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The Buckeye Institute Policy Brief

Broadband "GON" Wrong: Remembering Why Government-Owned Broadband Networks Are Bad for Taxpayers

By Greg R. Lawson

As Ohio policymakers weigh the merits of adopting or expanding government-owned broadband networks, or GONs, they would do well to remember the unfortunate trials, errors, and failures of two Ohio communities that gave in to the temptation to provide government-sponsored broadband. The City of Lebanon and Medina County offer classic case studies for resisting such temptation and respecting the limitations of government bureaucracies and the competitive prowess of the private sector.

Early proponents of GONs made three common arguments for implementing government-owned networks across the country: providing access to underserved populations, often in rural areas; promoting economic activity by offering cheap broadband for companies that locate in their communities; and connecting public safety providers and creating communications redundancies in case of unforeseen disasters.

Broadband communication, of course, has increased dramatically since the early days of the internet, and high-speed internet service connections have more than doubled nationally between 2009 and 2012, increasing from 119.4 million to 261.7 million.[1] Such expansion comes with significant competition and extensive capital outlays of more than $60 billion each year by various providers.[2] With easier, more available access and the prohibitive costs associated with developing broadband networks in a rapidly changing field already assumed by large private sector providers, the once-persuasive arguments for GONs are outweighed by the all-but-unavoidable problems of government-owned enterprises.

GONs suffer from many of the typical shortcomings that plague other government-provided services as they try to compete with private-sector operators. Because governments do not rely on voluntary transactions or enjoy competitive financial incentives, they offer goods and services less efficiently and of lower quality than the private sector. Governments can forcibly extract revenues from taxpayers regardless of the service quality they provide, giving them little incentive to innovate or improve quality or efficiency.[3] These inherent disadvantages create acute difficulties in the fluid, cost-intensive fields of technology and telecommunications, where necessary upgrades are both frequent and expensive.

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[1] Charles M. Davidson and Michael J. Santorelli, ***Understanding the Debate Over Government-Owned Broadband Networks***, Advanced Communication Law & Policy Institute at New York Law School, June 2014.
[2] *Ibid.*
[3] *Ibid.*

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As costs rise and government-innovation lags, a government-owned network will prove less qualified to meet consumer demands or provide adequate service, and both consumers and cash flow will suffer. Recent research out of the University of Pennsylvania Law School, for example, reviewed 20 GONs that reported their financial results separately from their utilities,[4] and in 11 of the studied cases the GON generated a negative cash flow. Of the nine cash-flow positive projects, five were projected to take more than 100 years to recover their costs while two would take more than 60 years.[5]

Running at such deficits lead GONs to suffer another problem common to government-subsidized initiatives: lack of transparent funding. As government officials shift taxpayer money from one fund to cover cost overruns in another fund, the cross-subsidization obscures the true financial realities of government activities.[6] Such a lack of transparency makes local government less responsive and less accountable to the people that it pledges to serve.

Finally, every dollar that local governments spend competing with large-scale, private-sector companies in the broadband market is money not spent maintaining sewer lines, water mains, road, and bridges—it is money not spent on the essential duties and infrastructures that government is entrusted and best-equipped to manage.

Remembering Lebanon, Ohio

Lebanon, Ohio offers a quintessential example of some of the problems lurking in GONs. A mid-sized city of more than 20,600 residents in Warren County,[7] Lebanon developed a GON in 1999 that sold internet and cable to residents.[8] It subsequently added phone service in 2002.[9] Lebanon's experiment, unfortunately, proved a classic failure.

As The Buckeye Institute reported in 2006, problems with Lebanon's GON began almost immediately.[10] The city used police to harass private-sector competitors from offering their products to residents; forced new construction projects in the city to connect to the GON; required construction companies to pay fees to fund the GON expansion; amassed significant taxpayer-backed debt; and transferred taxpayer dollars from other city departments to cover annual GON deficits,[11] effectively subsidizing household subscribers by approximately $37 per month.[12] The competition for broadband created by the GON did spur a private competitor to

[4] Christopher S. Yoo and Timothy Pfenninger, ***Municipal Fiber in the United States: An Empirical Assessment of Financial Performance***, The Center for Technology, Innovation and Competition at the University of Pennsylvania Law School, May 24, 2017.
[5] *Ibid.*
[6] *Ibid.*
[7] Quick Facts: **Lebanon City, Ohio**, U.S. Census Bureau, accessed February 1, 2018.
[8] Marc Kilmer, ***When Government Competes with Private Enterprise: How Lebanon, Ohio Got into the Telecommunications Business***, The Buckeye Institute, June 23, 2006.
[9] *Ibid.*
[10] *Ibid.*
[11] *Ibid.*
[12] Jerry Ellig, ***A Dynamic Perspective on Government Broadband Initiatives***, Reason Foundation, November 2016.

offer lower prices in Lebanon, but the excessive debt and taxpayer-funded subsidies made the overall arrangement a net negative.

By 2006, the good people of Lebanon had had enough poor service at a high price, and voted for the city manager to sell the GON to Cincinnati Bell,[13] even at a net loss to the city.[14]

Medina County: Forgetting Lebanon, Ohio

Unfortunately, Medina County did not learn from Lebanon's GON mistake and Medina's citizens have been paying the price. In 2006, just as Lebanon was washing its hands after its failed GON experiment, the Medina County Port Authority began deploying more than 150 miles of dark fiber,[15] ostensibly to allow various local government bodies to gain broadband access at competitive pricing.[16]

To pay for the project, the Port Authority issued more than $14.4 million in bonds in 2010 to be repaid over 20 years through user fees.[17] The bonds were backed by the Cascade Capital Corporation and a number of local governments, including Brunswick, Medina, Wadsworth, Seville, and Westfield Center.

Today, the network still suffers "growing pains."[18] Indeed. According to the chief operating officer, a mere 140 customers are connected to the government-owned network. Given the paltry income earned from scant user fees, the Port Authority did not contribute much to the $1.2 million debt payments in the previous year, instead reinvesting the fees back into the network.

The Port Authority argues that recent user growth will allow for debt repayment *next* year, but in the meantime the county commissioners have had to tap the $1.2 million bond reserve fund to subsidize the network and stay current on payments—repeating a similar occurrence in 2014 when commissioners took $400,000 from the reserve fund to make a debt payment.[19]

Once again a local GON has failed to deliver on the beguiling promises of government-sponsored broadband.

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[13] Office of the Ohio Secretary of State, **Report of the Votes Cast on Misc. Questions for the Election Held on November 7, 2006**, accessed on February 1, 2018.
[14] **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**, Cincinnati Bell, Inc., February 26, 2008.
[15] Medina County Port Authority, **Medina County Fiber Network**, accessed February 1, 2018.
[16] *Ibid.*
[17] *Ibid.*
[18] Glenn Wojciak, **Fiber Network Still Suffering Growing Pains**, *The Post Newspapers*, June 24, 2017.
[19] Glenn Wojciak, **Fiber Optic Network Still Short of Funds**, *The Post Newspapers*, December 10, 2014.

Conclusion

The City of Lebanon and Medina County are stark reminders that local governments should resist the temptation to compete in the high-tech world of broadband and internet connectivity. Private-sector players that dominate the market have already deployed billions of dollars developing state of the art technology to nimbly respond to consumer demands and preferences, while GONs have proven to be ill-suited to the task and unable to pay for themselves, leaving taxpayers to pay for networks that no one wants to use.

Even when a GON has facilitated lower consumer prices, governments officials have failed to reveal the true costs of the hidden subsidies to the public, and they continue to ignore—at the taxpayers' peril—the long-term challenges inherent in maintaining and upgrading the infrastructure needed to offer the high-speed broadband that consumers demand.

Ohio's state and local policymakers should take a long hard look at broadband "GON" wrong in the City of Lebanon and Medina County before venturing into new government-owned networks. Local governments should focus their money and attention on providing their citizens with safe roads and drinking water, and let the private sector worry about adding new internet users.

About the Author

Greg R. Lawson is the research fellow at The Buckeye Institute.

In this role, Lawson works with all members of the Buckeye research team with a particular focus on occupational licensing, local government, and education issues. He is also Buckeye's primary liaison to the Statehouse where he educates policymakers in both the legislative and executive branches on free-market solutions to Ohio's challenges.

Prior to his position at Buckeye, Lawson served in the Ohio General Assembly as a Legislative Service Commission fellow. He then went on to several government affairs roles focusing on numerous public policy topics, including Medicaid, school choice, transportation funding, and Ohio's Building Code. He also has a background in PAC fundraising, grassroots organizing, and communications and served for five years on the boards of two Columbus-based charter schools.

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