Testimony by Dr. Joseph P. Fuhr, Jr.
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Planning and Development Committee
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My name is Dr. Joseph P. Fuhr, Jr. and I am an economics professor at Widener University in Chester, Pennsylvania. I have been studying the economic and budgetary effects of government-owned broadband networks (GONs) for the last few years. These networks are generally a significant burden on taxpayers, stifle private sector investment and do not result in more, or improved, broadband options for consumers.

As such, you should carefully consider S.B. 847 and the potential economic impact on taxpayers of the expansion of the Connecticut Education Network's mandate.

The Connecticut Education Network (CEN) infrastructure costs millions of dollars to build and costs an additional $10 million each year to maintain. The state's taxpayers provide nearly $8 million a year to the network. CEN's original mission was to provide broadband to schools and public safety officers and departments in the state. This narrow mission has allowed the state to contain costs for the network. Expanding the network's mandate could greatly expand its costs.

To see the potential budgetary effects, you need to look no further than Groton City. In 2004 Groton City launched Thames Valley Communications, a government-owned network offering Internet, cable and telephone services. It was a subsidiary of Groton Utilities, which had a history of successfully managing such public utilities as electric and water. However, as it would learn, the telecommunications industry is much different, with consistently changing technology and competition. In total, Groton City borrowed $34.5 million for Thames Valley Communications and in February 2013 the company which lost money ever year was sold to a private company for $550,000. Groton Utilities is assuming the $27.5 million debt of its subsidiary. Also, Moody's has reduced Groton City's bond rating twice and in 2012 it had a bond rating of AA3 with a negative outlook, thus increasing the interest rate at which the city could borrow money. The city leaders decided that it was time to minimize its losses and sell the company. The taxpayers of Gorton City will be paying for a long time for the mistake of building the government-owned network.

There are other examples of GONs heavily in debt, but let us focus on just one other in neighboring Vermont. Burlington Telecom is a government-owned network that is only 85 percent built and has $51 million in debt. It has drastically unmet subscribership goals (despite promises of universal service, the network only serves 4,000 residents). To make matters worse, in 2009 Burlington Telecom illegally "borrowed" $17 million from the city's cash reserves, which was to be repaid within 60 days. This loan has not been – and indeed may never be – repaid. Also, a federal lawsuit has been filed against the company, and the City of Burlington has had its bond rating decreased three times.

Why do these networks often fail? They lack sustainable business plans and the long-term resources to invest in maintenance and necessary upgrades as technology evolves. Governments are not equipped to build and manage an Internet service business. When they try, taxpayer dollars are used to fund the failures instead of essential services like policemen, firefighters and teachers.

In addition to significant taxpayer costs, an expanded CEN mission could have negative economic repercussions. Many government-owned networks receive significant advantages from the local or state governments where they are located. Whether it is an exemption from a key regulation, lower taxes or reduced fees, these subsidies decrease private broadband investment.

With a finite amount of dollars to invest, why would a private job creator choose to move to a region that gives its public competitors a competitive advantage?

The choice by the private broadband providers to stay away means fewer well-paying technology jobs, reduced tax revenues coming into the municipality and state and less overall economic activity.

It also means fewer choices for consumers. Giving CEN an advantage over private broadband providers will prevent them from entering a market, decreasing competition. If CEN offers service to private businesses and citizens, consumers will lose the benefits of competition and choice. Furthermore, when talking about the taxpayer effects of GONs, these networks have a spectacular failure rate.

CEN should stick with its original mission, to provide broadband to the state's schools and public safety departments. However, if you choose to expand CEN's mandate, you need to put into place certain policies that will protect taxpayers and the broader economy. For example, CEN's rates should be dictated by the market, and if the network provides additional services, it should do so on a level playing field with private providers, not enjoying tax or regulatory benefits to the detriment of businesses that invest in infrastructure and generate tax revenues.

Any legislation relating to CEN should contain provisions to ensure fair competition and outline steps that the network must perform to achieve due diligence and have a plausible business plan before incurring new debt to construct new communications networks.

Access to broadband is a vital tool for economic development in Connecticut, but all policies for providing broadband are not equal. The fiscal history of government-owned networks has been dismal with taxpayers paying millions of dollars for these mistakes. They actually are harming the economy and taxpayers. I urge you to think about the unintended consequences fully before acting on S.B. 847.