



Auditor of Public Accounts
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Auditor Harmon: Taxpayers will pay almost \$1.5 billion over 30 years for KentuckyWired

Cost overruns, botched procurement detailed in special examination of statewide broadband project

FRANKFORT, Ky. (September 27, 2018) – A special examination by Kentucky Auditor Mike Harmon’s office of KentuckyWired, the statewide broadband project announced in 2014, finds that taxpayers will be on the hook for almost \$1.5 billion over 30 years for the project. That is among nine findings detailed in Auditor Harmon’s nine-month examination of the Kentucky Communications Network Authority (KCNA) and KentuckyWired. Auditor Harmon’s report will be referred to the Executive Branch Ethics Commission for further review and possible action by that agency.

“When KentuckyWired was announced by the prior administration, Kentuckians were told they would only be responsible for a \$30 million investment approved by the General Assembly in 2014, and the majority of funding would come from private investment,” Auditor Harmon said during the release of the KCNA examination. “What we now find is that, between what has been paid out thus far, what has been bonded, and what we have been obligated to by former leaders, taxpayers are responsible for 93 percent of the total cost for KentuckyWired.”

In addition, the report details that the KentuckyWired project is almost \$100 million over budget for construction costs, and the original planned completion date for the project has already passed. Meanwhile, the state is making so-called “availability payments” to contractors for a network that is not available or operational. Auditor Harmon’s examination details other issues with KCNA and the KentuckyWired project, including:

- Significant changes were made that placed the burden on taxpayers during a lengthy and unorthodox procurement process between late 2014 and late 2015. The proposal made to the state included private funding and greater responsibility in key areas on the private

sector. However, in late 2015, Beshear administration officials signed agreements with less favorable terms and committed taxpayers to essentially all project costs.

- Forty-five percent of expected revenue needed to support the project will not be available from K-12 schools. State officials proceeded despite being warned in writing by the Kentucky Department of Education these funds would not be available. Other warnings were given to officials that they ignored prior to signing contracts in 2015.
- The state is increasingly relying on speculative wholesale revenues from the network to fund the project. Revenue models call for steadily increasing rates to be charged for use of the network. Also, a portion of the state's share of wholesale revenues will be distributed to The Center for Rural Development for revenue generated from parts of the network along I-75 and in eastern Kentucky.
- The state has not finalized an \$88 million settlement with a construction vendor for which funding was authorized in the 2018 legislative session.
- Additional findings and recommendations detail increased monitoring and analysis needed to reduce costs if the project continues and to avoid repeating these mistakes on future projects.

Even though the report details many serious findings with the KentuckyWired project, and the General Assembly is doing its own investigation through the Program Review and Investigations Committee, Auditor Harmon says his office will continue its exam specifically covering the time frame between when the RFP was issued in 2014, and when the project agreements were signed in September 2015.

“There are questions that remain as to why the terms were changed from the original proposal that placed little burden on taxpayers to what was signed the following year that put the responsibility of almost \$1.5 billion on the Commonwealth,” said Auditor Harmon. “My office will use any and all authority given to us, including if needed our subpoena powers, in an attempt to get to the bottom of what happened, and to make sure future projects are done in a responsible and transparent fashion.”

The full report can be found on the [auditor's website](#).

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