Creative Financing For Fiber Networks

Municipalities that want to bring fiber networks to their residents must be willing to think outside the box.

By Doug Dawson / *CCG Consulting*

Traditional financing is not always the solution for financing a new fiber network. For example, many rural communities don't have the borrowing capacity to fund a fiber network strictly from bonds, and banks are still extremely cautious about lending to infrastructure projects or floating loans more than 12 years in length. Recently, I have seen several creative ideas in the market that are worth highlighting. These concepts could be used to fund municipal fiber projects or public-private partnerships.

TAX INCREMENT FINANCING

Wabash County, Ind., wants to use tax increment financing (TIF) as a way to finance a new fiber network. TIF works by borrowing today against future increases in property taxes. TIF has been used for decades to finance infrastructure projects, but I don't think I have ever seen it used to build fiber. This is very different from the normal way of financing municipal fiber projects, which involves issuing bonds that pledge customer revenues and the value of the network as collateral.

In this case, the county expects that the project will be able to pay its annual debt service and that property taxes will have to be increased only if the fiber network is unable to cover the whole cost of debt. Property taxes become the collateral for the project and assure a lender that it will be repaid for lending to the project.

Other counties and municipalities in the state are looking at TIF. Interestingly, the Indiana Association of Cities and Towns recently helped defeat proposed legislation, supported by incumbents, that would have stopped municipalities from using TIF for fiber projects. It is not unusual to see incumbents try to stop or ban any new financing ideas for municipal networks.

UTILITY FEES

Anybody who watches the industry understands the troubles that have plagued UTOPIA, a municipal network in Utah. The company has been refinanced several times and has never raised sufficient capital to build to enough homes in the area to become solvent.

UTOPIA cities are working with Macquarie Capital, an Australian company, on a financing plan that would finance the construction of the rest of the network by means of a monthly utility fee billed to each home within the network footprint for 30 years. This is similar to what was done in Provo. That city sold its fiber network to Google for a dollar, and customers are billed a monthly fee of about $6. For that small fee, customers can get 5 Mbps download Internet, or they can elect to pay more for Google's gigabit speeds.

This plan differs from the Wabash plan in that customers begin paying the utility fee at the beginning of the project and will pay it for 30 years. Rather than serving as collateral for a loan, the utility fees help finance the project directly.

ECONOMIC DEVELOPMENT BONDS / LOCAL BANK CONSORTIUM

RS Fiber Cooperative, a new cooperative in Sibley and Renville counties, Minn., is combining two different ideas to seek financing. First, it aims to finance a portion of the project with an economic development bond guaranteed by a number of municipal entities within a fairly large rural service area. These bonds, which would cover less than one-fourth the project cost, would act as seed equity in the project.

The remainder of the project will be financed through loans from a consortium of banks. The idea of bank consortiums is not new; it has been used to finance other infrastructure projects. Generally, a local bank solicits additional banks to carry part of the loans. Local banks often have significant cash to lend and a shortage of quality borrowers. Local banks are also constrained by the amount they are willing to lend to any one borrower. By combining the lending power of many banks, no one bank lends too much, and each gets to participate in a high-quality loan.

This project is a great example of a public-private partnership. It will be operated as a commercial entity – a cooperative – and will draw on both municipal and commercial funding.

All three of these ideas step outside normal financing channels. In today's world, this kind of creativity is needed to get needed infrastructure built. ❖

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