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One of the biggest projects to bring broadband to rural areas has reached a crossroads with the decision by Lake County (Minnesota) to try to sell its Lake Connections broadband operation to, well, anybody who will take it over and keep it going.

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Sorry to cast doubt on the odds of a successful sale, but what has been learned so far about bringing broadband to this sparsely populated northeastern part of the state is that it sure won't be easy. Getting the county out of the deal whole financially won't be, either. About seven years in, Lake Connections now serves about 2,500 customers with about 750 more awaiting connections to the network. The network itself is almost completely built. The county government and board are understandably pleased with their achievement. "I'm proud to be working for a county that would even take on something so challenging," county administrator Matt Huddleston said.

Huddleston added that he wished at the outset he knew what he has since learned. But what most people who call Lake County want to talk about usually is whether it's proper for municipalities to fund broadband service rather than have private companies step in. Lake County never wanted to own a broadband network and still doesn't, he said. The only reason Lake Connections exists in 2017 is that the county and its commissioners had reluctantly concluded that no one else, privately owned or otherwise, had any interest in building out broadband throughout Lake County.

The county did have cable service in towns along Lake Superior, including the county seat of Two Harbors. But the county is about as remote and sparsely populated as it gets in our region, with fewer than 11,000 people sharing about 2,100 square miles. Spotty and slow internet service was a common complaint, from everyone from business owners to health care administrators. And in January 2010, a fiber-optic line failure in Duluth knocked out service to Lake County and other areas of northeastern Minnesota. News accounts from the time describe phone service going out,

including 911 calls, credit cards not working and bank ATMs going down. Even the Border Patrol had to scramble to restore communications.

The availability of federal stimulus money after the start of the Great Recession is what provided the opportunity for Lake County to take charge of providing its own solution. In 2010, the county reached an agreement with the U.S. Department of Agriculture's Rural Utilities Service (RUS) for grant money and loans of about \$66 million to move ahead with an ambitious broadband project. It didn't take long for the first obstacles to show up.

The county's up-and-down history with the RUS later became the subject of an in-depth investigation published in Politico entitled "Wired to fail," although by far most of the criticism was directed at the federal agency. It's certainly true that the project ran into delays, including finding out it would be very difficult to get rights to hang Lake Connections' cables on the poles of other utilities.

It didn't help that the traditional broadband industry, which didn't want to make a big investment in Lake County, also didn't want the taxpayer to do it. That explains why the cable company Mediacom Communications tossed legal and PR rocks at the project. There were speed bumps with contractors, too, and the current management company has been in place only since late last year. But the county pressed ahead, and the first customers in Silver Bay and Two Harbors were connected roughly three years ago.

Now the network is almost complete, and there's a crew still connecting customers. One reason to sell, Huddleston says, is that a private company with access to additional capital could move a lot faster connecting the customers who are still waiting for service. The county has some more grant money it hopes to pass to the new buyer, but it doesn't seem to be in a position to put in more money. It already has put more than \$17 million into the project and still owes the federal government about \$48.5 million. The county's audited financial statements for 2016 are still not wrapped up, but the rating agency Standard & Poor's downgraded the county's credit rating in December and just did so again a month ago, from A+ to A.

As for what the network could be worth to a buyer, it takes generous assumptions, like \$180 per month of revenue per customer and a 50 percent cash earnings margin, to get to a back-of-the-envelope valuation much north of \$20 million. The decision to find a buyer was reached in consultation with the RUS as part of discussions going back six months or so on restructuring the county's \$48.5 million of debt.

Huddleston said that the county is just starting out exploring the right way to go about selling and that it could be a year before a deal closes. As a taxpayer-owned asset, Lake Connections will have to be sold through some sort of public process, he added. How the county taxpayer eventually makes out on any sale obviously depends not just on the sale price but on how much of the \$48.5 million in debt will be forgiven to enable any deal to go forward.

But it seems clear that even if the county doesn't get back all or much of the more than \$17 million it has put into the project, county officials won't see much to apologize to the voters for. After sorting through a list of names of logical potential buyers, one conclusion was that what the county decided more than seven years ago still seems to be true — that had the county not stepped in, they would still be waiting for reliable broadband service in Lake County. — *Minneapolis Star Tribune*



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