

# **Bond Case Briefs**

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## **Moody's: Unique Enterprise Risk Arises When Municipalities Operate Broadband Systems.**

New York, June 17, 2015 — Local US governments that operate municipal broadband systems are vulnerable to enterprise risk owing to the support of a nonessential government service subject to robust competition from large private operators, Moody's Investors Service says in "Municipal Broadband Systems Expose Local Governments to Enterprise Risk." Most local governments providing broadband have managed the enterprise risks well. However, a few exceptions demonstrate the potential for significant financial strain.

A small but growing number of municipalities operate a broadband system. Despite restrictions on municipal broadband development in 19 states, the number of local government broadband operators could grow given expanding federal policy on high-speed internet access.

Moody's report cites several instances of municipalities that have experienced fiscal strain due to broadband enterprises, including Burlington, VT (Baa2 positive), Salisbury, NC (A3 stable), and Monticello, MN (A2).

"Unlike essential municipal water or sewer systems that are critical to public health and enjoy monopolies in their service areas, high-speed broadband carries distinct fiscal risks for municipalities," report author and Moody's Assistant Vice President Kristina Alagar Cordero says.

The competitive landscape can hinder the financial performance of a municipal broadband system owing to the dominant market positions of large cable and telecom companies, which can often offer lower prices or develop better customer features. This can erode a municipality's customer base, leaving the enterprise struggling to meet revenue targets or service its debt against multiple private-sector competitors.

Additionally, municipal broadband providers will also need to make regular capital improvements to incorporate technological change and increase broadband speed to remain competitive. These investments typically come with high capital costs and additional borrowing.

As a nonessential enterprise which requires ongoing financial support, a local government may become unwilling to maintain the broadband enterprise if faced with a choice of funding a struggling enterprise at the expense of core government operations.

The commitment to provide ongoing operating support or follow through on debt support could wane given the strain these commitments have on a municipality as well as the strength of the legal pledge to provide support. However, Moody's believes most governments will continue to honor their General Obligation pledges backing a broadband system, even in the face of a severely failing enterprise.

The report is available to Moody's subscribers [here](#).

