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Fitch: Federal Broadband Funds to Drive US Digital Infrastructure Projects

Fitch Ratings-New York/San Francisco-02 November 2022: Substantial, dedicated broadband funding included in the Infrastructure Investment and Jobs Act (IIJA) is expected to be a significant catalyst for U.S. digital infrastructure projects, with an increase in public-private partnerships (P3s), Fitch Ratings says.

The $65 billion federal investment in broadband under the IIJA is the largest ever earmarked for the sector and aims to increase accessibility, affordability, speed and quality of broadband nationally. IIJA funding, together with grants and loans provided through the US Department of Agriculture's ReConnect Program that benefits rural communities, underscores the federal government's commitment to extending digital infrastructure to underserved areas.

Most allocations under the IIJA will be made to states, although local governments may apply directly for competitive grants through the Middle Mile Broadband Infrastructure Grant Program. We anticipate an increase in P3s to achieve broadband buildout goals, as funds provide an incentive for private internet service providers (ISPs) to construct and deploy broadband networks. Potential funding structures include state-owned networks that are leased to ISPs, direct capital funding to ISPs and private activity bonds.

The Commerce Department's National Telecommunications and Information Administration will establish six broadband programs to distribute $48.2 billion of the IIJA broadband funds. The largest program, Broadband Equity, Access and Deployment (BEAD), will provide $42.45 billion to broadband projects focused on unserved and underserved areas.

Last August, all states and territories submitted applications for initial planning funds under the BEAD program, indicating strong interest. All eligible entities will receive a $100 million minimum initial allocation under BEAD, with additional allocations depending on the Federal Communication Commission's final broadband data maps, which indicate areas with no or lower quality broadband access that are targeted under the program.

There were 16 telecom P3 projects at YE 2021, according to HuschBlackwell, and this number is expected to significantly increase with the federal disbursements. However, inflation pressures from higher construction costs and semiconductor and other component shortages could increase project costs and/or potentially delay project timing.

Governments have typically turned to P3s for broadband network projects given the private sector's greater expertise. Broadband projects have high barriers to entry and employ established technology. Although construction costs may be high depending on the terrain, these projects are not complex and maintenance costs are low. There is a high level of cost predictability due to limited scope and relatively low project complexity, and technology is not expected to outpace the investment horizon. Projects with stronger credit attributes have revenues that are supported by fully indexed availability payments from a strong counterparty.

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