

Telco Lies and the Truth about Municipal Broadband Networks



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Executive Summary

The attention of policymakers in both parties is now focused on the question of how to promote competitive broadband markets that will deliver high-speed Internet access to all Americans at affordable rates. It is a difficult problem. Present estimates are that around 30% of US households subscribe to DSL or cable modem service. This compares to over 70% in countries like South Korea. Virtually every rural state remains underserved and uncompetitive. In urban areas, many families are priced out of the market.

The telecom and cable kings of the broadband industry have failed to bridge the digital divide and opted to serve the most lucrative markets at the expense of universal, affordable access. As a result, local governments and community groups across the country have started building their own broadband networks, sometimes in a purely public service and more often through public-private partnerships.

The incumbents have responded with an aggressive lobbying and misinformation campaign. Advocates of cable and DSL providers have been activated in several state capitols to push new laws prohibiting or severely restricting municipalities from serving their communities. Earlier this year, Verizon circulated a "fact sheet" to lawmakers, journalists and opinion leaders proclaiming the so-called "failures" of public broadband.[†] Many of the statistics come from a widely discredited study of municipal cable TV networks published in 1998. This paper debunks these lies case by case, juxtaposing information direct from the city networks with quotations from the telco propaganda. The results are unequivocal and damning.

Fiction: *Glasgow, Kentucky's city-owned cable system would require a subsidy of \$716 per residential household to cover its pattern of losses.*

Fact: Glasgow's municipal system has enjoyed positive cash flows for the last several years, offering low-cost, high quality service that has saved local residents over \$30 million.

Fiction: *The Cedar Falls, Iowa venture had a negative free cash flow for each year of operation, even before starting to pay back its \$8.3 million in debt.*

Fact: Cedar Falls began posting positive cash flows in 1998 and positive net income in 2003. The network has attracted new business and over \$100 million in new construction to the town.

Fiction: *Kutztown, Pennsylvania's city fiber network projects a loss of \$350 per subscriber for 2004.*

Fact: A recent feasibility study prepared for the local council reported that the system's revenues cover its costs, and its financial plan is on track. The network has lowered costs by 40% for its subscribers. The project has been so successful that in 2003, the city won the Governor's Award for Local Excellence.

CONCLUSION

The case studies presented in this report are well documented and unambiguous. Municipal broadband has been a success for those communities that have begun offering service. It is no surprise. Historically, local government has always corrected market failure by providing essential services. The driving force for efficiency in these networks is not profit maximization, but public service. The money saved through cost reductions stays in the community. Public networks have increased broadband competition, not reduced it, and they have resulted in lower prices. The propaganda maligning municipal systems is nothing more than industry-sponsored folklore.

[†] Excerpted from an email sent on March 10, 2005, by Brian Blevins, Verizon's Director of External Communications. Free Press received confirmation from Verizon that this document came from its External Communications office.

Introduction

In a 2004 White House report, the President called for “universal, affordable access for broadband technology by the year 2007” and “plenty of technology choices when it comes to purchasing broadband.”¹ Clearly, we need public broadband policy that encourages technological innovation, fosters local ingenuity, and sparks new competition in every marketplace—especially for those Americans underserved and overcharged in rural and low-income communities.

Many Americans find themselves on the wrong side of the digital divide. The commercial broadband market has not only failed to bring affordable access in 2005, it is nowhere close. According to the National Telecommunication and Information Administration’s (NTIA) latest report, only 20% of households currently have “high speed” access. More recent estimates suggest that this may have risen to 30%, but the vast majority of Americans still do not have broadband.² By contrast, over 40% of American homes do not have Internet access of any kind. Although Internet uptake rates have risen in recent years, the pace of growth is leveling off. Moreover, low-income and minority communities are far less likely to have broadband access.³ Today, over half of all households with incomes above \$75,000 per year have broadband at home, while half of all households with incomes below \$30,000 do not have any form of Internet access at home.⁴

This is cause for grave concern, as increasingly high-speed connectivity is the difference between having economic and educational opportunities and falling short. When the 21st century finds 70% of Americans stuck in dial-up or completely disconnected, it is clear that we have a serious digital divide problem. Without dramatic changes in broadband policy, many towns and cities will struggle to reach the President’s goals.

By and large, we are locked into a market duopoly between cable modem and DSL. Many communities don’t even have that limited choice. Around 20% of households have no broadband provider at all; 5-10% more have only a single choice.⁵ In some rural states—like Iowa—those numbers combined total over 50%.⁶ In the last few years, hundreds of local governments have responded to this market failure and begun exploring how to directly provide high-speed broadband through municipal networks or public/private partnerships. Whether building a wireless system, installing fiber directly to homes, or exploring broadband over power lines—or some combination of these options—local communities are finding they can get better service for less money if they do it themselves.

If we measure successful communications policy as ubiquitous, affordable service available to all Americans on a competitive, nondiscriminatory basis, it is clear that we need more choices in the market. That is why there is so much interest in public, cooperative and public-private joint venture networks. Without municipal broadband available as an alternative, the gaps in the market will persist. Without municipal broadband, low-income, urban neighborhoods and entire rural areas will be left behind.

Anti-competitive Legislation and Misinformation Campaign

In response to community broadband initiatives, major telecom and cable firms have lobbied state legislatures to obstruct or prohibit public entities from entering the market. Against the backdrop of their service record, they would rather regulate than compete with a provider with public service priorities. It is a brazen campaign to thwart competition, deny local choice, and leave the underserved on the wrong side of the digital divide in the name of profit-maximization.

To justify these questionable activities, the industry lobbies have relied upon half-truths and propaganda that paint existing municipal networks as failures. They rely on a number of studies produced by think

tanks that offer ends-oriented analyses, skewing data to suit a pre-ordained conclusion—often ignoring the facts completely.

It has recently come to our attention that telco incumbents are sending reporters a list of quotes and statistics that portend to describe as failures a number of municipal broadband systems. It is a tactic that has been practiced by other telcos and cable companies as well, often using the same information. In Orwellian fashion, many of the examples offered as disasters are actually tremendous success stories. Many of the figures used as contemporary evidence against municipal broadband are based on case studies of cable television systems from a report that is seven years old.⁷ Even if it were still timely, its conclusions have been thoroughly debunked.⁸

In reply, we have simply gone directly to municipal systems maligned by the document and requested a reply to the charges. In some cases, the network managers have already made public statements in response to similar charges. We have laid out the charges and responses side-by-side. The facts support very little of the propaganda. Instead, they show a set of thriving community broadband networks. This fact-vs-fiction report sets the record straight—demonstrating that even in search of worst-case scenarios, the opponents of public broadband have turned up success stories. It displays the desperate attempts of incumbents to discredit a potential competitor.

The report also highlights the critical contrast of how for-profit entities define success (maximizing cash flow) versus how non-profit entities define success (maximizing public service and meeting community needs). The best argument the industry can put forward is that public networks are turning positive cash flow into lower costs rather than shareholder returns. To the incumbent providers, the non-profit business model is foreign and inherently unappealing because it will never generate huge revenues. They fail to consider that public networks can be motivated to achieve efficiency for reasons other than profit.

Thus, municipally-owned utilities that are providing basic necessary services can be just as strongly motivated to achieve efficiency in order to achieve output maximization.⁹ The distinction simply means that revenues are passed back through to the consumers not pocketed by the provider. The measuring stick for success should always be the satisfaction of consumers and the value of the network for the entire community.

Fact vs. Telco Fiction

Iowa Communications Network

TELCO FICTION[‡]

The Iowa Communications Network serves state and local agencies with video, data, and voice services. Since 1998 its business losses total \$114 million. In 2003, its low prices caused a 46 cent loss for every dollar of revenue. Since 1998, the state has had to put \$146 million into the network (in annual appropriations and contributed capital).

FACTS ABOUT ICN¹⁰

Tamara Fujinaka, the Legislative/Public Information Manager of the Iowa Communications Network responded:

[‡] All italicized "Telco Fictions" are quoted from the aforementioned Verizon "fact sheet."

The ICN was founded to provide equalized educational opportunities to students in Iowa on a statewide basis. Full motion two way video is the flagship service. Although the network was founded to be efficient, the founders were looking more at a way to provide a service for the public good, rather than provide the state with a strong profit margin. Take a look at some of the ICN news stories and clips at http://www.icn.state.ia.us/news_facts/whats_new.html and find facts and stats about the network at http://www.icn.state.ia.us/news_facts/facts/facts_stats.html

As a state owned fiber optic network, the ICN is subject to a number of statute requirements that a privately owned telecom is not. Since we don't have how the \$114 business loss number has been calculated I can only provide you with current ICN information. Here is a summary of some of the issues that the Network faces as a state owned telecom:

- The backbone of the network was built in the early 90's providing a point of presence in every county of the state. The state issued Certificates of Participation—which are similar to bonds to pay for the construction of the backbone and connection of over 110 video classrooms. The final COPs payment was made in March 2005. The yearly appropriation for the debt service payment was between \$12 and \$13 million. The total construction costs included for the COPs was \$114.5 M which is similar to the number given as the business loss in the Verizon information.
- Beginning in 1995 the state then added leased DS-3 connections to public schools, libraries and Area Education Agencies over a 5 year period. The payments for these connections were appropriated and made on a pay-as-you-go basis. The state did not want to borrow money for the upfront construction costs that they paid to the private providers. The bulk of those additions were completed by 2000.
- The final Capitol Investment project funded by the State was an upgrade of the network to ATM and MPEG 2 technology. This upgrade was required because the number of video classrooms (we now have over 770 statewide) exceeded the capabilities of the original network switches and capacity requirements. The upgrade also provided redundancy in case of a fiber splice and maximized the use of capacity delivered to all users with video classrooms.
- The ICN's user base is limited by statute. Unlike a private business that can go out and solicit additional customers when revenues require a boost, the only way ICN has to increase revenue is to add services. Our customers by statute include all public and private K-12 and post secondary users, state and federal agencies, public libraries, public and private hospitals and physician clinics, the state court system, the national guard and homeland security uses. Since most of our users are tax supported and all levels of government including public educational users have faced budget crunches in the past few years - the buying power of our customer base has been limited.
- Beginning this fiscal year (FY 05) the ICN does not receive state appropriations for operational costs. Our operations are funded only from user fees.

Chaska, Minnesota

TELCO FICTION

Chaska, MN is offering a residential WiFi broadband service for \$15.95 a month. "We're not in it to make money," says Bradley Mayer, Chaska's information systems manager. "We wanted to ensure there was some sort of broadband activity that could be affordable by our residents."

FACTS ABOUT CHASKA.NET¹¹

At first glance, it is unclear exactly how these comments are intended to impugn Chaska's municipal wireless network. However, it appears the telco is taking issue with the audacity of any network whose priority is public service, not maximizing profits. These quotations, taken out of context, come from a CNN story from October 2004.¹² The story describes wireless broadband in Chaska as a low-cost, public utility whose price-tag is popular with local residents. Here are the full quotes from Mr. Mayer in this story:

- "We firmly believe that the Internet is going to be just as much a part of everybody's future as the telephone or electricity is and we want to make sure that everybody has equal access to it," says Bradley Mayer, Chaska's information systems manager. "We wanted to ensure there was some sort of broadband activity that could be afforded by our residents."
- "We're not in it to make money. We're going to provide a service for the residents of the city. We operate at a much lower cost because we're not a profit center."
- "It's been a fantastic opportunity for us, and the residents seemed to have embraced it with open arms ... I think it's going to be a very successful story."

In our interview with Brad Mayer, he responded directly.

- "While Chaska is not in it to make money, and when I say make money, I mean not in it to generate a huge profit to be used in city operations, i.e. city coffers... we do realize that we cannot lose money."
- "In any case, the bottom line is, our financial models do rely on us making enough money to operate, pay back our capital investment, and generate a small profit to be used for future system enhancements. At our current subscription level, approximately 2300 users, we will exceed that goal."

To put the Chaska network in perspective, consider that Mr. Mayer's system has 2300 subscribers out of a population of 18,000 and about 6200 residential housing units.¹³ That computes to almost a 37% broadband take rate in this community, beating the national average of 30% by a wide margin with a service priced below half the typical cost of DSL.¹⁴

Glasgow, Kentucky

TELCO FICTION

Glasgow, Kentucky's city-owned cable system would require a subsidy of \$716 per residential household to cover its pattern of losses.

FACTS ABOUT GLASGOW ELECTRIC PLANT BOARD (EPB)¹⁵

The alleged subsidy is a pure fiction. It is lifted directly from the study by Rizzuto and Wirth published in 1998. Clearly, using a 1998 study to assess the viability of a network in 2005 is highly questionable. Further, that 1998 study evaluated this system, and others, as cable TV over-builders, not as municipal communications networks offering broadband. The industry propagandists have taken a seven year old analysis and applied it to the present without bothering to verify its validity. At best, this is sloppy inaccuracy. At worst, it is intentional propaganda.

Beyond these obvious flaws, a March 2005 report by John Kelly, "Paying the Bills, Measuring the Savings," uncovers serious analytical errors in Rizzuto and Wirth's computation of net cash flow for municipal projects. But even if we assume that the \$716 figure is a correct projection of sustainability and losses for the Glasgow system in 1998, any honest assessment of its current accuracy would require an investigation into how the Glasgow EPB has actually performed over the last seven years.

So, has Glasgow been in the red since 1998 as Rizzuto and Wirth predicted?

Turns out they are doing just fine. Kelly takes on the Glasgow case directly. He writes, "It is worth noting the net cash flow for Glasgow's municipal cable system for the 1998–2003 period because Rizzuto and Wirth were particularly pessimistic about the cable system's future financial viability. Based on information from financial statements for cable operations, net cash flows were positive each year and totaled more than \$1 million."

Billy Ray, Superintendent of the Glasgow EPB, confirmed this in an interview: "The truth is our project is an overwhelming economic success. For nearly fifteen years now, our project has delivered the lowest cable rates in North America to the 14,000 residents of Glasgow, KY. We sell a 70 channel cable package for \$18.95 per month. Those savings to the 8,000 homes and businesses in Glasgow over the last fifteen years now total over \$32 million." Furthermore, the money saved in Glasgow has stayed in the local economy.

If back of the envelop calculations are all that is required, Glasgow has resulted in a net savings for its consumers/citizens of an average of \$266 per year, rather than the large net loss that Verizon claims. Verizon is only off by about a \$1,000 per subscriber per year.

Negaunee, Michigan

TELCO FICTION

Negaunee, Michigan's cable system would require a subsidy of \$124 per household.

FACTS ABOUT NEGAUNEE CABLE SYSTEM¹⁶

First, it is worth noting that Negaunee does not even offer broadband Internet service. They are a cable television provider. Second, the \$124 subsidy figure is also taken from the 1998 Rizzuto and Wirth study. Once again, it is based on a projected shortfall in net cash flow based on analytically questionable premises. Once again, the projection is inaccurate. John Kelly takes up the case of Negaunee in his study, tracking the financial status of the network through to the present. Negaunee has had positive net cash flows in recent years. They have covered their bills as well as principal payments on all debt.

Paul Water, the City Manager of Negaunee reports:

- Negaunee Cable is not running in the red—they are in the black. The city does not subsidize its cable operation from their general fund—they have never done so. In fact, cable has put money into the general fund.
- Negaunee cable is paid for by subscriptions. The city has increased cable rates from time to time, but it remains a low-cost service. Negaunee entered the cable business because residents wanted an affordable system and they have met that need.

Tacoma, Washington

TELCO FICTION

Tacoma, Washington's Click! Network operating losses and investment have added \$700 in debt for each of the utility's subscribers.

FACTS ABOUT TACOMA PUBLIC UTILITIES CLICK! NETWORK¹⁷

Tacoma's Click! Network is among the most maligned by the propagandists. It is cited in almost all of the studies opposing municipal broadband. This \$700 figure is taken from a study by Paul Guppy, written in 2001 for the Washington Institute Foundation.¹⁸ Guppy is now Vice President for Research at the Washington Policy Center, heralded as the "Heritage Foundation of the northwest" on its website. This analysis was based on an initial planning document for the project which was subsequently changed.¹⁹

Diane Lachel, Government Relations Manager for the Click! Network, responded: "Verizon's statement is false. Tacoma Power's rates are calculated independent of Click! Network's operations. September 2004 financials (the utility's most current published financials) show commercial cable operations with a positive cash flow. If you use the same revenue reporting method that private telecom and cable operators use (EBITDA – earnings before interest, taxes, depreciation and amortization), Click! Network's three commercial lines of business (retail cable TV, wholesale internet services and high-speed data transport services) are operating in the black and revenues are included as income on Tacoma Power's income statement."

According to Tacoma Power, in the cities where Click! Network services are available, prices for cable TV and high-speed Internet are 20-25% lower than areas where competition does not exist. Tacoma has a thriving marketplace for broadband, including several ISPs that use the Click! Network as a vendor-neutral delivery system. According to the Public Utility Board, the Tacoma City Council, the Tacoma Pierce County Chamber of Commerce, the Economic Development Board, *The News Tribune* and thousands of residential and business customers, Click! Network is a huge success. Not only has the system offered a low-cost alternative in underserved communities, it has prompted both the incumbent telco and cable providers to build out their networks to compete.²⁰

Kutztown, Pennsylvania

TELCO FICTION

Kutztown, Pennsylvania's city fiber network projects a loss of \$350 per subscriber for 2004.

FACTS ABOUT THE BOROUGH OF KUTZTOWN, HOMETOWN UTILICOM²¹

This \$350 figure is taken from a study conducted by the Progress and Freedom Foundation, a corporate-backed think tank that has been aggressively antagonistic towards municipal broadband.²² Projecting debts based on the first year of performance of the Hometown Utilicom network, the study asserts that a loss of \$350 per subscriber in 2004 is an "optimistic estimate." The study concedes that "extrapolating from one year's experience is risky."²³

Indeed it is. After the publication of the PFF study, the Shpigler Group, a well-respected telecommunications consulting firm from Nyack, NY, completed a thorough study of the financial viability of Kutztown's network. On June 15, 2004, Shpigler presented their findings to the Borough Council and public. Contrary to the PFF analysis, projections prepared by Shpigler showed a positive financial future for the project with revenues exceeding operating expenses.

- The elected officials of this community, in planning the telecommunications project, accepted a timeline of seven years before the venture would reach profitability. This is the timeline and plan that Kutztown is following; the project is on pace to meet this goal earlier than expected.
- In two short years the network has provided the community with many direct and indirect benefits: lower cable television rates, access to broadband Internet, lower phone prices, a community television channel, remote monitoring of utilities, reduction in cost for the Borough's internal telecommunication needs, a soon to be launched home security system, wireless broadband to otherwise unserved businesses, and new and expanded opportunities for local businesses.²⁴

Frank Caruso, the Director of Information Technology for the Borough of Kutztown, reported that the system has been in operation for 3 years. It is still in the capital outlay stage. He confirmed that in a recent analysis, revenue was shown to cover all costs except for the capital outlay. 34% of households in the Kutztown market are now municipal customers and the city has reduced television costs by 40% for these consumers. As of November 2004, the Hometown Utilicom service fees cover the television content cost, the internet backbone cost, labor & overhead and a portion of the debt service. The project has been so successful that in 2003, the city won the Governor's Award for Local Excellence.

Marietta, Georgia

TELCO FICTION

Marietta, GA had to sell its municipal broadband network at a substantial loss. The network cost \$34 million but was sold for \$11 million.

FACTS ABOUT MARIETTA

In an interview, Allen Davis, the President of United Telesystems, Inc.,²⁵ the firm that did the feasibility study for Marietta, Georgia, reported that no municipal broadband network ever existed in Marietta, Georgia. The municipality never even planned to serve the residents of Marietta, GA with a broadband network. There was a fiber network built for wholesale transport across a number of cities in Georgia including Atlanta and Marietta. This was sold for a lower value, it is true, but the story of its sale and the true financial viability of the venture is much more complex.

The myth that Marietta was a failure has its roots in an article published in the Atlanta Journal-Constitution on July 29, 2004, suggesting that Marietta “lost” \$24 million and then sold out to avoid any further losses. The \$24 million figure came from simply subtracting the City’s selling price, \$11.2 million, from its investment in the system, \$35 million. On its face, this is misleading, failing to take into account the millions in annual revenues that the system generated over the years.

Marietta FiberNet had not only been running EBITDA-positive every year since 2001, but it was on track to go fully into the black in the first quarter of 2006. Thus, according to the standards that analysts typically apply to the private sector, Marietta FiberNet was a success, not a failure. American Fiber Systems certainly did not consider it a failure. To the contrary, it hired 100% of the system’s management and staff to continue to do exactly what we had been doing before the sale.

What really happened in Marietta is that the current mayor ran four years ago primarily on the promise that, if elected, he would get the City out of the telecom business. At the time, the system was still in its adolescence, and it had several years of projected losses to go before reaching the promising position that it was in at the time it was sold. After winning the election, the mayor made good on that promise. Reasonable minds may differ as to whether the City received full value for the system, but one thing is certain: the system would surely have been much more successful and valuable if it had not been forced operate under a cloud for the last three years.

In any event, Marietta FiberNet was a not fiber-to-the-home system of the kind that a number of municipalities are considering today. Marietta FiberNet did not offer the “triple play,” nor did it even serve the residential market. Rather, it only offered broadband and telecommunications services to businesses in Cobb County, Georgia, just northwest of Atlanta, and in some areas of Atlanta itself. Several private-sector firms were offering similar services in these markets. Thus, it is questionable whether Marietta’s experience provides much useful guidance for other municipalities.²⁶

Ashland, Oregon

TELCO FICTION

In Ashland, Ore., millions of dollars of cost overruns have forced the city to borrow from other city funds... Ashland, Oregon built a fiber network to provide cable TV and Internet services, and with hope to protect the city's income from its municipal utility. Charter Cable (the incumbent) began an upgrade to improve services and lowered prices 20%. Ashland has lost \$1.6 million in 2001 and the same in 2002. Ashland's advisor committee said that positive net income to not occur until the ninth year—and until then it would need to borrow money from other municipal sources. The city's borrowing for this venture led to an electricity rate increase of 6% and water rates increased 5% in 2002. In 2003 sales were 10% below plan and construction on Ashland Fiber was stopped. The city's 2004 budget reflects a 15-percent decline from the baseline projection.

FACTS ABOUT ASHLAND FIBER NETWORK²⁷

The statistics quoted by Verizon are taken from the PFF study and a later rehash of that analysis by the Beacon Hill Institute.²⁸ Ashland Fiber Network is a young venture and paying off its debt with capital money each year. They will have to subsidize Ashland Fiber Network to cover debt, but it is a small percentage of their expenses that are not covered by their revenue. The claim that “the city's borrowing for this venture led to an electricity rate increase of 6-percent and water rates increased of 5% in 2002” is entirely false.

Charter Communications, the incumbent, is widely believed to be engaging in predatory pricing against the municipal network, Ashland Fiber. In every town around Ashland, Charter charges \$46/month, but in Ashland Charter has dropped its rates to \$24/month.²⁹ This is a net savings to consumers that is similar in magnitude to that realized in Glasgow, Kentucky.

AFN has gone from having zero customers when they were established 5 years ago to over 3,000 Internet customers and over 3,000 cable customers. AFN's mission is to maximize service for consumers, not to maximize profit for shareholders.

AFN is a true, “open access” network. Rather than compete with the local, private Internet Service Providers, AFN instead partnered with them and gave these independent businesses access to broadband technology. AFN assisted these former dial-up ISP's to enter the broadband age with no major infrastructure expenditures incurred by them. With Open Access, residents are given a choice of nine certified ISP's to shop the best service and price for their Internet usage and budgets.

Dickenson County, Virginia

TELCO FICTION

Dickenson County, Virginia's Board of Supervisors chose to discontinue its Wireless Integrated Network due to financial problems. In a contract with its operator, the system was launched with a basic home service price of \$39.95. But, when the monthly charge was reduced to \$35, the county's portion was reduced to \$4.95.³⁰

FACTS ABOUT DICKENSON COUNTY WIRELESS INTEGRATED NETWORK (DCWIN)³¹

Mark Cvetnich, the Manager and Director of Operations of the Dickenson County Wireless Integrated Network (DCWIN) reported in no uncertain terms that his network has not been discontinued or sold. In fact, DCWIN is fully operational. The Dickenson County Board of Supervisors did vote to allow the County Administrator to enter into talks with prospective entities for the purpose of either a joint venture—which would help the system to grow at a faster pace—or the possible sale of the network outright. This came about when Verizon contacted DCWIN to enter into talks, not the other way around.

When the local paper printed "DCWIN for Sale" they had three different offers within three days: from a group of businessmen in the county, a telecommunications company, and a wireless ISP on the East Coast. Several local government leaders felt the network was a resource the county could not do without.

Regarding the change in monthly charge, they did lower the price for residential service from \$39.95 to \$34.95 a month. This was at the suggestion of the company contracted to do the billing and the technical support. The operation was running so well, little technical support was needed so that company took the cut and the county lost nothing in this price reduction.

Paragould, Arkansas

TELCO FICTION

Paragould, Arkansas City Cable built a cable system in 1991 financed by \$3.2 million in bonds (backed by a tax on all personal and real property in the city). A study of the venture showed that without tax subsidies the cable system would never generate positive free cash flow. Paragould residents and businesses, regardless of whether they subscribed to the cable venture, were forced to subsidize the cable system. The system could not compete with Direct Broadcast Satellite without upgrades at a cost of \$2.8 million. More costs would be incurred to provide telephony and high-speed data. Paragould's cable venture was estimated to have cost each household \$641 on average.

FACTS ABOUT CITY, LIGHT, WATER – PARAGOULD³²

Once again, Verizon has taken their analysis of a network in 2005 from a study written in 1998—the Wirth and Rizzuto study. Once again, the estimates of losses and debtloads are calculated by assuming a constant rate of loss. Verizon likes to assume that an operation is permanently unviable if it has a net loss at any stage in its development. The utility's cash flow to date is sufficient to achieve the goal of the network—to keep rates just at the level to pay debt and maintain the system. They are not in the business to make profits.

Rhonda Davis, Chief Financial Officer, City Light Water & Cable had this to say in response to the charges against the Paragould network:

"Our rate for 64 expanded basic channels is \$22.87/month. In a town 15 miles from here their cable company is Cox; their rate is \$35.50 for 53 channels. To our knowledge we are the lowest-priced cable TV service in our state and probably the surrounding states. The competing cable company (Cablevision, Inc.) sold to the city in 1998.

Our citizens have a cable programming selection committee made up of a cross-section of the community. They decide the programming that will be carried. Our customers like being able to have a say in the programming they get. The level of service offered to our customers was a drastic improvement over the previous provider. In addition, they can personally talk with management of the cable division and express their opinions and make suggestions.

While entering the cable TV business was a major task for the utility it has been good for the citizens of our town. We could easily charge rates sufficient to show big profits—so the headlines can look more favorable—but that is not what we are in the business for. We are here to offer a top-rate service at the lowest price possible, while still maintaining financial soundness. That is why the citizens voted to spend the money and issue the debt to build and maintain their own system. It was a wise choice."³³

Cedar Falls, Iowa

TELCO FICTION

Cedar Falls, Iowa constructed a \$6 million fiber-optic network financed by \$3 million in loans from the local electric utility and \$3 million in city bonds. By 1998, the venture was competing with an incumbent cable [provider]. The venture had a negative free cash flow for each year of operation, even before starting to pay back its \$8.3 million in debt.

FACTS ABOUT CEDAR FALLS UTILITY³⁴

Once again, Verizon uses the 1998 Rizzuto and Wirth study. On the question of Cedar Falls Utility, it is particularly riddled with errors. The debt projections in that study are based on the capital investments to build the network, offset by only two years of revenues from the facility's operation, 1996 and 1997. Nothing in the planning for the network suggested that it would be clear of debt after only two years.

According to Karen Shimp of Cedar Falls Utilities, "CFU Communication utility posted positive operating income for the first time in 1998, positive net income for the first time in 2003. Cashflow provided by operations went positive in 1997." The record directly refutes the doomsday predictions of the Rizzuto and Wirth study.

An October 2003 study by Doris Kelley, "A Study of the Economic and Community Benefits of Cedar Falls, Iowa's Municipal Telecommunications Network," documents the positive experience the city has had with the municipal system. In the years after its construction, Cedar Falls enjoyed a boom in new business, a striking rise in new construction (from \$32 million in 1996 to \$101 million in 2002), an increase in property value, and a host of other social benefits in education, healthcare, and local government.³⁵

Geneva / Batavia / St. Charles, Illinois

TELCO FICTION

"When Asked, Many Voters Don't Want Municipal Networks." In Illinois, voters in Geneva, Batavia and St. Charles defeated measures authorizing local networks for the second time in two years- even though the November 2003 questions specified that the cities would not be allowed to spend any tax revenues on the project. Batavia Mayor Jeff Schielke said, "Even if the referendum had passed, it would have been problematic for us to act on it, given our current situation." The cost had been estimated at \$62 million.

FACTS ABOUT TRI-CITY BROADBAND³⁶

It is true that the Referenda in 2003 & 2004 did not pass. In 2003, it received over 40% YES votes and in 2004 over 45%. But it is critical in this case to factor in the propaganda campaign waged by SBC and Comcast to block the public broadband initiative. Local reports calculated that the two companies spent \$301,065 in advertising and direct mail opposing the project. The grassroots coalition backing municipal fiber spent \$4,325.³⁷ Voters were promised that DSL and cable modem service would improve and prices would decline. Accordingly to Tri-City Broadband Chair Annie Collins, many citizens from all three cities in the Fox River Valley have been calling their elected officials to complain about subsequent price hikes, cuts in service, poor customer service, and the frequently changing lineup on cable TV.

Conclusion

Municipal and consumer-owned utilities have long been part of the American economy, as has public provision of essential, basic services. These enterprises are never intended to make a profit, but rather to serve the public at affordable rates. As our discussion of the facts shows, they have done so successfully, providing exceptional service to underserved communities and public institutions like schools, health care facilities, and utilities. They do this precisely because the private sector will not deliver the service at affordable rates. However, contrary to the industry folklore, these enterprises can and consistently do cover their costs.

Deploying municipal broadband enables communities to take a long term perspective. This strategy promotes greater penetration of the high-speed Internet access to those who need it most, a sizeable improvement on the short-term profit maximization mentality of the private sector incumbents. Municipal broadband increases competition, lowers prices, and drives demand for future deployments in both the public and private sectors.

Endnotes

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- 2 Pew Internet & American Life Project Trends 2005 (2005), Chapter 4 shows little increase in adult Americans who use the Internet since late 2003, when the NTIA data was last collected (p. 59). It also shows that broadband in the home has increased by about 50% since late 2003 (p. 62), suggesting an increase from 20% overall penetration to 30%. Arbitron, *Internet and Multimedia 2005: The ON-Demand Media Consumer* (2005), p. 5 concludes that half of all households who have the Internet have broadband. With household penetration stable at about 60%, this suggest 30% penetration of broadband.
- 3 NTIA, "A Nation Online," September 2004, <http://www.ntia.doc.gov/reports/anol/>
- 4 Cooper, Mark, *Expanding the Digital Divide and Falling Behind in Broadband* (Consumer Federation of America and Consumers Union, October 2004),
- 5 Sarah Lacy, "America: Still the High-speed Laggard," *Business Week*, April 6, 2005, http://www.businessweek.com/technology/content/apr2005/tc2005046_3472_tc206.htm
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- 7 Ronald J. Rizzuto and Michael O. Wirth, "Costs, Benefits, and Long-Term Sustainability of Municipal Cable Television Overbuilds," Denver: GSA Press, 1998. This report was underwritten by Tele-Communications Inc and is now sold by The Cable Center.
- 8 See: John M. Kelly, "Paying the Bills, Measuring the Savings," APPA, March 2005, <http://www.appanet.org/files/PDFs/PayingtheBills.pdf>
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- 10 <http://www.icn.state.ia.us/>
- 11 <http://www.chaska.net>
- 12 These quotes come from: Amy Cox, "Cities find Wi-Fi Future," *CNN*, 18 October 2004, <http://edition.cnn.com/2004/TECH/internet/10/18/wireless.city/>
- 13 U.S. Census Bureau, *Chaska City, Minnesota Fact Sheet*, available at http://factfinder.census.gov/servlet/SAFF-Facts?_event=ChangeGeoContext&geo_id=16000US2710972&_geoContext=&_street=&_county=chaska&_cityTown=chaska&_state=&_zip=&_lang=en&_sse=on&ActiveGeoDiv=&_useEV=
- 14 This conclusion holds even if there has been a slight increase in the number of residential units since 2000, when the last census was completed.
- 15 <http://www.glasgow-ky.com/epb/>
- 16 <http://www.cityofnegaunee.com/directory.html#ndopw>
- 17 <http://www.click-network.com/>
- 18 Paul Guppy, "When Government Enters the Telecommunications Market," Policy Brief, Washington Institute Foundation, June 2001, <http://www.washingtonpolicycenter.org/ConOutPrivatization/PBGuppyCOTacomasClickNetwork.html>
- 19 <http://www.tricitybroadband.com/failures.htm>
- 20 See archived story from the Kane County Chronicle and Wired: <http://www.tricitybroadband.com/news20.htm>; <http://www.tricitybroadband.com/wired.htm>; <http://www.tricitybroadband.com/failures.htm>
- 21 <http://www.hometownutilicom.org>

- 22 Thomas M. Lenard, "Government Entry into the Telecom Business: Are the Benefits Commensurate with the Costs?" February 2004, <http://www.pff.org/issues-pubs/pops/pop11.3govtownership.pdf>
- 23 Ibid, 22.
- 24 From: Letter from Jan Crooker, Borough Council President, to Annie Collins (8/10/04). <http://www.tricitybroadband.com/failures.htm>
- 25 <http://www.utisav.com/allen.htm>
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- 27 <http://www.ashlandfiber.net/>
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- 32 <http://www.clwc.com/>
- 33 Qtd at <http://www.tricitybroadband.com/failures.htm>
- 34 <http://www.cfu.net/>
- 35 Kelley's study is available at: <http://www.muniwireless.com/reports/docs/cedarfalls.pdf>
- 36 <http://www.tricitybroadband.com/>
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