

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of:)
)
Addressing Challenges To Broadband) GN Docket No. 09-47, 09-51,
Deployment Financing) 09-137

**COMMENTS OF
ALEXICON TELECOMMUNICATIONS CONSULTING
NPB Public Notice # 28**

Alexicon Telecommunications Consulting (“Alexicon”) hereby submits its Comments to the Federal Communications Commission (“FCC” or “Commission”) in response to the Commission’s Public Notice (“Notice”) regarding “Addressing Challenges to Broadband Deployment Financing”.¹ In this Notice, “...the Commission seeks comment on the potential private sector and government funding vehicles for effective financing of broadband deployment projects in rural and high cost areas.”

INTRODUCTION

Alexicon provides a range of professional management, financial and regulatory services to a variety of small rate-of-return Incumbent Local Exchange Carriers (“ILECs”)² who serve diverse geographical areas characterized by rural, insular or Native American Tribal Lands. These ILECs, similar to most other small rate-of-return regulated ILECs, currently provide a wide range of technologically advanced services to their customers. These small ILECs, through participation in various State and Federal high cost funding programs, and with their continued investment in network infrastructure, are providing customers in rural, insular and Tribal lands with services equal to or greater than urban areas, and at comparable pricing. These ILECs are committed to providing their customers with state-of-the-art services, including Broadband and IP-enabled services.

¹ DA 09-2610, Released: December 18, 2009

² As defined by the Telecommunications Act of 1996 (“ACT”

SPECIFIC NOTICE RESPONSE ITEMS

1. **What existing federal government institutions, program mechanisms, and sources of funding could be employed to create greater incentives for privately financed rural broadband deployment?**
 - a. **What current federal programs administered by existing institutions, including Rural Utilities Service and National Telecommunications and Information Administration, provide instructive precedents for innovative financing support vehicles, such as loan guarantees?**³

Alexicon's clients and many other small rate-of-return ILECs have long relied upon Rural Utilities Service to provide a bulk of financing for network infrastructure upgrades. A major component of these programs has been a well-defined process requiring extensive documentation of the ability of the borrower to repay the loan funds on a timely basis. Additionally, these programs have both provided ongoing financial and operational assistance to borrowers as well as assisted in continued oversight and the ability to add additional funds where necessitated by changing technology, or other conditions.

Alexicon has some level of concern regarding the amount of time that is currently required, and the related third-party costs involved, in obtaining these types of federal agency loans. We believe that it is more effective and efficient if ILECs were able to obtain loan commitments in a more timely fashion. Many other non-ILEC providers of broadband and IP-enabled services are currently able to obtain private source funding in shorter timeframes, thus incentivizing them to deploy broadband more efficiently.

Alexicon also contends that existing high-cost funds (Federal and State Universal Service Funds, etc.) provide lenders⁴ with a high level of confidence in small rate-of-return ILECs' ability to timely repay loans. We are, however, concerned that ongoing uncertainty about the continuation of these mechanisms, or the uncertainty regarding potential major changes in these programs, could have a negative impact to ILECs. Their ability to maintain current cash flows (on which they base investment-making decisions and borrowing funds) may be negatively impacted, affecting repayment of current loans and ability to obtain new ones. Without some level of assurance in continuation of stable, predictable high-cost support programs, the future ability of

³ Notice, pg. 2

⁴ Both governmental and private entries, as well as the ILECs continued reinvestment using internally generated funds

these ILECs to acquire new loans for additional new investment – including those needed for new/expanded broadband and IP-enabled services – could be severely curtailed.

- b. What types of federal government financing (one-time grants, ongoing grants, loans, loan guarantees, etc.) are best suited in what contexts and what would be the respective levels of private financial leverage we can expect each type to provide?⁵**

Alexicon believes that all various types of grants, loans, and loan guarantees will continue to be required since there will be a wide range of project support for broadband deployment. Clearly, there are, and will continue to be, many types of broadband projects deployed by rural/insular/Tribal carriers that by themselves will not be financially viable without seeking some level of financing. Just as existing universal telecommunications service throughout the nation has required some type of governmental support (both state and federal), universal broadband service will require similar support programs. Alexicon believes that expanded forms of joint federal/state grant and support programs will provide the most effective form of enhancing broadband deployment, especially in rural, insular and Tribal areas. Furthermore, unless specific broadband deployment projects are financially viable, especially given current economic conditions in the private banking sector, it is doubtful that non-governmental financing will develop at any significant level.

- 2. What new financing methods should be employed to increase effectiveness and encourage entrepreneurship in the private sector for supporting rural broadband deployment?**
 - a. How would the new financing vehicle be structured and administered? What would its cost be, both financially and administratively, and how would the government ensure that sustainability of the overall program to continue future support?⁶**

Alexicon believes that a broadband high-cost fund would be better served as an incremental component of the current high-cost USF. To this end, financing for this component would be included in the structure of the current fund and administered almost identically to the existing fund, creating not only efficiency in the process but also minimizing additional administrative

⁵ Notice, pg. 2

⁶ Notice, pg. 2

oversight. In considering a National Broadband Program⁷, Alexicon suggests that it is imperative that ongoing high-cost support for small rural/insular/Tribal carriers must be provided. A specific governmental supported financing vehicle should be included in the plan, since it is unlikely that the private sector will be a major player in broadband deployment in rural/insular and Tribal areas without additional guarantees.

Using the current Universal Service Administration Company (“USAC”) to administer any new broadband fund should also increase both efficiency and stability, since there are currently procedures in place that address and oversee the specific mechanisms. It is also likely that incremental costs for additional staff, etc. could be incurred by USAC without creating the need to “reinvent the entire wheel” for a new administrator, thereby reducing burdens on the USF and ultimately ratepayers.

- b. How can existing financing vehicles (e.g. grants, loans, etc.) be leveraged and/or rechanneled to create appropriate incentives for private sector financing of deployment in rural areas? What would the qualitative and quantitative impact on private behavior for different types of support (e.g. one-time grants, ongoing grants, loans, revolving loans, etc.)?⁸**

Alexicon believes that creation of an agency similar to the Rural Telephone Bank, involving federal government participation with private lenders, may provide some incentives to the private financial sector. We remain unconvinced that sufficient interest currently does or will exist in the private financial sector to assist in broadband deployment in rural, insular, or Tribal areas unless specific projects meet administratively burdensome exacting profitability expectations. Similar to many ILEC telephone projects, the broadband network infrastructure upgrade or initial investment in rural/insular/Tribal areas requires atypical financing vehicles, which usually are not fundable by private sources – even in “normal” economic periods. Governmental grants, either ongoing or one-time, may temporarily encourage private sector participation but could also have the unintended consequence of disallowing plant to be upgraded or maintained since operational costs are typically not includable for grant purposes and those costs comprise an ongoing majority of all costs associated with a given business plan.

- c. Are there new financing vehicles (e.g. loan guarantees) that have not been employed in the broadband context that should be considered?⁹**

⁷ As mandated by Congress

⁸ Notice, pg. 2

⁹ Notice, pg. 3

Alexicon is concerned that adding new loan guarantee programs without ongoing high-cost broadband support would lead to unsustainable deployments. We assert that the ongoing viability of broadband deployment(s) in rural/insular/Tribal areas depends as much on ongoing operational support as it does in initial investment. Clearly guarantee programs like the Rural Telephone Bank have enhanced the ability of ILECs to provide high quality modern telecommunications services in high cost rural/insular/Tribal lands.

CONCLUSION

Alexicon, on behalf of its clients and similar small rate-of-return ILECs, is concerned that broadband deployment must continue to be encouraged and supported in rural, insular, and Tribal areas. We continue to believe that the ILECs are best positioned to continue the deployment of broadband, IP-enabled services and an assortment of other modern telecommunications services in these areas. We and our clients have seen the positive impact that existing Rural Utilities Service and Federal/State Universal High Cost Funds have had on assisting ILECs in currently providing quality services to their customers. We do have major concerns that current overall economic conditions, coupled with the historic lack of rural area private investors/lenders will continue to constrain the ILECs ability to attract broadband deployment funding without governmental involvement or assistance.

We believe that small rate-of-return ILECs are best positioned to deploy broadband and related IP-enabled services in rural, insular and Tribal areas. We have a level of concern that allowing or encouraging “artificial competition” (via grants, loans, etc.) in areas where ILECs are currently providing sufficient broadband deployment projects with governmental subsidized programs can have a negative effect upon existing ILEC projects. Furthermore, we believe that duplicative broadband projects in rural/insular/Tribal areas may endanger the ability of ILECs to repay their current obligations for telecommunications and broadband deployments. We therefore urge careful consideration of utilizing any form of governmental grants, loans or guarantees in areas that are not truly “underserved or un-served”, and where existing ILECs have demonstrated their willingness and ability to provide broadband service(s).

Respectfully submitted,

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