The Public-Private Partnership *Can Work*

Public open-access fiber networks, done right, lower risk for private investors

By Dave McClure ■ US Internet Industry Association

In the past, I've been outspoken against municipal networks. They are often proposed as a "something for nothing" deal, built on the idea that a city should trash its relationships with existing telecom vendors, drive private vendors out of business and establish monopoly broadband "utilities" in order to gain fabulous wealth, national fame and the accolades of city residents. In fact, this nonsensical notion continues to be touted by a handful of elected officials, their paid consultants, their electrical utilities and some members of the national media.

Fortunately, saner heads have generally prevailed, and the model of a city monopoly taking a wild gamble in the telecom business has become yesterday's news. Today, there's a better model – one with a significantly higher chance of being profitable for both cities and private companies. That model is through public-private partnerships.

Here's how it works: We know the industry benchmark for breakeven in fiber networks is about 15 customers per mile of fiber. At that level, the risk is manageable. In fact, any residential area that can meet the 15:1 ratio probably has a fiber broadband and video service already planned for its future.

The question then becomes what to do about the cities that can't meet that benchmark, or can't wait for fiber construction costs to drop further, resulting in a lower benchmark. The costs are dropping rapidly, but cities with ratios of 8:1 or lower simply will not be attractive to fiber deployment companies until enough subscribers are found for existing systems. More subscribers means a lower cost of deployment per subscriber, which will mean that lower subscriber-to-mile of fiber ratios become more attractive.

Where the municipality is in a position to build its own fiber network … it should act as a wholesale transport carrier, maintaining open access to ISPs and cable providers to compete on the network. This is the model being viewed by the majority of new municipal fiber deployments, including the UTOPIA network in Utah and the new North-Link project, recently announced for a six-county area of Vermont.

Because, municipalities can't bear lower subscriber rates any more than private companies can, they are left with the choice of losing money, seizing control of the market, or simply waiting. Those that choose to seize control establish a monopoly that drives out private competitors, in the same way that city utilities for water and electric have, must then raise rates as necessary to subsidize service to underserved areas. The problem is that if the city is unable to dominate and drive existing vendors out of the market, they stand to fail.

Nor is this 15:1 ratio the only problem. There is also the matter of take rate for services. Nationwide, only about a quarter of homes passed by fiber, to which fiber has been marketed, have actually bought broadband and other services. Sure, some greenfield deployments in affluent new developments show much higher take rates. But marketing in older and less affluent neighborhoods has been more difficult, in part because video services are just coming on line.

Three Steps

So what is a municipality to do if it has little hope of reaching the 15-to-1 ratio in the near future, or needs terrific content to raise the take rate? There are three things.

First, change the equation for existing vendors. Using public rights of way, tax incentives and other financial options, municipalities can immediately

lower costs for private vendors – making it possible to get most, if not all, residential customers within the reach of fiber more quickly. Where it still can't be done, explore other options for investments by private companies that may have a longer than standard period for return on investment.

Second, make use of other means to alter the equation. To reach into low-income areas, where the ratio will be below 15:1 and the take rate might be below average, use vouchers or coupons to change the numbers. And make use of government programs, such as the recently announced US Department of Agriculture grants of $20 million under the Community Connect Grant Program.

Finally, where the municipality is in a position to build its own fiber network and can make the economic case to do so, it should act as a wholesale transport carrier, maintaining open access to ISPs and cable providers to compete on the network. This is the model being viewed by the majority of new municipal fiber deployments, including the UTOPIA network in Utah and the new NorthLink project, recently announced for a six-county area of Vermont.

By acting as an open network transport carrier, the city reaps the benefits of fiber for underserved areas and for use by the municipality for education, health care and city services. But the majority of the risk – borne in the consumer marketing and service delivery aspects of the network -- shifts to the private sector, where it properly belongs. This model also preserves competition, open access and a stronger relationship between the city and its telecom vendors.

Works for the city. Works for the private sector. That's why every major analyst and research firm from the Yankee Group and In-Stat to Forrester and Jupiter has already come to the same conclusion. Because of the volatility of the telecom industry, the relatively slow uptake for fiber services in some areas and the difficulties of negotiating for content, municipalities are better served to invest in telecom relationships and basic infrastructure, and leave the risk to the private sector.

This model itself won't change the harsh realities of the marketplace. It will change the relationships between municipalities and the telecom vendors who serve them. It will open new ways to work together, without the invective and company bashing that has marked the national debate over municipal networks to date. And it will serve the primary purpose of every private company today, which is to deliver faster, better, cheaper IP services to America's communities as rapidly as we can. **BBP**

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