

LEGISLATIVE/REGULATORY SUMMARY

February 2005

Michigan To Explore “Power” Broadband Service

The Michigan Broadband Authority has provided a \$500,000 loan to Lighthouse Broadband to install communications equipment on Consumers Energy power lines in Grand Ledge, Michigan. The project is only the 5th commercial installation of power broadband service in the nation. Future expansion of the service to St. Johns is in the planning process.

Michigan Governor calls for broadband access everywhere in state by 2007

"I am particularly pleased to announce tonight that by 2007, we will have brought high-speed Internet access to every corner of our state. ... Just as 50 years ago we used the strength of steel to link our two peninsulas, we will now use the power of this new technology to link every community in our state to a world of economic opportunity. Broadband will be this generation's Mackinac Bridge."

"Michigan Broadband Authority Preparing To Make Loans"

"With only \$6 million loaned so far, Bob Filka said the state is preparing to make up to \$20 million in loans to providers over the next several months to expand high-speed capacity in areas that do not now have the service or only limited service. And the state has the potential of making up to \$400 million in loans available to different providers as Michigan kicks off in high gear its efforts to expand broadband access, Filka, chief operating officer of the authority said."

<http://www.ortcc.org/PDF/ORPAwhitepaper.pdf>

Oregon Broadband Partnership: Concept Evaluation and Recommendations or broadband over powerline carriers. A loan will be provided to support the Michigan broadband Authority, <http://www.michigan.gov/cis/0,1607>

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Appendix 3 - Michigan Broadband Development Authority (MBDA) Purpose and vision

The MBDA was created to help Michigan attract more private sector investment in high-speed Internet infrastructure, and to increase demand for and utilization of broadband services. It does so by offering low-cost loans to telecommunications companies willing to make such investments and by offering organizations low-cost financing for the acquisition of hardware/software applications that will improve or increase their use of broadband service. The Michigan Legislature gave a clear mandate to foster the development of broadband technology in the state. They gave several tools to accomplish this mission. Through the bond capabilities of the state they have access to low cost capital and are empowered to offer loans at

below market rates. They also gave the resources to hire a talented staff with extensive development expertise. Finally, as a State Agency, they can facilitate relationships with other government and private agencies on behalf of our borrowers. Ultimately they are working to close the "digital divide."

Authority, organization, and funding

As a result of the findings of the Link Michigan Project²⁴, Michigan's legislature created the first Broadband Development Authority in the United States. The agency facilitates broadband expansion for the benefit of all people of the state. The Authority is an independent state government agency. Created by the State Legislature on March 14, 2002 (Act No. 49 of the Public Acts of 2002²⁵ – see Appendix 1 for complete text), the Authority is authorized to issue investment grade, taxable and tax-exempt bonds, the proceeds of which can be used to provide financing assistance.

The MBDA is an independent state agency created by the Michigan Legislature and signed into law by Governor Engle on March 14, 2002. Speeding the new agency's formation, the MBDA was capitalized by the state's Housing Authority through a \$50 million bond sale in April of that year. The Authority's mission is to provide lower-cost financing that will expand more affordable high-speed Internet services throughout Michigan.

The MBDA's 11-member Governing Board is made up of the President and CEO of MBDA, the Vice President of MBDA, the State Treasurer, the Executive Director of the Michigan State Housing Development Authority, the Head of the Michigan Economic Development Corporation and six fixed-term Governor-appointed members, with an equal number from both political parties.

The MBDA is authorized to issue investment grade, taxable and tax-exempt bonds to finance and facilitate the construction, operation and maintenance of broadband infrastructure in Michigan. Authority bonds will be repaid from earnings on the operations of broadband projects. The Authority will create a reserve capital account to secure notes and bonds for the Authority and may establish a capital reserve fund for the payment of the principal and interest of notes and bonds. MBDA will establish a seed capital loan program to make capital loans to persons planning to apply to the Authority for refinancing of broadband infrastructure.²⁶

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MBDA may enter into joint venture and partnership agreements with broadband developers and operators so long as the Authority does not use tax-exempt bonds to finance residential, business or other commercial customers. Taxable bonds may be issued for such projects. The Authority will focus on financing privately owned and operated broadband infrastructure backed by sizeable equity investments.

The MBDA may acquire infrastructures in connection with joint ventures and partnerships where Authority participation is necessary to assure the availability of tax-exempt financing. The MBDA will look to partner and leverage other public grants and private resources to reduce risk and lower project costs.

Organizations the MBDA finances

The MBDA Charter permits lending to a range of organizations: telecommunications companies, private businesses, non-profits, and government entities.
Projects the MBDA can finance

The MBDA can finance a broad range of projects: network expansion (fiber, DSL, cable, wireless), hardware, software, training, and installation cost.

Size of loans

They consider loan requests ranging from \$0 - \$100 million.

Application evaluations

Three primary factors when evaluating loan requests:

1. Does the proposed use of funds serve the public interest?
2. Is the project technically and financially feasible?
3. Are the applicants a reasonable credit risk?

MBDA uses credit criteria similar to private lenders including:

1. Repayment Ability: borrowers should demonstrate their organization's ability to cover expenses and repay the loan.
2. Management Expertise: borrowers must show their capability to manage the business or project. For a startup, experience in the same industry is critical.
3. Equity Contribution: borrowers must demonstrate their confidence in the project with an equity contribution of approximately 30% depending on the project type.
4. Collateral: borrowers should offer collateral commensurate with the amount of the loan whether it be company assets, personal assets or government guarantees.
5. Credit History: borrowers must agree to personal and/or organizational credit reviews.

Loan applications and types

The MBDA provides low-cost loans for qualifying projects, but does NOT provide grants. They can finance network expansions, hardware and software acquisitions, and services that increase the deployment or utilization of broadband technology. Private businesses, non-profit