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Broadband Tax Credit Cut From Stimulus Bill

By SAUL HANSELL -- February 11, 2009, 6:23 PM

It looks like the tax credit for companies that install new broadband service was cut from the latest version of the economic stimulus bill. The bill still would award more than \$6 billion in grants to help build high-speed Internet service, mainly in rural areas.

Even though Senate leaders boasted that they had reached a compromise with the House over the stimulus bill, no text has been published yet. Still, word of the result of the Congressional horse-trading is ricocheting around Washington.

A Congressional staff member, a lobbyist and two financial analysts all told me that they believe the controversial tax credit, originally proposed by Senator John D. Rockefeller IV, the West Virginia Democrat, has been eliminated. The same fact was also reported by the Dow Jones News Service, attributed to "people familiar" with the legislation.

The initial draft of the tax credit raised eyebrows because it appeared to favor Verizon Communications. Mr. Rockefeller later proposed a new version of the credit that restricted the benefits to companies installing new service in rural or unserved areas. But this change didn't make it into the final Senate version. As the House didn't propose any tax credits for broadband service, the entire concept is said to have been dropped in the negotiations between the House and Senate.

As for the grant program, the original House bill set aside \$6 billion. The Senate initially proposed \$9 billion, but that was later cut to \$7 billion. According to the reports circulating today, the compromise is between \$6.65 billion and \$6.8 billion.

Another difference between the two proposals is what government agency will be responsible for making the grants. The Senate wanted the National Telecommunications and Information Administration, which is in the Commerce Department, to administer the money. The House split the funds between that agency and Rural Utility Service, which is part of the Department of Agriculture.

The compromise bill is said to give \$4 billion to the Commerce agency and \$2.5 billion to the Agriculture Department.

Many technology groups had favored giving all money to the Commerce Department, which they said was more tech-savvy. But Senator Tom Harkin, the Iowa Democrat who heads the agriculture committee, had fought for the split, saying the Rural Utility Service is more familiar with the needs of farming communities.

The latest plan is also said to eliminate rules meant to encourage the deployment of very fast service. The House bill allocated three-quarters of the grant money to broadband systems that offered download speeds of at least 45 megabits per second. Only Verizon's FiOS service, and some of the most advanced cable systems, offer service at that speed.

"This is a pretty sizable victory for the cable industry, for AT&T, and for the smaller telephone companies because speed tiers are no longer the yardstick for who benefits and who doesn't," said Jessica Zufolo, an analyst with Medley Global Advisors.