Needed: Easier, Accurate Checks on Deployer Subsidies

At least 28 states now offer some form of subsidy for broadband deployers serving rural or disadvantaged areas. But high costs of validating business plans often make the funds hard to get.

By Steven S. Ross / *Broadband Communities*

Imagine you work for a small rural carrier. You see an opportunity to bring great broadband to a community you already serve with outdated equipment. From a business point of view, you seem to be in luck. If only 20 percent of the cost could be subsidized, your business plan would be feasible. More than half of all states provide funds or tax breaks to do just that. So does the federal government. In fact, in many cases a state subsidy can unlock federal funds and pay for much of the project.

But the system breaks down when the folks handing out the grants or loans or operating subsidies demand detailed accounting and detailed pricing on the projected cost of the build. Oddly enough, those folks with the money tend to want more details for a loan than for a grant. That's the way government works. A bad grant blows up once. A bad loan can linger for years.

Let's say your small rural carrier is looking for a subsidized $10 million loan at 2 percent (the going rate for the Broadband ReConnect Program at the federal Rural Utilities Service), for 20 years. If the unsubsidized commercial interest rate is 5 percent, the difference in annual payments (principal and interest) is about $200,000 (that is, $600,000 versus $800,000). In that case, it is usually worth it for the carrier to spend the going rate – $60,000 to $100,000 up front – to get the business plan certified by a qualified third party. That's on top of the money and management time needed to write the proposal in the first place.

But, to go back to the starting example, if the carrier or willing business partner already has some money in the bank that's ready to use or if the carrier has a deal with the businesses and communities it plans to serve with improved broadband, the missing piece for a state loan or grant might be only $2 million and the annual savings on payments closer to $40,000 if the state agrees to fund. That's real money, but the cost of getting the deal could be five years' worth of savings!

Accountants and corporate financial officers know that when the cost of counting the beans gets too close to the cost of the beans themselves, the exercise is silly. But politically, the cost of awkward publicity from a loan gone bad may be far too high. When it comes to broadband, however, there are inexpensive alternatives that are not quite exact on paper, but still may provide an acceptable picture of risk. Indeed, the future is always somewhat murky, so why not settle for less expensive ways to estimate the risk – to count the beans?

Some states offer tax breaks. Some offer low-interest loans, or loans where there are no alternative lenders. Some offer direct operating subsidies or access to tax-favored financing. Some take vendor financing into account; most don't. Some coordinate with federal funding. Some are lenders or granters of last resort. No one method will work for all states. But here is a summary:

- Use our free financial models at FTTHAnalyzer.com. These can be run by midlevel personnel at state agencies. Their major task would be to verify costs, construction schedules, and projected take rates and revenues by looking at existing similar projects. The models are well documented, and we offer remote help free and on-site help at low cost.
- Enlist local management talent at businesses that would benefit being served by better broadband, at business

STATES SUBSIDIZING BROADBAND

Alabama	Iowa	North Carolina
Arkansas	Maine	Oregon
California	Massachusetts	Tennessee
Colorado	Michigan	Utah
Georgia	Minnesota	Vermont
Hawaii	Missouri	Virginia
Indiana	Nebraska	West Virginia
Illinois	New Hampshire	Wisconsin
Indiana	New Mexico	
Idaho	New York	

colleges, and among retirees. But of course, watch out for conflict of interest. More than 300 community colleges offer courses in fiber deployment technology alone.

- Concentrate on key leverage points. Often, in rural areas, the key issue is construction cost. Expect take rates to be high and marketing costs low because competition is all but nonexistent.
- Use historical construction data. Most states regulate telecom (Title II) providers anyway. With 80 percent of the cost in poles and pole attachments, the rest can be subject to large errors that will have only a small impact on final costs.
- Lean on vendors. They will have a bias toward lowballing costs, but they offer data that can then be checked or backstopped with a promise of partial vendor financing if something bad turns up. Vendors include suppliers of electronics, fiber and construction services.
- Many states offer access to capital as well as annual operating or tax subsidies. Require one study, not two!
- Coordinate hiring and certification of outside consultants to handle multiple project reviews at once.

Above all, be flexible and be open about money changing hands. Taxpayers have a right to know. ❖

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