Parsing the Debate over Government-Owned Broadband Networks

Government does many things well, but the track record of government-owned broadband networks (GONs) strongly suggests that becoming an Internet service provider (ISP) is not one of them. Indeed, the short history of GONs is littered with failed projects and wasted public dollars. Given the extremely challenging economic headwinds facing municipalities, and in keeping with their duties to be responsible stewards of taxpayer funds, local governments are well advised to think twice before investing scarce public resources in GONs.

Unfortunately, many local governments are finding this difficult to do because they are being pressured to deploy costly GONs. These projects are framed as essential endeavors by advocates who conveniently ignore robust cross-platform competition among ISPs in most communities, and who allege that the market is failing. The data, however, tell a much different story, as does the fact that the private sector, in response to consumer demand and pro-competition regulatory policies, has succeeded in creating a vibrant Internet ecosystem. In short, an aggressive and well-coordinated pro-GONs campaign is trying to push local governments into a very expensive and risky response to a problem that does not exist.

The goal of this document is to help state and local officials make informed decisions about bolstering broadband connectivity in their communities. Rather than gambling scarce public resources on a GON, local officials are better suited to investing tax dollars in areas of clear need, like improving basic public infrastructure. When it comes to broadband, local governments, by virtue of their proximity to the citizenry, are uniquely positioned to undertake holistic assessments of local needs and collaborate with experts in the private sector to realize the full transformative potential of this technology.

**CHATTANOOGA, TN**
But for a one-time infusion of more than $110 million in federal funding, it is unlikely that the city could have afforded to build its fiber system. Nevertheless, the system remains **$200+ million in debt**: repayment isn’t expected until at least 2020.

**UTOPIA (UTAH)**
16 cities in Utah joined together to build a GON in 2002; more than a decade later, the system has yet to turn a profit. Instead, this municipal system has a negative net value of $120 million and **owes $500 million in interest payments through 2040**.

**BURLINGTON, VT**
This GON is **$17 million in debt** eight years after launch. At one point, city officials illegally allocated money from a cash pool to support this project. As a result, the city has seen its credit rating downgraded on several occasions.

**GROTON, CT**
After years of running at a $2 million/year loss and seeing its credit rating downgraded, the city finally sold off its failing GON in 2013 for $850,000, a significant loss. Nevertheless, the city must still pay off **$28 million in debt**.

**LAFAYETTE, LA**
Since launching in 2009, this system has yet to generate revenues sufficient to begin paying off **$100+ million in city loans**.
## Evaluating the Top 5 Pro-GONs Rationales

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<th>Rationales</th>
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| GONs are necessary to plug gaps in broadband availability in the United States. | More than **96%** of housing units have access to at least one wireline broadband provider.  
More than **99%** of Americans have access to at least one wireless broadband provider.  
Those households that remain without access to a terrestrial broadband connection are considered “uneconomic” to serve and require some form of targeted government subsidy. |
| GONs are needed to inject competition into local and national broadband markets. | ISPs have invested **well over $1 trillion** in networks since 1996 to provide consumers with multiple choices – cable, DSL, fiber, mobile, satellite – to get online. As a result, network competition is thriving in the U.S.  
Consumers are benefitting from reliable service at a wide array of speed tiers and price points. **Speeds have increased significantly as prices have remained flat or declined.**  
Ultimately, competition should be measured in terms of consumer welfare and whether supply is meeting the actual needs of consumers. |
| GONs are vital components of spurring local economic development.          | The costs of deploying a GON involve not only direct funding (via bonds, tax increases, etc.), but **GONs also steer funds away from urgent investments** (e.g., upgrading roads, bridges, and schools) whose benefits far outweigh those generated by redundant broadband networks.  
**Sustaining broadband networks and jobs requires an ability to make continual substantial investments** and to be extremely nimble – two qualities that have been lacking in the history of GONs.  
Numerous opportunities exist for local and state officials to positively impact organic broadband deployment by, for example, adjusting tax policy, creating new investment incentives, and forging public-private partnerships. |
| GONs are the only way the U.S. will achieve ubiquitous gigabit connectivity. | **High-capacity fiber is being deployed widely** at all levels of the Internet. In combination with an industry-wide commitment to bolstering networks via critical equipment and software upgrades, capacities of all networks are rising dramatically.  
The FCC has noted on several occasions that a complex interplay of **investment, innovation, and consumer demand is driving U.S. broadband speeds higher each year**. In short, as demand grows, so do speeds. |
| GONs are key aspects of local self-reliance and self-determination.         | Municipalities rarely have unfettered ability to move forward with massive expenditures of public money without state approval and/or oversight. This dynamic should be no different in the context of GONs. |
Economic Realities Facing U.S. Cities

*Municipal finances remain in disarray after being devastated by the Great Recession*

Property taxes, which account for about 30% of local government revenues, fell by $30 billion between 2009 and 2011.

Direct state aid, which comprises about 33% of local budgets, also decreased sharply between 2009 and 2012. Cuts in direct state aid continue in dozens of states.

*Strained local budgets have highlighted significant shortfalls and vulnerabilities in other key areas*

Unfunded pension liabilities for local governments total $3 trillion, and unfunded health benefit liabilities exceed $1 trillion.

The public sector workforce has been decimated. Local governments have cut over 450,000 jobs since December 2007; state governments have shed 93,000 more.

*Basic infrastructure is crumbling because of chronic underinvestment*

The American Society of Civil Engineers says America’s roads, electric grid, water systems, and other key infrastructure are failing due to an investment gap of $3.6 trillion.

Such underinvestment impedes economic development at every level. The longer spending on these infrastructure projects is put off, the further the U.S. risks slipping into second-rate economic status.

How Can Local Governments Drive Broadband?

*GONs are neither the only nor the best way for local policymakers to bolster broadband connectivity in their communities. On the contrary, these officials are well positioned to contribute in more meaningful, cost-effective, and less risky ways to ensuring that residents and businesses are able to fully tap into the transformative power of broadband.*

**SUPPLY-SIDE ACTIVITIES**

Work within communities to assess actual needs, understand what local ISPs are doing, and determine what can be done to promote more investment in advanced networks.

Streamline and modernize policies impacting broadband deployment, including those related to rights-of-way management and zoning ordinances.

Forge public-private partnerships and create appropriate incentives to ensure that networks are built and managed by experts.

**DEMAND-SIDE ACTIVITIES**

Engage in demand aggregation activities in an effort to bolster local demand and create viable markets for service providers.

Tap into local social infrastructures to raise awareness of the benefits of broadband connectivity in under-adopting communities (e.g., seniors, low-income households).

Forge public-private partnerships to improve digital literacy and create a skilled user base.