



## iProvo: A Requiem

The final verse of iProvo remains to be written, but the likely ending is probably within earshot. In perhaps the most "epic" announcement Provo has heard recently, Provo Mayor John Curtis announced that Google Fiber is buying the troubled iProvo network. The terms of the deal allow Provo to repurchase the network for the same sales price should Google Fiber fail to perform, but that possibility seems remote. Provo's ill-fated attempt at building and running its own network is coming to a close.

### The Terms of the Google Deal

The terms of the deal are surprising, especially considering the tens of millions of dollars Provo taxpayers have paid to build and operate the network. The purchase network's purchase price is \$1.00. Google Fiber will also pay \$1.00 per year to rent iProvo's network operations center (NOC), and have an option to buy the NOC within seven years. While those amounts are remarkably small, Provo will receive substantial consideration in other forms.

First, Google Fiber will upgrade the network to make it capable of handling gigabit speeds. That means replacing millions of dollars in electronics in network huts, residential homes, and the NOC. Without Google Fiber's investment in the network, Provo would have to spend about \$18 - \$20 million to upgrade these electronics, and then similar upgrades every few years in perpetuity.

Second, Google Fiber will finish connecting all 35,000 residents to the network. Since iProvo started, about 15,000 homes and businesses have connected to the network. Google Fiber will connect the approximately 20,000 remaining homes to their network for a one-time fee of \$30 per home, paid by the resident.

Third, Google Fiber will further provide free internet service (at roughly the nation's average broadband speed, 5 megs per second) to all customers on their network. (For a

monthly fee of approximately \$70 per month, residents can increase their speed to 1 gigabit per second, which is about 200 times faster than Google Fiber's free service.)

One important term of the Google Fiber deal is that Google Fiber will not provide service to Provo's businesses. Google Fiber may come out with a Small Business Product at some point, but that will focus on home-based businesses. It remains unclear where iProvo's business customers will obtain service.

### What did Provo Taxpayers Pay for iProvo?

Provo taxpayers and municipal power users have bonded for \$39.5 million, and provided another \$19.3 million in operating subsidies since iProvo's inception.

As Table 1 indicates, Provo provided operating subsidies to the iProvo network going back even before the city sold the iProvo bonds. In 2001, Provo purchased what would become the backbone of the iProvo network for \$1.3 million. Between 2001 and 2004 (i.e., before the iProvo bonds were approved and sold) Provo spent another \$8.4 million building and testing that original fiber backbone.

In 2004, Provo sold \$39.5 million in bonds to build the iProvo network throughout the city. By 2007, it was apparent that the bonds weren't sufficient to complete the network, so Provo's City Council transferred \$1.5 million from the City's Capital Improvement Fund to iProvo. Provo made additional interfund loans totaling \$2.9 million to iProvo, which were written off when Mayor Lewis Bilings sold iProvo to Broadweave.

The next subsidy provided by the Provo taxpayers to iProvo came in 2011, when the Provo City Council acknowledged that iProvo would never repay the additional \$5.4 million in loans the City had provided iProvo since its beginning. All told, these subsidies total \$19.2 million in taxpayer subsidies beyond the \$39.5

Table 1: Amounts Provo taxpayers paid to build and operate iProvo

Year	Amount	Use
2001	\$1,299,000	Purchase of fiber backbone
2001-2004	\$8,434,000	Preperation for iProvo network
2004	\$39,500,000	Build iProvo network
2007	\$1,200,000	General CIP operating transfer
2008	\$2,934,000	Write off of loans, per the Broadweave sale
2011	\$5,357,316	Write off of loans from Energy Fund
<b>Total</b>	<b>\$58,724,316</b>	

Source: Provo City Finance Department

million in bonds Provo taxpayers are paying for.

### **Was the iProvo Experiment Worth It?**

Accounting for these subsidies is critical, because they help us answer perhaps the fundamental question coming out of the iProvo-Google Fiber deal: does Google Fiber's purchase justify the costs taxpayers have borne and will continue to bear?

Supporters of municipal telecom systems argue that Google Fiber came to Provo because the city built iProvo, and Google Fiber spokespersons did indicate that the city's early commitment to a fiber optic network throughout the city did factor into Google Fiber's calculus.

In explaining their decision to buy the Provo network, Google Fiber made two other points that seem relevant. First, they came to Provo because residents and businesses in the Provo area develop the second most technology patents per capita in the country. Second, Google Fiber is developing fiber networks because they expect the same dramatic technology changes to accompany this kind of an upgrade that accompanied the change from dial up to broadband speeds.

Analysts will speculate for years on what those pronouncements mean, and whether Provo taxpayers got a good deal. However, it seems notable that "Silicon Slopes," as Utah's technology industry is coming to be known, is a collection of investors and entrepreneurs pursuing their dreams at their own risk. They aren't asking taxpayers to backstop them. They see opportunities, and they go after

them, just like the investors and entrepreneurs that created Silicon Valley.

Second, remember that Google Fiber built their own gigabit networks in Kansas City and Austin, Texas. Taxpayers in Google Fiber's other cities didn't have to suffer the losses Provo's taxpayers have for the past decade, yet they are receiving substantially equal benefits.

As the nearby assessment shows, Provo taxpayers have taken it on the chin with iProvo. They've spent tens of millions of dollars to receive what private providers are building. The \$1 purchase price absolutely sticks in the craw. Taxpayers are rightly frustrated that they will continue to pay off the iProvo bonds for another dozen years.

However, Provo had the FOR SALE sign out for months. No one else made a better offer, even though every other potential buyer had the opportunity to do so. Perhaps most importantly, selling iProvo eliminates future subsidies like those described above. The sale also removes the ongoing need for Provo to upgrade the network's electronics every five to seven years. That forgone cost alone saves Provo taxpayers between \$15 million and \$20 million in just the first upgrade.

So it looks like iProvo has gone the way of all the earth. Provo taxpayers will continue paying the telecom utility fee until the bonds are retired. But for all intents and purposes, Provo has finally gotten out of the telecom business.