Berkshire Connect, Inc.

PIONEER VALLEY CONNECT

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Comments on the Department of Agriculture,
Rural Utility Service's Proposed Rules:
Rural Broadband Access Loan and Loan Guarantees
(7 CFR Part 1738 §1738.1-§1738.100)
July 1, 2007

Berkshire Connect, Inc. and Pioneer Valley Connect (the Connects) submit these comments in response to the United States Department of Agriculture's (the Department) Public Notice of Proposed Rule Change to the Rural Broadband Access Loan and Loan Guarantee Program (the Program). While the proposed rules improve the ineffectiveness of the Program as currently administered, the Connects encourage the Department to modify the proposed rules to facilitate the expansion of broadband into rural areas.

Introduction

The Connects are regional initiatives devoted to creating a robust telecommunications landscape that offers affordable and reliable broadband services throughout Berkshire, Hampshire, Franklin and Hampden Counties, located in western Massachusetts. Like you, the Connects believe that by having the private and public sector working together, rural areas will have the opportunity to be part of the global information network. The Connects support rule changes that will accelerate the effectiveness of targeted government assistance facilitating the deployment of broadband in rural areas. The Connects commend Rural Utilities Service (RUS) Administrator James M. Andrew for his interest in improving the Program.

The Connects are well qualified to comment on the proposed rules, as currently, one-third of the 101 municipalities in western Massachusetts has no access to basic broadband technology, such as Digital Subscriber Lines (DSL) or cable broadband. A further one-third has broadband access in only a limited portion of their community. Therefore, in terms of broadband access, almost two-thirds of the region consist of un-served and underserved communities. This situation is unacceptable to the Connects as well as residents, business leaders, and public officials. Access to affordable, reliable broadband telecommunications is vital for economic development, public health and safety, government efficiency, and education today and in the future.

Western Massachusetts represents an ideal test case to determine the effectiveness of the proposed changes to the Program. While outsiders may not think "rural" when they think of Massachusetts, western Massachusetts is, in fact, a very rural area. With approximately 820,000 residents in the region's 101 cities and towns, this region consists of 13% of the Commonwealth's total population, while its landmass is 36% of the total area of the Commonwealth[1]. The vast majority of towns are very small; there are only eight (8) communities out of the 101 with a population of 20,000 or more[2]. This region is the archetype of rural New England. According to the RUS, no community in New England has been the recipient of the benefits of the Program. If the Program cannot find viable and eligible applicants here in New England, then the Program needs to be changed.

It is the belief of the Connects that the proposed changes will not facilitate the expansion of broadband into our approximately sixty (60) un-served and underserved communities. After carefully reviewing the proposed rule changes, the Connects strongly encourage RUS to expand the eligibility requirements and to modify the types of financial assistance available.

Eligibility Requirement

Under the current rules, no community in western Massachusetts qualifies as an eligible applicant because no county has a per capita personal income less than or equal to 65% of the national average. The Connects are pleased that the proposed rules increase the number of communities who may compete successfully for the Program by broadening the eligibility requirement. However, if the directive of Title VI is to give priority to rural communities where broadband service is not available[3], the Connects suggest RUS further modify the proposed rule change to allow more areas to qualify as eligible communities.

Eligibility determination based on low personal income easily identifies communities that may experience a lack of investment interest by the private sector. However, personal income is not the only factor in the market's failure to provide broadband access; low population density and the distance to network infrastructure are also significant factors. The Connects believe that only using proposed eligibility thresholds based on personal income does not satisfy the mission of improving the quality of life in all of rural America.

If personal per capita income is to be used as a nationwide eligibility standard, the threshold must be carefully considered as it relates to rural areas across America. In western Massachusetts, Franklin, Hampden, and Hampshire Counties would qualify under the proposed rules, Berkshire County would not. As a result, twelve (12) un-served and six (6) underserved communities (communities where only part of the town has broadband service) in Berkshire County would be ineligible to apply. According to the U.S. Bureau of Economic Analysis' (BEA) most recent available statistics[4], Berkshire County's per capita personal income is $37,586, while the United States

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[1] Berkshire Regional Planning Commission and Pioneer Valley Connect
[2] 2000 Census Data Set
[3] Public Law 107-171, Title VI
[4] 2005 Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

average per capita personal income is $34,471. The difference between these two numbers is only ten (10) percent. When comparing rural regions across the nation, it should be taken into consideration that different regions of the country experience greater costs of living. For example, according to the BEA, the New England region has a personal per capita income 121% greater than the national personal per capita income.[5]

Therefore, the Connects respectfully request that RUS amend the proposed rule changes to include counties with 150% of the average per capita personal income be eligible. Allowing providers to include more un-served or underserved communities would open the application pool further and potentially improve the possibility of financially justifying an applicant's business case, particularly as the applicant may want to include multiple communities in its infrastructure investment.

Equity Investment Reduction

Even if more areas are eligible to apply, this will not ensure the financial feasibility of the applications RUS receives. While the Connects support the equity investment reduction from twenty (20) percent to ten (10) percent, because it lowers the collateral threshold for potential borrowers, the reduction does not alleviate the fundamental problem of the high costs of building infrastructure and operating a network in an underserved or an un-served area. Those costs are higher in New England than in other regions of our country[6].

According to providers in western Massachusetts, whether the equity investment is ten (10) percent or twenty (20) percent is "irrelevant" because, even with the equity investment reduction, they still "can't get the numbers to work."[7] In western Massachusetts, the cost of the initial technology infrastructure and the ongoing equipment reinvestment is simply too high to be alleviated by a ten (10) percent reduction in equity investment requirements. Because the Connects understand loan recipients need to provide some form of equity investment, the Connects recommend that RUS reduce the equity investment required from ten (10) to five (5) percent while reevaluating the types of financial assistance it offers.

Types of Financial Assistance

The most frequently cited factor affecting rural broadband deployment is cost. Private sector companies contemplating the deployment of broadband infrastructure consider the cost to deploy a broadband network, the cost of operating that network, and the extent to which the cost can be mitigated by the expected demand for the service. According to the proposed rules and the incumbent providers, it is significantly more

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[5] 2005 Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

[6] Bureau of Economic Analysis, State Per Capita Personal Income, Personal Income, and Population, by State and Region, 2005–2006

[7] Crocker Communications and Richmond Networx

costly to serve areas with low population density. These costs are even higher in areas with a higher than average cost of living, like New England[8].

If eligible service providers in western Massachusetts approach a bank for a conventional loan, they would receive an interest rate of approximately six (6) to eight (8) percent, depending on the loan details. Under the proposed rules, if eligible service providers applied to the RUS, they could potentially receive an interest rate of four (4) percent. While this is an improvement, the reduction of the potential interest rate from eight (8) percent to four (4) percent does not bring the costs sufficiently down to make applications financially viable. The cost to deploy is simply too high to be borne by a lower interest rate alone.

Since it has become clear in the past two years that the RUS is having difficulty financially justifying the business cases for most rural deployment solutions, it would seem appropriate that some portion of the loan funds be redirected to the Community Oriented Connectivity Broadband Grant Program. Because the redirection of funds from one account to another is not within the parameters of these proposed rule changes, the Connects instead suggest that RUS do the next best thing: offer a zero (0) percent interest rate as one type of financial assistance. While a zero percent interest rate amounts to a limited federal subsidy for rural broadband deployment, this is a small price to pay for the expansion of broadband into our rural areas. A zero (0) percent interest rate loan would result in effective government assistance to improve the possibility of viable business cases for the most rural areas.

Conclusion
The Connects thank the RUS and the Department for the opportunity to comment on the Program's proposed rule changes. The Connects encourage RUS to further refine the final rule to include counties whose average per capita income is 150% of the national average, and encourage RUS to offer a zero (0) percent interest rate loan. The Connects would be happy to speak further with you about the Program or anything else about which we could be helpful.

Respectfully Submitted,

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Steering Committee

[8] Bureau of Economic Analysis, State Per Capita Personal Income, Personal Income, and Population, by State and Region, 2005–2006