

MTA Commentary. For Immediate Release
“Broadband Stimulus: Boon, or Boondoggle?”

Remember Touch America? That was the company that was created when Montana Power decided to dump the energy business and reinvent itself as a fiber optic telecommunications business. Touch American wasn't alone, either. Dozens of American enterprises dumped billions of dollars into fiber optic communications networks spanning the nation many times over. “Build it, and they will come” was the mantra. So build they did. But come, they did not. Instead, they built a classic bubble which inevitably burst, leaving companies like Touch America by the wayside.

Fast forward to 2009. The country was—still is—in the midst of a monstrous recession caused by yet another boom/bust cycle, this time by a mortgage-based financial bubble that inevitably burst. Almost exactly this time last year, Congress passed the \$768 Billion Recovery Act intended to help stimulate the economy out of its recession.

Buried in the Recovery Act is a \$7 billion program intended to stimulate the deployment and adoption of broadband communications technologies. In a classic case of “Ready, Fire!, Aim,” the Recovery Act also includes two other broadband sections. First, the Act calls for the FCC to develop a National Broadband Plan, which it will deliver to Congress next month. Second, the Recovery Act calls for a national broadband map to be developed by the end of next year. In short, the Recovery Act spends the money first, then develops a plan, and lastly, it asks where broadband service exists and where it is lacking.

According to the Act, “the purposes of the program are to (A) provide access to broadband service to citizens residing in unserved areas of the United States; (B) provide improved access to...citizens residing in underserved areas...; (C) ...to facilitate greater use of broadband; ... and (E) stimulate demand for broadband, economic growth and job creation.”

The Federal agencies charged with implementing the broadband stimulus program divided the \$7 billion appropriation roughly in half, and established two

funding cycles. In Round 1, the agencies were inundated with over 2,000 applications for grants and loans totaling over \$28 billion. Many of these applications came from companies that established themselves for the sole purpose of finding ways to spend this new-found largesse.

Among the applications were dozens of proposals to build so-called “middle mile” and “last mile” facilities to connect communities, businesses and residential consumers with broadband services. In many instances, however, including in Montana, these proposed projects would not reach unserved consumers, but instead would merely duplicate existing networks. Contrary to the goals of the Recovery Act, such proposals would not stimulate economic growth and job creation. Quite the opposite, in fact.

That’s because a host of “last mile” as well as “middle mile” providers already has invested millions of dollars in broadband networks. Particularly in rural areas, these networks are difficult to sustain even under the best of conditions because of high capital expenses and low customer density. Yet, these networks reach business and residential consumers in some of the most hard-to-reach, expensive-to-serve areas of the nation. If a taxpayer-funded network were overlaid on top of these existing facilities, the taxpayer network would be able to take the largest customers off the existing networks, thereby stranding millions of dollars of investment. Existing networks would have little incentive or ability to continue to invest in their networks. Consumers remaining on the existing networks would be increasingly isolated, and would face higher rates as network providers would have diminished ability to recover their investment. That’s hardly a formula for economic growth and job creation.

In Round 1 of the broadband stimulus program, however, grants have already been awarded to applications that would duplicate existing networks, while grants have been denied for proposals to serve areas that are actually currently unserved. However, in Montana, one such middle mile application that threatened to duplicate existing networks was denied. For now.

The federal agencies responsible for implementing the broadband stimulus application rules have rewritten these rules for Round 2 funding.

Essentially, they took the most questionable Round 1 rules and made them even worse in Round 2. No longer is it a priority—contrary to Congress’s intent—to serve unserved and underserved areas. Instead, the new rules emphasize so-called “comprehensive community” projects, another term for middle mile networks. There is no consideration for whether such middle mile applications would duplicate existing networks. In fact, it’s even easier for proposals like the one in Montana that was rejected in Round 1 to be funded in Round 2. The new rules also eliminate provisions in Round 1 that were intended to prevent profiteering, or to ensure the business-worthiness of applications.

By actually making it easier for applicants to build duplicate broadband networks, the new rules threaten to build a taxpayer-funded broadband bubble just like the one that did in Touch America. James Assey, executive vice president of the National Cable & Telecommunications Association, which represents cable TV companies throughout the nation, said in a USAToday article this week, "It's far more important that we do it right, than that we do it right now."

He’s right. It’s not often that the cable industry and the telecom industry reach the same conclusion. As 20th Century British politician, Dennis Healy, said, “When you’re in a hole, stop digging.”

The broadband stimulus program would do well to take Mr. Healy’s advice. Research indicates that affordability and adoption—and not access to facilities—are the critical issues in broadband availability. Instead of devising policies that discourage sustainable broadband investment in rural America, the stimulus program should promote policies to increase adoption and affordability of broadband and re-focus on bringing the benefits of broadband connectivity to unserved areas.

#

Contact: Geoff Feiss
Montana Telecommunications Association
Helena, Montana
406.441-4316
gfeiss@telecomassn.org