



How States Support Broadband Projects

Lawmakers use a variety of funding sources and mechanisms to meet expansion goals

Introduction

As high-speed, reliable internet access becomes increasingly important in modern life, state leaders are seeking ways to fund projects to expand this vital service. Although the mechanisms that states use are fairly consistent—grants and loans, among others—they have different approaches for distributing funds and encouraging investment. This brief explores the ways in which states support broadband deployment projects and what they aim to accomplish.

Funding mechanisms

States often support broadband deployment through grants and loans to internet service providers, nonprofit utility cooperatives, and local governments. Some, such as Tennessee,¹ offer only grants, while others, such as Virginia,² provide both grants and loans.

The money for these grants and loans comes from sources that fall into three categories: special and general funds, state universal service funds, and other revenue streams.

Special and general funds: Some states have a special designated fund in which money is set aside each year for broadband deployment. Examples include Minnesota’s Border-to-Border Fund account³ and North Carolina’s Growing Rural Economies with Access to Technology (GREAT) program.⁴ When lawmakers deem it appropriate, they can withdraw from these funds to support broadband deployment efforts.

When states opt not to use a special fund, the money for broadband development comes from their general fund. Michigan, for example, appropriated money from its general fund when it created a one-time broadband program in its 2017-18 appropriations bill.⁵ Any state can appropriate money for broadband in this manner, but if it does so, those dollars will compete with funds for many other state priorities, such as education, transportation, and health care.

Universal service funds: Ten states⁶ have state universal service funds (USFs) to support broadband projects. The federal government and states initially established the funds to enable “universal service,” the idea that every American should have access to telephone service. Since the enactment of the Telecommunications Act of 1996—a federal law designed to help deregulate the telecommunications industry and promote competition—these funds can also be used to expand internet connectivity. The money for USFs comes from fees levied on telecommunications providers and passed on to consumers and is used to offset the cost of deploying phone and internet to areas without access and those that are expensive to connect, such as rural communities.

Other revenue streams: Other ways in which states fund broadband deployment projects include right-of-way fees (charged to internet service providers to place their infrastructure along public sidewalks and roads), civil penalties (such as fines from civil lawsuits against providers), toll road revenue, and legal settlements with tobacco, financial, and telecom companies. For example, Georgia⁷ allows its Transportation Department to direct to broadband deployment the fees levied on providers for access to state-owned rights of way. Illinois⁸ requires internet service providers to pay certain civil penalties into the Digital Divide Elimination Fund, which is used to finance deployment projects. Indiana’s new Next Level Connections program⁹ will use revenue from toll roads to fund its \$100 million broadband deployment program. And one of Virginia’s broadband expansion programs is funded by the state’s Tobacco Region Revitalization Commission, using money from a 1998 legal settlement with tobacco producers.¹⁰

Funding goals and guidelines

In addition to identifying a revenue source for broadband deployment projects, states consider what they hope to achieve with the funds. In many cases, the funding stream itself provides guidelines on how the money should be used, as in the case of designated funds.

Pew has identified three trends among state goals for broadband expansion projects:

Funding is directed to unserved and underserved areas: Most state grant and loan programs fund projects in areas that are unserved or underserved, meaning they lack sufficient broadband access. However, the terms “unserved” and “underserved” have varying definitions among states, and sometimes even within a state.

Indiana defines¹¹ an unserved area as a place that lacks a provider offering download speeds of at least 10 megabits per second (Mbps) and upload speeds of at least 1 Mbps or more (not including satellite service). In Georgia,¹² an area is considered unserved if at least 20 percent of homes or businesses within a census block do not have access to download speeds of 25 Mbps and upload speeds of 3 Mbps. And Vermont defines unserved areas in terms of the technology that provides internet access; an area is considered unserved if residents have access only to satellite or dial-up internet service. Wisconsin is one of four states with a definition for underserved, defining it as having access to fewer than two broadband providers.¹³ Minnesota, Missouri, and Vermont also have definitions for underserved that focus on speed and technology.

“Last mile” projects get the most funding: Most states provide capital for “last mile” connections—the part of the network that connects directly to homes and businesses—rather than for backbone or “middle mile” infrastructure, which is the more difficult task of carrying internet traffic over longer distances. Backbone infrastructure is analogous to a highway—transporting traffic between cities, states, or even countries—while the middle mile is like a major city street, connecting neighborhoods to one another and to the backbone. The last mile, on the other hand, is like a side street in a residential neighborhood; it’s what connects individual buildings to the broader network.

For instance, the statute that established North Carolina’s GREAT program states that middle-mile efforts are not eligible¹⁴ for funding because the program aims to expand broadband access to end users: homes and businesses. Although such stipulations are common in state funding models, they are not universal, as evidenced by Colorado’s Department of Local Affairs Broadband Program, which makes grants to support middle-mile infrastructure.¹⁵

Projects are required to obtain matching funding: Most states also require grant or loan recipients—which can include providers, localities, nonprofits, and rural electric cooperatives—to cover part of the broadband infrastructure construction, though the required match amount varies by state. For example, Alabama limits¹⁶ state funding to 20 percent of a project’s cost and requires grantees to cover the remaining 80 percent with funds from other sources. Meanwhile, Nebraska¹⁷ requires recipients to provide only 25 percent of the project’s cost, with the state providing up to 75 percent. Missouri¹⁸ does not have specific matching requirements but prioritizes grant applications that can provide matching funds, such as money from the federal government or other sources.

Other funding methods

In addition to providing grants and loans, states use other methods to encourage investment in broadband infrastructure.

Tax incentives and bonds

Sixteen states use special tax provisions to encourage broadband deployment, such as tax deductions or exemptions for companies that purchase broadband equipment, and tax incentives for broadband investments in unserved and underserved areas.

For instance, Maine’s high technology investment tax credit¹⁹ allows providers to claim a credit for leasing or buying broadband equipment. Indiana²⁰ allows municipalities to designate areas as “infrastructure development zones” and exempt broadband infrastructure in those areas from property taxes, and Iowa²¹ exempts broadband infrastructure from property taxes for 10 years after it is installed.

Some states allow government bonds—often used to finance public infrastructure projects such as roads, bridges, and water and sewer systems—to also be used to finance publicly owned broadband networks. Such bonds can be issued by the state or local governments. In Iowa, for instance, the state treasurer is authorized²² to issue bonds to fund publicly owned broadband infrastructure; in New Hampshire, local governments have authority²³ to issue bonds to fund municipal broadband networks.

Broadband support from other policy priorities

States also support broadband deployment programs with funding streams dedicated to related policy areas, such as community development, housing, transportation, and infrastructure.

For instance, Idaho allows funds from the Idaho Opportunity Fund, a program that makes grants to local governments for infrastructure improvement, to be used for broadband,²⁴ and West Virginia includes broadband on a list of infrastructure and economic development projects that counties are authorized to support with the Coal County Reallocated Severance Tax Fund.²⁵ North Carolina permits local governments to use its Industrial Development Fund Utility Account, which was designed to fund infrastructure and support job creation, for broadband projects.²⁶ A state statute²⁷ enables the Hawaii Housing Finance and Development Corp., upon the request of a county, to create regional infrastructure subaccounts that can be used to support broadband deployment.

Because more and more state policy priorities—from expanding access to health care to advancing precision agriculture—are becoming reliant on high-speed, reliable internet access, new ways to finance broadband deployment efforts may result.

Conclusion

Just as there is no one-size-fits-all solution for expanding broadband access, funding and financing broadband deployment is a state-specific enterprise. Many states take multiple approaches to funding their broadband projects, using a combination of grants, loans, tax incentives, bonds, and support from other state agencies. Given such diverse strategies, states should look to one another to find creative ways to extend broadband to those who need it.

Endnotes

- 1 Tenn. Code Ann. § 4-3-708, <https://law.justia.com/codes/tennessee/2017/title-4/chapter-3/part-7/section-4-3-708/>.
- 2 Commonwealth of Virginia, Office of the Governor, “Commonwealth Connect: Governor Northam’s Plan to Connect Virginia” (2019), <https://www.wired.virginia.gov/sites/default/files/CommonwealthConnectReport.pdf>.
- 3 Minn. Stat. § 116J.396, <https://www.revisor.mn.gov/statutes/cite/116J.396>.
- 4 N.C. Gen. Stat. § 143B-1373, https://www.ncleg.gov/EnactedLegislation/Statutes/HTML/BySection/Chapter_143B/GS_143B-1373.html.
- 5 Mich. 2018 PA 618, Sec. 806, <https://www.legislature.mi.gov/documents/2017-2018/publicact/htm/2018-PA-0618.htm>.
- 6 The states are Arkansas, California, Colorado, Maine, Nebraska, New Mexico, Oregon, Utah, Vermont, and Wisconsin.
- 7 Ga. Code Ann. § 32-2-2, <https://law.justia.com/codes/georgia/2017/title-32/chapter-2/article-1/section-32-2-2/>.
- 8 220 Ill. Comp. Stat. § 5/13-502.5, <http://www.ilga.gov/legislation/ilcs/ilcs4.asp?DocName=022000050HArt%2E+XIII&ActID=1277&ChapterID=23&SeqStart=22500000&SeqEnd=32900000>.
- 9 State of Indiana, Office of the Governor, “Gov. Holcomb Outlines Next Level Connections Program,” news release, Sept. 4, 2018, <https://www.in.gov/gov/files/NextLevel%20Connections%20Announcement.pdf>.
- 10 Virginia Tobacco Region Revitalization Commission, “TRRC History,” accessed March 22, 2019, <https://www.revitalizeva.org/about-the-commission/trrc-history/>; VA Code Ann. § 3.2-3101, <https://law.lis.virginia.gov/vacode/title3.2/chapter31/section3.2-3101/>.
- 11 Ind. Code § 4-4-38-6, <http://iga.in.gov/legislative/laws/2018/ic/titles/004/#4-4-38-6>.
- 12 Ga. Code Ann. § 50-40-1, <https://law.justia.com/codes/georgia/2018/title-50/chapter-40/article-1/section-50-40-1/>.
- 13 Wis. Stat. 196.504(1)(b), <https://docs.legis.wisconsin.gov/statutes/statutes/196/504>.
- 14 N.C. Gen. Stat. § 143B-1373, https://www.ncleg.gov/EnactedLegislation/Statutes/HTML/BySection/Chapter_143B/GS_143B-1373.html.
- 15 Colorado Department of Local Affairs, “Broadband Program,” accessed March 22, 2019, <https://www.colorado.gov/pacific/dola/broadband-program>.
- 16 Alabama Act of March 21, 2018, No. 149, 2018 Ala. Acts 395, relating to grants given to deploy and encourage the adoption of broadband internet services, <http://arc-sos.state.al.us/cgi/actdetail.mbr/detail?year=2018&act=%20395&page=subject>.
- 17 Neb. Rev. Stat. § 86-580, <https://nebraskalegislature.gov/laws/statutes.php?statute=86-580>.
- 18 Mo. Rev. § Stat. 620.2455, <http://revisor.mo.gov/main/OneSection.aspx?section=620.2455&bid=35055>.
- 19 Maine Stat. tit. 36, § 5219-M, <http://www.mainelegislature.org/legis/statutes/36/title36sec5219-M.html>.
- 20 Ind. Code § 6-1.1-12.5, <http://iga.in.gov/legislative/laws/2018/ic/titles/006/#6-1.1-12.5-1>.
- 21 Iowa Code § 427.1-40, <https://www.legis.iowa.gov/docs/code/427.1.pdf>.
- 22 Iowa Code § 12.87, <https://www.legis.iowa.gov/docs/code/12.87.pdf>.
- 23 N.H. Rev. Stat. Ann. § 33:3, <http://www.gencourt.state.nh.us/rsa/html/III/33/33-3.htm>.
- 24 Idaho Code Ann. § 67-4734, <https://legislature.idaho.gov/statutesrules/idstat/Title67/T67CH47/SECT67-4734/>.
- 25 W.Va. Code §11-13A-6A, <http://www.wvlegislature.gov/WVCODE/ChapterEntire.cfm?chap=11&art=13A§ion=6A#13A>.
- 26 N.C. Gen. Stat. § 143B-437.01, https://www4.ncleg.net/enactedlegislation/statutes/html/bychapter/chapter_143b.html.
- 27 Haw. Rev. Stat. § 201H-191.5, https://www.capitol.hawaii.gov/hrscurrent/Vol04_Ch0201-0257/HRS0201H/HRS_0201H-0191_0005.htm.

This brief was updated on Aug. 30, 2019, to clarify which states provide grants and loans, and which provide matching funds.

For further information, please visit:

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