Broadband Communities Magazine
Webinar
FCC’s Auction 903-Connect Fund America Phase II
February 14, 2018
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Topics

- Introduction
- Qualifying to Bid/Short-Form Application
- Bidding Procedures-Part A
- Information Provided to Bidders During Auction
- Bidding Procedures-Part B
- Long-Form Application
- Winning Bidders: Service Provider Obligations
Key Dates for Auction 903

- March 19--March 30, 2018 @ 6:00 PM Eastern — Short-Form Application Filing Window
- July 24, 2018 — Auction Begins

Schedule for FCC Tutorials & Mock Auction

- By March 13, 2018 — Auction Application Tutorial
- By June 28, 2018 — Auction Bidding Tutorial
- Week of July 16, 2018 — Mock Auction Begins

Key Documents

- February 1, 2018 Public Notice on rules and requirements for Auction 903
- February 1, 2018 Technical Guide on Auction 903 bidding process
Introduction

- **Budget**
  - $215M-$17M (NY State) = $198M/year x 10
  - < 5.0% of USF High Cost Program Budget ($4.5B+/year)

- **FCC’s Eligible Areas Public Notice** (12.19.2017)
  - Online map and Excel spreadsheets

- **Census blocks & Census block groups (CBGs)**
  - CBGs = Minimum Bidding Areas

- **If there was one thing the FCC could change . . . .**
  - Determine eligible census blocks based on the number of unserved locations
Reserve Price Calculation

- FCC identified residential (single family and MDU) and small business locations in unserved census blocks and calculated reserve price per location
- Average cost of all locations in a census block
  - Low cost locations < $52.50/mo. (“Funding Threshold”)
  - High cost locations > $52.50/mo. and <$198.60
  - Extremely high cost locations >$198.60/mo. (capped at $146.10/mo. ($198.60-$52.50))
- Reserve price per unserved census block
  - Average cost of all locations above $52.50/mo. x # of locations x 12 months
## Performance Tiers

<table>
<thead>
<tr>
<th>Performance Tier</th>
<th>Speed</th>
<th>Usage Allowance</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>10/1 Mbps</td>
<td>150 Gigabytes</td>
<td>65</td>
</tr>
<tr>
<td>Baseline</td>
<td>25/3 Mbps</td>
<td>150 Gigabytes or U.S. median, whichever is higher</td>
<td>45</td>
</tr>
<tr>
<td>Above Baseline</td>
<td>100/20 Mbps</td>
<td>2 Terabytes</td>
<td>15</td>
</tr>
<tr>
<td>Gigabit</td>
<td>1 Gbps /500 Mbps</td>
<td>2 Terabytes</td>
<td>0</td>
</tr>
</tbody>
</table>

## Latency

<table>
<thead>
<tr>
<th>Latency</th>
<th>Thresholds</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>≤ 100 ms</td>
<td>0</td>
</tr>
<tr>
<td>High</td>
<td>≤ 750 ms and MOS of 4</td>
<td>25</td>
</tr>
</tbody>
</table>
Due Diligence – In a Nutshell

- Locations in unserved census blocks
- Reserve price for target census block groups
- T + L weights of proposed network
- Network plan
- Buildout costs
- Adequate funding to buildout network in 6 years
  - Loans or available cash, 70% subscription rate at reasonably comparable rates, and auction proceeds
  - FCC assumes cash flow (auction payments and subscriptions for voice and broadband service) must be supplemented with loans or available cash
Qualifying to Bid/Short-Form Application
Application Process

- **Two-Stage Application Process**
  - Pre-auction “short-form” application
  - Post-auction “long-form” application
  - Typical for FCC auctions

- **Short-form**
  - Initial information to establish bidder eligibility

- **Long-form**
  - Used for more extensive review of qualifications to receive support
Eligibility

Two Paths to Establish Qualify to Bid

1. Demonstrate entity provided broadband & voice services and/or engaged in electric distribution or transmission services for at least 2 years, or

2. Submit three years audited financials and letter from bank stating it would provide letter of credit for X bid amount.
Demonstrate technical and financial qualifications

### Technical
- Voice/broadband providers must certify they have filed FCC Form 477 for prior two years
  - 6/30/2016; 12/31/2016; and 6/30/2017 Forms 477
- Electric utilities must make similar showing, submitting
  - RUS Form 7, RUS Form 12, CFC Form 7, CFC Form 12, CoBank Form 7, or functional equivalent

### Financial
- If audited, submit audited financials for 2016 (or 2017 if available)
- If not audited, may certify it will submit audited financials within 180 days of winning bidder Public Notice and submit unaudited statement instead
  - $50,000 baseline forfeiture for failure to submit audited financials
Eligibility – Non-Service Providers

- Submit three years (i.e., 2014, 2015, and 2016) audited financials and commitment letter from qualified bank stating it will provide letter of credit for X bid amount.
  - Bank letter must have acceptable terms
  - Use FCC model letter of credit
Short-Form Application

- Initial Filing Window
  - March 19-March 30, 2018 @ 6:00 PM Eastern
- FCC will review applications and issue Public Notice listing complete applications and incomplete applications
- Incomplete applications will be given brief window to correct correctable defects
- After final FCC review, staff will issue Qualified Bidder Public Notice
  - Qualified Bidder designation does not authorize company to receive support
Short-Form Application

- **State(s) in which an applicant intends to bid**
  - Applicant will be able to place bids for eligible areas only in the states identified in its application
  - Do not need to select specific census block groups in short-form
  - Prohibits separate applicants that are commonly-controlled or parties to a joint bidding arrangement from bidding in any of the same states
Short-Form Application

- **Technical information** (e.g., operational info, spectrum access)
  - Description of services offered
  - Performance tier and latency combinations based on information submitted, in addition to leveraging existing FCC data
  - Description of network architecture
  - Responses to seven items regarding technology, last-mile industry standards, buildout, maintenance, etc.
  - Identify spectrum bands and bandwidth, licenses, satellite authorizations, if applicable
- FCC will review on state-by-state basis
Short-Form Application

- **Financial information** (audited or unaudited)
  - To determine each applicant’s eligibility to bid based on certain financial metrics (in addition to audited financials)

- Form asks one question and evaluates four financial metrics
  - One point potentially awarded for each item – Maximum of five points
  - Applicants receiving at least three points will be deemed financially qualified
  - Applicants receiving less than three points will be subject to more in-depth review of their finances to determine eligibility

<table>
<thead>
<tr>
<th>Financial Metric</th>
<th>Response or Threshold</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the applicant has audited financial statements, did it receive an unmodified (non-qualified) opinion?</td>
<td>Yes</td>
<td>+1</td>
</tr>
<tr>
<td>Operating margin</td>
<td>&gt; 0</td>
<td>+1</td>
</tr>
<tr>
<td>Times Interest Earned Ratio (TIER)</td>
<td>≥ 1.25</td>
<td>+1</td>
</tr>
<tr>
<td>Current Ratio (Ratio current assets/current liabilities)</td>
<td>≥ 2</td>
<td>+1</td>
</tr>
<tr>
<td>Equity Ratio (Total equity/total capital (total equity plus total liabilities))</td>
<td>≥ 0.4</td>
<td>+1</td>
</tr>
</tbody>
</table>
Short-Form Application

- Note that in Long-Form additional certifications will be required!
  - (1) certify will have available funds for all project costs that exceed the amount of Phase II support for the first two years,
  - (2) submit a description of how the required construction will be funded, and
  - (3) obtain a letter of credit
Short-Form Application

- Universal Service Certification
- Due Diligence Certification

The applicant acknowledges that it has sole responsibility for investigating and evaluating all technical and marketplace factors that may have a bearing on the level of Connect America Fund Phase II support it submits as a bid, and that, if the applicant wins support, it will be able to build and operate facilities in accordance with the Connect America Fund obligations and the Commission’s rules generally.

- ETC Certification
  - Must identify whether designated as ETC in areas they intend to bid
    - If not, must obtain ETC w/in 180 days of Public Notice announcing winning bid for areas in winning bid
FCC will not disclose:

- State(s) selected by applicant or for which applicant eligible to bid.
- Performance/latency tiers selected or for which applicant is eligible to bid.
- Financial information for which applicant has requested confidentiality.
- Applicant’s technical information
Anti-Collusion Rules

- Rule section 1.21002 prohibits applicants from collaborating or communicating, in any way, with any other applicant regarding any applicant’s bids or bidding strategies, unless the applicants are members of a joint bidding agreement disclosed on their applications.
  - Applies to applicants starting at application deadline whether they qualify or bid
  - “Applicant” includes entity applying, any party with control of the entity, any party controlled by the applicant entity or controlled by a party controlling the applicant entity
  - “Bids or bidding strategies”
  - Take care with communications to third parties that may be conduits
- Form will collect Ownership Information
Bidding Procedures-Part A
Bidding Procedures-Part A

- **Multifaceted**
  - Weights for different performance tiers and latency options
  - Bidding per declining percentages not in dollars
  - Implied Support
  - “Clearing the Budget”
  - Package Bidding

- **Three Phases**
  - Before the Clearing Round
  - The Clearing Round
  - After the Clearing Round

- **Two Competitions**
  - Cross-area competition
  - Intra-area competition
Price Point (PP)
Set by bidder, but must be less than previous round’s base clock percentage and equal to or above the current round’s base clock percentage up to two decimal places (Ex. 81.25)

Aggregate cost at base clock percentage
The sum of the support amounts implied by all bids submitted in the round at the base clock percentage is calculated by the bidding system after each round
- Ex. If an area has two bids at the base clock percentage, the implied support $$ of the lowest performance tier and latency combination (such as gigabit and low latency) at the base clock percentage is the implied support amount for the area. These implied support amounts are then summed to determine if the budget clears
- Ex. If only 1 bid is made at the base clock percentage in the area such as Minimum Tier/High Latency, that implied support amount is summed with implied support amounts of other areas to calculate the aggregate cost at the base clock percentage for the round

Clearing Round
Round in which “aggregate cost at base clock percentage” for all bids < or = the Budget, taking into account the “second price rule”
Bidding Procedures-Part A

Basic Equation for Auction 903 (per area)

Reserve Price \((PP - T + L) = \text{Implied Support (\$\$)} \frac{100}{100}\)

Bidding Per Round

- Round 1. Opening Base Clock Percentage & Initial Base Clock Percentage
- Round 2 et. al. Previous Base Clock Percentage & Current Base Clock Percentage
- Decrement: Extent the Base Clock Percentage declines per round
  - FCC sets initial decrement and may change between rounds
- Bids may be entered at or above the Base Clock Percentage and below the Previous Base Clock Percentage -- (a bid’s Price Point (PP))
- Winning bids (bid assignments) are based on percentages
### Opening Base Clock Percentage 190% / Initial Base Clock Percentage 180%
Area Reserve Price $45,000

<table>
<thead>
<tr>
<th>Round No</th>
<th>Minimum Tier</th>
<th>High Latency</th>
<th>Implied Support</th>
<th>Gigabit Tier</th>
<th>Low Latency</th>
<th>Implied Support</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>65</td>
<td>25</td>
<td>PP – (T+L)</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>(180-90)</td>
<td>90</td>
<td>$40,500</td>
<td>(180-0)</td>
<td>$180</td>
<td>Above Reserve</td>
</tr>
<tr>
<td>2.</td>
<td>(170-90)</td>
<td>80</td>
<td>$36,000</td>
<td>(170-0)</td>
<td>$170</td>
<td>Above Reserve</td>
</tr>
<tr>
<td>5.</td>
<td>(140-90)</td>
<td>50</td>
<td>$22,500</td>
<td>(140-0)</td>
<td>$140</td>
<td>Above Reserve</td>
</tr>
<tr>
<td>8.</td>
<td>(110-90)</td>
<td>20</td>
<td>$9,000</td>
<td>(110-0)</td>
<td>$110</td>
<td>Above Reserve</td>
</tr>
<tr>
<td>10.</td>
<td>(90-90)</td>
<td>0</td>
<td>$0</td>
<td>(90-0)</td>
<td>$90</td>
<td>$40,500</td>
</tr>
</tbody>
</table>

### Above Baseline Low Latency
<table>
<thead>
<tr>
<th>PP – (15 + 0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 180 - 15</td>
</tr>
<tr>
<td>2. 170 - 15</td>
</tr>
<tr>
<td>5. 140 - 15</td>
</tr>
<tr>
<td>8. 110 - 15</td>
</tr>
<tr>
<td>10. 90 - 15</td>
</tr>
</tbody>
</table>

- Above Reserve
- $42,750
- $33,750
Bidding Procedures-Part A

- **Package Bidding (Multi-area bids)**
  - No “all or nothing” package bids
  - Bidder agrees to provide service to all or a subset of the areas in the package based on the “minimum scale condition”
  - 75% is the (highest) minimum scale percentage
  - A bidder may be assigned support for some areas in the package if the total amount of implied support for some areas meets the minimum scale percentage of the total implied support for the package
## Package Bid Example

Package bid for areas 1, 2, 3, and 4
Price Point of 75% in Clearing Round
Minimum scale percentage of 70%

<table>
<thead>
<tr>
<th>Area</th>
<th>Reserve Price</th>
<th>Tier Weight</th>
<th>Latency Weight</th>
<th>Implied Support at 75% Price Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$120</td>
<td>15</td>
<td>0</td>
<td>$72</td>
</tr>
<tr>
<td>2</td>
<td>$140</td>
<td>15</td>
<td>0</td>
<td>$84</td>
</tr>
<tr>
<td>3</td>
<td>$160</td>
<td>15</td>
<td>0</td>
<td>$96</td>
</tr>
<tr>
<td>4</td>
<td>$200</td>
<td>15</td>
<td>0</td>
<td>$120</td>
</tr>
</tbody>
</table>
Proxy Bidding

- Bidder sets PP at or between a previous clock/basic clock percentage
- Proxy PP is bidder’s lowest bid
- May change proxy PP at anytime
- System bids at current base clock percentage for each round until the round in which proxy PP is set

Activity Rule

- Activity = Sum of bidder’s implied support amounts bid in a round
- Rule = A bidder’s activity in a round cannot exceed its activity in prior round
- If a bidder does not bid in any area in a round, it is out of the auction

Switching Rule

- A bidder may bid for an area it did not bid for in the prior round subject to a switching percentage (20% in round 2 and 10% in later rounds) X the bidder’s total implied support bid at the previous round’s base clock percentage
Information to Bidder
Information to Bidder

- The base clock percentage for the upcoming round.
- The aggregate cost at the previous round’s base clock percentage up until the budget clears.
  - The aggregate cost at the base clock percentage is not disclosed for the clearing round or any later round.
- The bidder’s activity, based on all bids in the previous round, and activity based on bids at the base clock percentage, whether submitted directly or by proxy.
- In rounds after the clearing round, the bidder’s assigned support and the implied support of its carried-forward bids will be available.
Information to Bidder

- Summary statistics of the bidder’s bidding in the previous round, including:
  - The number of areas for which it bid, at the clock percentage and at other price points.
  - Breakdowns of activity and number of areas by proxy bids, including proxy instructions for future rounds.
  - After the clearing round, areas and support amounts it has been assigned and those for which it is still bidding.
  - Status of carried-forward bids.
  - For all eligible areas in all states, including those in which the bidder was not qualified to bid or is not bidding, whether the number of bids placed at the previous round’s base clock percentage was 0, 1, or 2 or more.
  - The performance tier and latency combination of the bids is not disclosed.
Bidding Procedures-Part B
Assigning Bids During the **Clearing Round**

- **Bidding system determines winning bids by calculating the **clearing price point****
  - The highest price point in the round at which the aggregate implied support—based on the dollar value of highest implied support amount per area—is \( \leq \) the $198M Budget (the **clearing price point determination**), taking into account the second-price rule

- **Bid Assignment – Winning Bids in the Clearing Round**
  - Bids are first assigned for areas in which one bidder bid at the round’s base clock percentage and all other bids for the areas are at higher price points
  - Then, in areas in which one or more bids are above the base clock percentage but the below clearing price point. The lowest bid below the clearing price point is assigned

- **Carried-Forward Bids—After the Clearing Round**
  - Bids for areas in which two or more bidders bid at the base clock percentage are **carried forward** to next round
  - Areas in package bids must meet the minimum scale

- **Second-price rule** —
  - Winning bidder bidding at the base clock percentage receives a support payment = the **clearing price point** or if two bidders are below the clearing price point, the support payment = the higher bidder’s price point
  - Support payments to exceed winning bids’ implied support amounts in most instances
Clearing Round Bid Assignment

Price Point

120
110
100

Clearing Price Point 92.45

90

Bid Assignments

1. Areas with uncontested bids @ base clock percentage (90)—Bids Assigned
2. Areas with contested bids @ base clock percentage (90)—Bids Carried Forward to next round
3. Areas with contested or uncontested bids @ or below 92.45—Low Bid Assigned
4. Areas not bid in clearing round or having bids above 92.45—Not assigned and out of auction
5. Assignable areas in package bids (1, 2, 3, above) that do not meet the minimum scale percentage are carried forward to the next round
Assigning Bids in Rounds after Clearing Round

- “Carried-Forward Bids”
  - Competing bids in same area at base clock percentage in clearing round
  - Package bids not meeting the minimum scale percentage
  - Areas remaining from partially granted package bids

- Assignment rules tweaked to fund/assign bids for all areas in carried-forward bids
Long-Form Application
Long-Form Application

- Filed post-auction
  - Includes several certifications
- Financial and technical qualifications
- Certify will be able to meet obligations of relevant tiers
- Provide description of technology and system design for voice/broadband services
  - Network diagram certified by professional engineer
  - PE must certify network capable of delivering service to 95 percent of required locations
  - Wireless providers must describe spectrum access
Financial Qualifications

- Must certify available funds for all project costs that will exceed the amount of support for first two years.
- Describe how construction will be funded, including financial projections showing debt service payments can be made.
Long-Form Application

- Letter of Credit required of all winning bidders with 60 days of closing PN
  - Must include opinion letter from attorney re bankruptcy
  - Amount decreases as milestones met:
    - Initially 100% of money to be disbursed in first year.
    - Annually thereafter 100% of money disbursed, plus 100% to be disbursed in next year.
    - Once 60% service milestone met, 90% of total support disbursed, plus 100% to be disbursed in next year.
    - Once 80% service milestone met, 80% of total support disbursed, plus 100% to be disbursed in next year.
ETC Designation
• Must be submitted within 180-days of winning bidder announcement

Default
• Failure to file Long-Form
• Found ineligible to receive support
• Or otherwise disqualified
• $3,000 baseline forfeiture per violation
Winning Bidders:
Service Provider Obligations
Obligations of Winning Bidders

Buildout Obligation

- Winning bidder must “complete construction and commercially offer service” to **all locations in a state** in which its bids are assigned per the following table

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td></td>
</tr>
<tr>
<td>Year 2</td>
<td></td>
</tr>
<tr>
<td>Year 3</td>
<td>40%</td>
</tr>
<tr>
<td>Year 4</td>
<td>60%</td>
</tr>
<tr>
<td>Year 5</td>
<td>80%</td>
</tr>
<tr>
<td>Year 6</td>
<td>100%</td>
</tr>
</tbody>
</table>

- Flexibility: 95% deployment per state is acceptable, but recipient must refund $$ for unserved locations at end of 10 yrs equal to ½ of the average support for top 5% of highest cost funded locations nationwide
Obligations of Winning Bidders

Service Obligations-Rates

- Winning bidder must provide broadband and voice services to all locations in unserved census blocks at the bidder’s performance tier and latency at or below “reasonably comparable urban area rates”

  - 2018 Urban Rate Survey for Fixed Voice and Broadband Services
    - Basic voice service rates must be no more than $45.38/month
    - Broadband rates vary per download/upload speeds and usage levels

- Only one service offering must meet these benchmarks; services providers may offer multiple pricing/speed/usage options
Questions??
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