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Neighborly Issuer Brief: How Munis Finance Broadband.

How Munis Finance Broadband

The accelerated development of rural broadband infrastructure is one potential outcome of a federal infrastructure program. When it comes to any discussion of rural infrastructure needs, no matter where the forum or who the messenger is, what comes through loud and clear – even in analog – is the demand for high-speed internet access as a key to rural development and revival. It is important enough that some municipalities are not waiting for a federal answer.

One example is Fort Collins, CO. The City of Fort Collins, at the direction of City Council and voters, is moving forward with building and implementing high-speed next-generation broadband to the entire community. This will take 3 to 4 years and include the entire growth management area. The city is aiming to provide that high-speed connectivity for $70 per month or less, as well as a less expensive internet tier of service. Comcast and Century Link currently provide service in the city.

While the issue is being debated, it's evident that the municipal bond market has been a source of financing for local broadband since 2000. At least 8 municipalities and the U.S. Virgin Islands have issued bonds for this purpose.

Typically, bonds have been issued to provide funding for the equipping of local broadband networks within the existing infrastructure maintained by local electric systems. The issuers tend to be owners of their own existing electric distribution systems. The bonds are generally payable from the net revenues of the local cable system and are sometimes supported by an ad valorem tax pledge in the event that cable/internet revenues are insufficient.

Another method of financing mirrors the experience of financing rural electric distributions — the establishment of cooperatives for that purpose. Much like rural electric coops, rural communities have banded together to create a critical mass sufficient to support a debt financing. The RS Fiber coop is an entity made up of 17 rural Minnesota communities which issued bonds through one of the member communities in 2015. That structure obtained a stand-alone investment grade bond rating so the concept is viable from that standpoint and we could see more of these financings in the future.

For one group of localities in Vermont, broadband is the topic du jour. Central Vermont Internet – which is up for a town meeting vote in Barre City, Barre Town, Berlin, Calais, East Montpelier, Marshfield, Middlesex, Montpelier, Northfield, Plainfield, Roxbury, Williamstown and Worcester – would bring fiber optic capability to these places as they work to keep their localities economies up to 21st Century standards. Collective action such as this could easily be the digital equivalent to the joint action agency undertakings that maintained electric service in the last quarter of the 20th Century.

As the Federal government is likely to be slow–if at all in 2018–to put forward an infrastructure bill, issuers should take note of projects elsewhere and learn from the successes.

Gas Tax Increases Possible in Florida

There may not be support for increases in the federal gas tax at the federal government level — which sits at 18.4 cents per gallon, hasn't been raised since 1993 and is not subject to inflation — but there are efforts being made to find out whether that sentiment is truly felt at the local level. The latest jurisdiction to consider an increase is in Florida. Lake County voters will get a chance this fall to vote on a proposed nickel-per-gallon gas-tax to finance rehabilitation of existing roads. The County estimates that 75 of 1,391 miles of county-maintained roads are categorized as severely deteriorating. The cash provided by the tax, if voters approve it, would help cover the cost of repaving 65 of those miles.

The extra tax would start in January 2020 and generate an estimated $6 million a year from residents and out-of-county drivers. Two-thirds of the money, about $4 million, would go to the county and the rest would be divided by Lake cities. If approved, Lake would join Osceola, Polk and Volusia counties in utilizing the maximum 11 cents a gallon in local-option gas taxes allowed by law. The average motorist purchases about 500 gallons a year per car, according to the U.S. Department of Energy. That means a driver would pay about $25 more per year if the tax is approved. The local-option 6-cent gas tax already applies to all fuel including diesel, but the proposed extra nickel in taxes wouldn't apply to diesel fuel.

As issuers and their taxpayers consider options for raising revenues for important infrastructure, these are case studies that may help guide government officials' decision-making processes and gauge voter sentiment.

Another Cyber Attack Hits a City — This Time Atlanta

Atlanta is the largest American city to see its computer systems compromised by malware from malevolent interests. The hackers recently asked the city for $51,000 in ransom to unlock data that was encrypted during the attack. Officials faced the same choice all in that position face – give in to the criminals and have their systems restored quickly or address the issue on a machine-by-machine basis.

The effect has varied. Court dates have had to be postponed and the ability to pay fines and bills has been compromised. The city's 911 system was not affected and operations at Hartsfield-Jackson Airport continued. The airport did disable its WiFi system as a precaution and its parking operation was compromised.

The city is fortunate in that operating systems do not appear to be the target. Rather the focus was on administrative systems leading to handle processing of justice system paperwork. You can get water from the city water system but you can't pay your bill when due. According to The New York Times, SamSam, the ransomware group behind the Atlanta attack has already extorted more than $1 million in ransoms this year.
City officials have not disclosed the extent to which servers for backing up information on PCs were corrupted or what kind of information they think is unrecoverable without paying the ransom. Atlanta police returned to taking written case notes and have lost access to some investigative databases.

What many of these attacks have in common is that the attacked systems are internet based. As the cloud becomes more and more ubiquitous, more and more urban infrastructure, including smart city systems, go online. Thus, many are vulnerable to the resulting delays, errors, and inconveniences associated with these attacks.

So the real question is does this constitute a material event or risk which should be disclosed to investors, current or prospective? The question is not whether cyber risk is such an event under current MSRB reporting requirements. Rather it is a question of common sense. If a municipality is vulnerable to a risk from the outside that could compromise its ability to deliver services, keep accurate records, and collect and account for revenues, is that not something to which investors are entitled to be informed and allowed to make their own independent assessment of from the perspective of investment and credit risk?

Trade War Will Hurt Midwestern States

These are the 10 largest pork-producing states: Iowa – $4.2 billion; Illinois – $1.54 billion; Minnesota – $1.47 billion; North Carolina – $1.46 billion; Indiana – $1.04 billion; Oklahoma – $952.7 million; Missouri – $791 million; Nebraska – $657.5 million. Of total pork exports, 2% of U.S. production goes to China. Predictions are that combined with other factors (energy costs, feed costs) hogs are now expected to average about $48.50 this year with cost now estimated near $53. Losses of $4.50 per live hundredweight or about $12.50 per head are expected.

So income taxes derived from the agricultural sector will clearly be positioned to decline. This will complicate existing budget strains in Iowa, Oklahoma, and Nebraska. There is an impact from the new trade policies, especially in the rurally based states with smaller less diverse economies.

According to the USDA, California has remained the top agricultural export earnings state since 2000, with Iowa, Illinois, Minnesota, Nebraska, and Texas near the top of the list in any given year. The largest exporters of animal products in recent years have been Iowa, the largest pork producer, as well California, the largest dairy supplier, and Texas, one of the top beef exporters. The top three exporters of plant products have consistently been California, Illinois, and Iowa. California is the top exporter of a range of vegetable, fruits, and nuts, whereas Illinois and Iowa are top exporters of soybeans, corn, and feeds. So the new Chinese tariffs on fruits will bite in these areas.

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