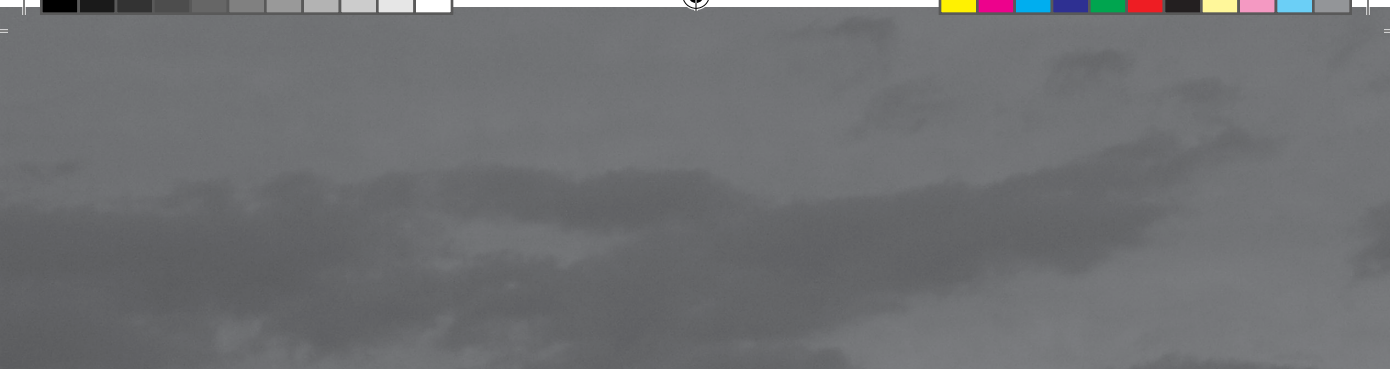




**A TALE OF TWO HARBORS:  
LAKE COUNTY, MINNESOTA'S  
BROADBAND BOONDOGGLE**

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### Executive Summary

In 2009 officials in northeastern Minnesota's sparsely populated Lake County boldly promised that a proposed broadband network would revolutionize telecommunications in the remote area by delivering much needed new businesses and jobs. The network was estimated to cost \$66-\$70 million and would be "entirely built and supported by the users of the network, with no local taxpayer pledges or funds."

Today Lake County's troubled broadband project serves as another cautionary tale of the perils of government-owned broadband networks. It has consumed up to 40 percent of the county budget, saddled local taxpayers with more than \$25 million in debt, and is now up for sale for pennies on the dollar.

So how did Lake County's eventual \$70 million stimulus-funded broadband project, among the largest in the country, become such a broadband boondoggle? From greatly erroneous cost and subscriber projections to a slew of broken promises to taxpayers, Lake County officials consistently underesti-

mated the risk municipal broadband posed to county taxpayers. Armed with rosy projections and lofty promises, county officials uniformly dismissed skeptics, promising that municipal broadband would level the playing field between Greater Minnesota and other competitors in the global economy. Unfortunately, they failed to understand the complexities involved in such a risky undertaking and as a result, have left local taxpayers in a terrible situation with a great deal of debt.

During 2018, county officials realized that continuing to finish building and operate Lake Connections was unrealistic and unsustainable for the foreseeable future. They also came to terms with the facts that there were few options to rescue and revive Lake County's grand plans for an affordable and expansive municipally-operated broadband network. Sadly, local taxpayers must now pay the price for the yawning gap between officials' rhetoric and the vivid reality of today's competitive broadband marketplace. Sometime before the end of 2018 the existing network and equipment will be sold at fire sale prices, making Lake Connections one of the biggest municipal broadband failures in the country. It's a sad legacy for this small, rural county.





## Introduction

High-speed broadband internet is defined as fiber optic technology which “converts electrical signals carrying data to light and sends the light through transparent glass fibers about the diameter of a human hair.”<sup>1</sup> It plays an important role in today’s economy, spurring economic growth and creating a better quality of life thru advances in both telemedicine and public safety. While community access to broadband is highly desirable, government ownership of broadband clearly has not been a wise solution as the following examples outside of Lake County illustrate.

Lake County isn’t the only Minnesota jurisdiction to be enticed by the siren song of government-owned broadband. In Monticello, Minnesota, residents found that developing a government-owned and operated broadband network is highly expensive and that the plans handed down by broadband consultants don’t often develop into realistic outcomes for local taxpayers. In 2010, construction of that city’s \$16.8 million network was completed with funding from city-issued bonds.<sup>2</sup> By 2012, officials were scrambling for answers after the number of subscribers fell dramatically short of earlier projections.

With a mere 1,270 subscribers to Fibernet Monticello, officials backed a massive bailout of the system. They used a \$3.1 million loan from the city’s municipal liquor store augmented by a \$323,000 cash infusion from the city’s general fund.<sup>3</sup> After losing \$4 million in taxpayer money, the city defaulted

on its loans, joining the ranks of communities which saw their credit rating tumble after risking taxpayer dollars on a municipal broadband network that, according to court records, was never going to be financially viable.<sup>4</sup>

According to Charles Davidson and Michael Santorelli of the Advanced Communications Law and Policy Institute (ACLP) at New York Law School, Monticello’s broadband experiment resulted in “financial distress and support of the argument that municipalities are often ill equipped to compete in well-functioning dynamic markets.”<sup>5</sup>

In Moorhead, Minnesota, the city’s public broadband system, GoMoorhead, was likewise dogged by conceptual, operational, and marketing problems from inception. “We’re on the cutting edge in a very competitive market,” City Manager Bruce Messelt said when the city unveiled the system in 2005.<sup>6</sup> The \$2 million project was to be owned and managed by the Moorhead Public Service Commission, which also oversees water and power, said GoMoorhead General Manager Bill Schwandt.<sup>7</sup>

Just four years later, the city had sold GoMoorhead to 702 Communications for \$1.2 million. Moorhead Public Service officials “said they decided to sell GoMoorhead for several reasons, including a shrinking customer base and the fact expensive upgrades are needed if Moorhead Public Service continued to operate GoMoorhead,” the *Fargo Forum* reported.<sup>8</sup>

Despite the failures of Minnesota municipal broadband networks outlined above and





dozens of others across the nation, the city of Rochester continues to explore the possibility of public broadband. In 2016, the Rochester City Council reviewed plans for such a network but has deferred any action until after the 2018 municipal elections.<sup>9</sup>

### High Hopes

The Lake County broadband experiment began amid sky-high hopes in the early days of the Obama administration. President Obama's stimulus package, the American Recovery and Reinvestment Act (ARRA), became law in February 2009. It included an appropriation of \$7.2 billion "to increase broadband access and usage in unserved and underserved areas of the Nation, which will better position the U.S. for economic growth, innovation, and job creation."<sup>10</sup>

Dr. Tim Nulty of Development Strategies and Resources, Inc. and Gary Fields of ValleyFiber Inc. promised that a government-owned broadband network would make a real difference for Lake County's economic future. In their April 2009 proposal to operate the County's broadband network under the auspices of a new non-profit corporation called National Public Broadband, Inc., they wrote: "Lake County is seeking proposals from qualified firms to build and operate a Fiber-to-the-premise (FTTP) telecommunications network that will deliver state-of-the-art voice, video and data services to its residents, businesses and institutions at affordable prices. This network is expected to increase economic vitality in the county by helping its residents and institutions be more productive as well as attracting new residents and businesses that can take advan-

tage of the network's capability. Seasonal residents and tourists will be able to spend more time in the County when greater telecommunication service is available."<sup>11</sup>

"Fiber-optic networks provide the greatest bandwidth (speed) available for telecommunications purposes, as much as 1,000 times faster than conventional copper line (DSL) service, coaxial cable (cable television) service and wireless services. The upper capacity of fiber-optics has not yet been discovered and new equipment that is installed at both ends of the cable continues to improve. FTTP is the most 'future proof' of all the telecommunication technologies," the proposal emphasized.<sup>12</sup>

In June 2009, a survey of 300 local residents from Lake County was conducted by National Public Broadband. The survey questions queried Lake County residents about their phone, television and Internet use in order to meet a requirement of the Rural Broadband Access Loan and Loan Guarantee Application.<sup>13</sup> "Having good data on residents' and businesses expenditures on the services, as well as their level of interest in the superior services of a county sponsored fiber optic network will provide useful insight to whether the venture will be supported through user revenues," Fields explained.<sup>14</sup> Sixty-two percent of Lake County Internet users responding to the survey gave their current Internet provider a 4 or a 5 on the scale of 1 to 5, "indicating a high level of satisfaction."<sup>15</sup>

After reviewing the survey results in August 2009, the Lake County Board of Commissioners authorized the submission of a Rural Utilities Service (RUS) Broadband Initiatives Program (BIP) loan and grant application for a \$34 mil-





lion broadband plan which then included \$22 million for a loan, \$11 million in grants, and \$4 million from county revenue bonds for the BIP.

At the time, three other private providers offered broadband service to Lake County residents and businesses. County officials, however, argued in their initial RUS and BIP loan applications that those incumbent internet providers (Qwest, Frontier, and MediaCom) were not entering more sparsely populated areas quickly enough and that the providers put company profits ahead of the public good.<sup>16</sup>

In February of 2010, RUS rejected Lake County's first broadband proposal. Lake County elected officials were apparently not overly concerned about this outcome. Commissioner Paul Bergman stated that he did not view the initial rejection as a "big deal," adding that he thought the county would fare better after its second application.<sup>17</sup>

In April 2010, the Lake County Board of Commissioners voted to apply a second time for a RUS grant and loan in support of its ambitious government-owned broadband plan. With the proposed network now including parts of St. Louis County, the project's estimated cost had soared to \$70 million, up from \$40 million.<sup>18</sup>

As *Politico* (a Washington, D.C.-based political journal) noted, "Lake County's first application had been rejected partly because RUS had concerns about its business plan. But months later, the agency approved Lake County's second request -- a \$66 million proposal, mostly in government loans, that was almost twice as much as the first proposal, twice as ambitious and covered an even larger area with about 16,000 residents."<sup>19</sup>

In a July 14, 2010 letter which responded to RUS concerns that the county could not "demonstrate adequate working capital," consultant Gary Fields wrote, "We understand that there is not a specific formula for meeting this requirement. We believe that the revised pro forma financial statements now demonstrate acceptable evidence of adequate working capital."<sup>20</sup>

### County "Thrilled" with Stimulus Grant

In September of 2010 and as part of the ARRA, 43 new broadband infrastructure projects around the country were funded with taxpayer-funded grants and loans. The United States Department of Agriculture (USDA) claimed the projects would "create jobs and provide rural residents in 27 states and Native American tribal areas access to improved Internet service."<sup>21</sup>

"The broadband projects announced today will give rural Americans access to the tools they need to create jobs and access improved health care and educational opportunities," Agriculture Secretary Tom Vilsack said. "These projects will not only create jobs for the people who will build these networks, the completed systems will provide a platform for rural economic growth for years to come."<sup>22</sup>

Lake County officials touted the award as a game changer, allowing the rural county to compete in a new global economic age. "We are thrilled about the BIP award, one of the largest in the nation, as it will be able to launch new economic development efforts and enable the county to compete globally," Lake County Board Chairman Rick Goutermont said. "This type of





service is available in northern Europe and the Pacific Rim, but only on a limited basis in the U.S. Not only will we be able to attract new businesses and jobs to the area, but we will be able to provide additional health care, educational, and residential services to Lake and St. Louis County residents and businesses.”<sup>23</sup>

“The \$66.3 million award from the USDA comes through its Broadband Initiatives Program. After other matching funds, the total will be about \$70 million, Bergman said. The award breaks down as a \$56.4 million loan and a \$10 million grant. There will be about \$3.5 million on [sic] municipal bonds issued, which would be paid back with operational revenues,” the *Lake County News-Chronicle* reported.<sup>24</sup>

According to internal documents obtained by *Politico*, RUS “granted its green light to the project, despite having identified ‘several items of risk.’ In its application, Lake County officials had not properly accounted for the difficulties of burying fiber during the long Minnesota winter, according to RUS, and it had not received the necessary permission to hang its fiber lines on poles owned by local electric utilities.”<sup>25</sup>

### Promises Made

Throughout the process, Lake County officials assured taxpayers no county taxpayer funds would be at risk in order to cover the costs associated with building and operating the county’s ambitious broadband effort. In June 2009, Lake County Fiber Project Consultant Chris Swanson stated that the proposed network would not be supported by Lake County taxpayers.<sup>26</sup>

“Throughout the process, Lake County officials assured taxpayers no county taxpayer funds would be at risk in order to cover the costs associated with building and operating the county’s ambitious broadband effort.”

The county noted on its website that same month that “taxpayers will not be responsible for any debt.” “The fiber network will be financed by the operational revenue of the network. Lake County is acting as a conduit to receive federal financing to build out the network,” the county stated. “The taxpayers will not be responsible for any debt. This was one of the major reasons for the county moving forward on this.”<sup>27</sup>

In addition, the Lake County website responded to a question from the public asking, “How will the network be financed?” by answering in June 2009 that “National Public Broadband is developing financing applications for federal stimulus funding as well as other sources. No taxpayer funds will be pledged to fund the network.”<sup>28</sup>

In a July 2010 op-ed entitled “Broadband is Affordable” that appeared in the *Lake County News-Chronicle*, County Commissioner Paul Bergman promised that “the taxpayers of Lake and St. Louis counties will have no obligation if the utility fails.” “The money from RUS can only be used to build the infrastructure, not







the operations part. So our funding proposal also requests money for day-to-day operation of the utility until it is able to generate sufficient revenue,” Bergman vowed. “This will come from subordinate county revenue bonds. With these bonds we pledge the revenue from the utility to make the payments on the revenue bonds, not taxpayer dollars. None of these funding sources require any taxpayer guarantees so the taxpayers of Lake and St. Louis counties will have no obligation if the utility fails. This is clearly stated in our application materials.”<sup>29</sup>

“This network will be designed with redundant connectivity, so that service interruptions that we have experienced this last year won’t be possible. And it will be entirely built and supported by the users of the network, with no local taxpayer pledges or funds,” Bergman pledged in September 2010.<sup>30</sup>

“It’s a myth that rural fiber networks cannot be built and operated on a fiscally sound basis,” National Public Broadband CEO Tim Nulty stated in September 2010. “We look forward to demonstrating the viability of the Lake County network and helping rural area[s] compete in the global economy.”<sup>31</sup>

### Promises Broken

Yet by February 2011, Lake County officials acknowledged that taxpayers would indeed be responsible for at least \$3.5 million in project costs. “We had hoped to get this important project financed without any risk to the taxpayers,” Lake County Commissioner Tom Clifford stated. “But sometimes the cost of squeezing out the last bit of risk just gets to be too high.”<sup>32</sup>

“Yet by February 2011, Lake County officials acknowledged that taxpayers would indeed be responsible for at least \$3.5 million in project costs.”

Commissioner Bergman tried to justify the broken promise, claiming that the move would actually save taxpayers money over time. “By making a direct investment, we were able to reduce the amount of additional funds by over \$2 million and we can avoid \$5.7 million of interest expenses over 10 years. These savings come directly back to the County,” Bergman argued.<sup>33</sup>

“Previously, the County had intended to issue \$5.63 million of subordinate revenue bonds to support the project. These bonds only pledged the revenues generated from the network, with no County taxpayer support. RUS discomfort with this financing structure made the County reevaluate its approach. The County decided to directly invest its own funds in the project and not risk losing the award,” the county conceded.<sup>34</sup>

### Lake County Fires National Public Broadband

The *Star Tribune* reported in December 2010 that Nulty had served as the general manager of Burlington Telecom, a deeply troubled broadband network in Vermont which had been investigated by state and federal officials.





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"A Vermont state audit shows Burlington Telecom is about \$50 million in debt, including \$17 million in taxpayer funds that were improperly spent. Vermont and federal criminal investigations are underway, but no charges have been filed. The Burlington network, built with \$33.5 million in private loans, has about 5,000 customers and also provides internet, telephone and television service. It has never been profitable," the paper noted.<sup>35</sup>

"A Vermont state audit shows Burlington Telecom is about \$50 million in debt, including \$17 million in taxpayer funds that were improperly spent."

Lake County Commissioner Bergman attempted damage control, telling the *Star Tribune*, "We concluded that Tim left the Burlington Telecom project before all these alleged things happened. My biggest concern is that the negative stories and unsubstantiated claims are going to hurt our project when we go out to sell it to the community. I noticed in the last election that there was a lot of anti-big government and anti-big spending sentiment. This publicity might hurt us in getting subscribers."<sup>36</sup>

Yet it was only three months later when Lake County commissioners fired National Public Broadband over concerns about Nulty's past record with Burlington Telecom. "Even as late as last September, I was under the opinion that the Burlington venture was successful, as verbalized to me by Dr. Nulty," county board mem-

ber Tom Clifford said. "I suspect it's maybe time to say some of his statement might have been embellished a bit. And then when we found that BT [Burlington Telecom] is not financially successful as yet and maybe never, then it was rather disappointing news to me."<sup>37</sup>

Despite dropping National Public Broadband as the Lake County consultants, Commissioner Bergman sought to allay any concerns about the project. "I can truthfully say, and there will be more information coming out here shortly, that it definitely is not in trouble," he said.<sup>38</sup>

### Costs Spiral

By March 2012, Lake Connections was assuring county taxpayers that the project would not be a "burden," insisting that taxpayers would only be "investing \$3.5 million in the project." On the frequently asked questions section of its Lake Connections website that year, the question was posed, "Will the project be a burden to local taxpayers?" Lake Connections answered, "Unequivocally no. In 2010, Congress passed the Broadband Initiatives Program as part of the American Recovery and Reinvestment Act. This federally funded program made grants and low-interest loans available for areas without high-speed Internet. Lake County has the distinction of receiving one of the largest awards in the country at \$66.5 million. About \$10 million of the award is an outright grant and the rest a low-interest loan. Lake County is only investing \$3.5 million in the project, a remarkably small amount given the scope of the project and benefits to the area."<sup>39</sup>

In May 2012, United States Representative Cliff Stearns (R-FL) and fellow Republicans on





the House Energy and Commerce Committee began investigating the Lake County stimulus award. They didn't like what they found. "Materials reviewed by committee staff also raise questions as to whether RUS adequately considered the financial viability of the Lake County project before committing \$66.4 million in government funding," Stearns and four other members of the Energy and Commerce Committee wrote in a 2013 letter to RUS Acting Administrator John Padalino.<sup>40</sup>

By 2014, RUS briefly froze federal funding, "forcing Lake County officials to first pony up \$15 million in local tax dollars — all after promising the network wouldn't cost the community a dime," as *Politico* reported.<sup>41</sup> The \$15 million in local taxpayer funding represented \$1,400 for every man, woman and child in Lake County.<sup>42</sup> After voting for the \$15 million spending increase, Lake County Commissioner Peter Walsh expressed concerns about the project's escalating price tag. "I wish I had that answer and had a magic wand to wave to get that answer. If they come back and want more money, I'd have to review it closely and see how I feel about it at that point."<sup>43</sup>

With the project in increasingly dire financial straits, U.S. Representative Rick Nolan, the Minnesota congressman who represents Lake County, announced an agreement in December 2014 between Lake Connections and RUS that would allow the project to continue with an infusion of \$3.5 million in federal funds. "As a member of Congress, I always welcome the opportunity to assist in negotiations between federal agencies and local businesses. I commend the local officials involved for their persistence and dedication in seeing this project through," Nolan stated.<sup>44</sup>

"Rather than provide assistance to solve anticipated construction challenges, primarily pole attachment issues, RUS responded by unexpectedly ceasing all loan funding," county officials complained in a December 2014 email.<sup>45</sup> Despite Nolan's announcement, costs to Lake County taxpayers for the broadband project ballooned to \$21 million by March 2015. "The county has also paid more than \$6 million themselves and pledged \$15 million in future funds. The project is supposed to be completed under the grant agreement by September 2015," the *Lake County News-Chronicle* reported.<sup>46</sup>

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The year 2016 brought a torrent of bad news for Lake County taxpayers. The county was sued by two contractors (Compass Consultants and Rohl Networks LP) who, earlier in the year, filed liens against the network for non-payment. The county eventually reached an out-of-court settlement with Compass Consultants who provided engineering services in the construction of Lake Connections. A jury trial in 2017 ended with a favorable decision for Rohl Networks LP. The Florida company was awarded \$2.075 million after the jury decided that Lake County failed to live up to contractual agreements during the construction of the broadband network.





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Also that July, the county board voted against its own auditor's recommendation to bring in an outside auditor to examine the project.<sup>47</sup> "This is wasteful money in my mind. On top of that I don't think we've exhausted everything that we can do between LCI [Lake Communications Inc.] and our auditor's department," Commissioner Rick Goutermont said in rejecting an outside audit.

"In September, Lake County obtained an agreement with the RUS to defer payment of principal on repayment of its \$56 million BIP loan award following approval of a board resolution stating that Lake County is "experiencing a temporary shortage of cash flow."

Noting that the broadband project now constituted at least 40 percent of the county's budget, Commissioner Brad Jones backed an independent audit, stating, "In my opinion it is a good thing to ask for help when it is needed. We don't scrutinize any of the other departments when they ask for help."<sup>48</sup> Jones added, "We've spent \$20 million of taxpayers' dollars that we promised not to spend and we aren't even completely built. Our auditor has questions and wants to find a way to move forward so these questions don't remain unanswered."<sup>49</sup>

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The *Lake County News-Chronicle* reported in November 2016 that the "relationship between LCI and the [county] board had become increasingly contentious over the past year with commissioners repeatedly questioning expenditures by LCI on the Lake Connections project. ... when the county was in a cash crunch earlier this year and seeking bond funding to continue drop construction, LCI was unwilling to make any concessions concerning its fees while the county pursued additional funding, further straining the relationship."<sup>51</sup>

A few weeks later, the county formally terminated its contract with Lake Connections (also the certificated voice Competitive Local Exchange Carrier on the project), turning over management of the network to Brainerd-based Consolidated Telecommunications Company (CTC).<sup>52</sup> Despite the continued upheaval, Lake County Administrator Huddleston remained sanguine about the future. "I think they [CTC] bring a lot of depth and expertise in being involved in the business for a long period of time. They just have a lot more resources for us at our disposal and for our staff's disposal that I think is going to be a real positive thing and a benefit to our project as we move forward."<sup>53</sup>

In addition to the \$66.4 million Lake County received in grants and loans from the RUS, it is now estimated that the amount of county funds that have been expended on the Lake County broadband project exceeds \$25 mil-





lion, a staggering number in light of the fact that taxpayers were consistently promised that they would not be responsible for any of the costs associated with the project.

### Subscribers Fail to Materialize

According to a 2011 Minnesota Public Radio (MPR) article, “Lake County has projected that it needs 60 to 65 percent of the area’s households to sign up for the county-owned project to succeed. Based on the speed fiber can achieve, [Commissioner Paul] Bergman thinks it will hit 85 percent.”<sup>54</sup>

By 2012 there were signs of inherent flaws in Lake County’s broadband initiative’s projections. For example, MPR reported in June of that year that Lake County officials estimated that 65 percent of all Lake County households were needed as subscribers in order to secure repayment of the government loan. “It’s going to fail. I don’t know how else to say it more plainly than that to the taxpayers of Lake County. It’s going to fail, and they’re going to have to pay it back,” said Tom Larson, vice president of legal and public affairs for Mediacom, an incumbent and privately held internet provider for Lake County.<sup>55</sup> Despite the dire warnings, construction continued on the Lake County network.

In June 2014, Lake Connections began connecting customers to its broadband network in Silver Bay and Two Harbors. Asked what would happen if the necessary number of subscribers didn’t materialize, County Administrator Matt Huddleston was evasive, stating, “If things don’t work out, we’ll have to come back to the board. There are so many variables. It’s hard to fore-

cast.”<sup>56</sup> While the 65 percent customer sign up projection was an estimate, Lake Connections General Manager Jeff Roiland said he was optimistic about the project’s prospects. “So far, we’re pleased with what we’re getting in Silver Bay and hopeful that it continues,” he said.<sup>57</sup>

Much like other communities which construct their own broadband network, incumbent/private broadband providers continue to market very competitive service agreements in the affected area. According to a 2014 report in the *Lake County News-Chronicle*, “The price for the a [Lake Connections] bundle in Two Harbors, including 130 TV channels, internet with 30 megabits per second download speed and 10 Mbps upload speed and phone service including long distance calling, is \$139.97 with a two-year contract. That compares to Frontier [Communications], which is advertising a bundle costing around \$80 dollars per month with a two-year contract, including 100 channels and six Mbps download speed but no long distance calling. According to Mediacom’s website, a bundle for all three services, including 30 Mbps download speeds, 5 Mbps upload speeds and a variable number of channels, costs \$99.95 a month for a year, then goes up to \$169.85 per month.”<sup>58</sup>

“Despite the dire warnings, construction continued on the Lake County network.”

*Politico* noted in July 2015 that Lake Connections had “300 to 400 subscribers hooked up and an additional 1,500 applications for service





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— far short of initial projections.”<sup>59</sup> By April 2016, Roiland said the network had roughly 3,500 subscribers.<sup>60</sup>

In June 2016, Roiland said that he expected that the county’s broadband effort would see operating losses for 2016-17, but that it would operate profitably in 2018 and beyond. Roiland stressed that the “need to take” rate, or the percentage of residents that the county needed to sign up for its broadband service, was 52 percent or approximately 7,500 subscribers. Just two months earlier, Roiland reported that the county had only 4,000 subscribers to its network.

Also in June 2016, Lake County commissioners approved roughly \$300,000 in new expenditures for Lake Connections, adding a third crew to hook customers up to the network. However, Commissioners Brad Jones and Jeremy Hurd voted against the new spending. Both commissioners expressed alarm at the mushrooming costs of the network. Jones observed that Lake Connections had earlier stated that the remaining work was to be completed by two crews. “We were assured at one time they could do this with two crews. We’ve never really met any of our goals with the management team in place, so I struggle with it.”<sup>61</sup> Hurd questioned the long-term future of the broadband network<sup>62</sup>. “I guess that’s my biggest concern. I don’t know if we’re ever going to get right with cash and financing moving forward. I don’t have that same optimism, and maybe I should,” Hurd said.<sup>63</sup> In response to a data practices request from the Freedom Foundation of Minnesota, the Lake County Attorney’s Office stated that the current number of subscribers was 2,462 as of April 15, 2017. The internet subscriber number as of October 2018 was

reported by Lake County to be 2,724. This dramatic decline in subscribers represented a loss of subscribers since April 2016 and underscored that the county would likely never meet its excessively optimistic projections.

### Situation Today

At a December 2016 board meeting, County Administrator Matt Huddleston announced that the county’s preliminary tax levy would increase by six percent in 2017. In addition, Huddleston told the board that Lake Connections would need an infusion of an estimated \$6 million in capital investment to complete the last two percent of network construction and maintain customer connections.<sup>64</sup>

In February 2017, Commissioner Rich Sve told a representative from United States Senator Amy Klobuchar’s office that completion of the county’s broadband network was a top legislative priority. Sve stated that the county hoped to access federal funds to complete the network, “but funding from the state of Minnesota’s border to border broadband initiative is only available to new projects, not existing ones,” according to a report in the *Lake County News-Chronicle*.<sup>65</sup>

The newspaper reported the next month that Kristi Westbrook, chief operating officer of Consolidated Telephone Company (CTC), had explained to the board “that new construction builds are currently on hold until long term plans are put in place to ensure future build outs are financially viable. CTC is focusing on connecting customers and increasing revenue in areas that already have access like Two Harbors and Silver Bay. The company under-





stands the board continues to be committed to expanding the network to Fall Lake Township, but the timeframe of that construction is currently unknown.”<sup>66</sup>

During his campaign, candidate Donald Trump proposed an infrastructure package of nearly \$1 trillion. As president, Trump has signaled that his stimulus program, which aims at rural counties, would include a broadband expansion. House Energy and Commerce Subcommittee on Communications and Technology Chairman Marsha Blackburn, (R-Tenn.,) told President Trump in February 2018, “We are looking forward to broadband expansion. Go broadband!” “We’re going to get it,” Trump responded. Following that exchange with Trump, Blackburn said, “You’re going to see broadband as part of the infrastructure bill.”<sup>67</sup> It is expected that Senator-elect Blackburn will be a key supporter of the president’s infrastructure program in the coming year.

As of November 2018, the Lake County Board of Commissioners has spent millions of dollars building a network that is currently for sale.

While a trendy enterprise for local governments in recent years, it is extremely difficult to find a local unit of government out of the more than 450 communities that have attempted to develop or provide some form of taxpayer-funded, government-owned internet service that was profitable or continues to provide service.

Instead, most of these attempts follow the sad trajectory of Lake County – big promises made by local elected officials followed by huge debt absorbed by taxpayers and bond holders. There are myriad reasons for these outcomes but it primarily boils down to government attempting to do something best left to private industry.

Local elected officials are often provided with rosy projections by what can best be described as the modern-day version of “The Music Man” – salesmen who arrive into town with plans that exceed any previous plans for local economic development. With that overly optimistic picture firmly embedded in their eyes, local elected officials often quickly adopt the broadband development plans without taking into consideration market forces that will quickly come into play. It is difficult for struggling rural counties to accept the fact that local broadband plans frequently exceed budgetary forecasts, provide inadequate or incomplete market analysis and most importantly, require constant, aggressive and substantial marketing plans to achieve subscriber success. As a result, most government-owned broadband plans end up on the ash heap of local history with plenty of blame to be cast about.

It is easy to see why rural areas like Lake County fall victim to the grand plans provided by out-

### Conclusion

There are a multitude of lessons to be learned from Lake County as the project continues to stumble seven years after inception. But the most important lesson learned is one Lake County residents will unfortunately learn the hard way: providing ultra-high speed broadband service in large, rural areas is complicated, costly and ultimately highly competitive. And, it’s not something local governments should be doing.



“The most important lesson learned is one Lake County residents will unfortunately learn the hard way: providing ultra-high speed broadband service in large, rural areas is complicated, costly and ultimately highly competitive. And, it’s not something local governments should be doing.”

side broadband consultants. While many rural communities struggle to provide competitive economic development options for local businesses, it is a common misperception that a government-owned and operated broadband network will provide faster service at a lower cost to the community. Yet almost the exact opposite occurs: current and future taxpayers face enormous risks while attempting to compete against private internet service providers. But most importantly, rarely is there a discussion with incumbent internet providers before local elected officials decide to become their competitor. Several Minnesota communities have opted to communicate their broadband needs to incumbent local providers to develop plans that would increase subscribers for the private internet company as well as achieving greater and faster service for local residents. These public/private partnerships deserve further study as a way to achieve greater economic growth in rural areas without the unsuccessful attempts at government entering the local market as a competitor.

There can be no doubt that taxpayers are the real victims in each of these government-owned networks such as what has occurred in Lake County. After repeated promises over a number of years by elected officials, taxpayers are now on the hook for repayment of millions of dollars spent building a network that a majority of the county’s residents never subscribed to. They will also be subjected to county tax increases that will increase the burden on local businesses and homeowners – the same people they purported to help with a government-owned network. Instead, local residents will now and many years into the future be responsible for retiring the massive debt incurred by these ill-conceived plans. But most importantly, these problems, along with a plunge in their local credit rating, will plague the county long after anyone remembers the name of the failed Lake County broadband endeavor.

The lessons of Lake County will continue to be written in the coming weeks and months as local elected officials decide what offer to accept to purchase the network as it is. The bulk of the debt is still owed to RUS, the federal agency that loaned Lake County \$56 million to build the network. It is estimated that the federal government will forgive nearly \$35 million of the remaining debt once the county and RUS agree to accept the highest bid. We should learn that amount later in 2018. But the lessons of Lake County are just like Monticello, Moorhead and hundreds of other failed government-owned broadband networks across the country: there exists no municipal broadband network built and operated that is able to become profitable within five years. Indeed, they are wired to fail.







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