



# TESTIMONY

April 6, 2022

## SENATE BILL 1074: LIMITS GOVERNMENT-OWNED BROADBAND SERVICES

*By David Stokes*

Testimony before the Missouri Senate Commerce, Consumer  
Protection, Energy and the Environment Committee

### **TO THE HONORABLE MEMBERS OF THIS COMMITTEE**

Thank you for the opportunity to testify. My name is David Stokes, and I am director of municipal policy at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free-market solutions to state and local policy issues. The ideas presented here are my own and are offered in consideration of proposals that will affect governmental subsidies for the provision of broadband service in Missouri.

In 2002, the city of Marshall, Missouri, launched a municipal internet service as part of its municipal utility system.<sup>1</sup> As of 2021, it is one of at least ten companies that provide residential internet access within Marshall.<sup>2</sup> Marshall is the county seat of Saline County, where 78 percent of people have access to

service levels of at least 100 mbps.<sup>3</sup> Competition for internet services is healthy in Marshall, including the municipal utility option.

In 2020, Marshall Municipal Utilities received a United States Department of Agriculture (USDA) grant worth \$1.15 million to expand broadband services in Marshall.<sup>4</sup> In other words, a government agency gave another government agency a million dollars to help it expand its services to compete against private businesses within the community. Government agencies that compete against private businesses do not do so on a level playing field. The government agencies don't pay taxes, they face less regulation,<sup>5</sup> and they operate with taxing authority behind them. Everyone wants competition and choice in capitalism, but government grants itself advantages that are hard to compete against.

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Marshall received its USDA grant before the Federal government decided that the cure for the pandemic was a stimulus package designed to spend as much money as possible on things unrelated to the pandemic, such as broadband services. Missouri has received \$100 million from the federal government specifically to expand broadband internet access in the state, and Gov. Parson has proposed spending a total of \$400 million on broadband expansion from Federal stimulus funds. Missouri Senate Bill 1074<sup>6</sup> is intended to change our system to ensure that this money is spent to assist in helping the small percentage of Missourians who don't have internet access get it, rather than to subsidize government-owned utilities in competition against private businesses.

Using stimulus funds to help people who have no access to internet services is a reasonable goal, but having cities and counties establish government-owned internet companies is the wrong way to go about it. SB 1074 will limit the ability of local governments to create their own broadband/internet companies in areas outside of those that meet strictly defined terms of unserved and underserved areas. I believe those limitations are appropriate. There may well be some parts of Missouri without any internet access where governmental provision of these services may be necessary, but allowing taxpayer-supported, government-owned companies to compete against the private sector would harm internet expansion in most of Missouri.

Economic Joseph Fuhr, Jr. has studied the results of government-owned internet networks such as those in Kentucky; Burlington, Vermont; and Chattanooga, Tennessee and determined that:

**Many cities and municipalities have entered into the broadband market with disastrous results.**

Government should not overburden citizens with ventures that result in no benefit and actually harm consumers. Government-owned networks (GONs) have fared quite poorly because they have neither the resources nor the expertise necessary to provide consumers with reliable state-of-the-art broadband connections.

Government failure is especially prevalent in markets like telecommunications, which are subject to considerable technological changes in a short period

of time. The result has been GONs subsidies to keep them afloat or the sale of the network at a loss. In a dynamic market such as broadband services, **government ownership has proven to be an abject failure.**

**Government-owned networks often receive an unfair advantage over private networks** because they do not operate under the same tax structures and regulatory rules. This makes private providers reluctant to make investments in an area where the deck is stacked against them, which then results in lower tax revenues. In addition to scaring away potential revenues, GONs are inefficient and are often great wastes of taxpayer money. They are often duplicative of private commercial networks and almost always add to taxpayers' total debt burden.<sup>7</sup> [emphasis added]

It is also important to define the term "underserved" as this bill does. Otherwise, there will always be an "underserved" population of internet users as technology improves. People who have effective internet service could be counted as "underserved" simply because they have yet to sign up for the latest upgrades in technological capability. Accordingly, the definition of "underserved" should not be so broad that it applies when residents in an area simply don't yet have the "latest and greatest" technology. This bill defines "underserved" as follows:

"Underserved area", a project area without access to wireline or fixed wireless broadband internet service of speeds of at least twenty-five megabits per-second download and three megabits per-second upload

To reiterate one of Joseph Fuhr Jr.'s points, information technology is one of the fastest-changing industries in the world. Whatever benefits one might expect from government involvement in broadband services, the ability to respond effectively to rapid change is unlikely to be one of them. Market choices and consumer preferences will decide what levels of internet service are proper for the large majority of Missourians. Limiting the ability of local government to compete against the private sector in broadband service will allow for greater, not less, expansion of vital internet access throughout Missouri. SB 1074 would benefit Missouri consumers and taxpayers.

## ENDNOTES

1. <http://www.mmumo.net/internet.php>
2. <https://broadbandnow.com/Missouri/Marshall>
3. <https://broadbandnow.com/Missouri>
4. <https://ded.mo.gov/content/broadband-development>
5. <https://scholarlycommons.law.case.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=2406&context=caselrev>
6. [https://www.senate.mo.gov/22info/BTS\\_Web/Bill.aspx?SessionType=R&BillID=73644707](https://www.senate.mo.gov/22info/BTS_Web/Bill.aspx?SessionType=R&BillID=73644707)
7. Fuhr, Joseph Jr., “The Hidden Problems with Government-Owned Networks,” Widener University, 2012, page 9, <https://www.theamericanconsumer.org/wp-content/uploads/2012/01/GON-final.pdf>



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