Citizens Against Government Waste

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Municipal Broadband Is No Utopia

Many projects are white elephants. If the FCC's Tom Wheeler has his way, there will be many more.

By Thomas A. Schatz and Royce Van Tassell June 20, 2014

Like most utopian dreams, the Utah Telecommunications Open Infrastructure Agency, or Utopia, hasn't panned out. Utopia, a consortium of 11 municipalities to build a fiber-optic network, was initially financed in 2004 with a $185 million bond; it was supposed to be completed in three years and have a positive cash flow in five. The project is a prime example of why governments should not be in the business of building or operating broadband networks—and why the federal government should not be in the business of cheerleading for them.

In 2006, Utopia received an additional $66 million loan from the Agriculture Department's Rural Utilities Service. Two years later all but $21 million of the loan was suspended, when the agency determined that the project needed to improve its financial situation and develop a new business plan.

Today Utopia has about 11,000 subscribers, less than one quarter of the 49,350 projected to be on board by September 2007. Its failure to attract the anticipated number of customers has caused a spectacular financial failure. Utopia has lost at least $3 million and as much as $13 million annually. As of July 1, 2013, Utopia had negative net assets of $146 million. And last November voters in Orem, part of the Utopia network, decisively rejected a hike in local property taxes to pay some of the city's costs for participating in the network.

There is a bailout plan, under which Macquarie Capital, a private investment firm based in Australia, would complete the network. But it means new debt obligations for Utopia cities and residents as high as $1.83 billion over the next 30 years, excluding the $355 million in debt already incurred by Utopia.

All households in those cities would have to pay a new mandatory utility fee of $20 a month, whether or not they subscribe to the network or can afford to pay. And the cities will have the power to cut off water service to those who do not pay in full or on time every month.

By rejecting higher taxes to pay for this white elephant, the good citizens of Oren, Utah, were pointing out the obvious: Those services are already being provided in a competitive manner by private businesses.

Nevertheless, in April, Federal Communications Commission Chairman Tom Wheeler said he believes that the FCC can pre-empt state laws that prevent municipalities from building broadband networks—even if the locality already has them. He gave no statutory basis for this power but claimed that the "competition" municipal broadband could provide is being stymied by the states.

This is an astonishing assertion of federal power. States, in Mr. Wheeler's view, cannot prevent their legal subdivisions—including counties, cities and towns—from imposing unnecessary and burdensome costs on taxpayers.

In 2001, there were only 16 government-owned networks in nine states. By 2011, largely due to post financial crisis "stimulus" spending, that number had increased to 108 projects in 33 states. Today, there are nearly 400 communities nationwide that used taxpayer dollars to build government-owned networks.

The record of these projects is decidedly mixed. In a 2012 study of government-owned broadband networks, Widener University's Joseph Fuhr Jr. concluded that "Many cities and municipalities have entered into the broadband market with disastrous results." The failed networks, he said, "have neither the resources nor the expertise necessary to provide consumers with reliable state-of-the-art broadband connections."

No wonder, 21 states have taken action to prevent much of this wasteful spending by restricting municipal broadband build out. Their laws range from requiring a taxpayer referendum or mandate and evidence the system can be self-sustaining, to complete prohibitions on telecommunications services if a private company or companies already provides such services.

Mr. Wheeler would have the FCC overturn these laws and stop the other 29 states from adopting similar restrictions. He should reconsider. Otherwise, taxpayers will all be living in states of dystopia.

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