



State Representative Rick Carfagna
Sponsor Testimony - House Bill 281
September 20, 2017

Chairman Smith, Vice Chair Ryan, Ranking Member Cera and members of the House Finance Committee. Thank you for affording me the opportunity to provide sponsor testimony on House Bill 281. This legislation stems from the 14 years I served in the cable industry prior to assuming state office, working with local governments throughout the state to expand and upgrade broadband infrastructure. Simply put, HB 281 would effectively combine efforts by government and private enterprise with the goal of expanding broadband connectivity to unserved households across Ohio.

No one can debate how the Internet has changed our way of life; it has yielded a wide variety of economic, cultural, educational, and social resources to our communities. The Internet brings knowledge, marketplaces, and people together across oceans. Yet, despite these incredible advancements, a recent study by The Ohio State University found that nearly one million Ohioans still lack access to fixed broadband service because of where they reside. Indeed, broadband infrastructure can be costly to deploy to households. Terrestrial plant construction alone can involve miles of aerial or underground plant, splicing, the installation of equipment, make-ready work on poles, potential horizontal boring, and the burying of plant or running wires through underground conduit. And this is all prior to running an individual drop to a single address. Private providers, whether terrestrial-based through cable or telecommunications companies, or via wireless carriers, continually balance the costs of construction with rates of return.

Ohio communities served by a terrestrial video service provider (i.e. cable operators and telecommunication companies that provide video service) have the ability to collect a video service provider fee (VSP fee) of up to 5% of video revenues collected from customers within that jurisdiction. The providers commonly pass the fee through to customers in that jurisdiction as a separate line item on monthly billing statements.

My legislative approach would be to create a permissive funding mechanism that incentivizes communities to utilize their VSP fees to help offset construction overage costs. I realize that in many communities these fees are being placed into GRFs and employed for a variety of important operations. However, I believe that if we could pool assorted funds that are already available, the funding of these types of projects would become far less intimidating.

To illustrate this legislative concept, I must share a quick anecdote. A township trustee in southern Ohio once inquired about extending plant to 18 unserved homes along one street in particular. Our company's engineers performed a serviceability study, and the proposed buildout failed our construction formula by \$60,000. This meant that while our company would fully fund the capital investment within its buildout formula, an additional payment of \$60,000 would be required to cover the overage. Since this township collected the maximum VSP fee of 5%, which equated to approximately \$100,000 annually, I suggested a cost-share/public-private partnership where the township might contribute these revenues towards offsetting the \$60,000 overage amount. I also proposed a potential arrangement, whereby the \$60,000 might be deducted in small amounts over time from future fee payments. In the end, the township would not agree to such an arrangement and the street was left unbuilt.

Situations like this are common throughout the state. Although a cable, telecom, or wireless provider may service a city, village, or township, it does not always result in 100% buildout to homes and businesses within that community. Not only does Ohio still have many rural communities that are largely without broadband, there is also a significant "marbling" of unserved household clusters throughout many communities already served. HB 281 would target this problem of last mile connectivity to residences where it remains cost-prohibitive for private providers to extend their plant.

Here is how the proposed mechanism would work (using the 18 homes/\$60,000 anecdote as an example):

- A community would first reach out to all private providers in the area to obtain construction quotes for buildout and identify the cost hurdles.
- Once the overage amounts are determined, the community would have to determine if they would like to utilize the mechanism and then select a provider.
- The mechanism can only be utilized for households that are presently unserved. It cannot be used to overbuild existing private broadband providers.
- Assuming the provider and community are comfortable moving forward, the community would agree to commit to funding 1/3rd of the overage amount (\$20,000) via its VSP fee revenues. This amount could be paid over time by deductions from future fee payments by the private provider under mutual arrangement with the community.
- The community would then contact its County Board of Commissioners and request a match of 1/3rd of the overage amount (\$20,000). The county would have the full discretion to not participate and to decline the match.
- Should the county elect to award the match, it would trigger a second - and compulsory - match for the final 1/3rd of the overage amount at the state level. To this end, HB 281 directs the Development Services Agency to make eligible and administer a total of \$2 million per biennium for these matches from any single fund or combination of existing funds it manages.
- After all obligations are confirmed, the provider proceeds with construction of plant and the new build becomes a part of their normal service territory.

The goal here is quite simple: broadband connectivity to unserved households is a matter that should be addressed by both private enterprise and cooperative efforts across the three layers of

government. In this example, a \$60,000 price tag that might seem steep to a small township has been reduced to a more realistic sum of \$20,000 – especially if funded over a period of several years through smaller deductions from future payments.

We have met with a number of interested parties, including Connect Ohio, local government organizations, industry representatives, and many other direct and indirect stakeholders. We have also begun compiling comments and language suggestions, and are presently working on a substitute bill. Some of these anticipated changes include:

- Flexibility of the local and county government cost-share ratio, as long as the total equates to 2/3rd of the overage amount.
- The ability for communities without VSP fees or not collecting VSP fees to use other discretionary funds and become eligible for this mechanism.
- The application of a clearly defined and objective local bid process.
- Clarification that areas already receiving Connect America Funds at the federal level will not be eligible for this mechanism.
- The ability for other entities or individuals to assist communities by contributing funds towards these efforts.
- A more clearly defined process for DSA to select project recipients and administer this program.

Ladies and gentlemen, HB 281 both incentivizes true public/private partnerships and rewards cooperation across the layers of government. The time has come to encourage communities to utilize revenues that have been derived from infrastructure and reinvest them back into infrastructure. By pooling resources and having all parties place some “skin in the game”, the existing financial hurdles become far less intimidating. I am confident that the deployment of broadband infrastructure to any of Ohio’s numerous scattered pockets of unserved households would be deeply meaningful and enhance quality of life.

Chairman Smith and members of this committee, thank you again for allowing me to provide testimony and at this time, I would be happy to answer any questions.