



MI-Connection, a Failing Government-Owned Network in North Carolina

In 2007, the local governments of Davidson and Mooresville, N.C. preempted a private offer from Time Warner Communications and took over the Adelfia Communications cable company. The result was MI-Connection, a government-operated network (GON) shared by both towns.

In addition to Davidson and Mooresville, three cities - Troutman, Cornelius and Huntersville - considered taking over the network, but found the idea too big of a risk. A consultant's report said the network would lose money in the early years, but, beginning in 2013, would turn a profit. It was estimated from 2013 to 2018 profits would total \$47 million.¹ Jim Bensman, a Cornelius town commissioner, said he "never believed" the projections because they were "overly optimistic on the revenue" side and "under-projected" costs. The towns also were concerned about the condition of the system, believing it had been neglected for years.² Local officials in Davidson and Mooresville painted a much different picture to their taxpayers. Leamon Brice, Davidson town manager, said, "The potential growth of customers, and therefore profits, is astronomical."³

Five years later, Troutman, Cornelius and Hunterville have been proven right. Today, MI-Connection has not turned a profit and has a negative net worth. Currently, MI-Connection has less than 15,000 subscribers and debt totaling \$81 million.⁴ For the third year in a row, the network received a warning letter from state officials about its financial condition and outlook. The most recent letter argued "the system will have to take significant additional measures to achieve financial stability."⁵

Since 2010, MI-Connection has received around \$14 million in subsidies from Davidson and Mooresville. The majority of those funds came in 2012. In March 2012, MI-Connection asked for an additional \$1.1 million, bringing the total subsidy from the two towns to more than \$7 million *in 2012 alone*. The towns have taken from other priorities to give to MI-Connection. Mooresville's Town Manager Erskine Smith said the "town

¹ Deem, J., "Did Consultant Cause MI-Connection Fairy Tale?" Lake Normal Citizen, June 14, 2012.

² Warfield, A., "Cornelius was Skeptical of Cable Profit Projections" Lake Norman Citizen, June 14, 2012.

³ Taylor J. A. "Davidson, Mooresville Taxpayers Face Bailout of Municipal Broadband Service," Carolina Journal News, May 14, 2010.

⁴ Boraks, D., "MI-Connection Reports Record Year, Returns Cash to Towns" Davidson News.Net, July 27

⁵ Letter from Sharon Edmundson, North Carolina, Department of State Treasurer to John Venzon, March 21, 2012.

likely would tap its unappropriated general fund balance for extra cash.”⁶ The two towns are getting very little back in return. The network made its first debt payment of \$277,000 in 2012- not anywhere near the \$7 million in additional funding received in 2012 alone.

Things will still be bad in 2013 - the very year the system was expected to turn a profit. Next year Mooresville is set to commit \$5.3 million and Davidson, \$1.3 million. Davidson’s most recent budget stated, “Until our commitment to MI-Connection is reduced, we will not be able to achieve this goal [of financial stability and responsible stewardship].”⁷

It seems the towns are almost giving up. Commissioner and Davidson Mayor pro tem Laurie Venzon said, “The board had been cautious about counting on MI-Connection operations improving enough to reduce town contributions any time in the near future after so many failed predictions of stability.”⁸ Mayor Venzon asked more residents to subscribe, suggesting they could face tax increases otherwise. She said, “I’m asking you to support it so that the revenue will be there, so we don’t have to increase taxes or make any more cuts.”⁹

Initially Davidson and Mooresville agreed that their financial interest in MI-Connection would be based on their system’s subscribership percentage, resulting in some perverse economic incentives. For example, some local critics of the system have suggested that residents should *not* subscribe to the network so the city will own less of it and, thus, carry less debt. The chairman of MI-Connection, John Venzon, even acknowledged the more successful the program in a city, the bigger portion of the debt a participating town carries.¹⁰ In May 2012, the towns agreed to fix the share of the company that each is responsible for; Davidson carries 30 percent and Mooresville, 70 percent.¹¹

In Davidson some political candidates have called for an exit strategy.¹² Mayor Laurie Venzon is on record saying that other towns should not make the same mistake as Davidson by owning a government owned network.¹³ However, because of bond financing obligations, 2017 is the earliest that the network can be sold.¹⁴ MI-Connection Chairman John Venzon has said he is trying to make the company as attractive as possible so it can be sold in 2017.¹⁴ The other possible exit strategy is for the towns to default, a plan that would have serious consequences. Brice explains, “First, the two towns wouldn’t be able to borrow again, and second, a default would affect bond ratings

⁶ Boraks, D., “MI-Connection to Restate Budget, Needs more Cash from Town” Davidson News.Net, March 13, 2012.

⁷ The Town of Davidson, Adopted Budget, Fiscal Year 2012-13.

⁸ Orlando, K., “Town Set Shares for MI-Connection” Huntsville Herald, May 25, 2012.

⁹ Taylor, J.A. “Davidson, Mooresville Taxpayers Face Bailout of Municipal Broadband Service,” Carolina Journal News, May 14, 2010.

¹⁰ Boraks D, “MI-Connection Revenues Weak on TV Customer Losses” Davidson News.Net, July 29, 2011.

¹¹ Orlando, K., “Town Set Shares for MI-Connection” Huntsville Herald, May 25, 2012.

¹² DeLoache F, “MI-Connection Leaders Focus on Debt Burden” Mooresville Weekly, August 5, 2011.

¹³ Batton, A, “Davidson Approves Changes to MI-Connection Board” The Herald Weekly, February 10, 2011.

¹⁴ Deem, J., Revisions could Reduce Davidson’s MI-Connection Burden. March 26, 2012.

and interest rates for not only our towns, but for towns across North Carolina and the nation.”¹⁵

Community access to broadband has many benefits, but government-owned networks also come with significant risks. Instead of Davidson and Mooresville increasing services with the profits being generated by MI-Connection, the network has been a financial drain on the towns. The citizens of Davidson and Mooresville have already paid \$14 million to this network and will pay another \$6.3 million in fiscal year 2013 - the first year it was to be profitable. The state of North Carolina has questioned whether MI-Connection will ever be profitable, making the current strategy - a sell-off in 2017 - likely to result in a loss.

¹⁵ Taylor J. A. “Davidson, Mooresville Taxpayers Face Bailout of Municipal Broadband Service,” Carolina Journal News, May 14, 2010.