Breaking Cities Across the Nation: Municipal Cable

Cable Television Association of Georgia
999 Peachtree St.
Suite 2700
Atlanta, GA 30309

CTAGPosition

- It is not good fiscal policy for municipalities to get in the telecommunications industry. The Cable Industry has too many failed attempts to support city owned cable. Knowing the stability of incumbent companies, the industry cannot support any more tax payer dollars be used for such an unwise policy decision.

Should Georgia's Local Governments Get Into The Cable Business?

- Acworth CableNet

  Obligated taxpayers to $10 million debt and 2 years later experienced huge cost over-runs. In July 2002 the city agreed to sell the enterprise to a private company but the bonds must still be serviced.

- City of Trion Cable

  Only 2,000 residents in Trion, experienced such serious cost over-runs on it's cable system that it was forced to shut it down before completion. It is now attempting to sell off equipment on a piecemeal basis in order to recoup the $3.2 million investment.

- CityNet of Tifton

  The city underestimated the number of customers it would need to break even and lost $409,384 more than expected in FY 2000. The city transferred general revenues as a loan to cover deficits, this loss is over and above the $8 million bond issue for construction

- Marietta FiberNet

  City-owned board launched FiberNet anticipated profits of $27 million. Instead it has posted a loss for each of it's four years of operation, incurring more than $4.3 million in losses

Consider the Facts…

What about lower cable rates?

So called "cable rate savings" are an illusion in government owned cable because of the government subsidies, low cost capital, and higher taxes required to keep rates low. Private providers then forced to compete with government systems, will keep its rates low leaving no money to upgrade their infrastructure

What has happened to some local governments that have constructed cable systems?

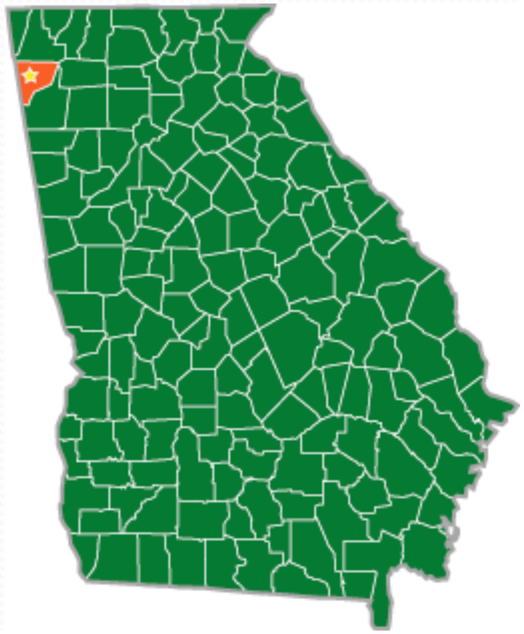
The governments previously mentioned projected initial capital investments that fell far short of the actual cost and were later greatly increased. None have met profit projections or subscriber numbers.

Acworth CableNet

- Invested more than $13.5 million to build and maintain the cable TV system hoping it be a money-maker for the city
- Acworth raised property taxes by about 7 percent for the bond payment
- Acworth city officials agreed to sell its operation to Klip Interactive in a deal that is worth $4.95 million, for a loss of $8.55 million

City of Trion Cable

- Officials believed they could provide a low-cost cable and Internet alternative to citizens, and expand the infrastructure into neighboring towns
- Drained budget surplus and a plant in which only the city hall, home of the headend, is activated. 55% of the plant was completed, along with 25% of the splicing after 2 years
- Mayor Lanney Thomas and city aldermen determined in 2003 "that the former Mayor and town officials forked out a lot of money they really didn't have - it pretty much broke the town" said David Ball, the city's broadband consultant.



CityNet of Tifton

- Borrowing approximately $5.8 million from a local bank to pay off part of a $10.7 million debt it owes on a bond borrowed to fund CityNet
- The city will receive $3 million cash from Plant Telecommunications, Inc. for CityNet. That money and $2 million of the city's contingency funds will bring only the debt down to $5.8 million

Marietta FiberNet

- In the late 1990's invested $35 million dollars into an alternative municipal fiber network for residents and businesses they named FiberNet
- In August of 2004 Marietta announced the sale of FiberNet for $11.2 million dollars to a private company - a loss of $24 million taxpayer dollars
- Only able to lure 180 customers away from the incumbent providers
- Marietta taxpayers lost over 60% of their original investment in the system

National Examples of Failed Municipalities

Kutztown,PA

The city could only pay about 25% of its annual costs for capital improvements and debt payments on a $2.18 million loan from 2001. Subsidies funneled into the project from the municipal electric utility have not been enough to offset the costs of the project, and the borough council has approved an additional $1.3 million to keep Hometown Utilicom going. That's a total of more than $8 million in debt since 1999. Mayor Gennaro Marino publically admits "It loses a lot of money"

Tacoma,WA

Initial capital budget was $40 million, but by 2000 it had risen to $86.5 million. Combined with an operating loss of well over $15.7 million, the system has already cost over $102 million. Cable system losses have added about $709 in new costs

Lebanon,OH

Council member Mark Flick said, "We can back away and eat the mistake that was done. But the loss of money there is greater than this expenditure. Telecom will never pay for itself as it exists. Unless functions are added to it, it will not pay in 30 years. The bottom line is that, no matter what, you, the taxpayers, will pay for the failure. The ultimate outcome will be higher taxes."

But Isn't Competition Good?

- Competition makes for a healthy industry and more choice for consumers, and the provision of video entertainment in Georgia is fiercely competitive
- 3 out of 4 new customers of multichannel video programming subscribe to a service other than a traditional cable provider
  - Direct Home Satellite
  - Rural Phone Companies using video over phone lines (VDSL)
  - Fixed Wireless Technology
- With all these other options does it make sense for governments to enter such a risky business using taxpayer dollars?

Georgia Public Policy Foundation Findings

- Statewide Poll taken in September 1998:

Do you think it is fair for local governments to provide non-essential services that compete with private business?" — 73 percent said no.

Do you think that local governments should use city and county tax dollars to provide their citizens with services such as cable TV, telephone, or fiber-optic wiring to the Internet?" —84 percent said no.

- If the State of Georgia is sincere in its efforts to downsize, privatize and deregulate traditional government services, state lawmakers should heed the dangerous signposts of municipal competition with existing private industries, particularly costly, high-tech industries such as telecommunications and cable TV

Weltner Communications White Paper

- In case after case across the nation, government forays into private sector services have failed, and taxpayers are left with the bill.
- When local governments opt to "compete" with private industry in Georgia, the playing field is anything but level.
- Diversion of public funds to provide non-essential services already furnished by private industry risks more than tax dollars – it risks public safety and well-being
- Public opinion in Georgia is clear – government competition with private industry at taxpayer expense or risk is a bad idea
- Local governments do not have expertise in areas like telecommunications and cable television, where rapidly changing high-tech advances can make entire systems obsolete in a few years.
- At a time when Georgia is competing with other states in the Southeast for business, the trend of local governments competing unfairly with private companies sends a decidedly anti-business message

Institute for Policy Innovation says…

- Municipal broadband has been plagued by failure nearly every time it has been attempted, and at great cost to taxpayers
- The last thing cities should have to pay for is failed municipal broadband projects
- Technology innovation continues to far outpace the speed of government and because of that, government cannot compete with market efforts
- Let's not throw good, or at least new, taxpayer dollars after bad municipal broadband networks

The Bottom Line

"The high-tech, high-risk telecommunications industry is no place for local governments to be…"

- Georgia Public Policy Foundation