
deployment. These regulations, however, are incomplete because they do not capture all
pole owners.

Sec. 224(a)(1) of the Communications Act explicitly excludes any government-owned
entity or nonprofit cooperative from the definition of “utility,” meaning these pole
owners are not subject to the same regulations as others. To improve the FCC’s pole
attachment adjudication, Congress could simply remove this exclusion at the end of Sec.
224(a)(1), ensuring a level playing field for all pole owners and attachers nationwide as
the FCC concludes its rulemaking.

12. As you know, cybersecurity is a growing challenge as the world gets increasingly online
and geostrategic competition with the CCP sharpens. The Cybersecurity and

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Infrastructure Security Agency (CISA) has warned that smaller communications entities should assume that they are in the crosshairs of a sophisticated nation-state when it comes to network security. Federal broadband programs have not generally contained minimum requirements for cybersecurity, although the IIJA requires BEAD subgrantees to comply with “prudent” cybersecurity practices and the Digital Equity title promotes consumer education.

In general, Congress could consider attaching some minimum standards for data security as a condition of future grant funding, but, as the IIJA’s verbiage demonstrates, such standards are often nebulous, ill-defined, and swiftly outdated. An alternative approach could be to require subgrantees to adhere to standards set by CISA, but this runs the risk of giving undue power to the executive branch. One proactive step to avoid future data breaches that ATR will suggest is to avoid funding GONs and to give preference to proven private-sector ISPs. The former have a terrible track record on cybersecurity given their lack of resources and experience, while the latter are seasoned veterans of the cyberwar who will lose customers and revenue if they fail to secure networks. When the only game in town is a cash-strapped GON already draining the public coffer, it becomes an inviting weak point for foreign hackers to compromise our entire broadband network. Congress should ensure that funding goes to networks that are sustainable and secure.

13. Congress should not throw more money at broadband until the full $65 billion from IIJA and undetermined amount from ARPA are spent. Instead, the 118th Congress should be an opportunity to conduct robust oversight of the BEAD program and determine best practices for broadband expansion. One additional reform Congress could consider to properly assess the program’s success would be to direct the FCC to collect data from states on their expenditures, rates of connectivity, reliance on GONs vs. private sector ISPs, pole attachment rules, and a variety of other factors discussed in this letter. States are already required to report much of this to the NTIA, so this could be as simple as submitted a carbon copy to the FCC. The information could then be kept in a publicly-accessible database and used to compare state approaches and best practices. The FCC would be the most appropriate agency to collect this data because they are already charged with updating the broadband coverage maps to reflect increased connectivity from the BEAD program and because an agency other the NTIA should be able to review the agency’s work in running the program. This simple reform will improve transparency and lead to better policy in the future.
Americans for Tax Reform appreciates your attention to and leadership on this important issue as well as your efforts to protect taxpayers from wasteful spending. Please do not hesitate to contact us in the future with any additional questions on broadband policy or any federal spending matter.

Onward,

Grover Norquist
President
Americans for Tax Reform