

HAWARDEN INTEGRATED TECHNOLOGY, ENERGY, COMMUNICATIONS TELECOMMUNICATIONS CASE STUDY

Introduction

The terms “municipal telecommunication” and “Hawarden” are virtually synonymous in the circle of city officials in Iowa. The City of Hawarden “paved the way” for other cities in Iowa to get into the telecommunications business. Hawarden is a community of 2,478 people in the northwest part of Iowa in Sioux County.

Hawarden’s efforts to establish a telecommunications utility in the mid-1990’s received much notoriety in Iowa and throughout the nation. However, the decision to provide basic telecommunication services proved to be a very lengthy, costly and sometimes frustrating experience for Hawarden. The people of Hawarden and their community leaders demonstrated much courage, tenacity and perseverance, but Hawarden was ultimately “wired” in 1997.

The Early History in Hawarden

Hawarden had a long history of providing locally owned utility services, starting with the construction of a municipal electric system in 1894. The City purchased the natural gas utility in 1956. The City has also provided water and sanitary sewer service for many years.

Telephone service had been provided by various locally owned companies from 1900 until 1924 when Northwestern Bell purchased the system.

In the early 1990’s Hawarden’s City leaders had attended a number of conferences and

kept hearing a common theme “if small rural communities wanted to have a ramp onto the new super information highway, then they had better plan on building it themselves.” Hawarden accepted that challenge and hired Associated Consultants Engineers Inc. of Minneapolis to conduct a broadband communications study in 1994. The 1994 Feasibility Study stated “The bottom line is that any one of these proposed services will not stand on their own with the costs of systems today, but if they can be linked to the same system there is enough revenue to support a broadband system. A broadband system that is capable of providing telephony, cable TV, and utility uses is estimated to cost \$1,913,260 and produce \$332,589 in revenue every year. The debt service would be \$246,720 per year for 15 years.”

The study also noted that “Who ever builds the Super Information Highway to the home and business will be able to best meet the needs of the people.” The City leaders decided to take the issue to the voters in Hawarden.

The Public Vote - 95% Approval

The voters in Hawarden left very little doubt as to what they thought about the feasibility of a telecommunication utility. A total of 615 people went to the polls on October 18, 1994 and by the phenomenal margin of 95.6% voted to establish a “municipal cable communication system” in their community. However, there were people outside the City of Hawarden who had different ideas on what was legal and was appropriate when it

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came to a municipal telephone system.

The Legislation and the Litigation

The Iowa Legislative passed legislation in 1994 that allowed cities to enter into the communications and television. The Communication Act of Iowa which was passed in 1995 deregulated communications and added new rules to the 1994 legislation. The Telecommunication Act of 1996, as passed by the U.S. Congress, basically encouraged competition and allowed any type of organization to operate a communications system. It appeared that “everything was falling into place” for Hawarden.

The Legal Issues

The legal issues surfaced in 1996 when the City of Hawarden applied for a certificate of operation for a new telephone system. The city believed, according to state law, that a license to operate a phone company was not needed. The Iowa Telephone Association (ITA) brought this to the attention of the Iowa Utilities Board, which ruled that a license was not needed. The Utilities Board also ruled that they did not have jurisdiction over municipalities in the telephone business.

ITA appealed the Utilities Board ruling to the district court, stating that a municipality was not allowed to operate a telephone company in the state of Iowa. The court ruled that the Federal Telecommunications Act allows any entity to operate a telephone company and the federal act pre-empts any law. The City of Hawarden argued that both federal and

state law allows municipalities to operate a phone company. However, the ITA took the issue to the Iowa Supreme Court.

Iowa Supreme Court Rulings

Despite the difficulties, the City of Hawarden moved forward and hired Larry Butler of Oak Hill Consulting for \$25,000 to design a new telecommunications utility. Construction of the system was started in 1997 and was finally completed on October 21, 1998 when Hawarden Mayor Mose Hendricks made the first phone call on the system to Governor Terry Brandstad. But the celebration at the Hawarden City Hall was short-lived.

The Iowa Supreme Court ruled on October 22, 1998 in the Iowa Telephone Association vs. City of Hawarden case that Iowa municipalities cannot provide telephone service. The Iowa Supreme Court had reversed a District Court ruling that had upheld the city’s right to provide communication services.

The City of Hawarden asked the Iowa Supreme Court to rehear the case. In an article in Public Power Weekly, Mayor Hendricks was quoted as saying, “*The people of Hawarden voted overwhelmingly to pass a resolution to allow the city to build a municipal communications utility. We will not be deterred in our search to find a way to carry out this mandate.*”

The City of Hawarden eventually prevailed on February 17, 1999 when the Iowa Supreme Court reversed its previous ruling. The Hawarden Integrated Technology, Energy, Communications (HITEC) started

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offering telecommunications services to its residents in March, 1999.

The Telecommunications System

The Hawarden system includes 3.5 miles of fiber, 35 miles of coax 750 cable, nine nodes, and 1214 drops. The system was constructed for about \$4,000,000 and was financed with a bond issue and an interdepartmental loan. The bond issue received 90% voter approval. The original capital investment will be paid off in 2016.

Marketing Efforts

The City of Hawarden did not hire a consultant to prepare a marketing plan. Due to the overwhelming voter approval of both the establishment of the system and the bond issue, the city leaders decided that "if you build it, they will come." City officials simply organized a grass roots campaign involving brochures, newsletters and newspaper advertisement to urge people to switch their service to HITEC. The plan worked. The City achieved an 110% penetration rate for the cable service and a 90% penetration rate for telephone service. The 110% sign up of cable customers was achieved because the City actually signed up people who did not previously subscribe to a cable service.

Management of the System

The Mayor and the five member City Council serve as the governing body of the system. The telecommunications director oversee the operation of the telephone, cable, and internet business. The City administrator

is responsible for the day to day activities of all city functions, including telecommunications, finance, public works, EMS and police. A lead technician and a technician and city employees maintain the system. The City contracts for internet service, cable programming, and fiber splicing.

Services Outside the City Limits

Hawarden does not presently provide telecommunication services to people outside the city limits. However, there are plans to offer telephone, cable, and internet service to people outside the City and in nearby towns in 2002. The local telephone exchange does extend beyond the city limits.

Hawarden's Subscriber Base

The HITEC system presently provides service to the following accounts:

Cable Customer -	850
Telephone Lines -	1,450
Internet Subscribers -	50
Business T-1 Lines -	2
Centrax -	City & School

The City intends to add electric load management, pay-per-view, and remote meter reading in the future.

Monthly Rates For Service

The monthly fees for HITEC services are as follows:

Cable television -	\$22.50
Telephone service -	\$11.05
Internet & HITEC -	\$39.95
Internet without HITEC	\$49.95

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A summary of the estimated budget for the telecommunication utility for FY 2001-02 is as follows:

1. Administration- \$139,500
2. Telephone Utility - \$966,885
3. Cable Utility - \$332,250

The cable system did operate with a deficit for the first three years from 1997 to 2000. The telephone system operated with a deficit from April 1999 to July, 2000. However, the telecommunication system is now financially solvent and self-supporting. Funds are now being set aside in reserve accounts to update the system in the future.

Suggestions to Other Cities

When asked what advice they would give to cities considering a telecommunication utility, city officials in Hawarden had many suggestions such as:

1. Scrutinize the study, because some items in the feasibility could be either cost prohibitive or lack technical capability.
2. Don't forget that the technical assistance coming from outside the community may not always be motivated by the best interests of the community.
3. There will be many expenses not covered in the initial construction.
4. State law prohibits the system from being subsidized.
5. Your competitors may have deep pockets and you need to expect that you will not be able to raise rates to cover

increased expenses.

6. The technology that you install today could be obsolete in five years.
7. There could be legal challenges from your competitors. You may win in the courts, but it will cost money.
8. It takes much expertise to operate a telephone system. Unlike cable, a telephone system is not a "typical utility."
9. It is difficult to afford, recruit, and retain qualified personnel in the telecommunications field.
10. Cities need to consider all the alternatives and carefully examine all estimated costs and revenues.
11. Talk to other cities who have telecommunication utilities.
12. Do a feasibility study and carefully choose your consultants.

Final Comments

The Cities of Iowa owe much to the people of Hawarden. The City incurred costs of over \$250,000 to study the issues, fight the legal battles, and solve the physical problems. Much can be learned from the Hawarden experience in the telecommunication industry.

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