Preparing for Public-Private Partnerships

Financiers are showing interest in public-private partnerships. But though flirting with communities is easy, hammering out prenuptial agreements remains challenging.

By Steven S. Ross / *Broadband Communities*

For a decade, we at **Broadband Communities** have advocated public-private partnerships. Modern, flexible, future-proof network technology, especially fiber to the home, makes these partnerships easy to implement, especially when a community wants to preserve fiber for municipal services such as meter reading or traffic light control or when several communities and private entities want to team up to start or grow a network. Software-defined networks (SDN) make partnership even more attractive. And there's a fair amount of experience with partnerships in Europe – half of all builds and about a third of all homes passed are through such partnerships.

Partnerships help communities get around the financial roadblocks they face when they look for broadband as an increasingly necessary component of their economic development plans. Today, private financing is more available than at any time since 2008. Indeed, it is more available to network builders than ever before. Interest rates have fallen from a typical 10 percent down to 5 or 6 percent – or lower for borrowers that have assets they can mortgage.

REASSURING INVESTORS

Nevertheless, there have been a few widely publicized failures in community broadband, and even under the most favorable circumstances, positive cash flow for a communitywide network is still three years from start of construction. This understandably makes investors wary.

Federal politicians can scream "no new taxes" and let the nation's infrastructure fall apart; state politicians face competition from other states and from health care and education needs. The buck (or lack of bucks) stops at the local level, where communities are left to face urgent problems with empty bank accounts.

In addition, communities have little room for error in their network planning. They typically seek to do little better than break even with new networks. Their "profit" is mainly (or entirely) in soft dollars and in future dollars from arresting the loss of population and jobs and from boosting local property values. These are worthy goals, but soft dollars do not repay investors who have bought municipal bonds or loaned money to small telephone and cable operators. Investors in community networks also worry about management risk. There are plenty of technically adept people to fill staff jobs but not many available skilled leaders and marketers.

Private companies – typically Tier-3 local exchange carriers and competitive overbuilders (in regulatory-speak, ILECs and CLECs) – have their own problems. They worry about eroding or stagnant customer bases as their communities lose population. They worry about local governments – especially utility districts – overbuilding them. They worry about pay-TV subscribers cutting the cord and about Universal Service Fund support being cut off. They worry about the costs of interconnects.

Somewhat surprisingly, investors in small telcos say they are not particularly worried about the regulation of data services under Title II of the Telecommunications Act. After all, most ILECs are already Title II carriers. They welcome other network providers' sharing the pain. Investors in large telcos and cable companies, on the other hand, are very worried about Title II.

Many of these worries – on both sides – go away when a small LEC or giant national carrier partners with a local or state-level public entity because partners are unlikely to ambush one another. However, other problems appear in their stead. Hence the need for a carefully drawn prenuptial agreement. In some states, a successful public power utility is not allowed to use its profits or its assets to start or enhance a broadband operation. Equity investors, as well as lenders who seek an exit strategy if something goes wrong, want some mechanism for selling the assets, if necessary. That can remove those assets from any direct public control.

States that have banned municipal broadband may consider a public-private partnership as just that, or they may decide that private operators, having partnered with public entities, no longer want or need municipal broadband restrictions.

These issues will be explored in more detail at our economic development conference in Lexington September 15–18 and in **Broadband Communities** in the following months. We'll also show how our free investor and cash-flow models can enhance business plans in ways investors want to see. ❖

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