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# Double Trouble: NCTA, Navigant Say RUS's Stimulus Subsidies Are Duplicative

by [Carl Weinschenk](#), *IT Business Edge*  
May 17, 2011 8:51:39 AM

Carl Weinschenk spoke with Kevin Caves, director of **Navigant Economics**. Navigant and the National Cable Telecommunications Association last month released a report consisting of three case studies of awards made by the Rural Utilities Service under the American Recovery and Reinvestment Act.

The Rural Utilities Service, which is part of the U.S. Department of Agriculture, is one of two agencies charged with awarding grants under the American Recovery and Reinvestment Act. A study conducted by Navigant Economics at the behest of the National Cable Telecommunications Association looked at awards in three rural areas. Navigant Director Kevin Caves tells IT Business Edge's Carl Weinschenk that the study found that RUS funded plans to offer services in areas in which most residents already have broadband access.

**Weinschenk:** What did the study look at?

**Caves:** In the study we looked at three case studies where rural broadband subsidies have been dispersed through the Rural Utilities Service pursuant to the **American Recovery and Reinvestment Act**. We were trying to assess the cost effectiveness of the subsidies. We wanted to understand the way the **Rural** Utilities Service set rules that govern the way the funds are distributed, the way these rules are applied, whether or how that affected the distribution of subsidies and which areas did or did not already have broadband coverage. We gathered data from various sources. We looked at the extent to which broadband services already are available.

**"If the cost of serving a low-population-density area is more than canceled out by the benefit of serving a less costly area with competitors, you are going to be inclined to draw the service area in a way that provides duplicate coverage, and that's what we see in these case studies."**

**Kevin Caves**  
Director  
Navigant Economics

The conclusion we reached was that the **majority of households in these service territories already have broadband services from multiple providers.**

**Weinschenk:** You did the study in conjunction with the NCTA?

**Caves:** That's correct. They have been clients of ours in the past and they approached us about the possibility of doing a study that would simply look at the facts in these three case studies and present the results.

**Weinschenk:** How did you select the case study areas?

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**Caves:** We selected these areas based on a couple of criteria. They were fairly large awards, collectively representing about 8 percent of subsidy obligations that the RUS has under the American Recovery and Renewal Act. They were geographically dispersed. One is in Kansas, one in Montana and the other in Minnesota. So they represent a reasonably diverse set of awards in various parts of rural America. The preliminary data that we looked at and preliminary filings that were made in the process of awarding these grants indicated that there appeared to be significant pre-existing broadband coverage.

**Weinschenk:** The NCTA helped you choose the areas?

**Caves:** The two of us [worked] together. We looked at data and determined that collectively these areas would provide informative case studies.

**Weinschenk:** My understanding is that RUS only covers part of the **ARRA** monies.

**Caves:** There are two components. There is the NTIA [**The National Telecommunications and Information Administration**] component and the RUS component. The total appropriation under the American Recovery and Reinvestment Act is \$7.2 billion. \$4.7 is allocated to NTIA and \$2.5 billion is allocated to RUS.

**Weinschenk:** So you selected areas that your preliminary data suggested had duplicative coverage. Wouldn't choosing random subjects for the case studies have been more fair?

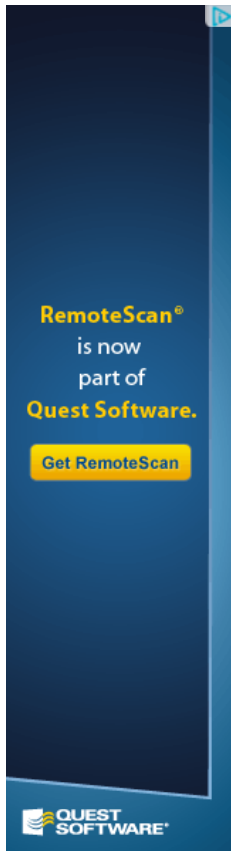
**Caves:** My response is that the RUS has actually defended its decision to allocate subsidies in these areas. What that tells us is that they have applied the criteria as they were applied under BIP — the Broadband Initiative Program — in each of these three case studies and they have defended their application of these standards.

So the fact is that we are observing subsidies being dispersed to areas with pre-existing broadband deployment in areas where RUS itself has confirmed it is applying the criteria as they feel they should be applied tells us the incentive underlying the program appeared to be skewed in a way that encourages subsidization of duplicative coverage.

In other words, if these three cases were "outliers" and did not represent a correct application of the standards governing the BIP program, we would not have expected RUS to defend its decision to allocate subsidies in the way that they did.

As we point out in the paper, in the past RUS has been criticized for doing the same thing that we found them to be doing in these case studies. In the past they gave out broadband subsidies — albeit at dollar amounts that were much lower — and in the past they have been criticized for funding duplicative coverage. So the question we are trying to answer is whether there is evidence that this pattern has continued. We point out in the report that the Department of Agriculture's Inspector General and the Government Accountability Office have shown that the RUS prior projects haven't been cost effective because in part they are providing duplicative broadband service.

**Weinschenk:** Again, it seems like a more random process would have been more persuasive, especially considering that an organization that has an interest in the findings — the NCTA — participated.



**Caves:** The issue is, How do you assess the way ARRA has been implemented? A truly comprehensive approach would be to look at essentially every award that's ever been issued through the ARRA under RUS. We point out in the paper that it's too early for a comprehensive assessment of ARRA. We don't have enough data because as of early 2011 only about \$46.8 million of the \$2.4 billion in funds obligated by RUS have actually been dispersed and only \$277.2 million of the \$4.3 billion obligated by NTIA [have been]. The point is that we are in the early stage of deployment. We don't know for certain how they will evolve. We do know the history of how the subsidies have been allocated in the past. The point of picking out these case studies is to look to see if there is evidence that duplicative coverage has been funded.

**Weinschenk:** How did you assess what broadband existed in the areas you looked at?

**Caves:** We looked at three different modalities of pre-existing broadband coverage. The first was DSL coverage. We estimated DSL boundaries by the location of the dominant central office in each wire center. Based on that location we drew a 12,000-foot radius. We looked at cable broadband coverage using Warren Communications' Cable Factbook. This provides detailed information for each cable system in the U.S., including the location of cable operators' service territories and the existence of cable modem services. The third is fixed wireless broadband. We used a couple of different sources for that. We relied partly on advertised coverage maps. We also took digital images from carrier websites and combined them with geographic information from databases to geographically trace out the coverage. Finally, we relied on fixed wireless broadband offerings reported to the U.S. Department of Agriculture, which is reported on an online service area map that published both the BIP and the Broadband Technology Opportunities Program.

**Weinschenk:** What constituted broadband for the purposes of the case studies?

**Caves:** We adopted two definitions for broadband based on the benchmark that the RUS used to determine whether an area was served versus **unserved**. That was 768 kilobits per second downstream and 200 kilobits per second up.

**Weinschenk:** There is a difference between different types of broadband. Few people would argue that fixed wireless, for instance, is as good as cable modems. Can you characterize what density of different types of broadband you found?

**Caves:** In 85 percent of the households in the areas we found, households were already served by cable or DSL or fixed wireless. The fixed wireless being offered has speeds well in excess of thresholds we are talking about. In the Montana case study, fixed wireless carriers cover about 97 percent of households and are offering download speeds up to 7 Megabytes per second and upload speeds of up to 3 Megabytes per second. They are offering extremely fast fixed wireless services. This was based on advertised coverage and confirmed with the carriers' customer service areas. In Montana, 82 percent of households have access to cable modems from Bresnan Communications. Many can choose between fixed wireless, cable and DSL.

**Weinschenk:** What is your assessment of why RUS and the organizations seeking funding are opting for areas that already are competitive, at least according to your findings?

**Caves:** What we've seen is that RUS sets up the rules for these programs in such a way that carriers applying for subsidies were able to go in and define their own service areas and do so in such a way that a very high percentage of residents may already have broadband service. An economically rational applicant is going to lean toward applying for subsidies in areas that already have pre-existing services because these areas are almost certainly less costly to serve [because] they have a [higher] population density.

**Weinschenk:** They have higher population density, but far more folks are competing for every dollar. Doesn't it equalize itself?

**Caves:** They are receiving a subsidy and have a huge advantage over those that don't. If the cost of serving a low-population-density area is more than canceled out by the benefit of serving a less costly area with competitors, you are going to be inclined to draw the service area in a way that provides duplicate coverage, and that's what we see in these case studies. All of the evidence we reviewed and all of the data we analyzed is very much consistent with the idea that RUS has continued its pattern of funding duplicative services.