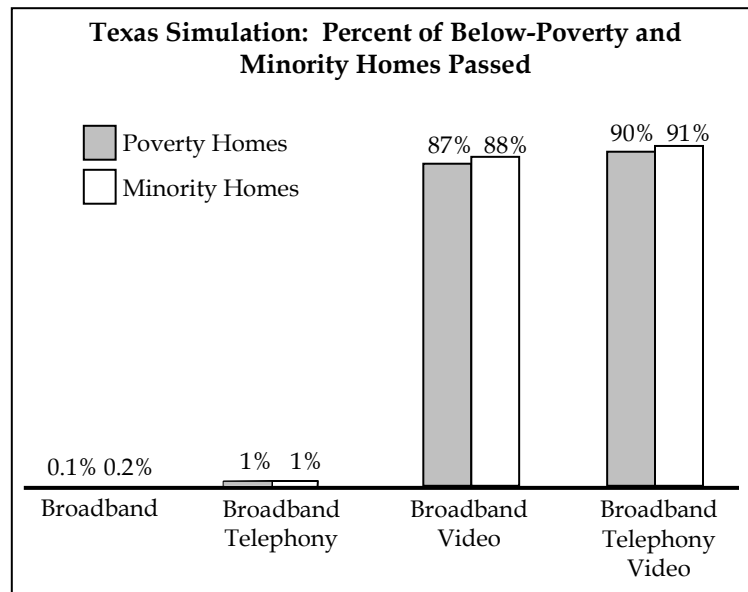


ADDENDUM: PHOENIX CENTER POLICY PAPER NO. 23
FRANCHISING AND THE DIGITAL DIVIDE – THE MARYLAND EXPERIENCE

I. Background

Last fall, the Phoenix Center released POLICY PAPER NO. 23: *The Impact of Video Service Regulation on the Construction of Broadband Networks to Low-Income Households*.¹ In this POLICY PAPER, the Phoenix Center showed that a new terrestrial communications network entrant will pass substantially more households – and in particular low-income households – if that entrant can readily offer video with voice and broadband Internet access services than it will if its ability to sell video services is sharply curtailed or delayed. As noted below, in our simulation using Texas Census data, video service took on the role of a “silver bullet” – *i.e.*, when the network firm can bundle video, the percentage homes with access to the network rises significantly, and the increased network deployment is particularly beneficial to minority and low-income households.

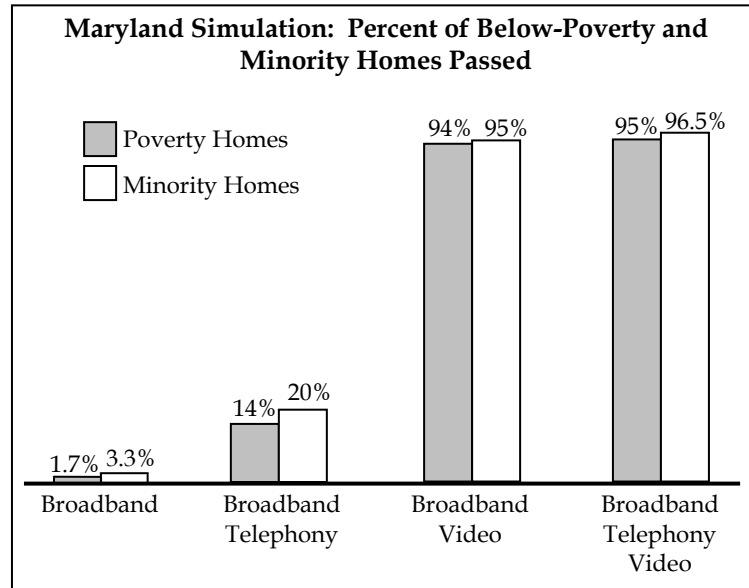


Accordingly, our analysis indicated that policies that make video competition more difficult will lead to significantly lower deployment of advanced broadband networks universally, but relatively more in low-income areas, than would occur with pro-entry video policies.

¹ George S. Ford, Thomas M. Koutsky and Lawrence J. Spiwak, *The Impact of Video Service Regulation on the Construction of Broadband Networks to Low-Income Households*, PHOENIX CENTER POLICY PAPER NO. 23 (September 2005) (available at: <http://www.phoenix-center.org/pcpp/PCPP23Final.pdf>).

II. Application of Maryland Census Data to the Model

As several Phoenix Center scholars live in Maryland, we decided to adapt the simulation from PHOENIX CENTER POLICY PAPER NO. 23 to see how video reform would affect broadband penetration to poor and minority communities in the Free State. The results for Maryland were similar to what we found for Texas in our earlier paper, though slightly improved, with Maryland having slightly more network coverage than we predicted for Texas (about two percentage points).



III. Conclusion

In sum, regardless of location, there is an important linkage between the bundling of video programming services and broadband Internet access services. The theory demonstrating this relationship builds upon the key insight that the more potential revenues that the network can generate in a household, the more likely it is the network will be built to that household. As a result, it is readily apparent that video can be the key driver in making deployment profitable, and video capability will in turn make broadband Internet access services over that same network platform more-readily available. It follows, therefore, that any policy that makes it difficult or costly for a network firm to sell multichannel video services, through either an onerous local franchising process or lax program access regulations will – without a doubt – result in less deployment of advanced communications services, including broadband Internet access. Further, these hindrances to offering video services are particularly detrimental to deployment in low-income areas.

APPENDIX A: DESCRIPTIVE STATISTICS

Table 1. Descriptive Statistics for Maryland

Median Income	Homes	Poor Homes	Minority Homes	k^{pass}	Median Income
$y < 20,000$	102,628	102,119	169,263	\$377	\$14,636
$20,000 < y < 30,000$	300,699	112,766	296,679	\$513	\$25,640
$30,000 < y < 40,000$	524,306	87,252	406,349	\$475	\$34,988
$40,000 < y < 50,000$	426,703	38,043	191,122	\$526	\$44,624
$50,000 < y < 60,000$	272,137	17,169	129,898	\$515	\$54,256
$60,000 < y < 70,000$	158,678	7,662	77,436	\$521	\$63,884
$70,000 < y < 80,000$	75,362	3,317	28,474	\$481	\$75,184
$80,000 < y < 90,000$	25,870	1,092	6,528	\$519	\$84,563
$90,000 < y < 100,000$	13,819	709	3,684	\$493	\$94,057
$100,000 < y < 125,000$	15,631	782	4,642	\$473	\$108,861
$125,000 < y < 150,000$	3,342	189	541	\$580	\$136,127
$y > 150,000$	5,168	259	1,798	\$534	\$150,001

Table 2. Percent of Homes Passed for Maryland

Median	(a)	(b)	(c)	(d)
$y < 20,000$	-	0.04	0.93	0.94
$20,000 < y < 30,000$	-	0.07	0.90	0.92
$30,000 < y < 40,000$	0.01	0.19	0.95	0.97
$40,000 < y < 50,000$	0.02	0.24	0.99	1.00
$50,000 < y < 60,000$	0.07	0.35	1.00	1.00
$60,000 < y < 70,000$	0.10	0.44	1.00	1.00
$70,000 < y < 80,000$	0.28	0.69	1.00	1.00
$80,000 < y < 90,000$	0.35	0.69	1.00	1.00
$90,000 < y < 100,000$	0.68	0.75	1.00	1.00
$100,000 < y < 125,000$	0.81	0.84	1.00	1.00
$125,000 < y < 150,000$	0.82	1.00	1.00	1.00
$y > 150,000$	0.97	1.00	1.00	1.00