

# Ownership Matters

Becca Vargo Daggett

Director, Municipal Telecommunications Project

April 2006

The overwhelming majority of cities that have recently announced municipal wireless projects are planning privately owned and operated networks. Hundreds of cities are currently making decisions about the future structure of their high-speed information networks.

The speed with which this is occurring, and the knee-jerk tendency for cities to favor private ownership, demands that community groups immediately and directly challenge cities about who should own and control their future information networks.

This has all happened very quickly. Municipal wireless went mainstream in September 2004, when Philadelphia announced a citywide initiative to provide low-cost, high-speed Internet connections to all residents. In the last six months, at least a dozen large cities and scores of smaller cities have announced their intention to have city wide wireless systems in place by 2007.

This is exciting, and beneficial. It is a sign that the United States is taking seriously the need to improve availability and affordability of high-speed Internet.

At the same time, more sinister developments are undermining the promise and the potential of municipal wireless initiatives. The Federal Communications Commission (FCC) has ended the common carrier requirement for high-speed networks serving households, and is poised to do the same for networks serving businesses. As a result, companies that own the network can place severe restrictions on the use of their networks by potential competitors and they can establish tariffs that discriminate against small businesses and independent content providers.

The message this should send is that ownership matters. It is not enough simply to have a citywide information network. To ensure long-term affordability, equitable access and vigorous competition, the community needs to own physical infrastructure.

Instead, in a growing number of communities elected officials are choosing the path of least resistance by stipulating that the winning bidder will be entirely responsible for the capital investment and all other costs. The unsurprising consequence is a proliferation of private, proprietary networks rather than public infrastructure.

The route these cities have chosen is unproved. Only a handful of privately owned municipal wireless networks are operational. Most are still in the planning stages. There are, however, dozens of successful examples of publicly owned municipal wireless networks, and hundreds of cities own the high-speed information networks that support government operations.

Where networks are operational, the contrast between public and private is sharp. For example, Chaska, Minnesota (pop. 20,000) and Tempe, Arizona (pop. 160,000) are often cited as the first town wide and citywide Wi-Fi networks. For similar services, Chaska's publicly owned network charges \$17 per month and NeoReach, the owner of the private Tempe network, charges \$30, even though Tempe is a larger urban market with more choices for high-speed Internet.

Possibly the most alarming recent development is in Henderson, Nevada. Sprint, the incumbent phone company and cellular provider, has launched a municipal

**Most people would not refer to Xcel Energy or Pacific Gas and Electric as municipal utilities. Municipal power implicitly means public power.**

Wi-Fi pilot, which will only solidify its control.

We are in a historical moment very similar to that which occurred in the late 19th and early 20th centuries, when hundreds of cities made decisions regarding the form and structure of their future

electricity systems. But there are two significant differences.

First is the speed at which this is happening. It took a decade to build out the power grid, even in densely populated areas. Wireless mesh networks can be built out in a matter of months.

Second, at that time the question of municipal ownership was central to the debate. There was general consensus about the need to invest in public infrastructure. But the pro-business Progressives wanted public subsidies and regulation for private monopolies, while labor and the so-called sewer socialists endorsed publicly owned infrastructure. Today, the debate at the local level has focused almost entirely on how to most rapidly extend wireless access, not on how to maximize benefits for years to come.

Why? I think there are three reasons.

## 1. Sloppy language.

Most people would not refer to Xcel Energy or Pacific Gas and Electric as municipal utilities. Municipal power implicitly means public power.

Municipal wireless, on the other hand, has been used to describe everything from Chaska's city-owned and operated network, to Moorhead Public Service's communications utility, to Anaheim's franchise agreement with Earthlink.

Public-private partnership is also a misused term, applied equally to open access, public utility district networks in Washington, and Anaheim, California's franchise-like

agreement with Earthlink.

Even community wireless doesn't mean public. Consider this from a widely read article in the January 2006 *Washington Monthly*:

Despite all the opposition from telecom companies and their political allies, some municipalities are finding ways to provide broadband to their residents. Community Internet projects are already up and running in dozens of small towns and coming soon to bigger cities like Philadelphia, Portland, and Minneapolis. These cities recognize broadband as perhaps the single most important factor in transforming their local economies and the lives of average citizens. Community Internet could revolutionize and democratize communications in this country.<sup>1</sup>

Inspiring stuff. But the three examples cited will be privately owned and operated networks, quite possibly all by the same company. And the network owner will also be an Internet service provider (ISP), so while the network may be open access, the owner controls the competition by controlling the wholesale price.

If the goal is more than just citywide wireless, if there are also concerns about control and equity, then it is important to distinguish between public and private, or for-profit and not-for-profit.

## 2. The Lure of a Free Lunch.

Cities, facing financial difficulties, have been attracted to the prospect that a private company would put up all the capital and bear all the risk. Indeed (as we shall see below), the only thing better than free is free is to actually make money by allowing the private company to use city facilities.

Lee Helgen, a councilor in Saint Paul, is not concerned that neighboring Minneapolis seems to be closer to citywide wireless. He remembers that when his city began looking at wireless broadband, "every vendor of every conceivable service and gadget came to us." "I have no doubt that we could have chosen something at that time, and gotten \$20 per month access up and

<sup>1</sup> Robert McChesney and John Podesta, "Let There Be Wi-Fi", *Washington Monthly*, January 1, 2006.

running by now, and been perfectly happy with it. Only by waiting and learning more did we realize how much we would give up by letting someone else own the network.”

Councilor Helgen learned that there was no such thing as a free lunch.

Cities that give up control of their information infrastructure put themselves in a position of relying on corporate goodwill to keep prices affordable, to upgrade technology, and to allow unrestricted access to the Internet.

A city owned system will invariably find new ways of extracting more value and won't have to ask permission of a private company to make the needed changes. Corpus Christi, Texas, for example, is using its publicly owned fiber network connecting its traffic signals as the foundation for a publicly owned, citywide wireless for use by its municipal water and gas utility. Excess capacity on the network will be sold to local ISPs. "This provides more of a level playing field to innovative ISPs who don't have or can't afford to build their own infrastructures," says Leonard Scott, an MIS business unit manager for Corpus Christi. "The result is more varied and competitive offerings to city residents."

Some local government officials fear the wrath (and potential legal suits) of incumbents. But as Jim Baller, one of the country's most active telecommunications attorneys, has pointed out, of the 14 pieces of state legislation to restrict municipal ownership that telecom companies backed in 2005, only one was enacted.

At present, the telecommunications industry is in great flux. There are powerful new corporate voices that seek to break into the market. Thus companies like Earthlink or U.S. Internet are allies with communities that want to end the phone and cable company duopoly over high-speed telecommunications.

Corporate interests may occasionally coincide with that of communities, but they emerge from a different decision making process based on a different calculus. Intel, for example, is an avid supporter of municipal wireless. But Intel is also vigorously lobbying the FCC to reverse a ruling that freed up unlicensed spectrum for use by community networks.

Earthlink is a service provider that cannot get access to the cable and phone pipes in the manner it wants, and municipal wireless opens a new market for the company. We should not confuse good business sense with altruism.

We should remember that when cable was new, cable companies were eager to provide local access support as a condition of gaining the franchise. When they had gained sufficient power at the federal level they used it to enact policies to preempt local agreements that cut into their profits.

History teaches us that new sectors go through a period of competition, followed by consolidation. Once Earthlink owns its own pipes, it will inevitably use that ownership to improve its competitive position. Eventually, mergers will take us back where we started, with a small number of companies controlling high-speed networks nationwide.

### **3. The franchise fee becomes a carrot that confuses communities.**

The digital divide is a very real concern. In a number of cities, community organizations have focused on community benefits agreements, which would channel a portion of wireless revenue into training and Internet access for low income households, rather than on the issue of ownership. Some even prefer private ownership since money for low-income access can be written into the contract without having to fight for an ongoing line item in the municipal budget.

Often the people that care about the digital divide and independent media are the same people who believe in the value of public infrastructure and the need to protect the commons.

We need to remember that no new money is created by private ownership. All the funds to pay for the network construction, operation, and public projects come from

**Cities that give up control of their information infrastructure put themselves in a position of relying on corporate goodwill to keep prices affordable, to upgrade technology, and to allow unrestricted access to the Internet.**

**State or federal government could at some future time preempt local authority to impose a fee or other requirements on a privately owned network. Publicly owned networks can choose to sell capacity only to those service providers who agree to the city's conditions.**

subscriber revenues. This is true whether the network is publicly owned, or privately owned. If a private company provides funds for digital divide projects, or discounted access for low-income households and non-profits, it does not cut into its own profits to do so. Other local

customers, including the city if it is an anchor tenant, will make up the difference through higher subscription fees.

This arrangement on a privately owned network raises some difficulties. If full-price subscribers do not sign up, the city may be on the hook to make up the difference in the company's bottom line. If there are more subscribers than planned, customers may be giving substantially more to these projects than they bargained for.

Once again, we should recall the history of cable access. Franchise agreements directed substantial resources to some local access stations over the years. However, these resources have not grown proportionally with the growth in the cable companies' size and revenues. Twenty-five years ago, local access might have been allocated three channels out of 30. Today, they still get three channels, but there are 80 or more total channels available. Local governments still collect franchise fees to support local access, but federal legislation has limited the subscriber services to which these fees may apply.

Public ownership does not preclude collecting a portion of subscriber revenues for technology access. The difference is that the state or federal government could at some future time preempt local authority to impose the fee or other requirements on a privately owned network, as it did with cable franchise agreements. Publicly owned networks, on the other hand, can choose to sell capacity only to those service providers who agree to pay the fee.

## The Future of Real Community Infrastructure

Wireless is an inexpensive technology that is getting cheaper all the time. MIT graduate students are building a free citywide wireless network in Cambridge using \$15 home routers. Citywide wireless will come, and soon.

But we should not be distracted by the technology. We need to consider the long-term impact of these networks. What will maximize the benefit to the entire community, rich and poor, business and household and government?

We know that publicly owned systems work and work well. About 50 cities already have municipally owned wireless networks. These include big cities like Corpus Christi, Texas and smaller cities like Moorhead, Minnesota and Saint Cloud, Florida. Some 20 cities and towns have successful non-profit or cooperatively owned wireless networks, including Austin Wireless, Champaign-Urbana Wireless, and Personal Telco in Portland, Oregon.

We are learning that publicly owned telecommunications systems can pay for themselves, and could well generate significant revenue to the city. Revenues from discounted subscriptions for low-income households alone cover Earthlink's projected \$22 million, 10-year cost of ownership in Philadelphia.

We are learning that in the near future the Internet will deliver phone service, television service, movies, music, teleconferencing and other services still not yet dreamed up. We are learning that what we call high-speed in the United States is considered laughably slow in other countries.

As the technology becomes more common, cities will and should be less distracted by the nuts and bolts. They can focus more on the policy choices they are making, and how they will affect the future of their communities. And as they do so, we think they will conclude that ownership matters.

The Institute for Local Self-Reliance is a nonprofit research and educational organization that provides technical assistance and information on humanly-scaled, sustainable economic systems. Since 1974, ILSR has worked with citizen groups, governments and private businesses in developing policies that extract the maximum value from local resources.