

Testimony of Timothy Lee, Center for Individual Freedom Vice President of Legal and Public Affairs

Before The North Carolina House Finance Committee

H.B. 129 – Level Playing Field/Local Government Competition

March 23, 2011

Chairwoman Howard and Members of the Committee: My name is Timothy Lee, and I am the Vice President of Legal and Public Affairs for the Center for Individual Freedom (“CFIF”), a constitutional and free-market organization with more than 300,000 activists and supporters nationwide, including more than 4,200 activists here in North Carolina. It is a pleasure to testify before you today in support of HB 129, and I thank you very much for the opportunity.

The issue presented by HB 129 is not whether broadband expansion is a good thing. On that we all agree. The issue is instead whether, given today’s realities, government should be in the business of operating communications networks, competing with private investment and creating even more debt for which struggling taxpayers will ultimately be liable.

By any meaningful measure, the history of public broadband is a history of failure.

From Taipei, Taiwanⁱ to Sydney, Australiaⁱⁱ; from Chicago, Illinoisⁱⁱⁱ, to Houston, Texas^{iv}; from Burlington, Vermont^v to Marietta, Georgia^{vi}; and even here in North Carolina^{vii}, we are unaware of a single instance in which a public broadband project has even managed to break even financially.

Regardless of one’s position on this bill, the facts speak for themselves.

While every public network begins with the sincere belief that “this time is different” and “we can make it work here,” public broadband projects ultimately end in financial failure, eradicate good-paying private-sector jobs, deter private investment and delay or outright stifle innovation.

North Carolina localities such as Salisbury (Fibrant) or Davidson and Mooresville (MI-Connection) are currently providing Internet service to their citizens, but at what cost? Mooresville and Davidson face millions of dollars in debt due to their purchase of MI-Connection Communications System in 2007. According to a Davidsonnews.Net report, “this year’s system budget calls for Davidson and Mooresville to kick in a total of \$6.46 million to help pay this year’s costs -- \$4.44 million from Mooresville and \$2.02 million from Davidson.”^{viii} And, according to MI-Connection’s own debt payment schedule contained in a fiscal year 2009-2010 audit, it will require over \$7 million in debt payments for each of the next five fiscal years, starting in 2011.

Furthermore, the private investment in private high-speed networks is enormous -- in the tens of billions of dollars annually.^{ix} When government moves into a competitive stance or subsidizes private competitors, it's not only unfair, in the end it's highly destructive.

It is unfair because private networks are extremely expensive, and even though all public networks eventually fail, they temporarily compete with existing networks, which stand to lose business, shed employees and send the signal to the market that investments in other such networks is a bad bet, since government may move in to compete.

Those who conveniently vilify existing network providers often fail to consider that the shareholders who own these companies include retirees and even public pension funds, not some select few highly paid CEOs. Additionally, private networks employ North Carolinian workers, who stand to lose their jobs due to temporary market disruptions and displacements -- this, at a time when unemployment remains unacceptably high.

Government "competition" is especially damaging to private investment in rural networks. After all, what investor in his or her right mind would risk capital in a rural network -- where profit margins are already very thin -- if a government backstopped by taxpayers suddenly moves in on that business, or subsidizes a competitor? The likely result is that the flow of private investment in rural networks will dry up quickly.

So, in an effort to "improve" rural North Carolinians' broadband access, the government may in fact damage rural broadband badly, leaving fewer people served.

Finally, private broadband providers are continually upgrading their networks to meet consumer demands and support rapid innovation over their networks. One need only turn on his or her television -- regardless of the time of day -- to see ads for 3G and 4G wireless -- "G" standing for "Generation." Advertisements for faster and faster service abound. The market does not stand still.

To illustrate, consider where we were just 5 years ago. Systems just five years old are already largely obsolete. Do municipalities wishing to erect public networks have a plan to stay on the cutting edge? Or are planned public networks based on a snapshot of the current market that is certain to be outdated in a few short years? Again, in every case across the country that my organization has studied and reviewed, the latter is true. Making matters worse, taxpayers invariably get left holding the bag, ultimately bailing out a public network that quickly became obsolete.

Accordingly, what may currently seem like high-speed broadband will seem slow in the near future. Not only must any government system struggle to break even, it must somehow generate sufficient revenue to maintain, upgrade and improve those networks.

This is something that government-operated networks have failed every time to achieve.

For these and other reasons, H.B. 129 is a commonsense bill that will help preserve jobs, protect taxpayers and ultimately result in private network expansion and improvement. Federal, state and local governments already have enough responsibilities, and face enough budgetary difficulties, without exacerbating them through counterproductive endeavors better addressed via private investment and innovation.

Thank you again for this opportunity to testify today.

ⁱ Jim Huang, *Charting a Wireless Course*, TAIWAN REVIEW, December 1, 2007 (<http://taiwanreview.nat.gov.tw/ct.asp?xItem=24945&CtNode=128>).

ⁱⁱ Asher Moses, *Free Sydney WiFi Plan Bites the Dust*, THE SYDNEY MORNING HERALD, May 1, 2008 (<http://www.smh.com.au/news/technology/free-sydney-wifi-plan-bites-the-dust/2008/05/01/1209235036576.html>).

ⁱⁱⁱ *Chicago Opts Out of Municipal WiFi Network*, CHICAGO TRIBUNE, August 28, 2007 (<http://www.cedmagazine.com/Chicago-opts-out-muni-WiFi.aspx>).

^{iv} Alexis Grant, *Penalty Fee Lets White Revamp City's WiFi Plan*, HOUSTON CHRONICLE, December 1, 2007, (<http://www.chron.com/disp/story.mpl/tech/news/5352555.html>).

^v Dave Gram, *Vermont City Stumbles in Effort to do Telecom Itself*, Huffington Post, December 5, 2010 (<http://www.huffingtonpost.com/huff-wires/20101205/us-troubled-telecom/>).

^{vi} Frank Rizzo, *Cities Shouldn't Run Broadband*, ATLANTA JOURNAL-CONSTITUTION, March 26, 2009 (<http://www.ajc.com/services/content/printedition/2009/03/26/rizzoed0326.html>).

^{vii} David Boraks, *MI-Connection Audit is 'Clean'; Board Discusses Pricing*, DAVIDSONNEWS.NET, November 19, 2010 (<http://davidsonnews.net/2010/11/19/mi-connection-audit-is-clean-board-discusses-pricing/>).

^{viii} *Id.*

^{ix} *US Wireless Industry Broadband Adoption and Use*, CTIA – The Wireless Association, August 19, 2009 (http://www.broadband.gov/docs/ws_adoption_fixed/ws_adoption_fixed_guttman.pdf).