



Comments of Rhonda Goddard, Chief Operating Officer  
Rural Telephone Service

Before the  
House Standing Committee on Energy and Utilities  
January 18, 2012

Thank you for the opportunity to discuss the impact and challenges of the Federal Communication Commission's (FCC) November 18 Order (Order) on Universal Service and Intercarrier Compensation Reform.

I'm Rhonda Goddard, Chief Operating Officer for Rural Telephone Service. Rural Telephone is a cooperative, doing business as Nex-Tech, providing advanced communications services to over 6,500 square miles, in northwest and north central Kansas. (map attached)

While there are many complex parts of the Order, it is clear that the FCC is moving down a reform path that will devastate rural Kansas. I'd like to address two main issues in the FCC's Order impacting remote, rural service areas.

**Issue 1: Disheartening disconnect between the Obama Administration, the Rural Utilities Service (RUS) and the FCC.** The FCC has adopted in the Order a complex regression model to reduce and limit capital and operating expenses for Rural Local Exchange Carriers (RLECs). Preliminary calculations show a negative impact to Kansas in the first year alone of approximately \$15 to \$18 million reduction in Federal Universal Service Funding (FUSF). This number could be even higher pending clarification from the FCC on the many unanswered questions surrounding the Order and Further Notice of Proposed Rulemaking (FNPRM).

**Issue 2: Advancing broadband to unserved and underserved areas of the state and the nation.** The FCC has done nothing in the Order to recognize the robust, advanced networks already deployed by RLECs. Further, the FCC has afforded zero opportunity for RLECs to recover any additional capital and operating expense from upgrading facilities to continue to meet the ever increasing demands for advanced services.

**Issue 1:**  
**- Disheartening Disconnect.** The preliminary calculations of the impact of the FCC's regression model show a loss of approximately \$15 to \$18 million USF in the first year alone for the RLEC areas in the State of Kansas. Rural Telephone's loss is approximately \$4.5 million in year one, a 38% reduction in total USF. This model does not accurately reflect the cost of service for individual companies. It averages together companies with supposed similarities and then rewards those that are "under" and penalizes those that are "over" the FCC's self-derived efficiency level. It doesn't take into consideration the fact that

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some RLECs across the country, for whatever reason, have not upgraded their networks, thus having much lower cost of service. Yet the very focus of the National Broadband Plan and President Obama's Broadband Infrastructure Program (BIP) has been to incent carriers to build out advanced networks to unserved and underserved areas of the nation in accordance with these standards.

- **Zero to Seventy in Five Years.** Five years ago, Rural Telephone acquired ten rural exchanges from Embarq/Sprint Local in north central Kansas. At the time of the acquisition over 99% of the residential and business customers in these exchanges had no access to advanced services. In the three years following this acquisition, Rural Telephone borrowed from RUS and invested over \$55 million in fiber to the premise technology to bring advanced telephone and broadband capabilities to all ten exchanges. As a result of these investments 70% of the customers in these exchanges have adopted broadband service at 3Mbps or higher. Many schools, libraries, hospitals and small businesses have migrated to 10-75 Mbps service to meet their requirements. An example of the need for higher bandwidth is, Brush Art, a full-service advertising agency in Downs, Kansas, in business for sixty years and employing thirty-two. Brush Art subscribed to 75 Mbps service, greatly enhancing efficiency, competitiveness and customer service. Another example, Osborne Industries (article attached), winner of the 2010 Kansas Governor's Exporter of the Year Award, upgraded its service to symmetrical 75 Mbps service to better meet its needs for international business. Courtland, Kansas, is another exchange included in this upgrade. On Sunday, January 8, 2012 the Salina Journal ran an article (article attached) on the success of Courtland attracting young families back to the area in the past five years. A large part of this success is attributed to the availability of advanced communications services. As you can surmise, this advanced communication facility is now providing the infrastructure required for economic stability, high quality education and healthcare.

- **Stimulus Impacting Western Kansas.** Two years ago, Rural Telephone was awarded a loan/grant combination provided by the Recovery Act (BIP) to expand broadband service in an area of western Kansas covering 10 exchanges.

The three engineering firms and five contractors working on the project have created 60 new positions. The residual economic impact is exponential considering purchases from industry suppliers, retailers, and local lodging and restaurants.

With the project approximately 75% complete, we are experiencing a broadband adoption rate in excess of 70%. We plan to complete the three year project in the first quarter 2013.

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- **Paying Back RUS Notes.** Between these two projects in the last five years, Rural Telephone has borrowed over \$80 million to build advanced communications service in western Kansas. The reductions in support contemplated in the Order appear to remove any reasonable

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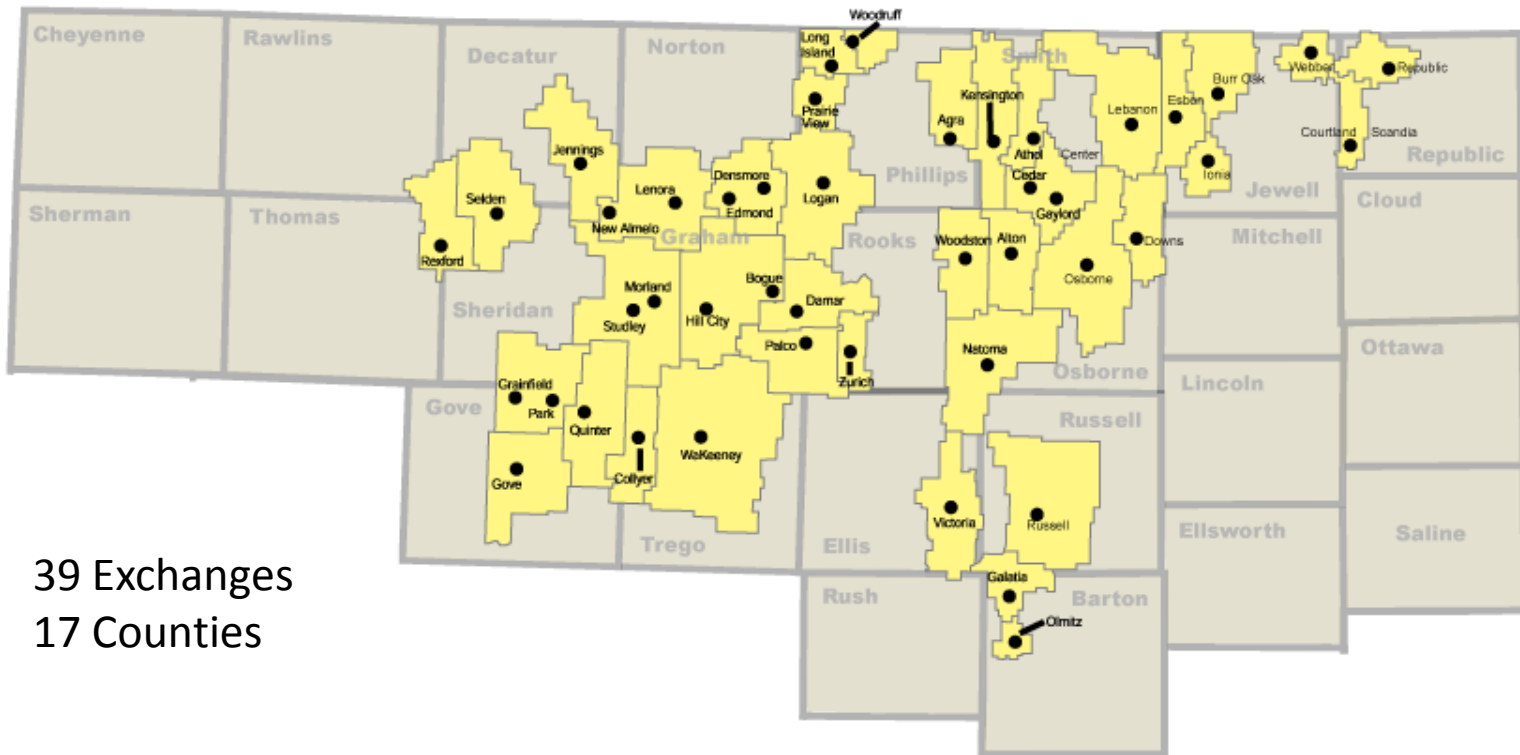
opportunity to recover these investments and operating costs incurred to provide service in accordance with standards established by the RUS. What a horrible “disconnect” for the FCC to now reduce revenue streams so that we may be unable to repay these government backed loans and continue maintaining these facilities. These proposed reductions could mean increased reliance on the Kansas Universal Service Fund (KUSF) to support advanced communications facilities in these rural areas.

#### **Issue 2: Advancing Broadband**

- **Connect America Fund (CAF).** In addition to negative impacts from the cuts in funding required by the Order, there is no CAF – no “broadband upside” for small rural carriers or their customers in the FCC’s rules. We continue to see increased demands for higher speeds of broadband service in our area. In addition to the demand from businesses, hospitals, county governments, schools and libraries, wireless carriers in our area are aggressively planning 4G upgrades that require a robust landline backbone to operate. We have already seen requests for 50 to 100 Mbps to many of the towers in our footprint. If the FCC adopts the reductions in support proposed in the Order, we will not be able to continue to upgrade our network or reach any additional unserved or underserved locations. We have already reduced our capital budget for 2012 by \$6 million, including an upgrade for one entire community. We anticipate 2013 and subsequent years capital budget to be near zero. We have put on hold our plans to upgrade any additional exchanges that remain underserved in our area until the FCC restores some semblance of regulatory certainty. This could also put even more pressure on the KUSF.

-**Summary.** There are many complex and unanswered questions still remaining in the FCC’s Order and FNPRM. One thing is clear, KUSF will be increasingly important as the FCC’s rules become clearer and we move forward with advancing networks in rural areas of our state. Collectively, RLECs are currently pursuing a three prong approach to combat the negative impact of the FCC’s Order. This includes petitioning the FCC for reconsideration, filing court appeals and participating in the FNPRM. We will continue to work with our industry associations to fight for rural Kansas and to keep these rules from stifling the economic growth that advanced communication networks are bringing to our rural areas. We sincerely appreciate this Committee’s interest and the time allowed us today.

# Rural Telephone Service Area



39 Exchanges  
17 Counties





Photos by TOM DORSEY / Salina Journal

Osborne Industries general manager Steve Langley announces the transfer of company ownership to its 120 employees at a ceremony Wednesday.

# New owners

## Employees now run Osborne's biggest company

By TIM UNRUH  
Salina Journal

OSBORNE — Now that he's one of 120 new owners of Osborne Industries, Mark McCra expects more from himself on the job.

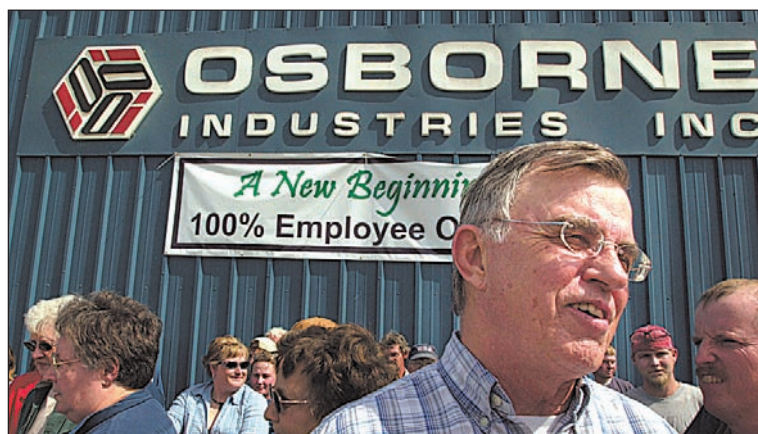


McCra

"I think everybody will be willing to do a little bit extra," said McCra, 19, Downs.

The 34-year-old company's general manager, Steve Langley, announced to employees in a surprise ceremony Wednesday that Osborne Industries was 100 percent employee owned.

"Doesn't that sound good?" he said. "Osborne Industries will stay in the community and continue to provide employment opportunities for a long time." The workers, some with



Osborne Industries President Stan Thibault visits with employees after a company picture at company headquarters.

strands of fiberglass on their hair and uniforms, applauded the news. After the plant was shut down early in the afternoon, they were bused to the Osborne County fairgrounds to the quonset hut where the company began, in 1973, making warming

pads that keep animals, particularly newborns, warm.

"They just loaded us up and brought us, kind of kept us in the dark," said worker Teresa Elson, 23.

Hailed as a "new beginning," the announcement means the

town's biggest employer is going to stay here, chief engineer George Eakin said. The 20-year Osborne Industries worker doubles as Osborne's mayor.

"I see a retirement fund that I can depend on. I'm glad we have this," said Joyce Hartsock, 46, who works in molding production and has been employed at the company for 24 years.



Hartsock

Today, Osborne Industries makes not only warming pads but some 1,500 agricultural products in a 242,000-square-foot plant. It is a leading maker of automated livestock equipment and a custom molder of original plastic parts for several companies. Its products are marketed globally, and



TOM DORSEY / Salina Journal

Osborne Industries workers leave a quonset hut Wednesday where the company started making products in 1973.

# Owners / Transfer ensures company will stay in Osborne

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Osborne Industries maintains warehouses in the United States and England and has a sales office in China.

The transfer of ownership is through an Employee Stock Ownership Plan that was formed in 2000. Osborne Industries transferred 30 percent of the company stock to employees in 2001, and the remaining 70 percent was transferred Monday. It was made public Wednesday.

Salina-based Sunflower Bank, which has a branch in Osborne, loaned money to the ESOP trust, which paid the sellers for their stake in the business. The money to pay off the debt to Sunflower Bank will come from company profits, said Amy Conrad, an account manager at Osborne Industries and a member of the ESOP Communications and Advisory Committee.

A Sunflower representative, senior loan officer Jim VanEmburch, Salina, was on hand Wednesday for the ceremony.

“You are really fortunate to have a piece of the American dream,” VanEmburch said. “Some of our best and most valued customers have started in a place like this, a quonset hut or a garage.”

Stan Thibault, one of the owners of Osborne Industries, said he has wanted the employees to own the company for 19 years and has been working on such a plan for the past nine. The company has attracted interest from other buyers, he said, but a sale to employees was the only one that would ensure the firm would stay in Osborne.

The key to employee ownership is having a healthy company, he said, referring to the debt the ESOP is to repay through profits.

“It’s not really made for sick companies. You’ve got to have it in order. Our company is solid,” Thibault said.

Langley challenged the new owners to accept the challenge to grow sales by 50 percent over the next five years. And he added this goal: “Let’s have fun.”

“Osborne Industries is a small-town America success story. Ownership is a powerful incentive for ordinary people to do extraordinary things,” he said.

After posing for a photograph with his colleagues, Osborne Industries employee Don Riffel, 53, said he was pleased.

“I’m a business owner. That does make me happy,” he said.

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# The good life

DRAWN BY FRIENDS AND SMALL-TOWN LIFE,  
YOUNG PEOPLE ARE RETURNING TO COURTLAND

By [TIM UNRUH](#)  
Salina Journal



From left, Christy and Troy Newman and their son Peter, Jay Russell with Owen age 3, Katie Carlgren and Brandt age 2, Jenny Russell, Tyler Clark, Clayton Mendenhall age 4, Luke Mahin, in stroller in front Max and Elise Lieb and Erica Lieb (pink coat) children of Trevor and Crystal Lieb (not pictured), Thayne Clark, Dave Douglass, Tanner and Kathy Johnson with their children Ella and Stan are pictured on Main street in Courtland on Friday, November 18, 2011.  
(photo by Jeff Cooper/Salina Journal)

COURTLAND -- Diapers and pacifiers are back in vogue at Courtland, where tykes are again frolicking in the parks and roaming safely about.

They're connected to stroller-pushing parents who have moved home over the past five or more years. The trend has stabilized this Republic County's population at 300, or just a skosh more, left only one vacant storefront downtown and clogged housing.

"The good thing is we've got traffic on Main Street," said Bob Mainquist, who co-owns the weekly Courtland Journal newspaper with his wife, Colleen.

"It's a wonderful thing to see these young people back here in town. It's a lifeblood," said Mike Johnson, owner and president of Swedish American State Bank.

The influx has squelched previous notions that Pike Valley School District was in jeopardy, said Chris Vignery, high school principal and superintendent of schools.

The kindergarten-through-eighth-grade school is in Courtland and the high school is in Scandia.

The school, which averages 18 in each class, projects next year's kindergarten to have 13 pupils, falling to 11 in 2013, he said. But by 2014, the expectation is a kindergarten with 16 students, thanks in part to growing families.

"Five years ago, some people thought we needed to look toward consolidation because of declining enrollment," Vignery said. "I don't think that's a consideration anymore."

Some returnees admit to an intense desire to leave for big cities and explore the world when they left high school, which is a common attitude for youngsters.

But some minds have changed, especially as the young adults age when their broods grow and opportunities surface closer to home.

### **More plan to come home**

More than 20 people who have completed college degrees within five years of the class of 2005 have moved back, said Luke Mahin, 24, and more are planning to relocate home.

"You did have thoughts as a teenager that you couldn't wait until you could leave," said Troy Newman, 38, a co-owner of Ag Marketing Partners in Courtland.

"We probably thought that until we left for a week. It sounds a lot cooler to go places than it actually is," he said.

Troy and his wife, Christy, have a 2-year-old son, Peter. On Tuesday morning, Peter gained a little brother, Reed.

Troy Newman relocated his portion of the business in 2008 from Holdrege, Neb., to his hometown. His other two partners operate out of Westcliffe, Colo.

The strong farm economy and Internet service made the move possible, Newman said. "When I graduated (Pike Valley) in 1991, we had just gone through the '80s. It was kind of doom and gloom," he said. "People have hope now and it definitely has helped our business."

Seven homes a block east of downtown Courtland are occupied by at least five young families. They're mixing in black, brunette and blonde with the gray hair that abounds in so many small Kansas towns.

### **Courtland relocation**

Many of the relatively young residents -- from their 20s to early 40s -- fostered friendships in high school that contributed to pulling them back home after leaving and achieving some level of higher education.

They have returned to raise their offspring in the safe confines of a tiny hometown.

"We call it the Courtland Relocation Project," said Jennifer Russell, 31, a Glen Elder native who is among some eight spouses of Courtland natives who agreed to move back to their other half's childhood home. Her husband, Jay, 39, was a kid in Courtland and now works for Newman. They share an office building with Jennifer, owner of JenRus Freelance, an Internet marketing service, and Nex-Tech, which is the cable, telephone and Internet service provider.



### **Find an agreeable woman**

"Our theory is (single Courtland men) find women who are agreeable, translate well to a rural area, and are amicable to moving back," Jennifer said.

The Russells have a 3-year-old son, Owen.

The movement has been "wonderful" for Courtland, Mayor Tim Garman said, and a wise move by the young families.

"You always hear that you would like to raise your kids up in more of our kind of community," he said. "It's theoretically safer."

The owner of Garman & Sons TV and Appliances, Tim is the "Sons" in the title. He got his start working for his father, Chad. After graduating from Courtland High School in 1973, Tim Garman started his full-time career at home.

"I knew I was coming right here to work," he said.

Among the forces at play is a welcoming attitude from the longtime residents.

"When they find out people are wanting to move back, they do all they can, whether through moral support or any other way," Mahin said.

Among the names mentioned in Courtland is John Blackburn, a farmer-stockman. With the exception of two years in the U.S. Army, Blackburn, 82, has spent all of his life within two miles of Courtland.

"We've had a good life in Courtland, seen it grow, and other little towns go by the wayside," he said.



Jay Russell and his son Owen, age 3, at his office in Courtland. (photo by Jeff Cooper/Salina Journal)

### **Older residents' support**

The group of students that Newman and Russell were attached to were a close-knit bunch, Blackburn said. "We encouraged them to go to college."

But when those youngsters wanted to come home, they were welcomed.

Older folks in Courtland "support our businesses," Troy Newman said.

Another key is busting the myth that coming home translates as failure.

Mahin, Jennifer Russell and others are part of the PowerUps movement at the Kansas Sampler Foundation, a group of rural young people focused on promoting small-town living and flourishing at it.

"We find that people hesitate about moving back because they think they'll be seen as a loser," said Marci Penner, of Inman, the founder and director of the Kansas Sampler Foundation and PowerUps.

Towns such as Courtland have gained momentum with their youths returning because some had the courage to take the chance first.

"When they see others moving back, it erases that stigma," Penner said. "At some point, the memory kicks in about why you loved growing up in a small town."

The true myth, she said, "is that all young people leave rural Kansas and don't ever want to come back."

### **Jobs are to be had**

There are jobs to be had, Blackburn said, such as Premium Feeders, a cattle feedlot near Courtland and an ethanol plant in Scandia, which is six miles east. Mahin's brother, Ethan, 21, is working at the windfarm near Concordia.

"I hired a lot of those kids in the summertime to help haul (hay) bales," Blackburn said. "Courtland is kind of in the heart of an irrigation district. It take a darn sight more people to farm irrigated ground than dryland."

Others mimicked Courtland Mayor Garman and joined a family business. Blackburn mentioned Brock Hanel, 26, a veterinarian who has joined his father Lannie's practice. Brock's wife, Angie, is a registered nurse working in Belleville. The couple's goal, Lannie Hanel said, was to move back to this rural area where they could work and start a family. They're expecting a child in July, Lannie said.

"We have got a lot of young kids (Brock's) age moving back, and it's tremendous, a boost to the community," Lannie Hanel said. "They're aggressive kids who want to get things started."

The Russells were living in Downs in 2010 when they migrated back to Courtland. Jennifer was working for Brush Art, an advertising agency, and Jay was working for a bank in Downs.

"My thought was 'What will I do if I come back?' We had good jobs where we lived," Jennifer Russell said.

### **Start your own business**

The solution was starting her own business, JenRus Freelance, an Internet marketing firm she started in 2009 that specializes in social media and search engine optimization.

She hired an assistant, Mahin, 24, starting part-time in June 2010. The 2005 Pike Valley graduate completed a bachelor's degree in communication studies in 2010 from Fort Hays State University.

He worked as a substitute teacher and for C&W Farm Supply -- the New Holland dealer in Courtland -- before his employment at JenRus was upgraded to full-time in August.

"You have to be creative enough to find other ways to get along until you get what you need," Mahin said.

Both the entrepreneur and the employee are convinced that opportunity exists in Courtland, but it doesn't come with an information packet.

"You can't just go to Monster.com (employment website)," Jennifer Russell said.

A strong farm economy contributed mightily to Newman coming back and hiring Jay Russell.

But there was some risk in returning, Newman said. It requires a bold approach.

"A lot of people said for years that 'you can't do this.' If you believe that, you don't try," Newman said.

There are benefits to being where you're truly wanted, and where setting up shop is less expensive.

"We couldn't afford this office in Salina," he said.

### **Quality of life issue**

Tanner Johnson, 35, the information technology and marketing officer at Swedish American State Bank, returned to Courtland in October with his wife, Kathy, 36, a registered nurse at Republic County Hospital in Belleville and their two children, Ella and Sam. They were living in Norman, Okla.

Tanner doubles as the CEO of aPeel, an interactive marketing agency that develops websites and web applications.

"A lot of it was the quality of life for our kids. It's one thing I really enjoyed growing up in this area, not something I'd trade," Tanner Johnson said.

### **A lack of good houses**

Housing is the current bane in Courtland, Mayor Garman said.

"Affordable housing seems to be the biggest problem we have," he said. "People want to move here, but we don't have any place for them to live."

Some houses had deteriorated to the point that they were torn down, Garman said, and financing new construction has been difficult.

The city would follow the lead of other towns -- Ellsworth, Marquette and Minneapolis -- and give away housing lots "if we owned them," he said. "The city tries not to own lots."

The younger demographic has swallowed up available homes.

"It's a good problem to have," said bank owner and president Mike Johnson, Tanner's dad.

Mahin, for example, is preparing to move into his third rental since 2010. He first roomed with a cousin, then a friend. Next, he may rent space with his brother.

"I would like to build a house, but I just don't have the capital yet," Mahin said.

Lots are available and they're reasonably priced at about \$1,000 each.

"It's not like going to the city and paying \$100,000 for a lot, and then putting a house on it," Mike Johnson said. "We've financed a lot of homes for these young people, and the Nex-Tech building that went up."

### **Have to have technology**

The young adults all agree that technology was essential to their return.

"The thing that made it possible was connectivity," Tanner Johnson said. The service available in Courtland is faster than what was offered in Norman, he said.

Mike Johnson calls it "tele-commuting," and it's helping in Courtland.

"I know a lot of people work at home. They're starting to realize they can work anywhere," he said.

With technology in place, rural towns can compete, Tanner Johnson said.

"These little towns can be the boom towns of the next 50 years with the way agriculture prices are and the changes the Internet's made to the job market," he said. "The landscape is

changing. You can work for AT&T and live in Courtland, Kansas. Five or 10 years ago, that just wasn't possible."

Mahin is confident he could make it somewhere else, but he enjoys a sense of freedom in Courtland.

"I don't feel like I'm a slave to my job. I have a lot more ownership in the community," he said.

### **Finding a mate**

As someone who would like to someday marry and start a family, Mahin admits that one negative is a relatively small pool of eligible bachelorettes.

But as more young people move back, he said, "There are a lot more options now than there used to be."

Mahin's advice to others pondering a return is for the system to include coming home as an option.

"We educate on the opportunities outside of a community," he said. "We need to start asking more often for our youths to come back."

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Read the full article at <http://www.salina.com/Courtland-s-getting-younger-1312>