



2005 Market Street, Suite 2800 P 215.575.9050
Philadelphia, PA 19103-7077 F 215.575.4939

901 E Street NW, 10th Floor P 202.552.2000
Washington, DC 20004 F 202.552.2299
pewtrusts.org

Memo

To: State broadband offices

From: Jake Varn, The Pew Charitable Trusts

Date: Nov. 29, 2022

Subject: Engaging regional and local stakeholders in capacity building

The following memo examines how states have developed and used their own funding mechanisms to support broadband expansion programs.

Broadband Funding Mechanisms

This memo includes information on the funding mechanisms that states use to support broadband grant and loan programs or otherwise support broadband projects, but it importantly excludes federal funding, which has recently emerged as a significant component of state broadband grant programs.

Summary

Although there has been a recent influx of federal funding, the state-funded portions of broadband grant and loan programs have historically come from three main sources:

- General and special funds.
 - State universal service funds.
 - Targeted revenue streams (e.g., right-of-way fees).
- States also support broadband projects through tax provisions, bonds, and related programs (e.g., economic development, housing, or telehealth programs).

Broadband Grant Funds

Before the recent influx of federal funds, the majority of states operated broadband grant programs through a special fund designated for broadband deployment. States use a variety of funding mechanisms to support these broadband grant programs, including appropriations from the general fund, revenue from state universal service funds, or revenue from other designated sources.

The authorizing language for these special funds typically outlines the eligible uses and role of the legislature or governing bodies, for example:

- Minnesota's [Border-to-Border Broadband Fund](#) account was established as a separate account in the special revenue fund in the state treasury. Earnings, such as interest, dividends, and any

other earnings arising from assets of the account, must be credited to the account. Funds remaining in the account at the end of a fiscal year are not returned to the general fund but remain in the account until expended. Funds in the account may be used only for grant awards, to supplement revenue raised by bonds sold by local governments for broadband infrastructure deployment, or to contract for the collection of deployment data from providers and the creation of maps to display broadband availability.

- North Carolina’s [Growing Rural Economies With Access to Technology](#) (GREAT) was established as a special revenue fund in the Department of Information Technology. The department’s secretary may award grants from the fund to eligible recipients for eligible projects. The funds shall be used by the recipient to pay for infrastructure costs associated with an eligible project. State funds appropriated to this fund shall be considered an information technology project.
- Washington’s [Statewide Broadband Account](#), created in 2019, resides in the state treasury and can receive appropriations from the state Legislature, proceeds from bond sales, repayments from loans, or other relevant sources. Funds can be used for administering the state’s grant and loan programs, data acquisition, management, and analysis, supplementing local bond proceeds for broadband, and as a match for federal programs.

General Fund Appropriations

Most states make annual or biennial appropriations from the state general fund to their broadband grant funds to support broadband deployment. For example, since 2018, Virginia has allocated a combined \$124 million in general state funding for the [Virginia Telecommunication Initiative](#). Michigan appropriated \$20 million from its general fund when it created a one-time broadband program in its [2018-19 appropriations bill](#). Any state can appropriate money for broadband in this manner but will need to balance other priorities, such as education, transportation, and health care, that typically also command general fund dollars.

Universal service funds

As of 2021, 42 states operate some form of a state universal service fund (USF); these funds support a range of broadband-related activities, including internet bill assistance through Lifeline, phones, and devices, and captioning services for people with hearing impairments. Originally, states and the federal government developed these funds to ensure the availability of landline voice communications, with the goal of enabling “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. States established funds to support the deployment of telecommunications service to rural and high-cost areas. The money for these funds is sourced from fees levied on telecommunications providers, which are 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.

Of the 42 USFs, only 10 states (Arkansas, California, Colorado, Maine, Nebraska, New Mexico, Oregon, Utah, Vermont, and Wisconsin) have USFs that can be used to support broadband projects.

Other revenue streams

States have also used other revenue streams to fund their broadband grant programs:

- Colorado's Department of Local Affairs [broadband program](#) is funded by the [Energy & Mineral Impact Assistance Fund](#) and has \$5 million per year dedicated for broadband planning and middle-mile grants from 2019 to 2024. Funds come from the state severance tax on energy and mineral production and from a portion of the state's share of royalties paid to the federal government for mining and drilling on federal land. Grants from the program are dedicated to local and regional broadband planning and to the deployment of middle-mile infrastructure.
- Georgia allows its Department of Transportation to direct the [fees levied on providers](#) for access to state-owned rights of way to broadband deployment.
- Illinois authorized the [Rebuild Illinois](#) bond measure in 2019, with \$400 million designated for broadband network infrastructure. Illinois also required internet service providers to [pay certain civil penalties](#) into a Digital Divide Elimination Fund, which is used to finance deployment projects.
- Indiana's [Next Level Connections](#) program uses revenue from toll roads to help fund its \$270 million broadband deployment program.
- One of Virginia's broadband expansion programs was funded by the state's [Tobacco Region Revitalization Commission](#), using money from a 1998 legal settlement with tobacco producers.

Tax Credits and Related Funding Programs

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 credit](#) allows providers to claim a credit for leasing or buying broadband equipment. Indiana allows municipalities to designate areas as "[infrastructure development zones](#)" and exempt broadband infrastructure in those areas from property taxes, and Iowa [exempts](#) broadband infrastructure from property taxes for 10 years after it is installed.

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

- Idaho allows funds from the [Idaho Opportunity Fund](#), a program that makes grants to local governments for infrastructure improvement, to be used for broadband.
- The Hawaii [Housing Finance and Development Corp.](#), upon the request of a county, can create regional infrastructure subaccounts to support broadband deployment.
- 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.
- 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](#).