

MYTH VS REALITY

Government-Owned Networks (GONs)

An increasing number of city leaders are considering building municipally-owned broadband networks, believing this is the only solution to sometimes slower or spottier internet service. But, once they build these networks, the resulting realities of high costs and poor consumer subscription rates are often vastly different from the promises of consultants. The Taxpayers Protection Alliance (TPA), which released the report “GON with the Wind: The Failed Promise of Government Owned Networks Across America” in May, wants to address some of the basic myths about GONs and provide a clearer picture of the struggles that cities often face when they decide to build taxpayer-funded internet systems.

MYTH:
Broadband consultants are objective.

REALITY:

Consultants have an enormous financial stake in giving the green light to GON projects because they often receive contracts to complete the network after suggesting that cities build them. For example, Denver-based Magellan Advisors offers turn-key services for municipalities, having planned and built hundreds of GONs.¹ What usually starts out as a relatively inexpensive community survey (with slanted questions designed to indicate high community interest in a GON) leads to consultant contracts for the network design and business plan worth hundreds of thousands of dollars or more. This is a clear conflict of interest with consultants double dipping by receiving money for the study and then profiting off of the building of the system.

MYTH: GONs are easy and cheap to build.

REALITY:

Cities often find themselves over-budget and behind schedule with GON endeavors. This leads to more taxpayer debt because costs balloon significantly more than the consultants initially promise. One national study found that just two of 20 GONs examined would ever break even.² From Burlington, Vermont to Salisbury, North Carolina to the UTOPIA project in Utah, municipalities often take on more than they can handle, which leaves taxpayers holding the bill.³ Instead, they should seek ways to reduce red tape for private providers, encouraging them to build or expand their operations.

MYTH:
Residents will flock to new GON services.

REALITY:

Signups for GONs are often much lower than anticipated. TPA’s GON report found that the average weighted take rate for GONs was below 40 percent nationwide, while research has shown that take rates need to be closer to 50 percent generally for the networks to break even.⁴ The gap leads to GONs rarely breaking even, often increasing debt to taxpayers or ratepayers.

MYTH: The typical GON is an affordable option for consumers.

REALITY:

Internet prices offered by GONs are rarely, if ever, cheaper than incumbent providers. The “successful” GONs are usually subsidized by electricity ratepayers, making everyone’s electric bill higher than it needs to be. Or, local officials will increase property taxes to pay for the system, resulting in everybody paying for the system whether a consumer uses the GON’s service or not. Moreover, because most of the service problems experienced by consumers come from poor and unreliable equipment inside the home, the GONs are forced to sell their consumers costly in-home equipment, making their services as expensive or more expensive than competitors.

1. Magellan Advisors. <http://www.magellan-advisors.com/>

2. “Municipal Fiber in the United States: An Empirical Assessment of Financial Performance.” Christopher Yoo and Timothy Pfenninger. May 2017. <https://www.law.upenn.edu/live/files/6611-report-municipal-fiber-in-the-united-states-gn>

3. “GON with the Wind.” Taxpayers Protection Alliance. May 2020. <https://www.protectingtaxpayers.org/wp-content/uploads/Broadband-Report-May-2020-1.pdf>

4. Ibid.