by Kenneth Saverin

Leveraging Municipal Cellular Site Assets To Address Financial Needs

For the past 30 years, the cellular industry has been crisscrossing the United States installing more than 350,000 cell sites in cities, towns and crossroads. Municipalities fortunate enough to have cellular sites located on their properties have been able to count on a steady stream of income from their cell site leases. While these rents have been a nice source of revenue for municipalities, the ever-increasing challenges to municipal budgets and changes in the telecom industry have led many forward-thinking municipal leaders to seek strategies that multiply and maximize the value they receive from their cellular site leases and provides much-needed capital.

Municipal Budgets Are Getting Hit From All Sides

Municipal budgets are being assaulted by a number of challenges. On one hand, rising infrastructure and service demands have greatly increased the financial demands that municipal budgets must address. At the same time, shrinking state and federal subsidies, increased voter resistance to tax increases and bond referendums have made it difficult to access the needed capital to keep up with the growing needs. Now the Tax Cuts & Job Act has limited the deductibility of state and local taxes that will bring additional resistance to any attempts to increase property or sales taxes. According to the National League of Cities 2018 City Fiscal Conditions Survey, "tax revenue growth is experiencing a year-over-year slowdown, with the growth in service costs and other expenditures outpacing it."

It is not surprising that leaders in many municipalities are closely examining all of their potential revenue sources in the context of their short- and long-term needs, risks and how to best utilize assets.

The State Of The Cellular/Municipal Union

Until recently, the union between municipalities and telecoms has been largely controlled by the telecommunication companies. Municipalities give them access to place towers and antenna on publicly-owned property in exchange for long-term leases with monthly rent payments. Unfortunately many times, municipalities were unable to negotiate the best terms for their leases and consequently receive lower-than-market value payments for extended periods of time. To make the situation even more one sided, is the fact that many of these leases carry early termination clauses that allow the telecom to walk away from the lease with little notice or recourse for the municipality.

The Times Are Changing Rapidly In The Cellular World

Moving forward, the telecom world is going to be adapting and changing like never before. Mergers, new technologies and the push for higher profitability will put added pricing pressure on both new and old cellular leases.

While mergers are nothing new in the telecom industry, the proposed T-Mobile/Sprint merger may have greater effects on municipalities than any merger to date. Papers filed by Sprint note that they expect to decommission close to 35,000 older cell sites as part of their cost reduction plans if the merger is completed. Even if the merger does not go through, cutting cell tower site expenses will be a top priority for Sprint and T-Mobile in order to stay competitive with other telecoms. Many site owners have already been approached by entities attempting to renegotiate older tower rents for lower rates.

5G And Other New Technologies Can Affect Your Cell Site Asset Value

The coming rollout of 5G cellular and the small cell technology that drives it, is going to have a gigantic impact on cell site values over the next several years. Overall, 5G technology will make it possible to move more data faster and with less power enabling smart homes, smarter cities, self-driving autos, and many other Internet Of Things technologies.

The good news is that this will require a tremendous investment in new cellular sites and equipment to provide the coverage necessary to enable the lower frequencies that power 5G. Some of this income will go toward adding additional equipment and upgrades to existing towers that should bring additional income to some cell site owners. It is expected that a great portion of 5G investment will be in small cell sites. The antennas utilized in small cell technology can be as small as a rural home mailbox and can be sited on existing light poles, buildings or highway overpasses.

For cell site owners, the bad news is that small cell technology will require less large cell tower sites; that may mean some site owners will have their sites decommissioned and their leases cancelled, often with little or no notice. Rents from small cell sites will be significantly lower than those for larger towers. In fact, many state governments, including Missouri, have passed bills that will legislate lower rents on small cell antennas. With these lower site costs, it is expected that telecoms will force some current tower owners to renegotiate their existing leases or face the possibility of having their tower replaced and decommissioned.

Consider The Advantages And Timing Of An Immediate Or Structured Buyout

After considering the opportunities and challenges facing today's municipalities, it is not surprising that many municipal leaders have determined that now is the time to pursue a cash or structured buyout for their cellular ground leases. Converting their smaller monthly lease payments into a large cash payout provides greater financial flexibility and control for municipalities without the constraints of other means of obtaining capital. It also eliminates the risk of future rent decreases or site decommissions.

Municipalities considering an immediate cash or structured buyout should be certain that their new asset partner can provide the necessary expertise and resources to custom tailor an agreement that provides the best payout and ongoing support that meets their needs. Asset partners should offer:

- Immediate access to necessary capital to close loans and provide assurance of long-term viability;
- Independence and lack of conflict. There should be no financial ties to telecoms or firms engaged in business with telecoms;
- Necessary industry technology, financial and legal expertise to negotiate successfully with telecoms on your behalf;
- A range of payout options including multi-year structured payouts and payouts with future earnings upside; and
- The ability to offer small cell monetization, as well as expertise in site management and monitoring.

Currently, cellular lease buyout prices are at all-time highs. However, with the ongoing rise of interest rates, looming merger and technology threats, and the increasing likelihood of future lower rents or cancellations, these high prices possibly will be short lived. Municipalities considering new strategies to maximize the value of their cellular assets would be advised to begin a due-diligence process before market forces reduce the value of these assets.

Kenneth Saverin *is the CEO of Crescendo Capital Partners, LLC a leading ground lease optimization and acquisition firm. He has more than 30 years experience in investing, real estate and innovating products that provide capital opportunities and access for both public and private clients. His experience as an attorney and an investment banker provide him with unique expertise to work within the legal and regulatory environment of municipalities to structure custom strategies and solutions to help maximize the value of their cellular assets. For more information about how you can maximize the potential in your cellular ground leases, contact Crescendo at: info@crescendotrust.com or (203) 972-3200. Visit www.crescendotrust.com.*

Sample Small Cell Ordinance

On behalf of the Missouri Municipal League, Attorney William Ojile, Armstrong Teasdale, has prepared a sample ordinance for use as a template in complying with the new legislation. This ordinance can be found on the League's website under the One Stop Shop, then click the Utilities topic.

https://cdn.ymaws.com/mocities.site-ym.com/resource/resmgr/onestopshop/onestopshop-telecom/mmlsample__small_celll_deplo.pdf.

As with all sample ordinances, the local city attorney should be consulted prior to adoption.