



VERMONT ECONOMIC DEVELOPMENT AUTHORITY

Broadband Expansion Loan Program

Overview of Enabling Legislation:

- Act 79 (H. 513), enacted in June 2019, created the Broadband Expansion Loan Program within VEDA. Loans in this program can be used for both start-up and expansion of existing broadband operations. A couple of the key legislative requirements include:
 - The service must reach unserved and underserved locations;
 - The provider must offer speeds of at least 100 Mbps symmetrical; and
 - To ensure the limited funding is prioritized to meet these requirements, VEDA “shall consult” with the DPS” on loan applications.
- Eligible borrowers include communication union districts (CUDs) and other units of government, non-profits, for profits, and cooperatives.
- Act 79 caps the loan program size to \$10.8 million.
- The maximum loan size is determined by the economics of the project to ensure repayment over a reasonable time, but in any event cannot exceed 90% of project cost up to a maximum of \$4.0 million.
- State support for the Broadband Expansion Loan Program was provided in the form of appropriations for loan loss reserves¹ and a \$6.0 million increase in the State’s pledge of Moral Obligation (MO) to VEDA.

¹ Lenders are required to “provide” (expense) estimated or actual losses in each reporting period. Loan loss provisions are calculated based on average historical loss rates, credit worthiness and other factors by different levels of borrowers. Provisions accumulate in loan loss reserve accounts until they are ultimately charged-off after all collateral has been liquidated and collection efforts exhausted.

- VEDA received a \$540,000 appropriation upon passage of Act 79 to establish the initial reserves for the program. This amount was based on an estimate of \$5.6 million in loans outstanding at the end of the first year. No state reserves have been used to date.
- The total appropriation for loan loss reserves over the life of the loan program is capped at \$8.5 million.
- Before any state appropriations are used, VEDA must absorb losses on the broadband loans up to its historical loss rate.
- Additionally, VEDA must absorb up to \$3.0 million in losses on the broadband loans shared with the state on a pro rata basis.

Activity in Program So Far...

- To date, VEDA has closed two loans totaling \$1.2 million. A third loan for \$480 thousand has been conditionally approved, pending final review by the DPS.
- No CUDs have applied to date, but we are in discussion with several who have indicated they are close to applying.
- The loans which have closed / pending closing represent stage funding for a three-stage project to provide FTTP to the towns of Cambridge, Fairfax, and Fletcher. VEDA's loans have /will fund each of the stages.

Some Challenges with the Existing Program:

- Small program size relative to large maximum loan size.
- Very small program size relative to state's broadband financing needs.
- Equity requirement difficult for non-profits.
- VEDA's program is a loan program; has been mistakenly characterized as a grant program. Enabling legislation states: *"The Authority shall not make a loan unless the Authority has a reasonable expectation of the long-term viability of the business"*.
- Additional loan loss reserves are subject to appropriation.
- Need for long term fixed rate funding which can be a challenge.

Thoughts on Making it Better

- Interest rate subsidy.
- State could appropriate funds to another state entity to fund the initial need for preplanning, staffing, etc. VEDA can help by underwriting and servicing these loans as we do with our other affiliate programs.
 - VEDA could re-finance the early stage loans once they have reached a viable stage.
- ?? Possible federal guaranty program down the road (USDA B&I) ??

Links to Additional Resources:

- VEDA website: <https://www.veda.org/>
- VEDA Broadband Loan Program: <https://www.veda.org/broadband-loan-program>
- VEDA Broadband Statute:
 - <https://legislature.vermont.gov/statutes/section/10/012/00280ee>; and
 - <https://legislature.vermont.gov/statutes/section/10/012/00280ff>
- VEDA Annual Report: <https://www.veda.org/about-veda/annual-reports/>