



Potential Impact of Connect America Fund Phase 1.2 Across Selected States

A Connected Nation Policy Brief

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Later this month, larger (“price cap”) local telephone companies will have the opportunity to commit to building out broadband in their service territories in exchange for one-time, Connect America Fund “Phase I” subsidies. Earlier this year, on May 22, 2013, the Federal Communications Commission (FCC) released an [Order](#) announcing this additional round of \$485 million in subsidies for this category of providers, which includes AT&T, Verizon, CenturyLink, Windstream, Alaska Communications System, and Frontier. These one-time, incremental subsidies are to support the construction of broadband networks in areas served by the price cap carriers that do not currently have broadband service of at least 3 Mbps download/768 Kbps upload speeds, as shown on the [National Broadband Map](#) (the “Map”).

In this Policy Brief, Connected Nation examines the **potential** impact that this second round of Phase I subsidies may have in the states and territories in which Connected Nation serves as the broadband mapping agent or contractor. This second round of Phase I funding is directed solely at areas across the country traditionally served by the 13 price cap telecommunications providers that, collectively, account for approximately 85% of all “unserved” households and businesses across the country.

Participation in the Phase I CAF subsidy program is optional, and price cap providers that wish to accept Phase I support for build-out must submit proposals to the FCC by August 20, 2013. These submissions are to include lists of areas that they wish to serve, which the FCC will review. After this review, the FCC will then release a list of proposed census blocks to receive funding and start a challenge period in which parties may contest funding with evidence that those areas are already served by an unsubsidized competitor.

For more information regarding this new phase of the Connect America Fund, see Connected Nation’s Policy Brief [The FCC Allocates \\$485 Million to Expand Broadband Access Across Underserved Rural Areas](#).

Potential Impact of the Connect America Fund Phase I Program

The FCC has determined eligible areas to receive funding based on areas traditionally served by the 13 price cap carriers across the country where there is no access to fixed broadband service of at least 3 Mbps download/768 Kbps upload speeds, according to the National Broadband Map’s version based on coverage data on June 2012. Additionally, areas that have received a Broadband Technology Opportunities Program (BTOP) or Broadband Initiatives Program (BIP) grant will be ineligible to receive funding under CAF Phase I.2.

Price cap providers will be able to bid for funding in areas where they are the carrier of last resort and that comply with those eligibility rules. In exchange for these subsidies, the carriers will commit to serve the selected areas with broadband at speeds of no less than 4 Mbps download and 1 Mbps upload.

The amount of subsidies will be based on a per-location-served basis. Providers would receive \$775 per location served in areas that currently have no broadband, and \$550 per location served in areas that currently are underserved (no broadband available at speeds above 3 Mbps/768 Kbps).

Based on these rules, Connected Nation has estimated the number of households that could be potentially impacted by the program and the potential federal and private financial impact of this funding opportunity across nine states and the territory of Puerto Rico.

POTENTIAL IMPACT OF CONNECT AMERICA FUND PHASE 1-2013 ACROSS SELECTED STATES

State	Eligible Areas By Subsidy Amount	Potential Households Impacted ('000)	Potential Federal Subsidies (\$Millions)	Potential Federal + Private Financial Impact
Alaska	\$775 subsidy per location	6.6	\$5.1	\$10.2
	\$550 subsidy per location	8.7	\$4.8	\$9.5
	Total Per State	15.2	\$9.9	\$19.7
Iowa	\$775 subsidy per location	22.4	\$17.4	\$34.7
	\$550 subsidy per location	22.6	\$12.4	\$24.9
	Total Per State	45.0	\$29.8	\$59.6
Michigan	\$775 subsidy per location	51.6	\$40.0	\$79.9
	\$550 subsidy per location	73.1	\$40.2	\$80.4
	Total Per State	124.7	\$80.2	\$160.3
Minnesota	\$775 subsidy per location	34.5	\$26.8	\$53.5
	\$550 subsidy per location	38.2	\$21.0	\$42.0
	Total Per State	72.7	\$47.8	\$95.5
Nevada	\$775 subsidy per location	6.1	\$4.7	\$9.5
	\$550 subsidy per location	20.8	\$11.4	\$22.9
	Total Per State	26.9	\$16.2	\$32.3
Ohio	\$775 subsidy per location	64.2	\$49.7	\$99.4
	\$550 subsidy per location	47.7	\$26.2	\$52.5
	Total Per State	111.9	\$76.0	\$151.9
Puerto Rico	\$775 subsidy per location	195.5	\$151.5	\$303.0
	\$550 subsidy per location	10.7	\$5.9	\$11.7
	Total Per State	206.1	\$157.4	\$314.7
South Carolina	\$775 subsidy per location	53.4	\$41.4	\$82.7
	\$550 subsidy per location	16.8	\$9.3	\$18.5
	Total Per State	70.2	\$50.6	\$101.2
Tennessee	\$775 subsidy per location	89.9	\$69.6	\$139.3
	\$550 subsidy per location	56.3	\$31.0	\$61.9
	Total Per State	146.2	\$100.6	\$201.2
Texas	\$775 subsidy per location	143.8	\$111.4	\$222.8
	\$550 subsidy per location	215.5	\$118.5	\$237.1
	Total Per State	359.3	\$230.0	\$459.9



There are three important factors to remember in examining this potential impact. **First**, participation in the CAF Phase I program by price cap providers is completely voluntary. **Second**, under the FCC's subsidy formula, the number of unserved and underserved areas in the price cap areas greatly exceeds the \$485 million allocated in this round of Phase I funding. **Third**, the FCC has allocated the first \$300 million of CAF Phase I funding among the price cap carriers that, depending on the amount of subsidies claimed by participating providers, could sharply limit or eliminates funding for many areas, such as Alaska and Puerto Rico.

Indeed, many providers, including Puerto Rico Telephone Company (PRTC), Cincinnati Bell, and Micronesian Tel have an allocation of \$0, while Alaska Communications System (ACS) has been initially allocated \$4.1 million. The FCC's rules for the program allow each eligible provider to submit counter proposals beyond these initial allocations for subsidies up to \$300 million each. However, if the program is over-subscribed, the FCC will allocate these subsidies up to \$485 million in proportion to the original proposed subsidy allocations across carriers. (See the above mentioned policy brief for more information). If that oversubscription occurs, the carriers that have been allocated zero to very little in funding (such as PRTC and ACS), will receive little to nothing in Phase I support, regardless of the number of unserved locations in those areas.

Next Steps

Price cap carriers electing to participate in this program have to submit their bids for subsidies and associated areas where they would invest in broadband expansion to the FCC by August 20, 2013. After the FCC reviews and releases these lists of areas, the FCC will launch a 60-day "challenge" process to resolve disputes regarding the eligibility of the areas targeted by providers for subsidies. At the core of this challenge process will be the underlying data of the National Broadband Map. In this way, parties will be able to challenge eligibility of the subsidy if, for example, they can prove that a given area is already served. As part of the challenge process, Connected Nation will work with any provider seeking insight or clarification into the data CN has submitted in the nine states and territory of Puerto Rico.

After completion of the challenge process, the FCC will then award subsidies based on the amounts requested across truly eligible areas, and the overall availability of funds under this program. Once the 2013 round of Phase I subsidies is allocated among price cap providers, those providers will have up to three years to build-out broadband to those identified, currently-unserved areas.

For more information, please contact Connected Nation at policy@connectednation.org.