

Cost Reduction Financing For FTTH Networks

Communities can finance fiber-to-the-home networks by applying the cost reductions that the networks make possible.

By Rollie Cole / *Sagamore Institute for Policy Research*

Most readers of this magazine know about tax increment financing, in which a taxing entity, such as a city, county, state or special district, makes a loan or issues bonds to pay for all or part of a project. The taxing entity promises to repay the debt with a fraction of the increased tax revenues expected from the results of the project. The tax revenues usually come from property taxes, which rise because the properties around or served by the project go up in value. As data shows a positive impact of FTTH networks on real estate values, several communities in the last few years have used tax increment financing for FTTH networks.

Tax increment financing may also involve sales taxes and other transaction-based sources when a project is forecast to increase the volume and value of transactions. Work by Strategic Networks Group suggests that an increase in transactions may flow from an FTTH network.

As such transactions are not limited to private buyers and sellers, the revenue pledged to finance a network will not necessarily come from a sales tax. Increased transactions may also include fee-based government services that a network makes faster, better and cheaper. Examples might include building permits, fishing and hunting licenses and admissions to government recreation or parking facilities.



Learn more about new methods for financing fiber at the **BROADBAND COMMUNITIES SUMMIT**, May 1–4, 2017, in Dallas.

Cost reduction financing is similar in concept: A government entity that uses an FTTH network to reduce costs promises to repay debt from a fraction of those savings. The most obvious savings, often cited as arguments for building FTTH networks, are direct reductions in spending for voice, video and data services.

ACCOUNTING FOR COST REDUCTIONS

In addition to reducing telecom spending, an FTTH network can make many other governmental activities faster, better and cheaper. Citizens often pay to achieve faster service; think of all the rush fees for expediting government processes. “Better” is often a harder sell, in part because the economic value of better service often shows up later or in another context. Better schools, for instance, might result years or decades later in lower unemployment, less

crime and better health. However, being able to get to a fire or crime scene faster (because there are more sensors throughout an area) and with more information may yield immediate economic benefit or loss avoidance.

“Cheaper” is the easiest sell. An FTTH network may allow government agencies to move service delivery from “in line” to “online,” saving time, money and trouble for the agencies and their clients. For example, when Illinois migrated from a paper-based system of establishing welfare availability to a digital system, the cost of creating, distributing, receiving and analyzing the required forms dropped by a significant amount. A fraction of that cost reduction could have been made available to repay network construction debt and other costs of converting to a digital system, such as computers and software.

Telemedicine offers opportunities

With a fiber network, government can deliver services faster, better or cheaper – and sometimes all three.

for all three: Service delivery is faster because medical records and images can be transmitted electronically, better because the time of rare specialists can be leveraged across more patients, and cheaper because patients and health workers can spend less time moving to each other.

New and better systems aren't always cheaper. Governments often use networks to improve quality or quantity of services rather than cut costs to deliver existing services. In that case, they fail to see any cost reductions and free up no cash for loan repayment.

Still, cost reduction financing can be helpful even if a borrower never adopts a formal scheme. Trying to account for costs focuses a potential borrower on what it and the citizens it serves will do with the network and how they will benefit. Those benefits become reasons for the entity and its citizens to finance the network, whether based on calculated cost reductions or not. ❖

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