

# Network operators need more information before bidding for US government broadband funding

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Deploying networks to rural areas that are not commercially viable is always going to be a challenging endeavour, even with significant public funding to subsidise the network roll-out. This is a common problem worldwide. However, in the USA the complexity of the various funding programmes and their associated governance will make the challenge of securing private investment alongside public funding even more daunting. Analysys Mason has experienced these challenges in other countries in Asia and Europe and we can see a risk that a fragmentation of approaches will lead to higher costs and ultimately failure to achieve long-term commercially sustainable solutions, as well as poor use of public money.

## Investor perspective

The Broadband Equity, Access, and Deployment (BEAD) programme has USD42.45 billion of public funding available to plan, procure, deliver and monitor projects that improve broadband services in unserved and underserved locations<sup>1</sup>, mostly those in rural locations – the scale is significant. However, looking at the programme from the perspective of a private sector investor (that is, those network operators and their investors who will become recipients of public funding (known as ‘subgrantees’ in the scheme definition)), the programme complexity alone will be formidable. Operators will need to bid for funding in multiple competitive procurement processes and, as a winning bidder, build operate and commercialise a broadband network in compliance with BEAD obligations, which could be different for each procurement. Operators will be signing contracts with individual States (known as ‘eligible entities’ in the scheme definition), which in turn will have been allocated BEAD funding by the National Telecommunications and Information Administration (NTIA).

## BEAD programme challenges

Operators will need to think carefully about what they need to do before bidding, and what they need to do to satisfy funding obligations during contract delivery. Unfortunately for operators seeking consistency and a low cost of interaction with the States, each State has significant flexibility to define their approach to procurement, to define the geographical scope of projects, to define the selection criteria and to define the funding allocation between fibre and other technology solutions. This could lead to very different tenders being issued by each State, making it difficult for operators to develop consistent and commercially viable solutions, ultimately failing to secure investor sign-off, or potentially, leading to State-by-State differences in the quality and timeliness of the programme’s achievements.

In addition, there are several programme characteristics that are challenging for both the States and the operators to address; a selection of these characteristics are summarised below.

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<sup>1</sup> Locations with less than 25Mbit/s download speed (unserved) or less than 100Mbit/s download speed (underserved).

- Match funding is a requirement from private investors, but it can be waived or lowered or tax breaks offered. This could lead to some States being more attractive to investors than others.
- Eligible entities can choose to carry out activities themselves – this could lead to different responsibilities between States and operators – as well as adding complexity to liabilities for meeting contract performance metrics, network operators may need to change standard procedures and practices to meet bespoke requirements, which introduces inefficiencies and risk.
- Network assets will remain in trust for their estimated useful life, so operators will need to determine a network upgrade strategy to comply with these requirements while continuing to invest in the development of their networks (for example, network equipment will need upgrading before fibre replacement). In addition, operators will need to maintain accounting systems that can correctly track and/or separate owned assets and assets in trust.
- Open access is a secondary selection criterion that States may choose to request as a preferred requirement (that is, not mandatory) in their procurements, which means operators will need to be prepared to submit both wholesale and retail product propositions, and develop associated operational systems accordingly, as well as develop commercial financial models for both business models. This is very different to the European approach where wholesale products are a mandatory bedrock of broadband interventions using “State aid” (that is, interventions using public money to increase broadband network coverage within EU Member States).
- The 4-year deadline to complete network deployment will dictate the size and number of projects that States procure so that operators have any chance to satisfy the deadline. This could lead to many small procurements rather than fewer, more easily manageable and deliverable, large procurements.
- States are only required to seek cash flow projections from operators for 3 years after build completion, whereas it might be many more years before target financial returns are achieved. This means States might misinterpret the long-term sustainability of bidder propositions.

## Operators should understand procurement plans and contract obligations in detail

Operators that are thinking of bidding for funding should engage with individual States to understand the procurement process that will be followed and to establish how the procurement will incentivise private investment given the challenges listed above and the uncertainties caused.

Analysys Mason has significant experience around the world with designing rural broadband intervention scheme procurements and managing contracts in-life, as well as supporting network operators to successfully respond to broadband intervention tenders to be awarded grant funding. We are adept at addressing the various trade-offs that are inherent in such schemes so that government policy objectives and network operator investment objectives can both be satisfied. However, we can see that the variables and uncertainties in the BEAD programme will make it difficult to achieve both without a detailed understanding of the programme by the participating operators and their investors.

If you would like to talk to one of our experts in rural broadband intervention, for example about designing a procurement or responding to a tender, please get in touch with Ian Adkins, Patrick Kidney, Oliver Loveless or Matt Yardley.