



From Out Here: Time for a New Broadband Strategy?

By Jack M. Geller, Ph.D.

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There's little doubt that most of the news regarding demand for high-speed Internet — broadband — services has been less than encouraging over the last six months. Here's a sampling:

- In August an analyst from the consulting firm Telechoice said that DSL growth has fallen short of industry predictions, the biggest factor being the lack of compelling services.
- In November CNET News reported a disturbing trend among broadband customers on the West Coast doing what most industry analysts thought unthinkable — canceling their broadband subscriptions and returning to a lower-cost dial-up service.
- In December a story in the Star Tribune business section highlighted a slowdown in the demand for DSL and other broadband services in the Twin Cities. A senior analyst for the Yankee Group in Boston was quoted as saying, "It is difficult to pay \$50 a month for something they just use for e-mail and basic Web surfing."
- And this last month, the big news in the business publications was the sale of AT&T Broadband to Comcast for \$47 billion dollars. What was not emphasized in all the hoopla

was that just two years earlier, AT&T purchased these same cable holdings from TCI and Media One for \$110 billion.

Such news of slowing demand is not very comforting to those (including myself) who advocate the speedy deployment of broadband services throughout rural Minnesota. It's become apparent that because of the lack of broadband applications, many residential customers are unwilling to spend \$50 a month for its speed and convenience, especially in today's economy. Businesses, on the other hand, are going increasingly digital. They need broadband, or will, and rural businesses need the same tools as urban ones. If rural businesses can't get the broadband services they need, their ability to compete and grow in today's marketplace is seriously hampered.

The problem is that weak residential demand for broadband services works disproportionately against rural areas. Demand by business customers is robust enough in urban markets to generate competition among broadband providers regardless of residential demand. In rural markets, however, providers need both residential and business

customers to create an adequate market. If residential demand isn't there, it's all the more costly for businesses.

It's a dilemma that needs to be addressed through public policy, but it's unlikely anything will be produced at the federal level: with national security, a limping economy and a stalled farm bill, Congress has its hands full.

In Minnesota for the past two years, the focus has been on trying to transform regulatory policy, and rural deployment strategies have been a part of that. Bill upon bill has churned through legislative committees with no results. Perhaps it's time for a new strategy.

Take Montana for instance. In 1999 the Montana State Legislature passed a broadband tax credit program that gives telecom providers a tax credit equal to 20 percent of the value of their infrastructure costs on eligible projects providing broadband services to under-served areas of the state. The tax credit must be taken in the year it is applied for and cannot be used to pay past or future tax obligations. The ingenious provision in this tax credit program is that it has an annual cap. Once the annual cap is reached, the program ceases for the year. That

strongly encourages providers planning such projects to invest now rather than later. Or as my kids say, “You snooze, you lose.”

According to state data, last year the program spurred over \$10 million in telecom infrastructure projects across the state. The results so impressed lawmakers in the Oregon State Assembly that they just passed a similar broadband tax credit act. We won’t have any data evaluating the Oregon law’s effectiveness in spurring rural investment until next

year, but one could argue, what do they have to lose? If providers choose not to make the infrastructure investment, no tax credits are provided — no money spent.

So after watching one telecom bill after another struggle through Minnesota’s legislature without any passing out of committee, here’s a simple suggestion: Pass a similar Rural Broadband Tax Credit Act. It’s fast, easy and completely voluntary, with no regulatory implications.

And while I fully understand that it is no substitute for real regulatory reform, it just might be the thing that gets broadband services out to rural Minnesota a little bit faster.

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