



Fall of the Munis? Or Rise?

By Steven S. Ross ■ *Editor-in-Chief*

Before Verizon started building out FiOS, we listed about 30 public fiber-to-the-home networks, most of them built by small municipalities or their municipal utilities. The list in this issue shows more than twice as many – but the overall number of fiber deployments has risen much faster.

Recent troubles at Utah's multicompany UTOPIA project and nearby iProvo have led to claims that the heyday of public broadband is over.

Not so fast. Growth of muni networks had indeed slowed. The reasons are many:

- FiOS gives many municipalities an alternative, in places where it makes business sense for Verizon to build. A few municipalities, perhaps most notably Ft. Wayne, effectively partnered with Verizon to develop and deliver new services. Most simply accepted the technology, passively.
- Many municipalities experimented with WiFi. They found it nearly impossible to cover an entire community and to deliver enough bandwidth with enough reliability, but the detour took their focus from fiber.
- Municipal balance sheets and borrowing power declined substantially (even before the credit crunch) as interest rates rose and federal aid declined, even as the federal government was mandating new municipal spending on education, security and more.
- Some municipal fiber projects promised more than they could deliver. They might have passed too few households to be attractive for open-access service providers – or too many to absorb with the available cash.
- Incumbents often showed a willingness to cut prices and improve service when a muni competitor arrived on the scene.
- Incumbents managed to get laws passed in 14 states hobbling municipal builds or forbidding them outright.

Utah's much-ballyhooed UTOPIA was slow to add customers, and is now being managed by PacketFront – a company with deep open-access network experience. Utah law required UTOPIA to be open access. The project leases head-end facilities from iProvo, which just became the first muni network to be sold to a private operator, Broadweave.

We're preparing a detailed report on UTOPIA and iProvo, but so far we are finding the reasons for their problems seem to have more to do with local peculiarities than with weakness in the municipal model.

THE CASE FOR MUNI

Indeed, we are optimistic – hundreds of municipalities are candidates for building their own FTTH network, just as many rural and small-town incumbent carriers now have an opportunity to build theirs. Here's why:

- More management expertise has become available as the FTTH industry has grown. And as we reported last month, there's a range of companies offering to provide network content and services, and to handle customer billing, installs and maintenance.
- Incumbents have become less hostile. Some have even moved toward embracing municipal networks. We have reported top Verizon officials saying they would consider leasing bandwidth in a muni build.
- Interest rates are dropping again. There are also more possibilities in the capital lease route used by a few munis in the past. Investors who, unlike the munis themselves, can write off depreciation charges against taxes due are often willing to "own" the network and lease it back over 15 years or so. After that, the muni owns the system. But the muni lease market has been thin in the US

(about \$8 billion a year). An \$80 million muni build would thus soak up 1 percent of the whole market. International investors to the rescue! Many now have US profits to offset against the depreciation. And the volume of Shari'ah investing, which shuns bond financing, is growing.

- Muni business plans have become more realistic. As Vermont's Tim Nulty said at our April Broadband Summit in Dallas, "You have to build the network you can afford, rather than the network you want." (His complete talk, and much more from the Summit, will be in our June issue.) These days, almost everyone realizes that a good business plan will calculate expected cash flow breakeven at 4 to 6 years out.

Networks are getting more affordable, too. Not only are interest rates coming down; the price of the technology has declined. FTTH has become more standardized with respect to network control and QoS, as well as for the network electronics themselves. Yet, as we note in this month's cover story, there are a wide range of options to fit local needs: GPON, EPON, P2P.

The FCC will now gather broadband data that makes it easier and less expensive for munis and others to investigate prospects for their own broadband.

Unlike in Europe, there is still a mindset among muni officials against public-private partnerships. Three years ago we also noted corporate network builders were opposed. That's now changed as fiber has proven its reliability. Time for muni officials to stop worrying about "giving up control." Join the party.

Steve@broadbandproperties.com