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Press Release

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PHOENIX CENTER DEMONSTRATES WHY CHATTANOOGA TN. MUNICIPAL BROADBAND IS NOT THE “POSTER CHILD” FOR FEDERAL COMMUNICATION COMMISSION’S ILLEGAL PREEMPTION OF STATE LAWS

White House and FCC Are More Interested in Political Grandstanding than Honest Analysis

WASHINGTON, D.C. – Despite lacking clear legal authority to do so, last year FCC Chairman Tom Wheeler held out the municipal system in Chattanooga, Tennessee, as the “poster child” for why “it is in the best interests of consumers and competition that the FCC exercises its power to preempt state laws that ban or restrict competition from community broadband.” In anticipation of the 2015 State of the Union Address, the Obama Administration jumped on Mr. Wheeler’s bandwagon both by issuing a formal report and by having the President give a speech about helping municipalities build their own broadband networks to compete with privately-funded broadband providers. And on top of that, the White House provided political cover for Mr. Wheeler’s efforts by stating that it intends to file a letter with the Commission formally asking it to preempt state laws that prohibit and restrict municipal broadband.

In a new study released today entitled *Why Chattanooga is not the “Poster Child” for Municipal Broadband*, Phoenix Center Chief Economist Dr. George Ford discusses why the Chattanooga experience, while interesting, cannot be generalized to the rest of the United States.

First, Dr. Ford explains that Chattanooga was an extension of the city’s municipally-run electric utility monopoly, offering spillovers in expertise and facilities from the electric to the broadband divisions that are unavailable in most areas. Only 14% of U.S. households are served by a government-run electric utility. There are financial spillovers too—the construction of the broadband network was paid for by \$229 million in revenue bonds for Smart Grid technologies and a \$50 million loan to the broadband division from the electric division. The Chattanooga system also received \$111 million grant from the U.S. Department of Energy—funds made available by the American Recovery and Reinvestment Act—which represents a gift from *all* Americans, not just Chattanoogaans, of about \$2,000 per subscriber (or about \$650 per electric customer in Chattanooga’s footprint). To put this subsidy into context, if the U.S. government gave such a subsidy to Comcast for every home in its markets, then Comcast would be entitled to a federal subsidy of about \$35 billion, which equals about eleven years of Comcast’s annual capital investment. If the U.S. government gave such a subsidy to AT&T for homes in its markets, then AT&T would be entitled to a federal subsidy of about \$30 billion. The government is not

subsidizing private sector broadband providers, however, but is instead actively expanding burdensome regulation in the sector.

Second, the claimed economic benefits of the Chattanooga system primarily relate to the relocation of businesses to the area. As such, much of the benefit Mr. Wheeler and the White House attribute to municipal broadband deployment results from economic *migration* from one city to another rather than from overall economic *growth*. Stated another way, the benefits of fiber deployment by municipalities come largely from business stealing rather than absolute economic improvements. What one city gains, another loses, and, given the federal grants involved, the losing city is actually subsidizing its competitor city.

Finally, Dr. Ford points to evidence showing that Chattanooga's triple play prices are not lower than their private-sector counterparts. If anything, they are higher.

"Municipal broadband has a place in markets where the private sector can't profitably serve," says Phoenix Center Chief Economist Dr. George S. Ford. "But using government funds to directly compete with the private sector in developed markets is radical by any standard and a policy that deserves close and honest scrutiny. Instead, we get political grand-standing by the FCC and the White House."

A full copy of the paper, PHOENIX CENTER POLICY PERSPECTIVE NO. 15-01, *Why Chattanooga is not the "Poster Child" for Municipal Broadband*, may be downloaded free from the Phoenix Center's web page at: <http://www.phoenix-center.org/perspectives/Perspective15-01Final.pdf>.

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