Excerpt from

UNDERSTANDING THE DEBATE OVER GOVERNMENT-OWNED BROADBAND NETWORKS:
Context, Lessons Learned, and a Way Forward for Policy Makers

Executive Summary

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Policy makers have debated the efficacy and viability of government-owned broadband networks (GONs) in the United States for many years. At their core, these debates reflect fundamental disagreement over the broadband market’s competitive and innovative health, as well as the appropriate role of government in this space. This report seeks to inform the debate by grounding it in data and relevant context. The report offers a number of resources and tools for use by policy makers when evaluating the efficacy of GONs and developing targeted and cost-effective approaches to bolster broadband connectivity from both the supply side and demand side.

Report Overview and Summary of Findings

Historical Analysis of GONs and GONs Advocacy. The report begins by tracing the historical evolution of arguments for government broadband ownership in the United States. Understanding how these arguments evolved and how they have fared in the real world is essential to understanding the contours and drivers of current GONs advocacy.

Key point: Many current rationales for GONs are variations of themes and advocacy about broadband regulation in the early and mid-2000s. These themes informed much of the municipal Wi-Fi advocacy in the late 2000s and now inform the current debate over GONs.

Key point: Despite a number of failed municipal Wi-Fi projects in the mid-2000s, advocacy for GONs persisted. Many blamed the failures on too little government involvement and began to embrace broadband deployment models that were exclusively public in nature and built around particular technologies (e.g., fiber) and subjective speed benchmarks. These efforts ultimately sought to “future-proof” advocacy by asserting what the “end-state” of broadband in the United States should be and then advocating for that outcome.

Contextualizing the Modern GONs Debate. The report then sets forth the relevant context in which to evaluate GONs proposals. This analysis encompasses two categories of issues.

First, the report examines the state of the U.S. broadband market. Critics argue that broadband is too expensive, too slow, and offered by too few providers, and that GONs offer viable redress. A comprehensive, data-driven and historical analysis of both the supply side (i.e., availability) and demand side (i.e., adoption and use) yields more optimistic findings regarding the broadband market’s competitive and innovative health.

Key point: Throughout the evolution of the GONs debate, diagnoses of failing or failed broadband have proven inaccurate. The data make clear that the U.S. broadband market is robust in terms of speed, affordability, and choice, and well-positioned to keep improving in response to evolving consumer demand.

Key point: Ample data demonstrate that, by nearly every metric, broadband availability and performance have greatly improved—and continue to improve—across the entire country. Over the last 15 years, consumers have been getting increasingly more value for their money; average speeds have increased and the number of service options has multiplied.
Challenges nevertheless remain. On the supply side, some remote parts of the country remain unserved. The Federal Communications Commission (FCC) and state governments, in partnership with service providers, are helping to plug these gaps. But on the demand side, data highlight a number of important challenges that require concerted, collaborative action by public, private, and nonprofit stakeholders.

**Key point:** Some of the most pressing public and social policy challenges remain on the demand side. Adoption rates in key user groups—senior citizens, people with disabilities, low-income households, and certain minority communities—remain below the national average. This is due in large part to an array of community-specific barriers that impede more robust adoption and use of broadband-enabled services.

The second set of issues involves the ability of municipalities, and, by implication, states, to construct and maintain these networks—and the opportunity costs of doing so. Foremost among the many factors that influence municipal action of any kind are the volatile state of public finances and the immediate need to invest more resources in shoring up basic public infrastructure like roads, bridges, dams, the electric grid, and water systems.

**Key point:** The Great Recession exposed a number of critical weaknesses in local finances that, taken together, create an inhospitable environment for taking on the risks and making the massive new investments associated with redundant long-term construction projects like GONs.

**Key point:** By nearly every measure, basic public infrastructure in the United States is crumbling and in need of trillions of dollars of investment. To the extent that new funding is available for investment in towns, cities, and states, data indicate that those dollars should be allocated in support of repairing existing infrastructure. Calls to prioritize public spending for the purposes of deploying a GON should be carefully examined in light of these many existing and future obligations.

**Case Studies of Major GONs.** To better understand the real-world issues of municipal broadband projects, the report profiles the GONs that have been built in Chattanooga, Tennessee; Bristol, Virginia; Lafayette, Louisiana; Monticello, Minnesota; Cedar Falls, Iowa; Danville, Virginia; UTOPIA, Utah (a consortium of 16 cities); Groton, Connecticut; Provo, Utah; and Wilson, North Carolina. These networks represent a broad spectrum of municipal broadband efforts undertaken across the country in recent years. While the networks share many traits—notably, volatile business models, significant debt, and uncertain financial futures—the story of each individual GON highlights why the network should be seen as a cautionary endeavor rather than a replicable model.

**Findings about GONs’ Efficacy in the United States.** The data included in the case studies, along with analyses from other sections of the report, support an array of findings regarding GONs.

**Finding One:** Failed and failing GONs offer much-needed perspective about the complexities and challenges associated with building and deploying advanced communications networks. Overly optimistic assumptions about costs and take-rates often doom networks before they are even launched. In addition, moderately successful municipal networks generally had their genesis in unique circumstances that are extremely difficult, if not impossible, to replicate. Oftentimes, these unique factors include the availability of one-time grant funding that offsets the significant costs associated with building a broadband network. And many “successes” offered by GONs proponents have not, in fact, endured over the long term, raising key concerns about the viability of any kind of municipal broadband network.

**Finding Two:** GONs, especially those deployed by municipal utilities, raise fundamental concerns regarding sustainability, fair competition, and consumer welfare. As regulated monopolies, municipal utilities operate according to a distinct set of rules, regulations, and incentives relative to private firms. These incentives are not primarily focused on spurring innovation or engaging in competitive markets.
Finding Three: Calls for achieving subjective speed benchmarks should not supplant actual consumer demand as the primary driving force shaping the broadband ecosystem. Data indicate that the vast majority of consumers are satisfied with their broadband connections and that, in general, the supply of bandwidth and the speeds of Internet connections are being shaped, in fact, by consumer demand and actual usage patterns.

Finding Four: The direct economic impact of GONs, especially in job creation, can be difficult to attribute. Data do not indicate that GONs actually serve as the nucleus of renewed economic activity in cities and towns where they have been deployed. On the contrary, they appear to be playing minor roles in creating relatively few new jobs as companies continue to respond more favorably to other, more tangible incentives (e.g., tax breaks).

Finding Five: Governments are not well-equipped to compete in dynamic markets. In general, municipal governments do not have a strong record of keeping pace with technological advances or in shaping policies that reflect rapidly evolving consumer preferences for new services. Moreover, because of the various interests represented in government policy- and decision-making, and because of other factors like institutional inertia, government is ill-equipped to act quickly or drive the type of creative destruction evident throughout the broadband ecosystem. Finally, increasing use of public-private partnerships (PPPs) and privatization of many municipal functions evince a growing recognition by government entities that there are viable alternatives to "going it alone.”

Finding Six: The substantial costs of building, maintaining, and operating GONs outweigh real benefits. The asserted benefits are often attributable to other factors. And there are important opportunity costs associated with a decision to pursue a GON instead of spending money on other infrastructure (e.g., water and wastewater systems) or public policy needs (e.g., education).

Finding Seven: Pursuit of a GON often diverts scarce public resources from more pressing priorities. Many states have laws limiting the amount of debt a municipality can accrue. Cities contemplating a municipal system will have to determine whether debt assumed as a result of a GON may limit additional bond issuances in support of other projects. Pursuit of a GON often necessitates real trade-offs that may negatively impact core aspects of local governance.

Finding Eight: A GON will not spawn the next Silicon Valley. Numerous cities have successfully nurtured vibrant information sectors, high-tech clusters, and start-up communities by using public resources to create or enhance the economic and innovative conditions necessary to foster an environment conducive to these industries. But this outcome is the result of many factors and policies having nothing to do with a GON.

Finding Nine: GONs are not remedies for perceived or actual broadband connectivity challenges. Positioning a municipal network as a vehicle for spurring competition in a local broadband market could ultimately undermine market forces and harm consumers.

Finding Ten: State-level policy makers have important roles to play in the GONs context. The costs associated with building and maintaining a GON are significant, which raises the risk of financial default by local government, the diversion of resources from other priorities, or other negative outcomes (e.g., credit downgrades). States, which maintain ultimate responsibility for the financial health of the cities and towns in their borders, have strong interests in overseeing the process by which GONs proposals are vetted and approved. Well-established legal precedent supports such a close relationship between states and their political subdivisions.
Roles for State and Local Policy Makers in Enhancing Broadband Connectivity. The final substantive section of the report examines the wide array of roles that policy makers can and should play in bolstering broadband connectivity from both the supply side and demand side.

**Key point:** The most effective public efforts in the broadband space are well defined and narrowly tailored to address actual problems. Often, public-private partnerships, which leverage the expertise, resources, and economic incentives of stakeholders in the private and nonprofit sectors, can reduce public risk and optimize outcomes on both the supply side and demand side. Numerous examples of PPPs are provided for consideration by policy makers.

**Key point:** In general, the most successful PPPs tend to be those that position government as a conduit for channeling available funding to support the efforts of expert firms in the private and nonprofit spaces, and as hubs for facilitating collaboration and frank discussions about workable, impactful solutions in a given community.

**Additional Resources for Policy Makers:**

The Policy Maker Toolkit presented in section 1 provides a step-by-step guide for evaluating proposals for a government-owned broadband network. Because these networks typically require long-term commitments of limited public resources and entail the assumption of substantial risk, decision-making processes should be as informed and comprehensive as possible.

Additional Perspectives on GONs are included in section 7 in an effort to provide further insight into the efficacy of government-owned broadband networks. These brief essays have been authored by a range of subject-matter experts who have firsthand experience with GONs or who have examined the contours of municipal broadband.
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The Advanced Communications Law & Policy Institute (ACLP) at New York Law School is an interdisciplinary public policy program that focuses on identifying and analyzing key legal, regulatory, and public policy issues facing stakeholders throughout the advanced communications sector. ACLP's mission is to promote data-driven and solution-focused dialogues amongst local, state and federal policy makers, academe, consumers, service providers, and the financial community concerning changes to the regulatory regimes governing wireline, wireless, broadband, and IP platforms. Recent research has focused on modernizing communications regulations at the federal, state, and local levels, identifying barriers to more robust broadband adoption in key demographics and sectors, and public policy strategies to spur innovation and investment in broadband.

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