

New study outlines potential telecommunications funding challenges in rural America

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(BALTIMORE MD) A new, in-depth white paper highlights the increased risk that telecommunications customers in rural regions will be the victims of a growing digital divide. *State USF White Paper: New Rural Investment Challenges* is authored by Michael Balhoff and Bradley Williams, both respected investment professionals with more than 35 combined years in providing telecommunications investment consultation.

"We believe that carriers providing advanced telecommunications services to rural customers will be challenged over the next several years because of increased federal obligations combined with sharply lower federal support in the form of universal service funding and regulated payments between communications companies," said Michael Balhoff. "The very real risk is that there will be lower or no investment in more vulnerable regions as necessary support funding is reduced." The authors explain that wireless broadband is unlikely to provide a substitute for wired broadband connections because of, among other reasons, volume-based wireless rates that are today three times higher than wireline data service rates—far too high to be an economic replacement for wired services.

The primary message of the paper is that state legislators and public service commissions have a short period to affirm their long-standing commitment to terrestrial rural voice and broadband networks, and it will be difficult to recover if the networks fail or falter. The ultimate concern is the potential damage to local economies, emergency preparedness, and social environments in rural regions. The paper explains that, in the new federal reform of universal service funding, telecommunications carriers are expected to have a small window to accept or reject federal support in light of new broadband obligations. If the funding is insufficient and carriers choose to reject the support dollars, state policymakers, who have not assessed the challenges, could lose the opportunity to supplement the federal shortfalls. According to Balhoff and Williams, the cost characteristics of high-cost-to-serve rural markets remain daunting, and all communications providers, regardless of their size, will be hard-pressed to both provide traditional core telephony services and manage the costs associated with the further deployment and enhancement of broadband services as the reforms require.

State policymakers will have to choose whether and how to support the communications needs of customers in high-cost, rural regions in the wake of the FCC's sharp reductions in universal service and intercarrier compensation support funds. The social and economic well-being of customers is dependent

on supplemental replacement support to assure comparable services in high-cost areas.

The Balhoff and Williams study has drawn the attention of state public service commissioners who have focused on the needs of rural customers. Indiana Commissioner Larry Landis, who co-chairs the National Association of Regulatory Utility Commissioners (NARUC) Washington Action Program points to a “Hobson’s Choice for the states, between assuming what amounts to a multi-billion dollar unfunded state liability or watching the inevitable failure of many rural providers, as detailed in Balhoff and Williams’ latest work, which is must reading for all stewards of public policy.”

Pennsylvania Commissioner James Cawley, State Chair and Member of the Federal-State Joint Board on Universal Service, states that, “This white paper provides a well-researched discussion of the various adverse consequences . . . that were predicted in advance by state regulators.”

Senior equity analyst Frank Louthan at Raymond James writes that, “Mike Balhoff and Brad Williams consistently provide some of the best policy and financial analysis in the business. This white paper should be required reading as it carefully outlines the financial implications of telecom law and policy.” John Hodulik, Managing Director at UBS Investment Research, states that, “The white paper from Balhoff and Williams, LLC combines a thorough understanding of the regulatory framework with a Wall Street grasp of the economics behind these issues.”

Major telecommunications industry capital providers and company executives have also endorsed the report.

CoBank’s Rob West, who heads the telecommunications division of a major lender to the industry, recommends that, “the Balhoff and Williams State USF White Paper highlights issues that are important to the rural wireline industry and to those that have a significant investment in that market. CoBank’s current assessment of the rural wireline market is . . . [that] many small rural wireline providers/companies have or will lose 50 to 100 percent of their capacity to access borrowed capital.”

Paul Sunu, Chief Executive Office of FairPoint Communications, comments that, “Recent changes by the FCC will remove all existing federal universal support for the rural areas served by most carriers, leaving it to the states to determine whether certain rural customers will continue to have access to voice, much less broadband, services. . . . This paper carefully describes the realities of the current environment and is must reading for state legislators in virtually every state of the Nation.”

Balhoff and Williams’ other studies also have been endorsed and cited by major telecommunications leaders. Prior studies relate to acquisitions and improvements of rural properties, municipal broadband investments, state universal service challenges in the state of Texas, and the recent Quantile Regression Analysis of the FCC.

The report is available on the website of Balhoff & Williams, LLC (balhoffwilliams.com).

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