



# FCC's Healthcare Connect Fund

## Key Considerations for Rural Healthcare Consortia

In January 2014, the Federal Communication Commission (FCC) will launch the Healthcare Connect Fund and will make available \$400 million each year to support the growth of rural telemedicine networks. The FCC projects the program will be undersubscribed in 2014 and the foreseeable future. This creates a unique opportunity for forward-looking healthcare providers (HCP) and healthcare consortia to:

- Secure a 65% subsidy for eligible broadband expenses (including expenses associated with data centers)
- Own an asset that generates recurring revenue
- Deliver services to rural patients while making a meaningful contribution to broadband service in patients' own communities



This whitepaper explores the opportunities created by the Healthcare Connect Fund. Because creating a healthcare telecommunications network is a significant undertaking, the whitepaper examines three critical areas HCPs should assess before applying for Healthcare Connect funding:

- Proximity to existing networks
- Local competitive telecom landscape
- Network customer base

NEF, a high capacity network and colocation consulting firm with nearly a century of combined telecom experience, has partnered with Bill Maguire, former Chief of Staff to the U.S. Department of Commerce's Broadband Technology Opportunities Program (BTOP), to produce this whitepaper as an educational resource for healthcare providers and consortia.



## The Healthcare Connect Fund

The FCC's Order 12-150, released on December 21, 2012, established a new source of funding for rural healthcare providers (HCPs) and for healthcare consortia composed of rural and non-rural HCPs. Starting in January 2014, the FCC's Healthcare Connect Fund will distribute up to \$400 million per year to support the deployment and/or use of rural telemedicine networks. Eligible HCPs and consortia of HCPs can apply to the Healthcare Connect Fund in order to defray up to 65% of the costs associated with the purchase of advanced services from telecommunications providers. Consortia of eligible HCPs are also permitted to apply for funds to defray up to 65% of the costs associated with owning and maintaining telecommunications facilities.

Healthcare is a major driver of telecommunications bandwidth needs. EHR utilization, telemedicine, and teleradiology are examples of applications that can overwhelm existing network facilities in rural areas. Projections indicate that healthcare bandwidth requirements will only increase for the foreseeable future as requirements like EHR Meaningful Use Stage 2 take effect for all providers. The market is therefore being driven to upgrade networks and systems, to not only achieve the improved outcomes from telemedicine practices, but also receive financial incentives, for example, under the Affordable Care Act.

Of concern to the FCC and supporters of the Healthcare Connect Fund is that, as a general matter, rural networks have limited bandwidth, less network route diversity, and are built with hub-and-spoke or point-to-point topology that is less desirable for high bandwidth, high reliability applications than is a ring architecture. In many rural areas that network is based on aging technology. In rural areas where the local telecom or cable company – are provide residential or small business services via copper networks, Service Level Agreements (SLA) demands tend to be lower, the service offerings have become commodities, and the pricing can be inflexible. Without updated network infrastructure, providers are not setup to deliver more complex or custom enterprise services and support in a reliable and cost-effective manner. The Healthcare Connect Fund was designed to help HCPs serving rural communities expand their telemedicine offerings.



## Unique Opportunities for Forward-Looking Healthcare Providers Serving Rural Communities

The FCC Healthcare Connect Program provides rural serving HCPs the opportunity to secure a 65% subsidy for eligible broadband expenses, including specified costs associated with data centers. Under the program, HCPs and consortia of HCPs will release Requests for Proposal (RFPs) soliciting bids pertaining to a proposed rural telemedicine network. Consortia of rural serving HCPs are permitted to apply for funds that will support the construction of telecommunication facilities in areas without adequate existing facilities. The program allows consortia to own and monetize the assets built with the Federal support.

This unique aspect of the Healthcare Connect Program enables rural healthcare consortia to contribute to broadband service in the communities in which patients reside and generate recurring revenue from the sale of excess capacity on the network. The benefits of owning a telemedicine network deployed with the assistance of federal subsidy, include the following:

### *Cost Savings and Future Cost Control*

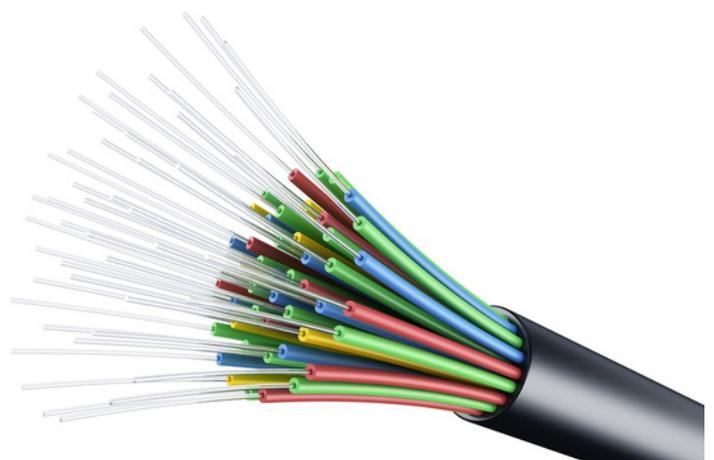
As the owner of network facilities, a consortium and its members are not beholden to ill-equipped rural telecom providers and the premium rates they are forced to charge for subpar bandwidth.

### *Additional Revenues*

When a new network is deployed, it is relatively inexpensive to include additional fiber strands that will ensure that excess network capacity is available after the core user group is serviced. Under the program rules, excess fiber capacity can be leased or otherwise monetized to business and carrier interests.

### *Contribution to Rural Communities*

By upgrading the service level each HCP provides through increased access to network and bandwidth resources, the quality of care improves. When extra network capacity is made available to surrounding businesses, effectively increasing their reach and efficiency, it has the potential to improve broadband service to local businesses and residences. .





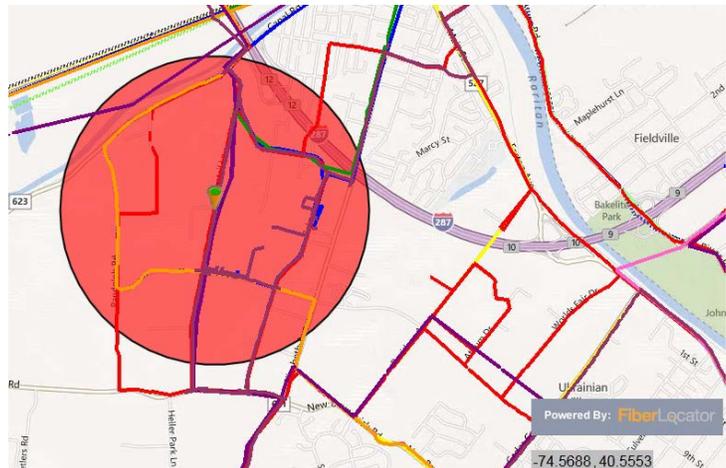
## What an HCP or Rural HCP Consortium Needs to Know Before Applying to the Healthcare Connect Fund – Three Critical Questions

Whether an HCP is planning to apply for funds in order to defray costs associated with purchasing advanced services from telecommunications providers or whether the HCP intends to join a consortium in order to own the network facilities, it makes good business sense to consider three critical questions **before or as you develop RFP(s) and the evaluation criteria by which they will score RFP responses.** Answers to these three questions can help HCPs determine whether a business case might support owning the underlying fiber network assets.

### Question #1

*To what extent is the consortium's proposed telemedicine network in close proximity to existing fiber networks?*

Answering this question will help the consortium determine whether leasing existing fiber through an indefeasible right of use (IRU) – in many cases, a cost-effective means to owning telecom facilities – is an available option. An assessment of existing fiber might also help the consortium predict whether a bid in response to an RFP for telecommunications service is likely to require a substantial amount of new construction. If so, the most cost-effective bid may be a hybrid of purchasing telecom services in some areas and new construction/IRU in other areas of the proposed network. Determining that a hybrid solution is preferred would support an approach whereby HCPs prepare and release both a “services” and “construction/IRU” RFP simultaneously.



Additionally, understanding the proximity of existing fiber assets to the proposed fiber network can help identify areas where there is a dearth of upgraded telecommunications assets. With this information, the consortium can assess whether construction of a new fiber network would lead to increased access to broadband and the degree to which increased broadband access is likely to yield improved health outcomes. The same knowledge would facilitate an analysis of the market for monetizing new fiber access to extra capacity on the proposed network.



### Question #2

*To what extent is there a reasonable expectation of competition among telecommunications providers serving the communities traversed by the consortium's proposed healthcare network?*

Examining this question will help a consortium assess whether an RFP for telecommunications services is likely to attract bids from multiple providers. Because consortium members are responsible for 35% of the cost of services, it is in the consortium's best interest to attract multiple bids. If there is not a clear expectation of multiple bids, it might advance a conclusion that the consortium is well-served to release both a telecommunications services and construction/IRU RFP simultaneously.

### Question #3

*What is the likelihood that the consortium would be able to lease excess capacity?*

The Healthcare Connect Fund rules allow a consortium to lease excess capacity to ineligible HCPs (e.g., for-profit hospitals) and commercial telecommunication providers. An assessment of the demand for telecommunications services along the proposed network route(s) is a critical input into the business case for or against owning a network. The assessment of potential demand will also guide consortium decisions about amount of excess capacity a consortium should reasonably seek to deploy.



## NEF: An Experienced, Vendor-Neutral Resource for Healthcare Providers

The complexity of the questions described above need not be a barrier to your organization's participation in the Healthcare Connect Fund. NEF's consulting expertise coupled with our involvement in thousands of network and services projects puts us in a unique position to guide healthcare consortia and their member HPCs through all phases of the process.

### *Consulting*

NEF can provide specific research and consulting services to Healthcare Connect Fund candidates as early as the application and RFP planning process. Our team, in partnership with Bill Maguire, former Chief of Staff for the Federal government's \$4.7 billion Broadband Technology Opportunities Program, can guide you through the RFP process, ensuring your organization develops the right network plan and is soliciting the necessary information from prospective network partners. Our massive FiberLocator database of network assets and our internal research team can provide the information you organization needs in order to assess competitive landscape and near-net and on-net building summaries and develop a solid network plan. NEF can advise you throughout the funding application process as well, increasing the likelihood of positive outcome and reducing the costs of cutting through the "red tape".

### *Design & Procurement*

The team at NEF also can partner with you into the next phase of your network project, planning the network architecture, writing RFPs, and managing the RFP process through to contract negotiation of costs, SLA, and general terms. Our business exposes us to metro and long haul telecom markets from coast to coast giving us the breadth and depth of information and tools to do customized assessments for each client. And for hybrid network designs, our relationships with hundreds of network carriers nationwide allow us to broker existing pieces of the puzzle for you.

### *Business Planning & Monetization*

This whitepaper has emphasized opportunities to monetize these subsidized networks and the requirements placed on the network owner to make it happen. As a long time broker of telecom assets (both networks and data centers), NEF helps organizations develop business strategy and develop detailed sales and marketing plans to monetize the commercial capacity of your proposed network. In addition, we can generate your operation management plan and/or help you contract a third party to manage the network while you enjoy the benefits associated with owning it.



## Conclusion

The FCC projects that the Healthcare Connect Fund will be undersubscribed for the foreseeable future. If the FCC's projection holds true, it would be regrettable that funds set-aside to advance rural telemedicine would be underutilized. We stand ready to help HCPs assess the best approach for their organization or their rural healthcare consortia to pursue and benefit from HCF funding.

## Contact

If your organization is considering participation in the Healthcare Connect Fund, please contact us to discuss your options. [Contact Mike Murphy on LinkedIn](#), by email at [mmurphy@nefiber.com](mailto:mmurphy@nefiber.com) or by phone at 617-597-6777.

## About the Authors



**Mike Murphy** is a veteran in high capacity optical networks and related telecom and data center solutions. He has extensive first-hand experience with network planning and implementation as well as forming and cultivating strategic alliances and provider partners throughout the nation.



**Bill Maguire** is the former Chief of Staff to the U.S. Department of Commerce's Broadband Technology Opportunities Program (BTOP), a \$4.7 billion initiative funding a 100,000 mile deployment of broadband infrastructure. A partner to NEF, Bill will support NEF clients with projects related to the BTOP, FirstNet and Healthcare Connect programs.