

## The Hidden Problems with Government Owned (Broadband) Networks

The success rate of government-owned (broadband) networks (GONs) can be described as checkered at best. While there are some cases where GONs have brought new economic prosperity to a locality, there are far more instances of projects that now face serious financial challenges, and others that have failed entirely.

In a paper published by the Coalition for the New Economy titled, "[The Hidden Problems with Government Owned Networks](#)," author Dr. Joseph P. Fuhr Jr., Professor of Economics, Widener University, examines research on the topic. Fuhr writes:

***"Broadband is a compelling example of a service that governments are ill-suited to provide."***<sup>1</sup>

*"It is important to consider whether a government possesses the expertise to develop and operate a broadband network. This is an especially important question in the broadband market where technology is constantly changing and firms need to be flexible and have the ability to constantly update their business plans. **Communities that want to invest public funds must have well defined plans, goals and milestones.**"*

In Bristol, Virginia community leaders invested more than \$120 million in tax payer dollars, as well as state and federal grants, to build a network that was quickly mired in \$5.9 million of debt. The president of the broadband authority recently told city council that after nearly 13 years of operations, **the municipal broadband network is still facing "an operational deficit of \$1.1 million."**<sup>2</sup>

Before jumping in head first, some cities are now taking a more cautious approach. Leaders in [Seattle recently scuttled plans](#) to build its own municipal broadband network after a feasibility study revealed some interesting facts. The financial model showed the utility would need to have a "take rate" of 43 percent, meaning 43 percent of the city's single-family homes would need to subscribe to the service to pay back the debt. Seattle's Chief Technology Officer admitted "even the most successful municipal broadband utilities don't achieve that rate."<sup>3</sup> That prompted the city's budget director to issue a memo that states:

***"...a failure to fund the network with subscriber fees would require the city to tap into its General Fund, potentially reducing funding for basic city functions such as police, fire, parks and human services."***<sup>4</sup>

In his paper, Professor Fuhr states, "...studies have shown that almost all GONs are losing money. An examination of various GONs determined that virtually all of them have a negative net present value. This is true in rural areas where there is no competition as well as areas where competition exists."

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<sup>1</sup> <http://www.coalitionfortheneweconomy.org/wp-content/uploads/2012/01/1-6-12-Coalition-for-a-New-Economy-White-Paper.pdf>

<sup>2</sup> <http://www.wcyb.com/news/bvu-optinet-sale-proving-costly/39207816>

<sup>3</sup> <http://www.geekwire.com/2015/seattle-officials-municipal-broadband-too-risky-and-expensive-for-city-to-build-alone/>

<sup>4</sup> <http://www.geekwire.com/2015/seattle-officials-municipal-broadband-too-risky-and-expensive-for-city-to-build-alone/>