FOR IMMEDIATE RELEASE
December 20, 2004

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# Municipal Telecom is Risky Business

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Word Count: 517

Have you ever heard of the "yellow pages test?" It is the first step toward determining the validity of any government enterprise.

If the private sector offers the service, the test says, taxpayers should not pay local government employees to try and compete. Indianapolis Mayor Stephen Goldsmith saved $230 million using this test in the 1990s. Unfortunately some Ohio cities are choosing to ignore this principle in telecommunications policy for the sake of being "cutting edge." [1]

History tells us the public sector is ill equipped to accommodate the risks and rewards of the private market. Indeed, the city of Lebanon, Ohio, may be a case in point.

According to a recent analysis by the Heartland Institute, a national think tank based in Chicago, Lebanon projected it would cost $5 million to enter the broadband market but ended up spending $9 million – authorizing electricity rate increases and $14.8 million in mortgage revenue bonds to cover operating losses. [2]

As a further measure, Lebanon currently requires commercial Internet service providers to connect to its network. As one commentator explains, this rule "essentially forces commercial broadband service providers to pay the city between $1,250 to $2,000 for each customer they sign up."[3]

Lebanon should serve as a cautionary tale for other Ohio cities considering a leap into broadband service. Indeed, the city's experience is hardly unique. The Heartland Institute details a host of similar examples all across the country:

- *Iowa Communications Network* received over $23 million in fiscal year 1999 and still ended up losing nearly $6 million.
- *California's CALNET system* was privatized in 1998 after finding itself in debt to the tune of $20 million.
- The city of *Marietta, Georgia* sold its "FiberNet" system to a private company in September 2004 for about $8 million after losing more than $35 million on the program. Mayor Bill Dunaway explained that "[W]e should not be in this business—you have to keep reinvesting. It's negative cash flow once you consider reinvestment of capital."
- The *Tacoma, Washington Power Utility* launched its Click! Network in 1997. By 2000 it had lost $15.7 million. Projections of cost, time to construct, number of customers, earnings, and net profit were all overly optimistic.
- *Paragould, Arkansas* is losing money and may have to increase property taxes in order to pay off bonds floated to shore up its faltering cable business.
- *Ashland, Oregon's* attempt to expand its electric department's customer base by entering the cable/Internet business ran into trouble due to unanticipated competition from the private sector.

- *Scottsboro, Alabama* faced similar price competition and responded by attempting through court action to prevent its competitor from cutting *its* rates. [4]

Clearly, broadband, satellite, and other telecommunications technologies are no exception to history's lessons. Despite apparent short-term gains, the long run costs in terms of reduced competition and higher downstream costs are significant.

Taxpayers should not fund efforts that give some companies a market advantage over their competitors. That is the benefit of a principle as simple and effective as the "yellow pages" test put so effectively to use by Mayor Goldsmith.

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**Notes**

[1] Jen Melby, "Are Ohio's Cities Competitive?" The Buckeye Institute, 12 June 2003.

[2] Joseph L. Bast, "Municipally Owned Broadband Networks: A Critical Evaluation (revised edition), *Heartland Policy Study #105* (Chicago, IL: Heartland Institute, 2004)

[3] Ben Charny, "Time Warner broadband suit advances," CNET News.com, 2 September 2004. Available at: http://news.com.com.

[4] Bast, "Muncipally Owned Broadband Networks".