FISCAL FOCUS

MINNESOTA CENTER for Fiscal Excellence

Sound tax policy. Efficient spending. Accountable government.

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So Much for "Supplemental"

In an off-budget year featuring a massive surplus and a generous, accommodating federal government, neither side is holding back.

When Representative Davids held the House tax chair gavel, omnibus tax bills were occasionally branded with a reference to a popular song that described the political situation. With respect to the 2022 session and the disposition of the surplus, right now it's difficult to get a sense of where on the musical spectrum we will wind up. Will it be Dave Mason's melancholy plea "So let's leave it alone. Cause we can't see eye to eye" or Prince's call to "Party Like It's 1999?"

Prince's lyrics could be especially apropos because not since 1999 have lawmakers been fiscally able and tempted to embark on a similar indulgence of both tax relief and new spending. Big money attracts big ideas, and an off-budget year is not stopping both parties from offering major tax and spending proposals with the potential to dramatically alter the state's fiscal landscape for years to come.

It starts with the $7.75 billion forecasted surplus now accompanied by hints from legislators that this number will go even higher in the February forecast. Even though macroeconomic forecasts have been slightly tempered, we have learned the hard way that when casual comments like this dribble out, they are often foreshadowing something real. On top of that is the $1.15 billion in one-time unallocated state fiscal recovery funds to spend this session. MMB has stated ARPA funds are not included in the budget forecast but that is a bit of an overstatement. Lawmakers appropriated $663.1 million in ARPA funds last year to general fund revenue replacement in FY 22-23 which does flow through the budget forecast. (Similarly, the $550 million in ARPA funds appropriated last year for FY 24-25 general fund revenue replacement flow through the out-biennium planning estimate, although there is nothing preventing the legislature for reversing that if $8.9 billion is somehow deemed not enough for current decision-making purposes.)

All Spending as Pandemic Spending

If Minnesota needs additional ideas and ways to spend the remaining roughly $2.36 billion in remaining federal Fiscal Recovery Funds, the Treasury Department's now issued final rules are there to assist. Last year's interim guidance had enough ambiguity to warrant some conservatism in how funds would be deployed lest appropriations would trigger some after-the-fact conflict with final guidance. All such concerns can pretty much be set aside as the final rules "provide broader flexibility," or in other words, significantly expands permissible uses of funds and broadens eligibility in the four expenditure categories of the act. Some features of the Treasury Department's final rules:

- Expands the set of households and entities meeting the conditions of "impacted" or "disproportionately impacted."
- Broadens eligible uses in affordable housing, childcare, early learning services and certain community development and neighborhood revitalization activities for impacted communities.
- Allows use of funds to expand government employment above pre-pandemic baselines.
- Allows capital expenditures (in addition to programs and services) that support eligible COVID-19 public health or economic responses like affordable housing, childcare facilities, schools, hospitals, and other projects.
- Significantly expands eligible projects under the "investments in water, sewer, or broadband infrastructure" category. (e.g., lead remediation and dam repair /non-point pollution control having drinking water benefits) Of particular note is the expansion of eligible areas of broadband investment and definitions of "investment need" that includes "lack of access to a connection that reliably meets or exceeds symmetrical 100 Mbps download and upload speeds." That's a fiber-oriented speed standard that exceeds even the state's current 2026 broadband goals. The final rule also encourages (but doesn't mandate) the use of funds that "prioritize support for broadband networks owned, operated by, or affiliated with local governments, nonprofits, and cooperatives." (See our accompanying article in this issue.)

In addition, the final rule also enhances local government use of fiscal recovery funds by allowing a claim of a "standard allowance" of a $10 million revenue loss – even if local revenues actually grew – while providing greater flexibility on the time periods used in calculating whether they truly lost revenue.

From all indications, just about anything targeted to serve low- or moderate-income households or communities appears to be classifiable as a pandemic response and eli-

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gible for fiscal recovery fund use. It's easy to see why House DFL, as of this writing, is expressing reticence in devoting all of the ARPA money to the UI Trust Fund debt elimination and replenishment.

Profoundly Different Agendas

Even without the federal government's generosity, resources are not lacking. As we have previously observed, the Governor's supplemental budget proposal consumes $7.6 billion or 98% of the current surplus as is now reported and, when factoring in one-time unallocated ARPA money, 85% of total resources available. But the proposed spending also includes considerable out-biennium tails — $5.54 billion — which consumes 93% of the currently forecasted FY 24-25 structural balance. Using the most recent November forecast as the baseline, the Governor's supplemental budget represents 10.2% biennium-on-biennium projected spending growth – seventeen months before the next biennium even begins and nine months before we elect lawmakers to determine what the FY 24-25 budget needs and priorities should be.

Meanwhile, Senate Republicans have not yet unveiled the specific elements of their tax relief plan or details on how much their tax cuts would total. But if bill introductions are any indication of what may be coming, it would be safe to conclude Senate Republicans will match the Governor's aspirations albeit in the other direction.

The one sure thing is a bill to exclude all Social Security income from taxation. Based on revenue analysis from last year, such an exclusion translates into a $1.1 billion biennium revenue reduction and increases from there. A few of the other tax relief bills which have been introduced include the following (with very rough estimates of revenue collection impacts based on the latest available DOR estimates of tax rate change impacts – no dynamic scoring offsets.)

- Eliminate the first tier of the state income tax ($7.16 billion per biennium).
- Reduce the first tier of income rates from 5.35% to 4.10% for all filers ($1.7 billion per biennium.)
- 1.3 to 2.85 percentage point cuts in income rates across all existing tiers combined with significant upward adjustments of bracket thresholds exposing more income to lower marginal rates. ($7.7 billion per biennium plus bracket adjustment effects)
- Elimination of State General Tax ($1.5 billion per biennium)

Of course, a divided legislature guarantees neither side's visions of a fundamental transformation of the state's budget and fiscal structure will be enacted. As a result, any compromise that is reached likely means money – and maybe a lot of it – will be left on the table for the next legislature to deal with. The good news is there are enough resources and overlapping of interests to tackle some near-term state needs and issues and also satisfy partisan interests and messaging expectations heading into November. If that outcome comes to fruition this session, lawmakers shouldn't feel sad because as Meat Loaf observed "two out of three ain't bad." ■

The Renewed Push to Exempt Social Security

The state's huge surplus has propelled a full exemption of social security income to the top of many tax relief wish lists. The numbers may look kindlier on the idea but it remains far better politics than tax policy.

With the legislature's current makeup, the odds are long that large amounts of broad based "permanent" tax relief will come out of this legislative session. However, chances seem very good that a lot of targeted relief will be enacted through new or expanded tax expenditures having lives extending well beyond the current biennium. At the top of the "most likely" list is state income tax treatment of social security income. In 2017 and 2019, lawmakers enacted subtractions of social security income and related adjustments to expand the scope of relief to senior taxpayers and non-seniors receiving disability benefits. For many lawmakers, this year's surplus has created the window of opportunity go beyond more incrementalism and half measures. As of this writing seven bills have been introduced, including one co-authored by the DFL Vice Chair of the House Tax Committee calling for an unlimited full subtraction of this income.

As is often pointed out, Minnesota is one of only 12 states that does not fully exempt social security income from state taxation. Does this fact justify it being a top priority for state tax relief? If so, why? And how does this proposal itself stand up to tests of good tax policy? From the standpoint of fiscal responsibility, there is a lot at stake, especially in combination with additional tax relief proposals. Unlike most forms of targeted relief, the potential implications for the General Fund here are significant, starting at well over $1 billion dollars per biennium and going up as the ranks of the 65 and over demographic swell in years to come. It's worth looking at the primary issues and arguments in more detail.

The Good Tax Policy Problem

Public opinion research on taxation consistently finds "fairness" to be the most important feature in a tax system. Ability to pay is the usual concern, but a no less important (and generally overlooked) tax fairness concept is treating income equals equally, or "horizontal equity." This tax principle dictates that taxpayers with the same incomes, regardless of the source of the income, should pay the same amount of tax.

The state's existing social security income subtractions purposely depart from this ideal for a good policy reason: a lot of Social security benefits are quite modest, and their recipients may not have the option or ability to earn extra income in retirement. According to Department of Revenue estimates, only about half of Minnesota households with social security income have taxable social security income.

But even our current comparatively less preferential treatment of this income introduces a notable degree of inequality by treating similarly situated taxpayers differently based solely on their sources of income. It's an obvious issue in thinking about wage earners versus retirees, but significant differences in tax obligations can also exist among social security beneficiary households having the exact same income. Plugging some numbers into House Research's handy social security modeling tool[1] highlights the issue. For example, a married filing jointly (MFJ) senior house-

[1] Found at *www.house.leg.state.mn.us/hrd/issinfo/sstaxes.aspx?src=20*. Estimates are for tax year 2020, assume taxpayers claim the standard deduction, and are at full retirement age. Estimates also assume taxpayers did not have nontaxable income or above-the-line deductions reducing FAGI.

hold receiving the average state social security benefit of $32,600 supplemented with $27,000 of non-Social security income ($59,600 total) pays no state income tax under current law. Simply flipping those income shares around ($27,000 in social security benefits supplemented by $32,600 in other income) and the household now has a $1,600 state income tax bill.

Fully exempting all social security income would eliminate the horizontal equity problems among social security recipients but greatly exacerbate the problem among all state income taxpayers. A couple additional model results illustrate the potential:

- A retired "lifetime higher earning" senior MFJ household receiving 150% of the state's average social security benefit of $48,900 could have $27,400 in additional taxable income (for a total of $76,300 which is more than the state's median household income of $74,593) before incurring a single dollar of state income tax liability.

- Each year of social security deferral after full retirement age increases benefits by 8% until the age of 70. It is possible for "high dual earning" households having the wherewithal to delay claiming realize $70,000 or more in social security benefits. That couple would pay no state income taxes on a level of social security income over 90% the median family household income in Minnesota. If a household did receive $70,000 in benefits and supplemented their government benefits to declare $100,000 of total income, their total state income tax obligation would be $139.

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Making the horizontal equity issue even more relevant is that over the past several decades, the economic welfare of seniors has improved far more than other age demographics. Since 1979, both the median and average incomes of households headed by someone past 65 have climbed faster than the incomes of households headed by people in younger age groups. The difference is not small. Census statistics show that the average real income of elderly households climbed 82 percent between 1979 and 2017 while the average income of households headed by someone younger than 65 increased just 37 percent.[2]

All this points to another, more subjective, fairness-related matter certain to receive a lot of legislator scrutiny. Social security is a near-universal benefit, but the tax relief moving from a partial subtraction to a full exemption is heavily skewed toward Minnesota's higher income retirees. According to a 2019 projection by the Department of Revenue's Tax Research Division for tax year 2021, the estimated amount of taxable social security income in the state's top population decile (households with incomes of $185,600 and above) was $1.52 billion. That's more than the $1.42 billion that exists in the bottom seven population deciles combined (households having incomes below $96,100).[3] Some are sure to question why state tax relief priorities should focus on higher income retirees – especially if rate reductions are also in play.

2 "Despite Scary Headlines, America's Elderly Continue to Prosper" Brookings Institute, August 15, 2019

3 "Taxable and Nontaxable Social Security Income, Tax Year 2021: Projections from the 2019 Minnesota Tax Incidence Study. MN DOR Memo, April 25, 2019

Keeping the Seniors Home

Many argue the justification resides in the need to keep these individuals and their economic activity, charitable endeavors, and volunteer work here in Minnesota. There is no question that Minnesota is a high-income tax state relative to the rest of the country for upper-middle and high income seniors.[4] According to our latest individual income tax comparison study, Minnesota state income tax burden is either 2nd or 3rd highest in the nation for married joint senior filers with incomes from $75,000 to $250,000 ($250,000 is our highest modeled senior profile).[5] Actual Minnesota tax burdens for these filers range from $1,048 - $4,093 above the average of all states having individual income tax (obviously even more in comparison to states without an income tax.) The same rankings hold for our senior single filer cohorts, although the tax burden differential is a little less.

Taxes, seniors, and mobility is a complicated relationship. Seniors, of course, move for a lot of different reasons besides taxes. Even among seniors whose moves are solely motivated by lower taxes, all forms of taxation will likely be taken into consideration, not just one part of the system. For example, the influential retirement resource Kiplinger ranks Texas 10th in the nation in ***least*** friendly states for retirees despite having no income tax because of its high sales and property taxes.[6] (Interestingly, Minnesota did not make this top ten least-friendly list but Iowa and Wisconsin — both of which exempt social security income — did.)

Table 1 on the following page summarizes the last 5 years of Minnesota taxpayer migration among filers 65 years and older by income cohort. This reporting comes with several caveats and is far from perfect. For example, the IRS uses return addresses in assembling this data, not the actual residence of the taxpayer. Therefore, migration findings could be affected by any filer whose return address isn't their residential address (out of state tax preparer, using a P.O. Box, business address if they have pass-through income, etc.). Plus, various timing issues regarding income, taxpayer movement and

4 According to the State Demographer, the median household income for households with a householder age 65+ is $50,886.

5 *Comparison of Individual Income Tax Burdens by State*, MCFE, May 2021

6 "10 Least Tax-Friendly States for Retirees" Kiplinger on-line, February 18, 2022

Table 1: Minnesota 65+ Tax Filer Migration As a Percentage of Total Senior Filers at Selected Income Level

	2014-2015		2015-2016		2016-2017		2017-2018		2018-2019	
Filer Income	Out	In	Out	In	Out	In	Out	In	Out	In
$1 under $10,000	0.8%	0.9%	1.1%	1.0%	1.6%	1.5%	1.3%	1.2%	1.4%	1.1%
$10,000 under $25,000	0.8%	0.8%	1.1%	1.1%	1.6%	1.6%	1.3%	1.3%	1.3%	1.2%
$25,000 under $50,000	0.7%	0.7%	1.1%	0.9%	1.5%	1.4%	1.2%	1.2%	1.2%	1.0%
$50,000 under $75,000	0.8%	0.6%	1.0%	0.8%	1.6%	1.4%	1.2%	1.1%	1.2%	1.1%
$75,000 under $100,000	0.9%	0.5%	0.9%	0.8%	1.5%	1.4%	1.2%	1.1%	1.2%	1.0%
$100,000 under $200,000	1.1%	0.7%	1.3%	0.9%	1.7%	1.5%	1.5%	1.2%	1.4%	1.1%
$200,000 or more	1.6%	1.0%	2.0%	1.2%	2.6%	1.7%	2.2%	1.4%	2.2%	1.5%

Source: IRS Statistics of Income Gross Migration Files, 2014-2019

filing are another potential complication. Nevertheless, it is the best proxy available to us to assess filer migration trends.

As the table shows, while the state appears in more or less in migration equilibrium for senior filers at and below the state's senior median household income level of just over $50,000, both net outmigration and the relative amount of outmigration increases at higher income levels. Not surprisingly, the $200,000 and over income cohort exhibit the largest percentages of Minnesota out migration on both a net and relative to total cohort population basis.

A key question with respect to senior migration is to what extent exempting social security income would actually influence their decision-making. Affluent seniors receive much smaller proportions of their income from social security benefits. A study examining how income changes in transitioning from work to retirement found the top 40% of senior income earners received one-third or less of their income from social security – the top 5% less than 15%.[7] This relative share may, in fact, be significantly overstated. A 2017 research study by U.S. Census Bureau linking survey responses with administrative records from the IRS and other agencies found that the median household income of seniors aged 65 and over was 30% higher than what the Census reported, "mainly attributable to underreporting of retirement income from defined benefit pensions and retirement account withdrawals." [8]

For higher income seniors, decision-making based exclusively on income taxes (rather than all aspects of the Minnesota tax system) is far more influenced by Minnesota's tax rates and brackets than the amount of social security income exposed to taxation. Whether an exemption of what is often a relatively small fraction of their income could make an appreciable dent in the calculus, or "tip the scales" in favor of staying in the state seems quite unlikely.

The Fallacy of "Double Taxation"

An argument heard in support of a full exemption is that taxing social security is double taxation – taxed once when taken from the paycheck and again when the benefit is received later in life. It's a compelling political pitch but factually incorrect. The federal government's treatment of this income goes back to the recommendations of the National Commission on Social Security Reform appointed by President Reagan, and was designed to address this very issue.

Social security is responsibly treated as an earned benefit by the federal government and therefore its taxation is appropriately modeled on the taxation of private pensions – paying income tax to the extent that benefits exceed contributions. And for most social security recipients, the benefits far exceed their lifetime contributions.

In 1993, the Social Security Administration's Office of the Actuary estimated that, if pension tax rules were applied to social security, the ratio of total employee social security payroll taxes to expected benefits for current recipients would be approximately 4% or 5%. The actuaries adjusted the percentage upward to 15% to accommodate specific worker demographics with the highest ratio of taxes to benefits paid. In other words, the current "85% taxable cap" established by the federal government on social security income ensures no beneficiary pays for more than 15% of his or her own benefits through withholding. In reality, social security is not double taxation but a more favorable tax treatment for the vast majority of workers than even private pension income receives.

The Strongest Argument is Political

"Under no theory of taxation should a person who turns 62 (or whatever age we pick) magically be exempt from taxation. Let's face it, states offer tax relief to old folks because those folks vote more than anyone else."

—David Brunori, Tax author and former Deputy Publisher, *Tax Analysts*

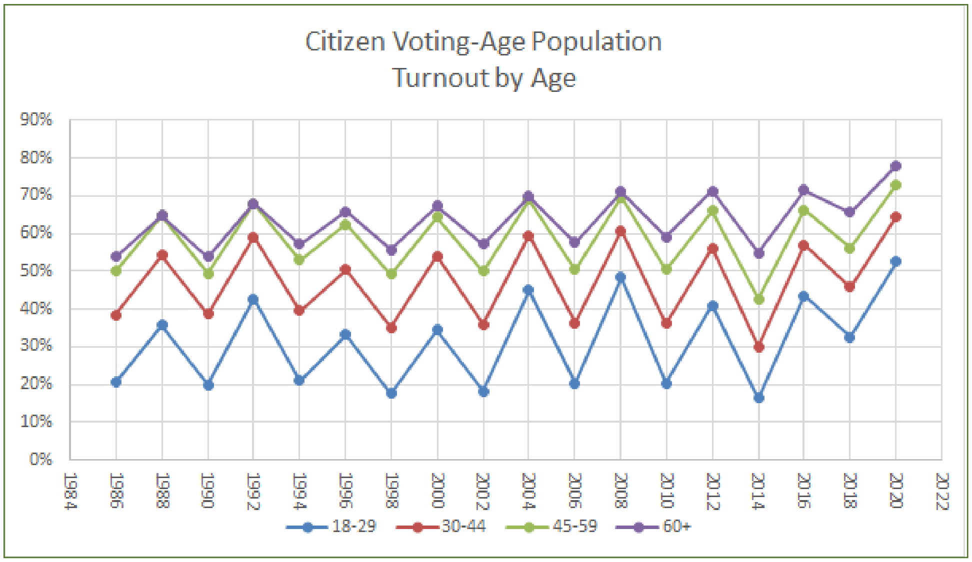
If there is wisdom in how the majority of states treat social security income, it is political wisdom reflected in the accompanying chart. Fully exempting social security is a way for lawmakers to gain favor with one of the most politically engaged demographic groups, which also happens to be one of the wealthiest. Or as a U.S. Census Bureau spokesman once candidly remarked, "They are worth more, dollar-wise, than young people." [9]

None of this is a dismissal of policy actions addressing the economic welfare of senior households. Further adjustments to the current subtraction and related modifications deserve to be considered. And other targeting efforts like enhancements to the senior property tax deferral program merit consideration.

Our opposition to this idea is not an endorsement of Minnesota's heavy income tax

[8] "Do Older Americans Have More Income Than We Think?" Bee and Mitchell, U.S. Census Bureau, SESHD Working Paper #2017-39, July 2017

[9] "States Try More Tax Breaks for Seniors" Pew Stateline, April 27, 2015



Source: Unites States Election Project:
http://www.electproject.org/home/voter-turnout/demographics

burden. It is based on a belief that once the total cost has been determined, the burden should be fairly shared. Eliminating taxation on all social security income would be a major step in the opposite direction. Full exemption will cause other taxpayers to shoulder higher burdens even though they have, in many cases, lower incomes. ■

Should Government Budgets Be Rich in Fiber?

With the avalanche of federal cash to boost and enhance broadband connectivity will come a temptation for Minnesota to deviate from a proven track record of what works.

Ever since the federal government's spigot was turned to "full open" to deal with the pandemic, broadband access and expansion has been an increasingly prominent feature of all the COVID economic recovery initiatives. The amount of money the federal government has appropriated over the last couple of years to broadband access resembles the progression of pot size over the course of a poker tournament. It started with a very modest $125 million in the CARES act, followed by $7 billion in the Consolidations Appropriations Act, followed by $20 billion in the American Rescue Plan Act (which included economic assistance to low-income households for broadband access).[10] Now the government has gone "all in" to try to close the digital divide with another $65 billion dedicated to broadband in the Infrastructure Investment and Jobs Act. And this doesn't include $20 billion already provided but not yet spent through the federal government's Rural Digital Opportunity Fund Program or the Governor's proposed $170 million in his supplemental budget. That $170 million by itself, according to the Governor's news release, is intended to "finish the job of bringing border-to-border broadband access to all Minnesotans."

There is good reason for the effort. Broadband has now joined the basics like water and electricity as fundamentals of the modern economy. As the FCC in its National Broadband Plan stated, it is "the foundation for economic growth, job creation, global competitiveness and a better way of life." Numerous studies by the Federal Reserve and others back this claim up. The World Bank has estimated a 10-percentage point increase in broadband participation can lead to a 1.2% jump in real per capita GDP growth in developed economies.

Even the definitions and significance of "successes" and "failures" in these ventures is up for debate. Nothing captures this better than the fact that both proponents and opponents of GON sometimes cite the same case studies to bolster their arguments.

All this money is guaranteed to turn up the heat on an ongoing and highly contentious policy debate: if and to what extent governments should be in the business of building and operating broadband networks themselves. The debate has been on high simmer for well over a decade. The billions in new funds will likely bring the topic to a full rolling boil.

Few would dispute that government has a role to play in closing the digital divide and making broadband accessible to the unserved and underserved. But government owned networks (GON) cross a controversial line from being a regulator/partner to competitor in the commercial telecommunications marketplace while retaining the role of regulator by controlling access to the public right of way and approving, denying, or delaying permit applications of existing providers.

The information warfare between the community broadband advocates and private sector communications providers over the last decade-plus has been fierce. Advocates argue lack of access, substandard services, and need for more competition all justify communities and local governments providing this service to meet the needs of citizens and local economic development. Opponents argue a lengthy list of GON failures indicates governments are ill-equipped to develop, operate and maintain commercial broadband networks. And those that continue to operate owe their existence and viability to large direct and indirect subsidies that constitute unfair competition while at the same time often targeting the most lucrative submarkets to make the economics work and impeding private infrastructure investment in the process.

The debate is complicated by the fact that GON captures many different governance

[10] "The Benefits and Costs of Broadband Expansion" Campbell, Castro, and Wessell, Brookings Institute November 9, 2021

and service offering models. Plus, the contexts and circumstances surrounding each situation are unique making broad generalizations difficult. Even the definitions and significance of "successes" and "failures" in these ventures is up for debate. Nothing captures this better than the fact that both proponents and opponents of GON sometimes cite the same case studies to bolster their arguments.

This Is Not the Local Muni Liquor Store

What government broadband advocates and critics do agree on is that these ventures entail far more financial risk than the usual types of business enterprises governments run. In situations where an existing municipal owned utility or an electric cooperative is available to add broadband to their services, preexisting advantages and spillover benefits between electrical and communications segments (e.g., bonding authority, existing rights of way, poles, interdivision loans, etc.) help improve deployment economics. The most prominently promoted success stories often involve an expansion of some existing municipally-owned utility's service offerings, although some have concluded that detailed financial analysis of these success stories show that many remain cash flow negative and those that achieve positive cash flow still require decades to recoup their costs.[11] Operating and maintenance demands are no less part of the risk calculus. In an era in which "crumbling" has become the default adjective used to describe the condition of road, water, sewer, and other already existing government infrastructure, the details and requirements of governments assuming another and more technically complex infrastructure maintenance regime bears consideration.

Financial risk is also a function of GON business models and service offerings. From our review of the case study literature, government retail networks competing directly with established ISPs appear to entail the greatest risk. Ineffective marketing programs and campaigns, negotiation failures, inadequate staffing levels and competencies, pricing misjudgments, uptake projection shortfalls, and insufficient economies of scale are just some of the problems government retail networks have experienced leading to their demise or takeover. In efforts to foster greater competition in the marketplace, retail GONs find themselves battling incumbent providers for customers resulting in price wars in which their private sector competitors' response demonstrates them to be more than up to the challenge.

Because of the elevated risks accompanying retail broadband, many GONs are now focusing their efforts instead on providing wholesale or "open access" services – creating fiber infrastructure that is leased to retail providers to connect them into the government network. The intent is to promote competition and choice among ISPs while providing the highest quality, fastest, and relatively most "future-proof" broadband infrastructure to the community. The federal government's largess will likely prompt a lot more interest in this model, since the significantly higher upfront capital cost of fiber infrastructure is the primary economic barrier.

But wholesale models entail their own operational and financial risks. Constructing and maintaining a network to meet the needs and constantly new and evolving service offerings of a diverse array of ISPs is a technically challenging task (which is why many GONs choose to hire independent parties to operate the network). Other challenges include recruiting credible ISP providers to participate in this venture. Moreover, if a product has little differentiation (like an ISP offering only internet access), this can trigger "destructive competition" in econospeak. Providers competing solely on price will inevitably run most of the providers out of business (or they consolidate) and the sought after competition effectively disappears. Accommodating service differentiation among ISPs helps avoid this problem but comes with ongoing operating complexity and cost.

It's worth noting the Department of Treasury's final rules for the use of state and local fiscal recovery funds for broadband "encourage recipients to prioritize investments in fiber-optic infrastructure wherever feasible." Some commenters on final rule making, however, argued that such high standards may have the potential to slow down expansion to unserved or underserved rural areas and observed that lower speeds best balance the dual needs of reaching all communities and maximizing the impact of federal funds.

Duplication of Infrastructure

The risks magnify where a significant and competitive private sector presence already exists. One recent example from the Twin Cities area offers a representative study of commercial reality differing from expectations.

In September, 2011, the Eagan city council authorized construction of a 17-mile-wide open access wholesale fiber network owned by the city and open to any telecommunications carrier wishing to direct retail services to Eagan businesses. "AccessEagan" as it was called was internally financed with some $1.5 million in transfers of telecommunications cell tower antenna lease revenues from its public utilities fund. By 2017 it had expanded to 40 miles of fiber infrastructure supported by an additional $1.1 million of city public utility fund transfers.

By 2019 another $500,000 in Public Utilities Fund cross-subsidies had been appropriated to address "revenue projections and anticipated future build-outs." This included $50,000 to hire outside marketing and sales support in an effort to boost customer and revenue numbers falling below projections and the city assuming more responsibility to build the "last mile" to customers in an effort to reduce ISP fiber leasee costs and ultimately end customer costs. According to city budget documents, in 2019 budgeted operating expenses were expected to be more than twice revenues with additional capital outlays nearly equaling revenue projections. In 2019, having incurred operating losses every year, the City accepted a recommendation to terminate AccessEagan as an enterprise operation and recognize it instead as a city asset which continues to serve the public sector's broadband needs within the community.

The classification flip from commercial enterprise to government asset is one way money losing commercial ventures can show up as government broadband success stories in the case study literature. But click the dead-end weblink for AccessEagan today and you find a wide-eyed basset hound struggling with a stick way too big for it to handle by itself with the caption, "Whoops, we couldn't fetch that." It's perhaps a far more apt and descriptive final word on the venture than was ever intended.

[11] "Municipal Fiber in the United States: An Empirical Assessment of Financial Performance" Yoo and Pfenninger, University of Pennsylvania Law School Center for Technology, Innovation and Competition

Fiber to the Fish House?

Regardless of cautionary examples like this, the amount of money being made available will undoubtedly encourage local governments to explore developing and operating their own networks. And a burgeoning broadband and economic development consulting industry is ready and able to help. Duluth has now embarked on such an exploration and we would expect many other Minnesota county and municipal governments are putting together RFPs for consultants to undertake community interest surveys. The surveys themselves can be highly leading in nature and seemingly designed to generate more consultant work in the form of feasibility studies and design cost investigations. (For example, one question we came across in a recent consulting firm's community interest survey was "How likely would you be to support a city-sponsored broadband initiative if it led to increased competition, lower costs, and faster speeds?")

Some GON financial troubles across the country appear to have roots in overly optimistic consultant reports concluding communities could build a better, cheaper, more reliable and faster internet service with breakeven levels of participation less than what was really needed. Communities should recognize GON development efforts aren't insulated from private sector self-interest and profit motive if for no other reason than to avoid a *"Monorail!"* [12] broadband experience. Anytime so much money is chasing something so reflexively enticing and popular is a time to be extra vigilant.

In Minnesota we know what does work and has a proven track record. The state is recognized as a national leader in expanding broadband deployment. The centerpiece of what's become known as the "Minnesota Model" is the Office of Broadband Development's Border to Border grant-matching program. According to program officials, the secret sauce has been to create a process that embraced and promoted public-private partnerships in which internet service providers were incentivized to work with local communities. As the Office advises others, "Work collaboratively … No one entity has the resources to solve the problem on its own. No one knows it all." [13] According to the 2020 state broadband report, Minnesota has made great progress toward its 2026 goal with 88% of Minnesotans now having access to broadband speeds of 100/20 Mbps. The latest rounds of federal support, and the opportunities for public private partnerships it creates, should allow the state to handily meet this goal and perhaps even exceed it on performance dimensions. But impatience with the status quo, the cache of provid-

[12] *www.youtube.com/watch?v=v4z_9NcIJXI*

[13] "What Policymakers Can Learn From the 'Minnesota Model' of Broadband Expansion" Pew Broadband Access Initiative, March 2, 2021

$73 Billion…so far

In a recent Senate Finance committee, MMB officials rocked some lawmakers' worlds with a summary tally of the federal COVID relief and recovery money which has been provided to Minnesota state and local governments, businesses, other organizations, and individuals. The total: $72.7 billion which is about $12,800 for every man, woman, and child in the state. This included:

- $13.75 billion to residents through three rounds of stimulus checks
- $9.8 billion in unemployment compensation over and above the state's trust fund payouts
- $16.6 billion in two rounds of Paycheck Protection Program funds

In addition, from the recently enacted Infrastructure Investment and Jobs Act, Minnesota is estimated to receive an additional $7.3 billion, 75% of which would go to transportation (and, we can't help but note "another" $103 million to broadband). It's currently estimated that 84% of this spending would require a state match.

For the MMB slide deck, visit *https://www.senate.mn/committees/2021-2022/1007_Committee_on_Finance/State%20Debt%20Federal%20Funds%20Senate%20Finance%202%2017%2022.pdf*. (Note – slide deck starts with a state debt presentation, also worth a look.)

Federal Funding for COVID Response ($ millions)

Funding Category	State	Other Recipients	Total
Flexible Funds	$3,863	$3,289	$7,153
Education	$2,256	$1,101	$3,357
Health & Human Services	$1,716	$2,289	$4,005
Economic Assistance	$1,124	$51,093	$52,217
Housing	$893	$127	$1,019
Childcare	$719	N/A	$719
Food Security	$822	$1,846	$2,668
Transportation	$83	$1,294	$1,376
Other	$25	$150	$175
Total	**$11.5 billion**	**$61.2 billion**	**$72.7 billion**

Source: Federal Funds Information for States (FFIS), as of Feb. 1, 2022

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ing the fastest broadband (even if it far exceeds market demand), all enabled by large amounts of federal subsidies may incentivize more local governments to eschew working with established telecommunication providers and go it alone. Ideally, these subsidies would be competitively awarded on an ownership-neutral basis.

In its evaluation of the role of GON in meeting U.S. broadband needs, the Information Technology and Innovation Foundation concludes although local governments are not well suited to providing broadband service, broadband policy "should not be ideological or absolutist." "If there are areas that private providers are not interested in serving, even with subsidies," the report concludes, "then municipalities should be empowered to step in and offer broadband." [14]

If governments do forego the public-private partnership approach – and especially in places where competition already exists and services are already being provided – they need to do so with eyes wide open to the financial risks they are embracing. One of the leading national experts and advocates for community broadband has observed, "Community broadband networks are higher risk than traditional utility and local government ventures and must be operated in an entrepreneurial manner." [15] With more GON proposals on local government dockets in the future, one question taxpayers may need to ask themselves will be: "is 'entrepreneurial' the skill set that jumps to mind when I think of my local government?" ■

[14] "Does Municipal Broadband Scale Well to Fit U.S. Needs?" Brake and Bruer, Information Technology and Innovation Foundation, June 2021

[15] "Learning from Burlington Telecom: Some Lessons for Community Networks," Christopher Mitchell, The New Rules Project, August 2011.