AMERICANS for TAX REFORM

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January 27, 2017

To: Members of the Grand Junction City Council

From: Americans for Tax Reform

Re: City-Owned and Provided Internet Plan

Dear Members of the Grand Junction City Council,

On behalf of Americans for Tax Reform and supporters in Grand Junction, I urge you to oppose the city-provided Internet plan. This undertaking – estimated to cost $70 million tax dollars – would be an inappropriate and irresponsible use of scarce public resources.

More than 20 private Internet service providers currently serve the Grand Junction area, and have poured millions of dollars into their broadband infrastructure over the years. Thanks to their investments, 99% of residents living within the city limits can choose from 2 or more wired providers, and nearly all of them have access to Internet speeds significantly faster than the Federal Communication Commission's recently reported national average. As such, a city-provided Internet service would be pointless.

In addition to being a waste of hard-earned tax dollars, city-provided Internet would also put taxpayers at risk for massive rate hikes. Indeed, dozens of examples nationwide have shown a clear pattern: government-owned broadband networks (GONs) quickly turn into money pits.

The construction and maintenance of broadband networks are not functions that government entities are well suited to take on, as they require regular and expensive upgrades in order to function properly. Too late in the game, government officials realize the cost for such a project was grossly underestimated, and that they lack the necessary resources and expertise to remain up-to-date in such a rapidly changing industry.

Along with underestimated costs, demand for GONs is often grossly overestimated. Despite access to a GON, consumers often do not see a need to change providers and choose to remain with their trusted private sector providers. Underestimated costs and overestimated demand is a recipe for deficits that taxpayers will be forced to fill. This scenario has played out in a number of cities and towns across the U.S.

Take Bristol, Virginia, for example, where a $130 million GON was built despite private providers already serving the area. At an $80 million loss to the taxpayers, the city is now selling this GON for just $50 million. A similar episode aired in Tennessee in 2007, when a $32 million GON in Memphis was sold for just $11.5 million – a $20.5 million loss to taxpayers and public utility customers. GONs in dozens of other cities, including Tacoma, Washington; Groton, Connecticut; and Burlington, Vermont, have all ended in a similar tragedy.

If you need more than a track record of debt and failure to oppose a city-provided Internet service, concerns with GONs stem beyond unsustainable short and long term costs to taxpayers. There are a slew of risks associated with governments tampering with the market.

GONs unfairly compete with private providers because government entities can subsidize costs with tax dollars, and thus charge consumers below the cost of service. Private sector providers cannot do this, because it would drive them out of business. This discourages private providers from expanding and investing in areas where GONs are present, as their odds of success are hindered by unfair competition from an entity that doesn't need to turn a profit. Since it is vigorous competition between providers that spurs innovation, improves quality of service and drives prices down, GONs leave consumers at risk for fewer choices, outmoded technology and deteriorating service.

Americans for Tax Reform opposes GONs, and urges city council members to vote against the city-owned Internet plan. If you have any questions, or if ATR can be of assistance, please contact me or Margaret Mire, ATR's state affairs coordinator, at mmire@atr.org or 202-785-0266.

Sincerely,

Grover Norquist
President
Americans for Tax Reform