



Telecommunications Program *Broadband Workshop*

2014 Farm Bill
Broadband Loan Program



Evaluation Periods

- ▶ Published in Federal Register each fiscal year
 - ▶ Minimum of 2 evaluation periods
 - ▶ Funding split for each period
 - ▶ Application windows established
- 



Remember the New Definitions

Eligibility

Broadband Service

- The amount of bandwidth being delivered to the household that will be used to determine service area eligibility
- 4 Mbps downstream
- 1 Mbps upstream

Construction

Broadband Lending Speed

- The amount of bandwidth that the funded facilities must be capable of delivering to every household
- 10 Mbps downstream
- 1 Mbps upstream



Remember the New Definitions

Incumbent Service Provider (per service area)

1. Offers terrestrial **broadband service**
2. 5% of the households subscribe to **broadband service**
3. Provides information to support number of households taking **broadband service**



Remember the New Definitions

Unserved area or household

- An area or household that is not offered **broadband service** (4 meg down/ 1 meg up)



Eligible Loan Purposes

- Facilities required to provide service at the **broadband lending speed (10 meg down/ 1 meg up)**
- Capital lease for facilities to provide service at the **broadband lending speed** (up to 3 years)
- Pre-loan expenses (up to 5% of loan amount)



Eligible Loan Purposes

- ▶ To fund an acquisition

1. Must be necessary to provide service at broadband lending speed
2. Acquired service area is eligible for funding
3. Is not more than 50% of the loan amount
4. Must be for a controlling majority interest



Eligible Loan Purposes

- To refinance an RUS infrastructure loan
 1. For providing service at the **broadband lending speed**
 2. Not more than 40% of the loan
 3. Must be current on payments
 4. Amortization period is not extended



Ineligible Loan Purposes

- Operating expenses
- **Any cost incurred prior to the applicant receiving an offer letter for the loan other than eligible pre-loan expenses**
- Acquisition of stock of an affiliate
- Acquisition of facilities from an affiliate
- Vehicles not for construction



Ineligible Loan Purposes

- Facilities not meeting the requirements of the construction standards
 - Facilities leased under an operating lease
 - To fund merger or consolidation of entities
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Ineligible Loan Purposes

- ▶ Purchase of CPE not owned unless:
 - ▶ Outside collateral is pledge equal to CPE cost
or
 - ▶ A revolving fund is established where the actual cost of equipment is returned to fund



Eligible Service Area

- Service area is completely rural
- 15% of household are **unserved households**
- Less than 3 **incumbent service providers**
- Does not overlap current RUS borrowers
- Does not overlap service areas of grantees that RUS funded

Rural Service Area
1000 Households

*2 incumbent
service providers*

*150 unserved
households*

Rural Service Area
1000 households

2 incumbent service providers

*100 underserved
households*

*100 underserved
households*

Multiple Service Area

100
HHs
unserved

10 HHs
unserved

100 HHs 2 *incumbent*
service provider

10 HHs
unserved

150 HHs
unserved
10 HHs in town over
20,000

Rural Service Area
1000 HHs
4 *incumbent service providers*

Rural Service Area
1000 households

2 incumbent service providers

RUS borrower or
grantee – 100 HHs

*300 unserved
households*



Service Area Exceptions

- ▶ Title VI borrowers are exempt from the 15% unserved requirement for upgrades in their existing service area
- ▶ **Incumbent service providers** are exempt from the 3 incumbent rule for upgrades in existing service area unless they are eligible for an infrastructure loan

Title VI Service Area

1000 households with *broadband service*

Incumbent service providers

900 households with *broadband service*

Incumbent Service Provider Service Area

Incumbent Service Provider Service Area

1000 households with broadband service

NOT ELIGIBLE FOR INFRASTRUCTURE LOAN

4 other *incumbent service providers*
400 households with broadband service



Preliminary Assessment by RUS

- ▶ Is the service area rural
- ▶ Does the service area overlap with RUS borrowers or grantees
- ▶ Does the service area overlap with a pending application
- ▶ Snapshot in time!



Loan Terms

- Treasury Rate
 - Maturity period based on life of facilities
 - Two year principal deferment starting with the first advance
 - \$20 million maximum loan size
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Loan Security

- First lien position on all assets and revenue of applicant
- First lien position can be shared with other lenders



Special Terms and Conditions

For service areas where at least 50% of the households are unserved

- Up to 4 year principle deferral
- 25% extension of standard amortization period up to a maximum of 35 years
- Modifications to the security arrangements



Application Submission

- Directly to National Office
- **NOT** Through General Field Representative
- Two hard copies and one electronic copy
- RUS is developing an online applications system and when that becomes available, all applications will be required to be submitted through the system

Priority for Process an Application

1. No broadband service available
 2. 75% of HHs are unserved
 3. 50% of HHs are unserved
 4. 25% of HHs are unserved
- After an application window closes, applications will be ranked by the criteria above for a place in the processing queue and for available funding



Complete Application

- RUS Form 532
 - Service area maps
 - Evidence of equity
 - Market Survey
 - Competitive analysis
 - 5 year pro forma
 - Network design
 - Estimated budget
 - Legal opinion
 - Licenses and regulatory approvals
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Searchable Database

- ▶ A searchable database has been set up on the RUS webpage that includes all approved and pending applications.
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Public Notice on Application

- Identity of applicant
 - Map of the service area
 - Amount and type of support requested
 - Status of review of application
 - Estimated number of unserved households
 - Types of services to be offered
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Public Notice Response

- ▶ In order to be considered as an incumbent service provider, existing service providers must submit the appropriate information through the RUS mapping tool.
- ▶ If the necessary information is not submitted, then the existing service provider will not be considered an incumbent service provider for the purpose of eligibility of an area.



Requirements for Public Notice Response

- ▶ Number of customers currently offered broadband service (4 down/ 1 up)
- ▶ Number of customers currently taking broadband service
- ▶ Map of service territory
- ▶ Other information



Equity Requirement

- ▶ Minimum equity is 10% of loan amount
- ▶ Must be booked or evidence of commitments must be in application



Additional Cash Requirement

- ▶ If the 10% equity requirement is insufficient to demonstrate a positive cash balance then additional cash infusions will be required
- ▶ For start-ups, only 50% of projected revenues will be used in this analysis



Market Surveys

- ▶ Must be completed for each service area
- ▶ For service offerings projecting less than a 20% penetration rate, no market survey is required
- ▶ For service offerings projecting more than a 20% penetration rate, a market survey is required



Competitive Analysis

- ▶ A competitive analysis must be completed for each service area identifying the competitor's rate packages for the proposed service offerings
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Financial Information

- Audited financial statements
 - If a subsidiary, audited financial statements of parent
 - If reliance on an affiliate, audited financial statements of affiliate
 - List of all outstanding obligations
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Financial Viability

- ▶ Customer projections for each service area
 - ▶ Balance Sheet, Income Statement, Cash Flow Statement
 - ▶ Projected TIER of at least 1.25 by end of 5 year forecast period
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Network Design

- Evidence that all premises can receive service at the broadband lending speed
- Description of any existing and all proposed facilities
- Estimated cost of proposed facilities
- Evidence demonstrating that proposed construction can be completed in three years.



Construction

- ▶ Must begin within 6 months from the date funds are made available
- ▶ All construction must be completed within 3 years. The 3 year period begins 120 days after the loan documents are signed by RUS.



Notification of Completeness

- Application complete – will be ranked against other complete application to determine processing order
- Application incomplete or inadequate – applicant will be notified that application is rejected and will be provided with a detailed list of reasons



Loan Offer

- ▶ Unexecuted copy of all loan documents and requirements
- ▶ 10 days to accept
- ▶ Executed loan documents
- ▶ 120 days to return
- ▶ If either deadline is not met, offer could be withdrawn



Reporting Requirements

- ▶ Quarterly financial statements
 - ▶ Annual CPA Audit
 - ▶ Semiannual progress reports for 3 years after project is completed
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Semiannual Progress Report

- ▶ Number and location of businesses and residence receiving broadband service
- ▶ Types of facilities constructed
- ▶ Tiers (speed & cost) of broadband service being provided
- ▶ Broadband adoption rate and number of new customers taking broadband service



Questions & Answers

- Now it is time to stump the presenter.
 - Do you have a question I cannot answer?
 - I am good at making up answers!
 - I do work for the government.
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