

TENNESSEE GOVERNMENT-RUN INTERNET: AN EXPENSIVE FAILURE

For the past several years in Nashville, state lawmakers have faced the same question: Are government-run broadband networks an appropriate use of taxpayer resources?

On its face, this may sound like a good idea, as proponents of big government typically sell Government-Owned Broadband Networks (GONs) as more competition in the industry and additional choices for Tennesseans. In reality, however, this nice-sounding idea never works as planned.

MEMPHIS
Cost to Build:
\$32,000,000
FAILED
\$20,500,000
Taxpayer Loss.

In 2001, the Memphis Light, Gas, and Water Division's GON, Memphis Networx, was made available to the public. Fewer than 5 years later, it was clear that this undertaking was a big financial mistake, and by 2007, the GON was sold off to a private company at a \$20.5 million loss on its \$32 million investment.

Fayetteville Public Utilities rolled out its broadband network in 2000, spending more than \$11 million. While it is technically cash flow "positive," Fayetteville's GON would take more than 60 years – as much as double the useful life of the network – to make money.

FAYETTEVILLE
Cost to Build:
\$11,000,000*
Years to Break Even: 61

BRISTOL (VA)
Cost to Build:
\$155,800,000
FAILED
\$80,000,000
Taxpayer Loss.

The Bristol Virginia Utility Authority began its GON, OptiNet, in 2002. Despite being improperly subsidized by BVU's electric revenues, it still failed to turn a profit and was eventually sold at a loss of more than \$80 million. A federal criminal investigation was launched into OptiNet, revealing that along with the improper subsidies, BVU officials also illegally saved the network hundreds of thousands by undercharging it for pole attachments, and also falsified invoices and took kickbacks.

In 2005, Pulaski Electric System poured around \$8.5 million into building out its GON, PES Energize. Despite being a cash flow positive project, its rate of return is so poor that it would take somewhere between 450 and 500 years to break even.

PULASKI
Cost to Build:
\$8,500,000*
Years to Break Even: 490

MORRISTOWN
Cost to Build:
\$25,392,598*
Years to Break Even: NEVER

In 2006, Morristown Utility Systems rolled out its GON, MUS Fibernet, for more than \$25 million. Over the years, interest in this GON has been so low that it cannot cover basic operational costs, and will never break even.

The Tullahoma Utilities Authority started its municipal broadband network, lightTUBE, in 2007 for around \$17 million. Since there were already numerous private providers serving this small town, it is unsurprising to learn that lightTUBE has not attracted many subscribers. LightTUBE's rate of return is so low that it would take more than 100 years to pay off its debts.

TULLAHOMA
Cost to Build:
\$16,975,000*
Years to Break Even: 108

CLARKSVILLE
Cost to Build:
\$40,200,000*
Years to Break Even: NEVER

In 2007, the Clarksville Department of Electricity rolled out its fiber network, which was originally projected to cost \$40,200,000. Between construction cost overruns and basic operation expenses that it could not afford to cover, CDE was forced to borrow an additional \$20 million. Clarksville's GON has lost so much money over the years that it will never be able to stand on its own.

CHATTANOOGA
Cost to Build:
\$323,500,000
Years to Break Even:
>680

In 2008, Chattanooga's Electric Power Board began its fiber-to-the-home service. Including a \$50 million loan from the EBP's electric power division that was used to finance initial planning, \$162 million in local revenue bonds that were used to finance the construction, and a one-time \$111.5 million subsidy from the federal government, it would take more than 680 years – well beyond its useful life – for this GON to break even.

*Cost represents the amount cited at the start of the project. It only considers the cost of constructing the basic fiber network, and does not include any state or federal subsidies the project may have received.

Sources:
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