

## **A Municipal High-Speed Broadband Network Would Be a Huge Financial Risk**

By Dan Carson

This Tuesday, the Broadband Advisory Task Force (BATF) will step forward with its final comments on whether the City of Davis should build and operate a municipal fiber network that could bring higher broadband speeds and new services and technology to our community.

BATF's community broadband advocates wrapped up three years of hard work as citizen volunteers with a letter endorsing such a venture in concept. The panel did not offer a specific plan to accomplish their dream, calling instead for more financial and technical studies of building such a system. All Davis citizens should read and consider the conclusions of BATF and its response by city staff. I welcome their advice and thank them for their public service.

But don't just read their latest letter – read all of the information the task force produced. Under the auspices of BATF, the city hired one of the top teams of telecom experts in the country, CCG Consulting and Finley Engineering, to assess the feasibility of a municipal fiber network in Davis and whether local residents would sign up for it. They determined that a municipal broadband project would be costly and risky and that community interest in committing to pay for such a service is weak. Specifically they found that:

-- Building such a network in Davis would be costly. The entire system would have to be buried underground. Our high population density means conduit and fiber must be laid down both sides of residential streets, instead of the customary one side. High labor costs would boost construction and operating costs.

-- The total cost of construction would exceed \$100 million, comparable to the cost of a new water system or sewage treatment plant. Bond issuance fees, working capital, capitalized interest and a debt service reserve would bump up borrowing costs for construction to as much as \$140 million.

-- Similar ventures have failed in Monticello, MN; Crawfordsville, IN; and Alameda, CA. Because investors view broadband revenue bonds as pretty risky, the city might have to pursue a general obligation bond (requiring two-thirds voter approval) and make our General Fund a backstop for paying off bonds if the broadband venture failed. That could put pressure on the funding source used to pay for police, fire, parks, and roads.

-- Even under fairly optimistic assumptions about the number of customers who would sign up for municipal fiber, the consultants said "the financial projections for building fiber within the city were not as good as the city had hoped for." Operating losses would occur on day one and range from \$34 million to \$81 million over 25 years. Competitive pressures mean that the system would be unable to charge higher rates to customers to match Davis' higher costs.

-- Because customer fees would likely fall short of supporting a municipal fiber system, the city would have to seek voter approval for a tax hike to provide between \$33 million and \$60 million in taxpayer subsidies. A sales tax increase of a half-cent or more is considered most likely. Locking up tax money for a municipal fiber system would require two-thirds voter approval. The consultants said winning over Davis voters, who recently rejected a parcel tax hike for road repairs, “would undoubtedly require a major effort to educate the public and get community buy-in.”

-- Comcast, our biggest local broadband provider, has a track record of cutting rates and improving its bundled services to crowd out competitors. A Davis municipal broadband network might need even more public taxpayer dollars to compete.

-- Davis has good broadband options today even without the development of a municipal fiber system. Comcast is now advertising 1 Gbps and 2 Gbps internet download speeds in their “Gigabit” and “Gigabit Pro” packages. Only 16 percent of Davis residents are unhappy with their internet services.

-- A college town could be tough for Davis broadband, with students likely to be fickle customers. Moreover, large student apartment complexes in Davis have locked in long-term deals with various private providers for internet and cable services, and Comcast and AT&T are moving aggressively to lure more such customers.

-- Only 21 percent of Davis residents said they would definitely buy their service from a city system. “This is significantly lower than what we have seen in other markets,” the consultants stated, and “indicates a market that is not massively unhappy with the incumbent providers and not wildly enthusiastic about fiber. It’s a market where a new provider would need to prove themselves and expend significant marketing effort to win over customers.”

Recent developments make a large public investment in broadband seem more risky than ever in a highly competitive, and increasingly disruptive, broadband marketplace.

The FCC last year opened the gates for cellular wireless 5G service by imposing strict time limits for cities to allow the installation of 5G equipment on utility and light poles. Two companies have already filed permits to establish 5G networks in the City of Davis – permits it has no legal choice but to approve. And, the master of all business disrupters, Amazon, has begun launching thousands of low-level satellites into orbit capable of providing broadband worldwide. Competitors like SpaceX are hot on their heels. Broadband technology is morphing rapidly and the market is fragmenting.

Despite the troubling findings in the CCG and Finley Engineering reports, task force members remain steadfast in their support of the concept of a municipal fiber system. They are asking the city to spend more money on studying such ideas as building a municipal fiber network in stages or levying assessments instead of taxes to pay for it.

I look forward to hearing more about these ideas, but worry about a bullet train-style boondoggle in which construction starts only to find out that the rest of the money needed to finish a network isn't coming. Davis could end up building a "network to nowhere." Imposing citywide assessments or taxes could force Davis consumers who want to keep their Comcast or AT&T bundles to pay a second time for a municipal broadband system they don't want. That doesn't seem fair.

Nobody disputes the benefits of improved high-speed broadband for economic development, education, technological innovation, and addressing the digital divide. The question is, how do we get these benefits without saddling our taxpayers with huge financial risks? We already face an \$8 million a year funding gap for basic city services over the next 20 years.

This Tuesday, I would also like to get the community's feedback on a different approach I call, "If you can't beat 'em, join em." Instead of further studies of municipal broadband, should we explore how we can forge innovative partnerships with the private sector and UC Davis to foster high-speed broadband competition that will improve service and reduce monthly bills for Davis businesses and residents?

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