

US broadband grant rules shut out small ISPs and municipalities, advocates say

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reader comments

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The biggest Internet service providers will dominate a \$42.45 billion broadband grant program unless the Biden administration changes a rule requiring grant recipients to obtain a letter of credit from a bank, according to a joint statement from consumer advocacy groups, local government officials, and advocates for small ISPs.

The letter sent today to US government officials argues that “by establishing capital barriers too steep for all but the best-funded ISPs, the LOC [letter-of-credit requirement] shuts out the vast majority of entities the program claims to prioritize: small and community-centered ISPs, minority and women-owned ISPs, nonprofits, and municipalities.”

The rule is part of the Broadband Equity Access and Deployment (BEAD) program that’s being administered by the National Telecommunications and Information Administration (NTIA).

“Rather than demonstrating a provider’s ability to construct a broadband network and provide high-speed broadband services to unserved and underserved Americans, the LOC is a measure of whether they can lock up valuable working capital over multiple years,” the letter said. “While large incumbents may

be able to bear this financial burden, most others can not. And, due to various state and local rules, municipalities are often not allowed to obtain LOCs. Therefore, alternatives to the LOC are critical to ensure these providers can participate in the BEAD program.”

The director of the BEAD program, Evan Feinman, responded to letter-of-credit concerns during a webinar in June. He said the NTIA is aiming to “minimize the failure rate, because every project that’s undertaken will expend some funds prior to failing and then have to start back at square one with a new provider if it turns out that a provider doesn’t have the wherewithal to undertake a project.”

“We know that when we narrow [who can get funding], we’re going to lose the opportunity to get into partnership with some high-quality small outfits. But we had to err on one side or the other, there was no way to hit it right on the nose,” Feinman said. The NTIA will waive the LOC requirement on a case-by-case basis, but waivers will be “tightly controlled,” he said.

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Biden’s former FCC nominee among 300 letter-signers

Today’s letter objecting to the letter-of-credit rule was signed by “a coalition of 300 broadband experts, ISPs, community leaders, nonprofits, consumer advocates, and business groups,” said the Benton Institute for Broadband & Society. Local government officials from various parts of the US were among the signers.

One signer is Gigi Sohn, the longtime consumer advocate who was nominated by President Biden to the Federal Communications Commission. After the US Senate refused to confirm her

nomination, Sohn became executive director of the nonprofit American Association for Public Broadband that lobbies for municipal networks.

The letter was signed by advocates from various other broadband-focused groups, including Public Knowledge; Connect Humanity; the Schools, Health & Libraries Broadband Coalition; the Institute for Local Self-Reliance; Free Press; Next Century Cities; the Multicultural Media, Telecom, and Internet Council; the Coalition for Local Internet Choice; and Consumer Reports.

The letter was sent to Secretary of Commerce Gina Raimondo and NTIA Administrator Alan Davidson. Describing the BEAD program requirements, the letter said that participants must obtain a letter of credit “issued by an FDIC bank with Weiss rating of B- or better for 25 percent of the award amount.”

Rules strike wrong balance, letter says

Funding rules are intended to ensure that ISPs deliver on commitments to build networks. As we wrote last month, some ISPs that won grants from a different federal program are trying to escape their broadband-deployment commitments.

But the letter to the NTIA and Commerce Department argued that the letter-of-credit requirement is a bad method of ensuring compliance:

Banks providing LOCs require that they be collateralized by cash or cash-equivalent. As a result, awardees will have to lock away vast sums of capital for the full duration of the build, likely several years. With the additional 25 percent match requirement, recipients will have a capital hurdle of more than 60 percent of their grant. We estimate a provider seeking a \$7.5 million grant for a \$10 million project will

need at least \$4.6 million of their own capital up-front.

While we support the NTIA's intention of ensuring providers are accountable for delivering on grants, far from safeguarding taxpayer dollars, the LOC requirement will prevent the Internet service providers best positioned to connect unserved and underserved Americans from participating.

ISPs that signed the letter include Astound Broadband (owner of Grande, RCN, and Wave) and several smaller providers. A lobby group for small providers, the Wireless Internet Service Providers Association, signed as well.

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