

NEBRASKA COOPERATIVES

Rural Broadband and Cooperatives

August 2019

By Gregory McKee

Cooperatives provide goods and services throughout the economy. Recent efforts to expand rural broadband access has led to questions about using the cooperative business model to provide broadband. This document explains what cooperatives are, how they have been used for broadband, discusses whether states can facilitate the use of cooperatives, and steps for starting rural broadband cooperatives.

What Is a Cooperative?

Cooperatives are user-owned and user-controlled businesses formed to benefit a group of members. Cooperatives have particular features.

1. **The users receive the benefits.** The group involved in the cooperative is usually the group that will benefit most from having the business in place. Users get the benefits of the business by using it. The benefits are distributed in proportion to use, not ownership.
2. **The users own the business.** The group involved with the cooperative provides equity. Additional capital may come from loans or grants.
3. **The users control the business.** The cooperative's users are ultimately responsible to set the direction for it. Users vote, democratically, to set major policies and to elect a board of directors composed of the cooperative's users. Users draw up bylaws to describe how the cooperative functions.

These features assure cooperatives provide a mutual benefit. Cooperatives are designed to reward use, encourage users to commit to using the business's services, and encourage users to voice opinions about how the business is doing.

Cooperatives Provide Rural Broadband

Cooperatives are being used around the United States to provide broadband service.

1. **Cooperatives deploy broadband.** Some telecommunications cooperatives have expanded their service offerings to include broadband. Electricity distribution cooperatives have expanded infrastructure to provide broadband services themselves, through a subsidiary, or through an affiliate business. Hundreds of business arrangements, each unique to the circumstances and needs of the users, among these cooperatives can be found.

NEBRASKA COOPERATIVES

2. **Cooperatives facilitate community organization for broadband service.** Less common than utility cooperative affiliations are cooperatives organized to facilitate broadband availability. Maryland Broadband Cooperative, Mid-Atlantic Broadband Cooperative, and Michigan Broadband Cooperative work with local partners to facilitate community broadband demand, leverage existing infrastructure, or help design partnerships among broadband access providers. These cooperatives may also provide shared administrative services for internet service providers.

The number of cooperatives performing these functions is growing. Requests for broadband access is often initially made by users of existing utility cooperatives.

Potential Role of State Governments to Facilitate Broadband Cooperatives Development

State governments may pursue a range of policies as broadband initiatives. These include efforts to use, finance, or provide broadband infrastructure.

1. **Policies on use.** State governments could use its leadership role to assess, stimulate or aggregate broadband demand. State resources could be used to educate about the benefits of broadband in rural communities. In Nebraska, the Rural Broadband Task Force has been created to investigate rural broadband availability and mechanisms whereby broadband access can be improved. These educational efforts may lead to community interest in forming cooperatives.
2. **Financial policies.** Governments could provide subsidies for broadband users or providers. These could be direct incentives, such as grants or tax credits. They could also be indirect, such as helping to plan or design networks or to provide equipment grants. Financial policies could be used to complement member equity to fund broadband network development.
3. **Policies for infrastructure development.** Governments could develop policies that affect provision of network infrastructure. In Nebraska this has included explicit permission to lease dark fiber, subject to certain restrictions. This permission could facilitate infrastructure partnerships between wholesale fiber capacity providers and cooperative internet service providers.

How to Get Started

Cooperatives begin when a large enough group agrees to solve an economic problem by creating their own business. Community members agree on an economic problem to solve and whether a cooperative is the right kind of business to do it. The group must study whether the benefits of starting a new business outweigh its risks. Prospective users of the business provide equity, pursue grants, and obtain financing to purchase sufficient assets to begin operations. Subsequent steps include incorporation, hiring professional staff, and forming a board of directors to oversee the business.

NEBRASKA COOPERATIVES

Resources for forming cooperatives are available through the Nebraska Cooperative Development Center (<https://ncdc.unl.edu/>).

Conclusion

Broadband access options are critical for obtaining a variety of services. Rural communities seek broadband access. Cooperatives, owned and controlled by their users, could be used to provide broadband services in rural areas. State governments could provide assistance to encourage broadband use and create incentives for infrastructure.

Additional Reading

1. "2015 NTCA Broadband Survey Report." (2016). National Telecommunications Cooperative Association. <https://www.ntca.org/2015-ntca-broadband-survey-report>
2. Byers, Anne. "Digital Divide Index Shows Broadband Availability Improving, but Nebraska Lagging in Download and Upload Speeds and Adoption." (2017). Nebraska Information Technology Commission. https://nitc.nebraska.gov/community_council/documents/newsletters/Nebraska_and_DDIApril2017.pdf
3. Carlson, Scott and Christopher Mitchell. "RS Fiber: Fertile Fields for New Rural Internet Cooperative." (2016). Institute for Local Self-reliance. <https://ilsr.org/wp-content/uploads/downloads/2016/05/RS-Fiber-Report-2016.pdf>
4. Cody, Eric. "Electric Cooperatives Bring High-Speed Communications to Underserved Areas: Insights from NRECA's 2018 Twelve Broadband Case Studies." (2019). National Rural Electric Cooperative Association. <https://www.cooperative.com/programs-services/bts/Documents/Reports/Report-Broadband-Case-Studies-Summary-March-2019.pdf>
5. Grant, Alison, Wallace Tyner, and Larry DeBoer. "Estimation of the Net Benefits of Indiana Statewide Adoption of Rural Broadband." (2018). Perdue University Center for Regional Development. <https://www.purdue.edu/newsroom/releases/2018/Q3/report-broadband-access-would-benefit-rural-areas,-state.html>
6. Pitman, Lynn and Mary Kluz. "Cooperatives and Rural Broadband: A Selective Survey." (2017). University of Wisconsin Center for Cooperatives. <https://resources.uwcc.wisc.edu/Utilities/CooperativesandBroadbandSurvey2017.pdf>
7. Schmit, Todd, and Roberta Severson. "Exploring the Feasibility of a Rural Broadband Cooperative in Northern New York." *Extension Bulletin* 5 (2017). <https://dyson.cornell.edu/wp-content/uploads/sites/5/2019/02/Cornell-Dyson-eb1705.pdf>
8. "The Value of a Broadband Backbone for America's Electric Cooperatives: A Benefit Assessment Study". (2018). <https://www.cooperative.com/topics/telecommunications-broadband/Pages/The-Value-of-a-Broadband-Backbone-for-Electric-Cooperatives.aspx>