



Research

Muni Projects Up To 50 Percent More Expensive for Consumers

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Summary

Recently, as part of a larger initiative, the administration announced its plan calling for the Federal Communication Commission (FCC) to overturn state laws that determine how cities deploy their own Internet services. AAF examined all of the residential fiber broadband offerings by municipalities and found that municipal plans were 20 to 50 percent more costly to consumers than private broadband providers.

Methodology

In order to compare municipal and independent broadband projects, AAF collected and averaged information on prices and speeds for 218 plans from 58 different municipal providers. Municipal fiber consumers on average pay \$4.36 for every 1 Mbps of download speed. At this price, these customers pay at least 50 percent more than the private offerings. New America Foundation averages private broadband cost to be \$2.19 per Mbps. Ookla, which performs Internet speed tests, supports this finding, as its average price per Mbps is \$3.51, which makes muni at least 20 percent higher than the national average.

The Role Of Private Networks

Looking at selected cities, AAF finds that municipal broadband projects are often not in the interest of consumers despite population or density of those cities. Even in the densely populated city of Evanston Illinois, which lies to the north of Chicago, costs per household were \$2,500 for a new fiber project in 2013.^[1] The often lauded fiber network in Chattanooga, TN fiber cost at least \$3,022 per household to build.^[2] And Seattle estimated that connecting the city would cost at minimum \$1,900 per household but could top out at \$2,200 per household.^[3] Meanwhile, Google was able build its network at a cost of \$564 per household in Kansas City,^[4] a city with around the same population density of Chattanooga and five times less dense than Seattle.^[5] Similarly, estimates place Verizon's fiber build out at a slightly higher cost of \$882 per household.

Countless problems arise when a local municipality attempts to build networks, contributing to the overall project cost. Building a completely new broadband network is costly, not just in the physical materials but in the need for new labor and project management. As economist Brian Deignan found, these locally run networks do little to increase private employment, but they expand government employment by about 6 percent.^[6]

In spite of these costs, the administration is pressing the FCC to help overturn state laws that govern municipally owned and operated broadband networks. However, the Supreme Court has already once rejected this kind of power in *Nixon v. Missouri Municipal League*. In essence, the highest court was skeptical that the Federal government was better at determining local arrangements than the States on this issue.

About a third of all municipal fiber networks reside in states that have various limitations. [7] What then needs to be overturned? Colorado specifies that municipalities must conduct a referendum before offering a service. Utah places certain administrative obligations on the projects and stipulates that a feasibility study be conducted. [8] Under Louisiana law, certain benchmarks must be met while Florida requires that the project break even within four years and that a tax be applied.[9] It is hardly out the ordinary to have these kinds of limitations, especially since Wisconsin’s statute on municipal borrowing and bonds runs just over 19,000 words, making this section an 80 page novella.[10] In other words, many states are doing proper fiscal due diligence. Overturning these laws is just poor governance.

History is also on the side of these laws. Before the recent push for community broadband, there was an equally feverish push for community WiFi in the early 2000s. Most cities across the United States including St. Louis, San Francisco, and Chicago abandoned the municipal wireless plans.[11] The culprit? Each found it exceedingly difficult to create a sustainable business model. For example, the Philadelphia experiment with city WiFi collapsed after countless years of experimenting with business models due to tepid demand and a bloated budget that was nearly triple the initial projections.[12]

In spite being cheaper than public versions, private broadband projects actually bear a hidden cost that public projects don’t. To lay wires, companies have to work with governments. As the project director of Google Fiber noted before Congress, these kinds of government regulation “often results in unreasonable fees, anti-investment terms and conditions, and long and unpredictable build-out timeframes.”[13] Cities know how much this is worth. San Francisco even called this knowledge one of its best assets.[14] Taking a closer look at these laws is the last of the five points in the administration’s plan, but it should be front and center.

We need to get broadband right, but to do this, there needs to be recognition of reality. Consumers are not getting a better deal with broadband provided by cities and municipalities. In fact, these jurisdictions have long been the biggest hurdle for broadband development. Real broadband reform, the kind we need, would work to address these issues.

[1] <http://www.muninetworks.org/content/evanston-illinois-dabble-community-owned-connectivity>