

State of Minnesota

Capital Projects Fund

2023 Annual Performance Report

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Executive Summary

Minnesota received an allocation of \$180,702,620 in American Rescue Plan Act (ARPA) Section 604 Capital Projects Funds (CPF) funding. The Minnesota legislature directed that \$130,703,000 be used for broadband infrastructure purposes with \$70 million being authorized for that purpose in the 2021 legislative session and \$60,703,000 in the 2022 session. The Office of Broadband Development (OBD) at the Minnesota Department of Employment and Economic Development (DEED) is responsible for the funding directed by the state legislature to be used for broadband infrastructure. The remaining \$50 million was allocated by the Governor's Office to be used for Multi-purpose Community Facilities Projects being administered by the Minnesota Department of Education.

The CPF funding for broadband infrastructure purposes was directed by the Minnesota Legislature to be directed to three programs created in statute: the Border-to-Border Broadband Development Grant Program, the Lower Population Density Pilot Program, and the Line Extension Connection Program.

The Border-to-Border Broadband Development Grant Program funds the expansion of broadband service to areas of Minnesota that are unserved or underserved. It was created in Minn. Stat. 116J.395 in 2014. The legislative focus of this grant program is to provide financial resources that help make the business case for new and existing providers to invest in building broadband infrastructure into unserved and underserved areas of the state. The Border-to-Border Broadband Grant Program had been funded with state general fund revenues (2014-2020) and a combination of both state general fund revenues and federal American Rescue Plan Act (ARPA) Sec. 604 Capital Projects Funds (CPF) for the two grant rounds in 2022 and 2023. At the federal level, ARPA funding is being administered by the U.S. Department of the Treasury.

For the applications received in August 2022 with awards announced December 8, 2022, the state Border-to-Border Broadband Grant program was funded with \$70 million in Capital Projects Funds (CPF) approved by the legislature in the 2021 session and \$25 million in state general revenue funds approved by the legislature in the 2022 session. The 2023 grant round, announced on December 19, 2022, and awarded June 28, 2023, included approximately \$12 million in CPF funding and \$25 million in state general revenue funds for the Border-to-Border grant program and \$30 million in CPF funding for the Lower Population Density Pilot Program. The remaining CPF funds approved in the 2022 session for broadband are being used to support the Line Extension Connection Program where applications are due July 24, 2023, to serve eligible addresses registered with the state.

CPF funded grants will reach a total of 29,589 locations, consisting of 20,071 unserved locations and 9,518 underserved locations. Viewed another way, CPF funded projects will extend broadband services to a total of 20,475 households, 3,476 businesses, 5,503 farms and 135 Community Anchor Institutions.

As an economic imperative for the people of Minnesota, this use and development of broadband provides various home-based business options, stimulates economic growth in

rural agriculture and economic development, and inspires innovation and investment. Education, health care, agriculture, energy efficiency, and public safety also improve with high-speed Internet access.

Activities

For this reporting period, capital projects were implemented across 41 counties, cutting across all the geographical spread of Minnesota. OBD collaborated with 23 grantees on a total of 46 projects and is in the process of completing grant contracts. The funds were awarded under two main categories:

- 1. The Border-to-Border Broadband Development Grant program
- 2. The Lower Population Density Pilot Program

Key Milestones

- ✓ Increased broadband speed benchmarks to approximately 1 Gbps symmetrical or more to every location, exceeding the 2026 state speed target.
- ✓ Promoted rural economic development by providing access to the benefits of high-speed broadband of 100 Mbps download and 100 Mbps upload to 100 percent of the households and businesses within the grant funded areas.
- ✓ Local partners matched in local funding CPF B2B \$136,064030, Local match CPF Low Density \$10,760,594 with a total local match of both totaling \$146,824624.
- ✓ Focused broadband investments across Greater Minnesota.
- ✓ Beneficiaries included households, churches, community centers, small businesses, farms, anchor institutions, city halls, educators, daycare providers, medical professionals, and home-based businesses that would otherwise have remained unserved or underserved without the CPF grants.

Future Planned Activities

In the FY23 grant year, we anticipate initial awards under the Line Extension Program (LE) (\$15,000,000.00). The Border-to-Border Broadband Infrastructure and Lower Population Density projects awarded grants in December 2022 and June 2023 will be in the construction phase. The Multi-Purpose Community Facilities Program Plan is under the Minnesota Department of Education and is still being reviewed by Treasury.

Notable Challenges

The Minnesota Office of Broadband Development had conducted six Border-to-Border Broadband grant rounds prior to the two rounds awarded with a combination of federal CPF and state general revenue funds. Modifications to the grant rounds to ensure compliance with federal requirements, including capturing required reporting data, were the main challenges in conducting the two grant rounds.

Ancillary Costs

As part of the grant application process, OBD utilized a quantitative scoring model that prioritizes extending services to underserved and unserved communities. DEED awarded grants to projects that provided the highest return in public benefits for the public costs incurred and that met all statutory requirements. While both the Border-to-Border and Lower Population Density program can only reimburse grant recipients for eligible capital costs, applications were reviewed and awarded points for demonstrating how they would advertise availability of the broadband service during and after construction, for offering technical assistance and training, the affordability of their rates (ACP participation was required), documenting the economic need within the project area, and for showing community support and partnership (financial, letters of support, or both).

Use of Funds-Program Plans

Program Plan Name	Program Number	Program Dates	Amount Allocated	Current Process
Border-To-Border Broadband Development Grant Program	CPF-GP-000062	1/28/22-12/31/26	\$86,042,000	Awarded
B2B Lower Population Density Pilot Program	CPF-GP-000267	11/1/22-12/31/26	\$29,350,000	Awarded
Line Extension Connection Program	CPF-GP-000189	11/1/22-12/31/26	\$15,311,000	In Process
Multi-Purpose Community Facilities			\$49,999,620	Plan Not Approved
Total	-		\$180,702,620	

Border-to-Border Broadband Development Grant Program

2022 CPF Grant Projects Awarded:

<u>Grantee</u>	Project Name	Locations Served	Project #	Grant Award Amount
Ace Telephone Association (AcenTek)	Rural Dakota Exchange FTTP Project	608	BCPF-22-0001-K-FY23	\$3,218,201
Benton Cooperative Telephone Company	Borgholm Township Project	440	BCPF-22-0002-K-FY23	\$1,118,289
Benton Cooperative Telephone Company	Golden Spike - Mayhew Lake	395	BCPF-22-0003-K-FY23	\$1,264,602
Benton Cooperative Telephone Company	Northwestern Benton County Project	21	BCPF-22-0004-K-FY23	\$77,726
Benton Cooperative Telephone Company	Ronneby (Oak Park) Project	67	BCPF-22-0005-K-FY23	\$170,623

Bevcomm, Inc. dba Bevcomm	Rural Le Sueur County Broadband Project - Ph 2	222	BCPF-22-0006-K-FY23	\$941,576
Blue Earth Valley Tele Co.and Cannon Valley Telecom, Inc, dba Bevcomm	Rural Faribault and Martin Counties Fiber Expansion Project - Phase Three	373	BCPF-22-0007-K-FY23	\$1,444,030
Consolidated Telephone Company	CTC Woods to Waters Broadband Initiative	1,804	BCPF-22-0008-K-FY23	\$4,857,030
East Central Energy	Isanti North	2,486	BCPF-22-0009-K-FY23	\$4,982,371
East Central Energy	Kanabec Central	2,563	BCPF-22-0010-K-FY23	\$4,403,000
East Central Energy	Pine South	2,535	BCPF-22-0011-K-FY23	\$4,750,000
East Otter Tail Telephone Co. dba Arvig	Otter Tail County Area Fiber Build	271	BCPF-22-0012-K-FY23	\$1,140,705
Farmers Mutual Telephone Company	Chippewa County Rural FTTP Project	636	BCPF-22-0013-K-FY23	\$4,728,186
Federated Telephone Cooperative	Kandiyohi County West FTTP Project	645	BCPF-22-0014-K-FY23	\$4,913,506
Gardonville Coop. Telephone Association	Nelson	300	BCPF-22-0015-K-FY23	\$1,212,338
Harmony Telephone Company	North Preston Rural FTTP	112	BCPF-22-0016-K-FY23	\$1,129,740
Melrose Telephone Co. dba Arvig	Stearns County Area Fiber Build	2,149	BCPF-22-0017-K-FY23	\$4,974,570
Midcontinent Communications	Midco Forest Lake	323	BCPF-22-0018-K-FY23	\$975,131
Midcontinent Communications	Midco Isanti County	562	BCPF-22-0019-K-FY23	\$1,647,321
Mille Lacs Energy Cooperative	Phase 6 MLEC Fiber to the Home	250	BCPF-22-0020-K-FY23	\$1,231,818
Nuvera Communications, Inc.	Belle Lake and Hutchinson East FTTP	454	BCPF-22-0021-K-FY23	\$1,840,250
Nuvera Communications, Inc.	Brown County FTTP	678	BCPF-22-0022-K-FY23	\$3,839,000
Nuvera Communications, Inc.	Cedar Lake Township FTTP	572	BCPF-22-0023-K-FY23	\$2,436,427
Nuvera Communications, Inc.	Nicollet County RTF DTF FTTP	91	BCPF-22-0024-K-FY23	\$479,011
Otter Tail Telecom LLC	North Fergus Falls	1,186	BCPF-22-0025-K-FY23	\$3,381,661
Paul Bunyan Communications	Northern Minnesota GigaZone Fiber	218	BCPF-22-0026-K-FY23	\$529,920
Redwood County Telephone Co. dba Arvig	Redwood County Area Fiber Build	1,870	BCPF-22-0027-K-FY23	\$1,336,037
Runestone Telephone Association	Herman-Dumont	406	BCPF-22-0028-K-FY23	\$2,493,637
Tekstar Communications, Inc. dba Arvig	Nowthen Area Fiber Build	81	BCPF-22-0029-K-FY23	\$219,727
Tekstar Communications, Inc. dba Arvig	Sherburne County Clear Lake & Haven Townships Area Fiber Build	212	BCPF-22-0030-K-FY23	\$858,883
Tekstar Communications, Inc. dba Arvig	Sherburne County - Elk River Area Fiber Build	42	BCPF-22-0031-K-FY23	\$217,061

Wikstrom Telephone Co. Inc	Wiktel NW MN Broadband 2022	150	BCPF-22-0032-K-FY23	\$665,699
TOTAL		22,722		\$67,478,075

The descriptions for the 2022 CPF Grants projects can be found on the Office of Broadband Development website https://mn.gov/deed/programs-services/broadband/grant-program/

2023 CPF Grant Projects Awarded:

<u>Grantee</u>	<u>Project Name</u>	Locations Served	Project #	Grant Award Amount
Benton Cooperative Telephone	Benton County South of Trunk H 23	836	BCPF-23-0010-FY23	\$2,988,275
East Central Energy	Isanti South	1,990	BCPF-23-0011-FY23	\$4,900,000
Meeker Coop Light & Power	French Lake Twp Wright Co.	525	BCPF-23-0012-FY23	\$1,270,132
Meeker Coop Light & Power	Harrison Township	216	BCPF-23-0013-FY23	\$533,959
Runestone Telephone Assoc.	Stearns County West Phase 2	628	BCPF-23-0014-FY23	\$4,800,000
TOTAL		4,195		\$14,492,366

The descriptions for the 2023 CPF Grants projects can be found on the Office of Broadband Development website https://mn.gov/deed/programs-services/broadband/grant-program/

B2B Lower Population Density Pilot Program

2023 CPF Grant Projects Awarded:

<u>Grantee</u>	<u>Project Name</u>	Locations Served	Project #	Grant Award Amount
702 Communications	Western Clay County including Kragnes Township	369	BCPF-23-0001-FY23	\$2,624,830
Federated Rural Electric Assoc.	Jackson County FTTP	480	BCPF-23-0002-FY23	\$7,068,222
Garden Valley Tech	GVT-Warren SW	96	BCPF-23-0003-FY23	\$1,488,322
Interstate Telecommunications Company	Yellow Medicine County West FTTH Project	483	BCPF-23-0004-FY23	\$4,988,174
Meeker Coop Light & Power	Lake Elizabeth-Lake Lillian Twp	185	BCPF-23-0005-FY23	\$1,428,066
Paul Bunyan Rural Telephone Coop	Paul Bunyan Communications Rural GigaZone Fiber	646	BCPF-23-0006-FY23	\$5,569,281
Red River Rural Telephone Assoc.	North Wilkin County	128	BCPF-23-0007-FY23	\$2,227,363
Red River Rural Telephone Assoc.	Rural Campbell	86	BCPF-23-0008-FY23	\$2,035,500
Wikstrom Telephone Co.	Wiktel NW MN Broadband 2023	199	BCPF-23-0009-FY23	\$2,531,488
TOTAL		2,672		\$29,961,246

The descriptions for the 2023 CPF Grants projects can be found on the Office of Broadband Development website https://mn.gov/deed/programs-services/broadband/grant-program/

Equitable Distribution of Grants

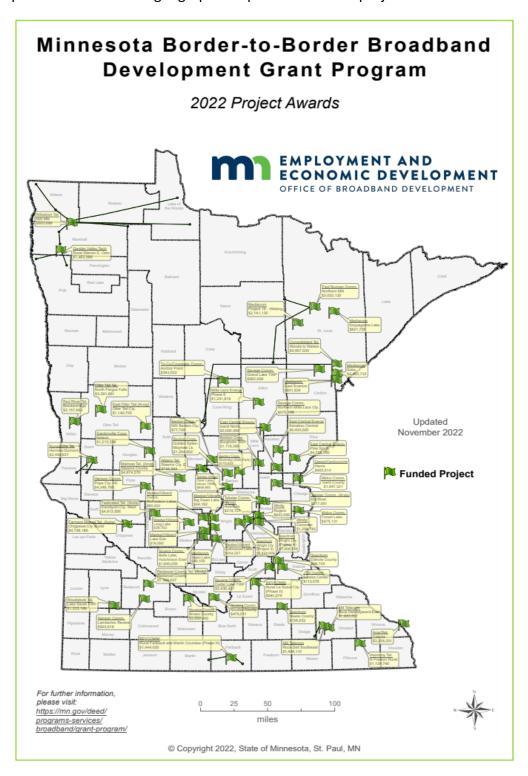
It has been well established that there exists a critical need for access to high-quality internet that is necessary for full participation in school, healthcare, employment, social services, government programs, and civic life. As a general guide, many of the communities who are benefiting from the capital funding are considered rural communities. [USDA definition of rural areas as population of 2500 inhabitants (USDA ERS - What is Rural?)].

Due to the remote nature of many of these households, businesses, farms and anchor institutions, these areas typically do not get the same level of broadband infrastructure expansion as would urban centers due to the high cost to deploy. Broadband service providers tend to overlook investments into these areas and need the grant program in order to make the business case to invest in this critical infrastructure.

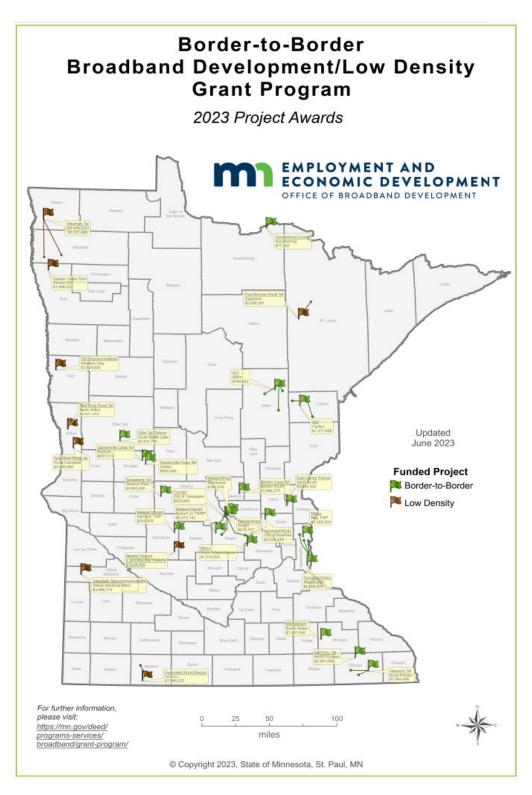
In addition to the need for high-speed internet for education, healthcare, employment, social services, government programs, etc., many of these locations are also agricultural producers who use precision agriculture technologies and will benefit from adequate connectivity that results in reduced production costs and greater output.

The CPF grants will be able to extend broadband services to 41 counties for a total of 20,475 households, 3,476 businesses, 5,503 farms and 135 Community Anchor Institutions. It is interesting to note many of the grant project areas have significantly lower household incomes than the state and national average.

The maps below indicate the geographical spread of the CPF projects.



Note: State grant funds were awarded in the same grant round in 2022 for Border-to-Border Development Grants, see table for specific numbers related to CPF awards.



Note: State grant funds were awarded in the same grant round in 2023 for Border-to-Border Development Grants, see table for specific numbers related to CPF awards. All Lower Population Density Pilot Program Grants (red flags) were funded with CPF funds.

Awareness

There has been primarily five means for these communities and businesses to access information about CPF.

- Town hall meetings grantees organized townhall meetings where discussions about the project and grant application process were discussed. Applications for projects that demonstrate greater community support are prioritized in the selection process.
- City or town governments local government administrations provided support to community members at city halls about the CPF opportunity. In most cases, the city or county government also provided funding towards the project using ARPA Local Fiscal Recovery Funds funding.
- Outreach by the Office of Broadband Development with local governments, individual residents and businesses, and internet service providers provided information on forthcoming grant rounds using CPF funding.
- Customer service reps grantees in many cases have some presence in many of the CPF project areas. As such, they conducted surveys and door knocking outreach activities to residents as part of the engagement process and the legal process of seeking consent to access property to lay the fiber lines. Grantees have an incentive to notify all locations in the project area since grant funding can only pay up to 50 percent (up to 75 percent for the Lower Population Density Pilot Program) of the costs to place facilities to each location. A high take rate by locations in the project area ensure that the monthly revenue stream is maximized after project completion.
- Word of mouth while this is hard to measure, it is nonetheless a critical tool that
 many of the community members relied on to pass information about CPF in the
 various project areas. Many grantees also provide yard signs advertising the
 availability of fiber as construction is underway to spread awareness within
 neighborhoods.

Outcomes

As a result of the capital funds projects, these households, farms, businesses, and anchor institutions have access to service packages up to one gigabit symmetrical speeds. The CPF grants will be able to extend broadband services in **41 counties** and a total of **20,475 households**, **3,476 businesses**, **5,503 farms** and **135** Community Anchor Institutions. The broadband speeds that will be delivered by these projects upon completion exceed the State of Minnesota's 2026 goal of 100 Mbps upload/20 Mbps download.

Many of the ag producers will be able to upscale their operations with precision agriculture technologies and will benefit from adequate connectivity that results in reduced production costs, more efficient use of inputs, and higher yields.

Additionally, these investments support equity and growth of these rural businesses, increases healthcare access at home and in emergency cases, and assures students can connect to e-learning requirements and opportunities. As a direct impact of the CPF

investments, the projects received wide community support from elected officials, business leaders, and residents, as evidenced in the letters of support sent as part of the grantee applications.

Promoting Equitable Outcomes

Once contracts are complete and the projects begin, grantees will complete semi-annual progress reports. The information collected will provide the actual numbers versus the projected numbers in future reports, as well as provide any compelling stories, facts or challenges as these projects are constructed and completed.

Labor

The grant recipients are generally well-established broadband providers in Minnesota and have been constructing broadband networks for many years, including with prior Border-to-Border grant funding. OBD is monitoring whether the grantees are encountering any labor supply issues.

Prevailing Wage Compliance

In accordance with federal CPF compliance requirements, projects receiving \$5 million or more in CPF funding require Grantees and Grantee's contractors, subgrantees and subrecipients to provide a certification that, for the relevant project, all laborers and mechanics employed by contractors and subcontractors in the performance of such project are paid wages at rates not less than those prevailing, as determined by the U.S. Secretary of Labor in accordance with subchapter IV of chapter 31 of title 40, United States Code (commonly known as the "Davis-Bacon Act"), for the corresponding classes of laborers and mechanics employed on projects of a character similar to the contract work in the civil subdivision of the State (or the District of Columbia) in which the work is to be performed, or by the appropriate State entity pursuant to a corollary State prevailing-wage-in-construction law (commonly known as "baby Davis-Bacon Acts").

If such certification is not provided, a Grantee and Grantee's contractors, subgrantees and subrecipients must provide a project employment and local impact report detailing: The number of employees of contractors and sub-contractors working on the project; the number of employees on the project hired directly and hired through a third party; the wages and benefits of workers on the project by classification; and whether those wages are at rates less than those prevailing. (As determined by US Secretary of Labor in accordance with subchapter IV of chapter 31 of Title 40, United States Code ("Davis-Bacon Act").

Community Engagement Process

From the inception of the application process, OBD stressed the importance of community support being demonstrated as a part of the project application. This ensured providers and community partners continue to have mutually beneficial relationships long after the tax

dollars have been expended, equally ensuring public investments yielded the maximum impact.

Two examples from among the many applications submitted are grantees Federated Telephone Company (Kandiyohi County 2022 project) and Runestone Telephone Association (Stearns County 2023 project). Both applications had significant and robust community engagement and consultation processes. They had in place a process to work with the local communities, government agencies and other partners that identified areas needing better broadband, and a mechanism to provide an indication of support and need for the project. Grant partners included these letters of support indicating the desired need for broadband expansion in their communities.

For example, in a May of 2020 Kandiyohi County survey of more than 350 residents, over 65% said they did not have Internet access that met their needs. Numerous letters of support from residents, farmers, community leaders and local business owners have been received for this application. The letter writers pointed to quality of life, mental health services, employment opportunities and education as critical needs that this project will help address. (Kandiyohi County grant application narrative). The individual letters of support were included in the application package.

For the Runestone Telephone Association application located in Stearns County, the county along with seven townships contributed \$3,661,689 towards the total cost of the project. As noted by one of the townships in its letter of support, "Our residents need to have reliable access to high quality internet both for their businesses, children's e-learning days, video conferencing – such as Zoom or Teams meetings where reliable internet is mandatory. We hear complaints all the time in our township of spotty internet, getting kicked off internet during important online meeting and children unable to complete their online homework in a timely fashion during e-learning days. Just in the month of December 2022 & January 2023 our schools in the township have had 4 e-learning days due to inclement weather – making reliable internet access so crucial."

As part of their grant process, grantees highlighted additional steps they were taking to engage community members including.

- Issuing press releases upon award of grant in local media.
- Sending informational mailings to residents in the construction areas, with timelines and broadband speed improvements.
- Conducting open house sessions in each of the townhalls of the proposed project areas to provide information of timeline and availability of broadband service availability.
- Residents in attendance were asked to sign Line-Installation Permission Agreements to allow grantees bury a line across their property.
- The grantees also asked residents to identify customer-owned buried facilities, such as sprinklers, dog fences, etc.
- Customer Experience Representatives available to explain communication services and answer any questions residents may have.

- Residents were provided the option to fill out an application in advance with assistance from a Customer Experience Representative.
- Residents not in attendance at an Open House were contacted by an employee asking them to sign the Line-Installation Permission Agreement.
- Once service becomes available, residents will be mailed a "Welcome Guide" with pricing information, application, and information on the benefits of fiber and being a member of a cooperative. Many grantees also have an active social media presence where current and future subscribers can actively engage with the company's representatives.

The Office of Broadband Development includes points in the scoring process for the demonstration of community support for a project. That demonstration can be in the form of a financial contribution to the cost of the project, the inclusion of letters of support from members of the community or community anchor institutions with customers in the project area, or both. The Office of Broadband Development, in its technical training and community outreach, emphasizes that it is looking for projects to fund with demonstrated and documented community support versus projects that are where the provider wants to expand.

Once projects are selected for funding, the grantee must submit bi-annual progress reports including the number of subscribers connected and information regarding its outreach efforts.

Community Engagement Feedback

Part of the grant application process requires a comprehensive compilation of all customers, farms, businesses, and anchor institutions that are either underserved or unserved. While the grantee in many cases has existing business presence in many of the project areas, this process of confirming customer addresses/service address and interacting to understand more unique customer needs provides the opportunity to engage with community.

For example, many members of rural communities would like to rely on telemedicine for routine doctor visits. Without reliable internet service, many of these individuals go without the routine medical care that they need. Residents with health conditions rely on dependable internet for medical devices and other equipment, and lack of reliable internet has become a public safety concern. For example, the below narratives provided unique customer broadband demands of how the CPF investments will improve quality of life, access to health services, or improve business or community outcomes for the end users.

Customer has "struggled with internet speed. Both are deaf and it impacts their ability to make calls in emergency situations. Their video phone is their main method of accessing emergency services, including 911, as it connects them to a sign language interpreter with an emergency services operator. Having unreliable internet connection is a major safety concern for them."

Customer "is a caregiver for her 91-year-old mother and relies on the internet to keep them connected."

Customer "has Parkinson's Disease and his Neurologists used to come to the Alexandria Clinic to do outreach. Since the pandemic, that is no longer an option, and they must do either phone or video conference visits. Because of poor internet service, these visits have been diminished greatly."

"Smart technologies have been essential to homeowners and property owners not only to achieve operational savings, but to improve security. Most modern security cameras require a reliable internet connection, and whole home security systems require an uplink to a remote security company who then contacts local law enforcement agencies. Reliable and consistent internet connectivity is essential for security and protection of rural properties and residents."

Company "would like to have a security system for their farm, business, and their home, but it requires high speed internet so are unable to have it at this time."

Farmer "has unoccupied farmyards that he would like to have surveillance equipment on but cannot do so because of lack of internet service."

(Source: Runestone Telecom Association application)

The primary language of communication used in the public involvement/engagement process was English language. In tribal lands, the OBD and MN DEED has on staff a tribal relations expert who coordinates all tribal relations for the 11 federally recognized tribes. In addition, the grantees often already have a business presence in many of the communities in which the CPF investments were executed, and, as such have various means of communicating with their customers based on the needs of the area.

Many of the anchor institutions, especially public libraries, have multiple resources where low income, populations with limited English proficiency and traditionally underserved groups can access free support services that enhance their lives and promote equitable use of investments for public good. In tribal lands and indeed many other communities, anchor institutions especially libraries have become a go-to-resource for persons released from incarceration, experiencing homelessness or lack affordable internet access. The possibility of broadband access to reconnect to society in these communities become all the more imperative with the training and support services that community anchor institutions can provide.

Future Community Engagement Sustainment efforts

The Border-to-Border Broadband Grant Program only funds up to 50% of eligible infrastructure costs, and the Lower Population Density Pilot Program funds up to 75% of eligible infrastructure costs, hence, the grantee does have significant financial contribution in the project. This ensures that the grantee has an incentive to connect as many homes and businesses as possible to maximize the monthly revenue stream from active subscribers. Therefore, the broadband provider will work to achieve a high take rate. OBD also monitors the take rate in the bi-annual progress reports and can assist in identifying options to increase broadband penetration in the project area.