

## Broadband USA Applications Database

**Applicant Name:** Hiawatha Broadband Communications, Inc.

**Project Title:** Southeastern Minnesota Last-Mile Project

**Project Type:** Last Mile Non-Remote

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### Executive Summary

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HBC, America's most successful overbuilder in spite of operating exclusively in rural America, will use the ARRA program to extend service to 11 service areas, all of them rural and nine of which currently have no data service other than dial-up. While the project application is to both BIP and BTOP, the project must have BTOP funding, because without a grant for 80 percent of the total cost, the project is not financially viable. HBC believes it is the ideal provider, having demonstrated through the last 11 years that the company, one of the nation's first overbuilders, has developed a formula that works in areas generally avoided by larger incumbent providers. HBC is the dominant provider in each of the nine retail markets it serves in southeastern Minnesota. Its philosophy of exemplary customer service and fair and fully explained pricing for all of its services (data, voice, video and local television programming) has produced take rates so high that they are being studied by two groups. The data take rate includes 83 percent of the total market. The company's success is why the project is supported by U.S. Senators Klobuchar and Franken, by Congressmen Tim Walz (Minnesota 1st Dist.) and John Kline (Minnesota 2nd Dist.), and leaders of both houses of the Minnesota Legislature, in addition to local legislators, the Prairie Island Sioux Community, City Councils, School Boards, the Goodhue, MN, County Board and local, state and national and agencies. The largest service area proposed includes 2,861 residents (1,301 passings), and nine of the 11 currently have no provider that delivers data at or beyond the 768/200kb threshold. The remaining two service areas fall beneath the 40-percent "take" rate. Opportunity: All of the 11 service areas are in southeastern Minnesota. Nine have no high-speed service, including the Mdewakanton Sioux Indian Reservation. Minneiska, 57 households, is located in northeastern Winona County and has been seeking high-speed data service for more than five years. Mayor Dan Thompson says his community has three residents, who wish to telecommute, who will leave Minneiska if the service gap is not solved. Wacouta is in southeastern Goodhue County. The unincorporated community of 181 households includes both full-time and summer-dwelling residents, many of whom are dependent upon the Internet for their livelihood. The Prairie Island Indian Community has no high-speed service available. Their resolution states: "Broadband service with dedicated high-speed capabilities to and from the customer is fundamental to the welfare and economic development of the Prairie Island Indian Community. Other cities towns and areas in the state are receiving access to such service, which places the Prairie Island Community at a disadvantage. In an effort to secure such service for Prairie Island, the Prairie Island Tribal Council supports the application of Hiawatha Broadband Communications to seek a grant to build a high-speed fiber-to-the-premises broadband network in the Community." The other areas without service are Miesville (54 households) and New Trier (31) in southeastern Dakota County. Both communities are positioned to grow but officials there believe such growth will be

dependent upon services that allow people to telecommute. Lake City and Red Wing have been working diligently to secure higher speed reliable broadband service and letters of support from both cities show strong support for the proposed project. HBC has designed service areas there that fall beneath the 40-percent Internet take rate. HBC's door-to-door canvassers of Red Wing and Lake City heard that residents would like to purchase data services but do not for a variety of reasons. Customers said current service providers are not sufficiently customer-focused, approachable or interested in meeting their needs. Only .02 percent of the respondents cited affordability as the reason in their choice. HBC believes ARRA offers an opportunity to bring broadband service to unserved areas and to address customer dissatisfaction, to improve service and to achieve affordability in underserved areas. It is also a way to meet statutory purposes that the ARRA seeks to address: provision of service to unserved and underserved areas, stimulating the demand for broadband services, providing for economic growth and creating jobs, and providing access and support to community institutions. The project will also put into place a solution that can be replicated.

Number of households and businesses passed: The proposed project's service areas and connectors will pass 2,067 households and 285 businesses for a total of 2,352 passings. Nine of the 11 service areas are unserved, having no high-speed data service. They are: Minneiska (57 households); Wacouta (181 households); Prairie Island Indian Community (81 households); Miesville (54 households); New Trier (31 households) and Farm Areas 1 through 4 with a combined household total of 215. The project includes two "underserved" service areas, one in Lake City (1,338 households) and one in Red Wing (501 households), where the Internet "take" rate falls below 40 percent.

Number of Community anchor institutions, public safety entities and critical community facilities passed: The project will pass five anchor institutions, 10 public safety entities, and 19 critical community institutions. In addition, the project will provide improved links to state government, will tie Dakota, Goodhue and Winona counties' government centers together and provide improved links for two higher education systems in Minnesota: the University of Minnesota and Minnesota State Colleges and Universities. Included in the critical organizations are: Mayo Health Center and River Oaks, Pepin Manor and High Park nursing homes, all in Lake City; Fairview Health System and its nursing home, as well as four additional nursing homes in Red Wing, public and private schools in Lake City (four) and Red Wing (12), the Prairie Island school and Community Clinic (Mayo), and public libraries in both Lake City and Red Wing. Public safety organizations include police, fire and ambulance services in Lake City and Red Wing, the Prairie Island Indian Community police, fire and ambulance services, and the Goodhue County Sheriff's Department. In addition to improved connectivity, the organizations involved in the service areas – community anchor, public safety and critical – have already begun discussions about how to maximize use of the network. The service areas will also have access to health care and education applications developed in Winona.

Proposed services and applications: High-speed data services will enable gigabit speeds within the network and a minimum of 20 megabits symmetrical to the Internet. A variety of packages will be available to accommodate both beginner and advanced users. Also available will be local and unlimited long-distance telephone service and a full range of video services, including basic, expanded, digital and high definition. All of these services will leverage HBC assets already in place (data and video head ends and telephone switches). Prices will be equal to or lower than those of the incumbents.

Approaches to address non-discrimination and interconnection: The proposed project is consistent with the NOFA's interconnection, nondiscrimination and network management obligations because HBC's management practices already do and will continue to conform in all respects to the

obligations outlined in lines 615-660. HBC's current management practice to actively search for others to operate over its network for multiple purposes including to lease dark fiber and bandwidth, and to provide applications and services to end users will continue and will apply to the proposed network.

Type of broadband system that will be deployed: A fiber-to-the-premise (FTTP) gigabit-capable passive optical network (GPON) will be deployed. HBC has utilized GPON systems in four of its nine retail markets. Qualifications of the applicant that demonstrate the ability to implement and operate a broadband infrastructure, and/or be a sustainable broadband services provider: HBC has demonstrated success in both components of this question. Created in 1997 (after five years as a not-for-profit education project known as Luminet), HBC was the first overbuilder to achieve profitability and now has paid dividends to its shareholders (40 percent of whom are not-for-profit institutions) for three consecutive years. HBC enjoys an enviable reputation and has been honored by many entities (including Broadband Properties magazine, the National Fiber To The Home Council, Blandin Foundation, and United States Chamber of Commerce) for its contributions to rural America connectivity. Overall infrastructure cost of the broadband system: The system will cost \$7,162,364 to construct. Of that \$5,729,891 is requested from NTIA's BTOP in the form of a grant. The remaining \$1,432,493 will come from HBC in a cash match. Overall expected subscriber projections for the project: Subscribership will total 50.38 percent of the homes and businesses passed by the end of the fourth year following activation of the system in the fourth quarter of 2010. Based on HBC take rates in its other communities, that is a conservative estimate. Project sustainability is demonstrated in the financial reports filed as part of the application. Number of jobs estimated to be created or saved as the result of this project: The project will employ 160 currently unemployed construction workers, in addition to saving 53 jobs at HBC vendor companies Corning, Calix, Tjader and Highstrom and Power and Tel. HBC will also employ an additional seven people to operate the projects following activation. Workers will consist principally of technical and customer service employees.