SPECIAL CITY COUNCIL MEETING; UTOPIA/UIA PRESENTATION — **APRIL 30, 2014; 7:02 P.M.**

MAYOR AND COUNCILMEMBERS PRESENT: **TOM DAY, JORY FRANCIS AND JOY PETRO**

STAFF PRESENT: **ALEX JENSEN, GARY CRANE AND THIEDA WELLMAN**

OTHERS PRESENT: **WAYNE PYLE, WEST VALLEY CITY; JASON ROBERTS, BRIGHAM CITY; SHAWN WARNKE, TREMONTON; TODD CHRISTENSEN, PERRY; AND PAUL CUTLER, CENTERVILLE**

Alex Jensen, Layton City Manager, indicated that he was the Chairman of the UIA Board. Alex welcomed citizens and the mayors and councilmembers from Centerville, Tremonton, Brigham City, Perry and Layton. He gave a brief overview of the purpose of the meeting and introduced Mr. Duncan Ramage with Macquarie. Alex said Macquarie had been wonderful to work with. He indicated that Mr. Ramage would present the Milestone 1 report. Alex said after the presentation was made, the meeting would be open for questions, particularly from the mayors and councilmembers from the various cities.

Alex said even though there had been collaborative discussions with many of the cities, the proposal being presented this evening would be Macquarie's proposal back to the cities. He said there would be ongoing dialog to understand what was being proposed and to understand whether this would be viable for the cities and Macquarie. Alex turned the time over to Mr. Duncan Ramage.

Mr. Ramage said he would like to go through the report and then answer any questions. He recognized several Internet Service Providers (ISPs) in attendance.

Mr. Ramage reviewed information in a PowerPoint presentation. He indicated that the current situation with UTOPIA was arguably unsustainable. Mr. Ramage indicated that UTOPIA could not cover its operating costs let alone cover the debt service payments. He said the cities needed to find a way to fund the debt service; the status quo now would only get worse. Mr. Ramage stated that under the UIA model, there was a substantial required payment upfront for connection or a commitment to a payment plan with a lien on the home, which was a huge hurdle for the ISPs. He said the current situation was not attractive enough to attract a national ISP.

Mr. Ramage indicated that the Macquarie proposal would address all of those issues. He said the key objectives they saw for the cities was elimination of the cities' operating deficit; to defray the existing debt service obligations; complete the build of the network so that the cities were treated equally and all users were treated equally; provide a certainty of execution with a commitment to build the network; and a commitment to operate the network.

Mr. Ramage said this was what Macquarie did; they owned and operated about 120 different infrastructure assets globally, worth over 100 billion dollars, and they built things like this regularly.

Mr. Ramage said other objectives of the cities were to expand the customer base, including providing ubiquitous last mile connections. He said by keeping this an open access network it would provide a platform for more competition. Mr. Ramage said there were currently limited options for telecom needs, and this would substantially increase the level of competition in the marketplace.

Mr. Ramage said the cities wanted to provide civic benefits such as WiFi overlays and connectivity between their public assets; this network would provide those types of services. He said the network would be an open access active Ethernet network to every address in all 11 UTOPIA cities. It would provide up to a gigabit connection, which was very fast. The plan would be to install a network device on the outside of every home and in the telecom cabinet of every multi-dwelling unit or commercial building.

Mr. Ramage said from there, it would be the responsibility of the ISPs to provide the final connection into the house or business; the ISPs were on board with that. He said Macquarie would finance and structure this on a utility fee based availability payment, public/private partnership (PPP) with a 30 year term. Mr. Ramage said the PPP would build the network out at a fixed price, date certain basis in about 30 months. He said they would operate, maintain, and refresh the network for 30 years on a fixed price basis, and they would be subject to strict performance standards with respect to the network.

Mr. Ramage said there would be a wholesaler who would effectively sit between the PPP and the ISPs, who would deal with the ISPs, help them market, attract new ISPs, and they would be critical in changing the current UTOPIA profile in the market. He said the PPP was not in the business of facing customers and it wasn't a sales and marketing organization. The elements of making this work included selling and marketing and supporting the ISPs, which was the role of the wholesaler.

Mr. Ramage said the ISPs would service the end users directly, with little involvement from the PPP or wholesaler. He said those lines were currently being blurred with UTOPIA. Mr. Ramage said the wholesaler and PPP would assume the existing operating deficit; there wouldn't be any more requests from UTOPIA for funds from the cities.

Mr. Ramage said the utility fee was the fundamental way that this could be done. He said the utility fee would be assessed on every address; it was purely a reflection of the costs of doing this; the build costs and the estimated costs of operating and refreshing the network for 30 years. Mr. Ramage said the utility fee allowed for extremely efficient financing, which was how the utility fee was kept low. He said the preliminary range for the utility fee was $18 to $20 per address per month. Mr. Ramage said the fee would be escalated annually at inflation. He said addresses in multi-dwelling units (MDU) or apartments would be charged ½ that amount, or $9 to $10 a month, and businesses would be charged a premium of 100%, or twice the amount. Mr. Ramage said that was a result of businesses costing more to access.

Mr. Ramage said a grace period of six months would be provided between the actual installation of the fiber and initiation of the utility fee to allow for time for that final installation to occur. He said if the installation occurred before the six month period, the utility would begin at that time.

Mr. Ramage said in return for the utility fee, a symmetrical basic service of 3 Mbps up and 3 Mbps down, with a 20 GB data cap would be provided to all addresses. He said that was a fairly compelling price point when considering the $18 to $20, relative to what was available in the market.

Mr. Ramage said the ISPs operating on the network would be required to provide that basic service for free. He said the ISPs would be able to market and try to sell users up to more premium services; gigabit services or 100 megabit services. Mr. Ramage said the 3 Mbps up and down, and the 20 GB, was not enough for some people, and they would expect that it would not be enough for a lot of people. He said everyone currently using UTOPIA used more than that. Mr. Ramage said that was the beauty of this network; it was capable of a lot more than that; video, voice and very high speed data. He said that was what the ISPs would be selling. Mr. Ramage said the ISPs would be charged transport fees for the provision of those services. Those fees would go into a pool that the cities would share in to a significant extent.

Mr. Ramage said following the transaction, there was not much left for the agencies to do, which included UTOPIA and the cities. He said the PPP would be responsible for designing, building, operating, maintaining and refreshing the network, as well as insuring that the basic service was deliverable. The wholesaler would be responsible for sales and marketing at a business development level rather than at a retail level. ISPs would be responsible for retailing to the end user.

Mr. Ramage said the cities were looking at alternatives, if belief was that the current state of the situation was not tenable. One of the options that had been discussed was shutting the network down, which would eliminate the operating deficit. He said there was a lot of value in the asset and shutting it down would be a shame, and 11,000 current subscribers would be out in the dark. Shutting it down would do nothing to address the existing debt that was in place as well.

Mr. Ramage said selling the asset was an option, but there was a lot of risk going down that path. He said he would find it extremely unlikely that anyone looking to buy the network would be providing a ubiquitous open access network. Mr. Ramage said if Google were to purchase the network, it would be a closed access network and it would not be ubiquitous. He said the cities would also have a tough time defraying their debt obligations. Provo sold their network for $1 and still had to deal with their debt service; they instituted a utility fee to deal with the debt service.

Mr. Ramage said this was achievable; they had looked at all of the costs and had assessed, at a preliminary level, a lot of the legal complexities and financing complexities, and they were confident that this was achievable. He said they would be committing upwards of 300 million dollars. Mr. Ramage said the risks that the cities currently assumed would be completely transferred to the PPP, which included building, operating, maintaining, refreshing and financing of the network. If the PPP did not operate to predefined parameters, there would be penalties; at the extreme they could be kicked out and they would lose their investment.

Mr. Ramage said there was a big upside for the cities. He said based on independent analysis and market data, a good chance for take rates of premium services would be in the neighborhood of 30 to 50%. Mr. Ramage said if that were so, and with conservative transport fees charged to the ISPs, there would be over 1 billion dollars of revenue to share between the cities and wholesaler, with a de minimis amount to the PPP. He said that represented two to three times the debt service obligations of the cities relating to UTOPIA over the course of the same period.

Mr. Ramage said at the end of the 30 year term, the cities would take back the asset, and it would have to be handed back in very good operation condition and cash flowing condition, and they expected that the cash flow would be in the neighborhood of $100,000,000 a year.

Mr. Ramage said they understood that the prospect of a utility fee was a tough pill to swallow. He said what made it a lot more palatable was the fact that for the $18 or $20 a month, citizens would be getting good value for money. The basic service from any other service provider would cost more than that. Mr. Ramage said even if someone chose not to use the service, any service they did use would very likely go down in price; that was what they had seen in Kansas, Austin Texas and Provo.

Mr. Ramage said by having a bigger, better network, more ISPs would compete on it, which would force Comcast and Century Link to respond by lowering their prices and increasing their speeds. He said it would attract national ISPs; they had had conversations with national ISPs that were very interested; and it would bring better services at cheaper prices to the people of the cities.

Mr. Ramage said the only way to achieve that was by going big; by being ubiquitous. He said it would attract bigger ISPs, and it would shrink the digital divide. Mr. Ramage said in conversations with several of the larger ISPs, they were very excited about this.

Mr. Ramage said the 3/3 and 20 GB for the $20 per month utility fee compared very favorably to Century Link and Comcast. He indicated that Century Link would indicate that they charged $30 per month for internet, but there was $120 in upfront costs and after 1 year the cost went to $42 a month. Mr. Ramage said in some cases it would be faster than 3/3, but in some cases it was much slower. He said often the advertised rates on DSL were not what the customer actually received; the further the customer was from the node the slower the speed would be.

Mr. Ramage said likewise with cable, Comcast was $30 a month plus $8 a month for modem rental for a 1 year contract. After the initial year, the rate went to $58 a month plus the modem. He said their advertised speeds were much faster than 3/3. Mr. Ramage indicated that a lot of people didn't need 25 Mbps, and a lot of people didn't need 300 GB. The whole point of the basic service was not to make it the best service possible; for $20 a month it shouldn't be the best service possible. He said there was a balance to make sure the ISPs were motivated to up-sell; that there was enough pie to go around; and the people that didn't upgrade got reasonable value for money.

Mr. Ramage said a lot of people may only have a phone line. He said a resident could easily get a VOIP phone connection for the basic service, and still have the internet for about $25 per month. Mr. Ramage said a double play (internet and phone) from Century Link was $70 per month and Comcast was over $80 per month.

Mr. Ramage discussed the construction companies that had provided bids to install the network and indicated that it had been narrowed down to two companies, Black & Veatch and Corning. He said the two companies had provided indicative price estimates that formed the basis of the cost analysis. Mr. Ramage said UTOPIA also had a price estimate, and all three price estimates were assessed by an independent expert; Macquarie had a lot of confidence, at this state, that they were in the right ballpark on costs.

Mr. Ramage said as they progressed through the latter Milestones, more and more design work would need to be done and details would need to be hashed out. He said both design build contractors would proceed to provide a firm fixed price contract, and would cost each company $200,000 to $400,000 to provide that information. Mr. Ramage said at that point they would have a firm contract for delivery of the network in a certain timeframe.

Mr. Ramage indicated that Alcatel-Lucent was selected to provide the equipment, and Fujitsu was selected for systems integration. He said both companies had provided cost estimates and they would be providing firm fixed prices for their equipment and services. Mr. Ramage said the existing infrastructure of UTOPIA was mostly Alcatel-Lucent.

Mr. Ramage explained the analysis completed by CTC for the 30% to 50% take rate. He discussed the desire to rebrand the network.

Mr. Ramage said a 100-page report was submitted and was available on gofiberutah.com, or there was a link on the various cities' websites. He said there was also an 8-page executive summary available. Mr. Ramage said there were FAQs available on gofiberutah.com. He said the cities would take the next two months to determine whether they think this is a good deal. Mr. Ramage said there would be a lot more discussion and they were open to making tweaks to the proposal to the extent that it was possible; they were open to certain considerations that would be taken into future Milestones as they documented and finalized the structure. Mr. Ramage said they were confident that they could deliver this, but there were elements to be worked out.

<u>Tami Fillmore, Centerville City Councilmember</u>, indicated that Mr. Ramage stated that the utility fee calculation included the cost of build, refresh and financing. She asked if that was the bulk of where Macquarie got their return; was that built into the utility fee.

Mr. Ramage said yes; the financing included a pension plan style return on equity.

Ms. Fillmore said she wondered about the transport fees; Mr. Ramage stated that the cities would share to a significant extent in those fees, and a de minimis amount would go to the PPP. She said she would like to know more about those percentages. Ms. Fillmore said she would like to see an estimated time frame for when that billion dollar revenue would be coming into that pool.

Mr. Ramage said the size of the pie had been discussed and assessed. He said they were not at the point where they had discussed or negotiated with the cities what the splits would be. Mr. Ramage said a lot of that would be on how well the wholesaler did its job; if the wholesaler didn't do a good job, it shouldn't get very much of the pie. If the wholesaler did a very good job, and the system achieved a 50% take rate, there should be an increasing share that went to the wholesaler. He said they would expect at the low end the cities would take the significant majority of the pie. Mr. Ramage said they didn't expect to get to 50% overnight, but the better the job the wholesaler did, the bigger their share would be.

Mr. Ramage explained that Macquarie was not in the business of retailing; they were an infrastructure business. The wholesaler was a marketing organization that would spend marketing dollars to market the network.

Jerry Hunsaker, Brigham City Councilmember, asked who the wholesaler would be.

Mr. Ramage said no one did that right now that wasn't also a retailer. He said the biggest one that came to mind was Century Link. Mr. Ramage said Century Link was a wholesaler and a retailer; they owned the infrastructure and used it for themselves. He said not wanting to get into the ISPs business and not wanting to compete with the ISPs, Macquarie would need to create the wholesaler themselves.

Mr. Hunsaker said with the ISPs and the basic service, how would Macquarie guarantee that they would provide that customer service. He said he felt that there was no motivation for the ISPs to provide the basic service, which had been a huge issue for UTOPIA with the ISPs initially, and the quality of the TV and telephone was not very good. Mr. Hunsaker asked what oversight Macquarie or the cities would have over the ISPs.

Mr. Ramage said the basic service would be a lot easier to provide than voice video; it was a simple service. He said there would be very clearly defined service level agreements (SLAs) with the ISPs. Mr. Ramage said the ISPs could not cherry pick who they provided the basic service to; if Macquarie found out that was happening they would be thrown off the network. He said subject to the SLAs, there would be very clear definitions of what that basic service delivery would look like and those that didn't abide would be penalized and ultimately thrown off the network.

Mr. Ramage said part of the issue with UTOPIA and some of the ISPs in the past was that there wasn't scale to attract stronger ISPs. He said that would not be the case going forward.

Tom Peterson, Brigham City Councilmember, said some concerns expressed by current subscribers were that if the cities went with this proposal, their current rates would go up.

Mr. Ramage said the final prices that the ISPs charged were the ISPs business. He said they didn't want to get into price setting, although they wanted to help them manage those final prices. Mr. Ramage said he couldn't say for one customer or another whether it may go up or not at the end of their contract. He said he would suggest that overall costs would go down.

Luke Jenkins said Mr. Ramage mentioned that the wholesalers would handle dark fiber and cell tower build outs. He said there was currently a State contract that allowed State entities to purchase leased circuits directly from UTOPIA and bypass an ISP; would that continue to be an option. How would that be fair to the ISPs but still be a benefit to public institutions and schools?

Mr. Ramage said all of those details had not been worked out; what was currently being sold by UTOPIA directly to the public sector would continue to be sold by the wholesaler directly to the public sector.

Mr. Jenkins said he couldn't find any information about non pledging cities; would those cities get another chance to join the network.

Mr. Ramage said bigger was better for the network; they were open to other cities signing up, whether that was a non-pledging city or an entirely new city.

Todd Christensen, Perry City Councilmember, asked for general information on Milestones 2, 3, and 4.

Mr. Ramage said subsequent Milestones were about tightening everything up; about tightening up the cost estimate; about tightening up the legal structure and documenting everything; and about getting financing documents in place. He said the key Milestone 2 deliverables were a developed concession agreement term sheet that had been negotiated with the cities and a developed financing term sheet, which required quite a bit of legal work and cost. Mr. Ramage said the DB contractors would continue to refine their analyses over that timeframe. He said the timeframe for Milestone 1 was unrealistic and they were a couple of months beyond where they were supposed to be. Mr. Ramage said they would reassess the timeline for Milestone 2 and Milestone 3 at that time. He said they had brought forward some work into Milestone 1 that was originally scheduled for Milestone 2, and some work had been held off until Milestone 2. Mr. Ramage said they would like to accelerate the process; they would move as fast as possible.

Mayor Tyler Vincent, Brigham City, said when Mr. Ramage previously met with their council there was discussion about an opt-out option. He said his big concern was that they had a lot of elderly people in their community that had basic cell phones, no computer and basic television. Mayor Vincent said they needed an opt-out option. Mayor Vincent said additionally, the pledging cities had gone through a long hard process of trying to get this network going. He said as this moved forward and became successful, would the other cities coming on be at the same rate or would they pay a different rate than the pledging cities.

Mr. Ramage said they recognized that there were cases where this would be a bigger expense for some than it would for others; where people didn't use a land line or the internet. He said this network was being built for the future and that would likely change over the future. Mr. Ramage said they were open to ways of addressing those issues. Having a broad opt-out for anybody would crater the deal. Having selected opt-outs for the poor or elderly, under strict guidelines such as those used for property tax adjustments, was something that could be considered.

Mayor Vincent said that was something Brigham City would need to address.

Mr. Ramage said the significant number of citizens in all of the cities used the internet. He said this network was being built for 30 years.

Mr. Ramage said the fee for the other cities would be reflective of the costs of building to them; that was the only thing that would be fair. He said the current 11 pledging cities had a pact; they were being treated as one. A new city that wanted to join would be addressed on a case by case basis; it could be too expensive to build in some of those cities.

Byron Wood, Tremonton City Councilmember, said he understood that the cities would be on the hook for 30 years. What would happen if interest rates came up; could some of the debt be forgiven.

Laura Lewis with Lewis Young Robertson and Burningham said the existing UTOPIA debt would stay in place. She said the cities would still be on the hook to make those payments. Ms. Lewis said as Mr. Ramage indicated, there was a high likelihood that there would be enough up-selling system revenue for the cities to be reimbursed for those expenses. She said with the debt staying in place, if in the future the interest rates went up, it may make sense to terminate the SWAP and get paid for terminating that SWAP. Ms. Lewis said she couldn't envision anything at the moment, including the Macquarie proposal, that would prevent this from happening in the future if it made financial sense.

Mayor Karen Cronin, Perry City, asked Mr. Ramage to explain the escalating annual rate increase and how that would be negotiated.

Mr. Ramage said it would be set out up front; it would escalate at an agreed upon index, which he assumed would be the Consumer Price Index (CPI).

Mayor Cronin asked if that could be negotiated to something else.

Mr. Ramage said it could be.

Mark Thompson, Brigham City Councilmember, said he didn't know if 20 GB was enough for basic service. He asked Mr. Ramage to explain that.

Mr. Ramage said it would equate to about 30 movies a month. The idea was that it wasn't exceptional, but that it was good enough. Mr. Ramage said the average was 15 to 18 GB of data usage a month.

Mr. Thompson said a lot of people had current contracts with UTOPIA for a higher rate than that. He asked how that would be dealt with.

Mr. Ramage said they would honor current UIA agreements. He said they assumed that UIA would stay in place; there were legal issues around that. Mr. Ramage said they would prefer to bring it all under the same network, and if that happened they would compensate the people that had paid up front through a credit against their utility fee.

Jerry Hunsaker said if people already had contracts with Century Link or Comcast how would they be compensated or be able to get out of those contracts.

Mr. Ramage said they would not be compensating people for breaking those contracts. He said there was a lot of lead time that would allow people plenty of time to not sign up for additional contracts; this would be a 30 month rollout and it would be very clear when the service would be available at a home.

William Ence, Centerville, said there was discussion about penalty provisions for non performance. He said there had been a lot of non performance over the past 5 years. Mr. Ence said he wasn't an expert, but he understood that the United States was falling behind the rest of the world in connectivity because we were staying with wire, whether it was fiber or copper, as opposed to going over the air. He said most technology was not viable for 30 years.

Mr. Ramage said penalties would be defined in future Milestones; conceptually, if service was out for more than a certain period of time, or more often, there would be penalties. He said if it was severe, there could be termination provisions. Mr. Ramage said he understood that fiber was future proof. He said there was talk about wireless getting better, and it had come a long way, but the primary limitation of wireless was spectrum. Mr. Ramage said Mike Lee with First Solutions would be better to address those issues.

Mike Lee said there was a finite amount of spectrum available today in the wireless space. He said while the FCC was doing much more to free up existing spectrum, and move that for use by cellular carriers, it didn't change the fact that the wireless spectrum was a shared infrastructure. Mr. Lee said everyone in the room probably had a cell phone and they were probably being serviced by the same electronics. In effect they were all contending with each other for band width. He said that was where fiber had extra capacity, which allowed for significantly more band width. Mr. Lee said as much as there had been advances within cellular technology, the cellular carriers were all today in the process of installing fiber backhaul systems. Every one of the cellular companies' wireless towers had fiber optics built back to their central switching office. He said another thing to keep in mind was that fiber technology had been around for decades; it had been used in the transatlantic and transpacific phone systems. Mr. Lee said the delay time involved with satellite based transmission was a little too long to be able to transfer data as well as voice services. The fiber systems that had been in place under the Atlantic and Pacific oceans had been in place for over 50 years. He said today there was no plan to replace that technology with something else, short of quantum based science.

Mr. Lee said relative to the viability of fiber infrastructure over the next 30 years, what was being proposed was an extension of what was currently in place, which was an active Ethernet fiber network. He said that meant that there would be one fiber to every single home. In the future if that needed to be expanded, whether it was to increase the band width for the one address, or whether it was to increase the capacity of the network overall, they could rely on the wavelengths. Mr. Lee said the light spectrum was made up of an infinite number of wavelengths, and every single one of those wavelengths had the ability to carry data. He said if only one wavelength was being used today, and over the next 30 years you needed 30 wavelengths per fiber, that could be done today; you could get as much as 100 wavelengths if not more. Mr. Lee said he was very confident, as was the rest of the telecom industry, that fiber had the extra capacity both today and for the next 30 years. He said no one could say with certainty that technology would not outpace the capabilities of fiber, but they didn't believe that to be the case.

Peter Ashdown with XMission said he felt that the discussion of wavelengths was a little bit technical, but there were lab tests completed with 100 terabits a second over a single fiber. He said the entire global internet traffic and global telecom traffic was less than 20 terabits per second. Mr. Ashdown said if you considered how much data could be sent over one single fiber, there was a very long term future for it.

Mr. Ramage said they would be committed to refreshing the network over the 30 years and would be handing back an asset that was highly operational in 30 years. He said their partners at Fujitsu were suggesting that they would help to contract that refresh for a period of 15 years.

Bruce Leonard, Brigham City Council, said Brigham City citizens sponsored a special assessment area that constructed a certain percentage of the fiber optics in their City. He asked how Macquarie would address that; would they make the citizens whole.

Mr. Ramage said they assumed that Brigham City would be kept separate. He said that was a working assumption that they would like to change; they would like to bring everyone in. Mr. Ramage said in doing so, they would need to make a deal with Brigham City.

Mr. Leonard said the citizens that already had the service and paid for it through the connection fee, how would Macquarie address the monthly service charge.

Mr. Ramage said as in the case of UIA, they would look to reimburse, over time, through a credit against the utility fee for those that had paid up front. He said for those people that paid monthly, the utility fee would be very similar to that monthly fee. Mr. Ramage said a UIA customer that had a lien on their house, and paid \$20 or \$30 a month, they would eliminate the lien and replace the \$20 or \$30 with the utility fee. He said the same sort of logic could apply in Brigham City.

Mr. Leonard asked if this would come forward in the PPP agreement.

Mr. Ramage said that would be negotiated over the course of the subsequent Milestones.

Alan Shakespear, IT Director for Box Elder School District, said he struggled with the statement that fiber was future proof. He said he knew that they had to upgrade fiber periodically; 30 years from now this fiber being viable didn't ring true.

Mike Lee said there was no way to be 100% certain that in 30 years technology wouldn't outpace infrastructure. He explained the history of various types of infrastructure including older copper wiring.

Mr. Ramage said Macquarie was taking the risk of the network for 30 years; the risk was on them to replace the fiber for 30 years.

Mayor Paul Cutler, Centerville, said the proposal suggested that the utility rate would be indexed to the cost of living. He asked what assumptions had been made about indexing or improving the level of basic service over the course of time.

Mr. Ramage said that was an open question for Milestone 2. He said they recognized that 3/3/20 would be fairly slow in 20 or 30 years. Mr. Ramage said the 3/3/20 was a balance between good value for money and the right level that would allow the ISPs to up-sell; that balance would change in the future. He said frankly as the PPP they would be fine with giving everyone a gig, but there wouldn't be a business model for anything else. Mr. Ramage said there wouldn't be any up-sell revenues for the cities, and the ISPs wouldn't have any business; that was the balance. He said they were open to some type of mechanism, but it was difficult to contemplate what that might be because the balance was hard to forecast.

Mr. Cutler said one of the great things about the model was that a lot of revenue would be generated by the proposal; there would be a substantial amount of money over the cost. He asked if Macquarie would consider subsidizing some of the existing UTOPIA/UIA debt now for taking more money in the future.

Mr. Ramage said the PPP would not consider that without an increase in the utility fee. He said the existing debt could be pulled in and included in the financing package, but the utility fee would rise. Mr. Ramage said the utility fee was purely an output of cost.

Mr. Cutler said essentially the utility fee eliminated the risk. He said the PPP was not willing to take on the up-sell risk.

Mr. Ramage said the PPP would not take on that risk. The wholesaler would take on the up-sell risk.

Mr. Cutler said in his opinion the risk was not in the PPP; he was confident that this could be executed successfully; he didn't see risk in the technology. He said the risk was in whether or not the wholesaler could execute on marketing. Mr. Cutler said over the past 10 years UTOPIA had tried two or three times, through advise from partners, to be successful in marketing the network. He said for various reasons, often because it wasn't funded correctly, those marketing plans hadn't been successful. Mr. Cutler asked Mr. Ramage what gave him confidence that this time they could create a wholesaler that would be successful in marketing, and could he think of any other examples in the PPP world, or Macquarie's investment banking experience, where they had created a marketing entity that had been successful.

Mike Lee said the wholesaler wasn't directly responsible for driving revenue; that would be the ISPs who would then be paying a transport fee. He said the expectation was that by changing the structure of the transport fee and clearly delineating responsibilities between the PPP, wholesaler and ISPs, and also incentivizing the ISPs with the presence of a ubiquitous network and the ability to market to an entire DMA, the ISPs would flourish and remit greater transport fees.

Mr. Cutler said lowering the transport fee would not improve the marketing; their incentive was to do what was best in their financial interest.

Mr. Lee said it wasn't the fact that the transport fees were lower, it came down to ubiquity in the marketplace. He said as a result of that ubiquity, there was more effective acquisition marketing by the ISPs. Mr. Lee said the wholesaler would not be engaged in acquisition marketing. The wholesalers marketing activities would be restricted to grand guidelines, business development and education within the marketplace. He said acquisition marketing was entirely the responsibility of the ISPs.

Mr. Ramage said the fact that there would be a truck rolling down the street and everyone would have a network interface device on their house dramatically decreased the barriers to buy.

Mr. Cutler said through this process, if they could successfully market to the elected officials and the residents that this utility fee was a good idea, he thought that would give everyone the confidence that there would be no problem in selling something as simple as high speed internet. He asked for a list of the partners that were part of the consortium they had put together, and what they had committed to and what they hadn't committed to.

Mr. Ramage said First Solutions introduced Macquarie to this and were experts in the field. He said they were looking to finance either part of the PPP and or part of the wholesaler. Mr. Ramage said Mike Lee was their candidate to run the wholesaler. He said other partners included Selections, but terms had not been negotiated with them; and Alcatel-Lucent had been selected on the network side and Fujitsu on the systems integrating, but nothing had been signed. Mr. Ramage said Black & Veatch and Corning were their partners on the DB side; there were no contracts in place but they had gone through a process to select partners to get to this point.

Diana Doutre, Tremonton City Councilmember, said some people had indicated that they didn't want anything on their houses. She asked what would happen with those types of situations.

Mr. Ramage said they were open for suggestions; they would not go onto property where people didn't want them.

Tami Fillmore said she would like these questions on the record even though she thought they wouldn't be answered until subsequent Milestones. She said relative to the changes in technology, what would refresh mean in the contract. Ms. Fillmore said she understood that after this first Milestone completion, Macquarie was suggesting that refresh meant keeping it at the 1 gig. She said if they were indexing to inflation, shouldn't they also be indexing to technology changes. Ms. Fillmore said, as Mr. Lee mentioned, they were expecting that the costs would continue to go down if the service was kept at the same level.

Mr. Ramage said the intention was to keep up with technology; the difficulty was setting that up front. He said potentially there were ways of addressing that: 1) as they refreshed the network, you wouldn't even be able to buy gig circuits or hardware in the future; and 2) the contract as it was currently contemplated would have a dedication to continue to provide up to a gig for the term of the contract, but it was worth discussing in future Milestones.

Ms. Fillmore said she would like something written in the contract indicating that it would be reevaluated every 5 or so years. She asked if this was the first fiber optic network Macquarie had done.

Mr. Ramage said this was the first one he had done; Macquarie had built and operated telecom assets in the past, but nothing like this. He said they currently operated the national emergency radio network in the United Kingdom, which most of the emergency services in the UK used. Mr. Ramage said until recently, they owned and operated a large portfolio of cellular towers in the United States.

Mike Lee explained his and First Solutions' history in the industry.

Ms. Fillmore said there had been discussion about bigger being better and inviting non member cities to join the network. She asked if there would be a fee for non member cities to join that would go back to the groundbreaking cities that started this.

Mr. Ramage said it would be a negotiation at the time. He said they wouldn't prescribe that up front; the concept had been cost plus potentially a premium. Mr. Ramage said he thought that the premium might not make sense given the amount of the utility fee; the addition of traffic benefitted everyone. He said the benefit was whether you were getting it up front and or getting it through the increased revenue share; all the cities would benefit with more cities joining.

Ms. Fillmore said Mr. Ramage's perspective was that that was not something that would be written into the agreement.

Mr. Ramage said the exact mechanism of how a new city would be added hadn't been determined at this point. He said that would be worked through in future Milestones.

Ms. Fillmore asked if that was something they could expect to see in future Milestones.

Mr. Ramage said yes.

Ms. Fillmore said in addition, she would like more information on the percentage of the up-sell revenues the cities would be receiving. She asked Mr. Ramage what his thoughts were on cities that had pulled out of the network; would those cities be able to buy back into the service, but under a new and separate umbrella.

Mr. Ramage said some of those issues were outside of Macquarie's purview; that was between the cities themselves.

Ms. Fillmore said there had been discussion about a credit for the utility fee going to those homeowners that had paid the upfront fee. She said she wasn't sure what that meant for those that currently had liens on their homes.

Mr. Ramage said they had assumed that the UIA would stay in place. He said the complication with UIA was that unlike UTOPIA, it was currently cash flow positive. Mr. Ramage said it was a different discussion with them to navigate that dynamic than it was with UTOPIA. He said for now they had assumed that it was only UTOPIA, however, their hope would be to sort that out and bring everyone on the same playing field, in which case his expectation was that the liens would be released and the lease payment would be replaced with the utility fee.

Ms. Fillmore asked if the monthly payment that had already been paid would be credited against the utility fee.

Mr. Ramage said that would be discussed.

Ms. Fillmore said there had been discussion about the penalties or the removal of an ISP for under par service. She said she would like to hear a little more about that.

Mr. Ramage said there would be an underlying assumption of a provision to the demarcation point of service by the PPP; what happened after that point was the ISPs responsibility. He said they would be monitoring the ISPs through the SLA and enforcing, where appropriate, certain remedial actions. Mr. Ramage said if an ISP was kicked off the network, ultimately those customers would be transitioned to another ISP as painlessly as possible, and it would be a lot less painful than it currently was with UTOPIA. He said they would work to have a continuity of service and other ISPs would be happy to pick up those customers.

Brett Rohde, Tremonton City Councilmember, said it was mentioned that there wasn't a hookup fee for the basic service. He asked if the ISPs would charge a hookup fee for extended services.

Mr. Ramage said no; the idea was that the installation credit would apply to any standard installation and they would work out protocols for what a standard installation was. He said if an installation qualified as standard, the ISP would provide it for free to the user and the PPP would credit the ISP; extraordinary installations would be worked out between the ISP and the user.

Mr. Rohde asked what kind of cap would the ISPs put on services in their upgrades.

Mr. Ramage said they wouldn't be dictating a cap for what the ISPs provided; it would be up to the ISPs to set their product.

Mr. Rohde asked how many people needed to participate in this to make it go; how many cities.

Mr. Ramage said the numbers assumed that all of the member cities would participate. He said there was a certain point where it would break, but it was a combination of certain cities; it wasn't necessarily a number of people. Mr. Ramage said some cities were built out more than others; some cities were cheaper to build in than others; it was a bunch of factors that got you to the $20 amount. He said the $20 could go up or down based on cities leaving. Mr. Ramage said their intention was not to provide a menu of "I want in, I want out."

Mr. Rohde said relative to VOIP, didn't that require a lot more data. Would a 20 GB cap be sufficient?

Mike Lee said from a band width perspective, the requirements for a VOIP was typically around 500K or ½ Mbps. He said the proposed 3/3 speed was because of the significant increase in Face Time and gaming; there was significantly more uploading type applications versus mostly downloading. Mr. Lee said the 3/3 differentiated the network versus the incumbents. He said in addressing the cap, it would depend on how often you talked on the phone and how long the call duration was. Mr. Lee said there was no way to assess whether or not 20 GB was sufficient; other things had to be factored in such as how many devices were on the network; were you watching videos; were you browsing; etc. All of these would eat into the data cap. Mr. Lee said the hope was that anyone doing a significant amount of band width usage would see the need and the benefits of upgrading to premium service.

Mr. Ramage asked Mr. Lee if someone didn't do anything on the 3/3/20, other than speak on the phone, would the 20 GB be good enough.

Mr. Lee said if they spent the entire month on the phone, and did nothing else on the network, 20 GB would be sufficient.

Blake Wade, Centerville City Councilmember, asked if Macquarie would provide guarantees for the success over 30 years.

Mr. Ramage said no; the guarantee was over $60,000,000 in equity. He said the lenders would never lend the money if they didn't think the network would get done. Mr. Ramage said on top of that buffer, the lenders had the equity that they could take. He said they also faced their contracting partners to ensure that it got done. Mr. Ramage said it got very highly structured and a substantial amount of equity went into it. He said if the asset got into trouble and required another investment, Macquarie would seriously contemplate that.

Mr. Wade said the Milestone 1 write up had a discussion of transparency. He asked if Mr. Ramage anticipated that that would go to the level of return of equity so that people could understand what Macquarie was making from their investment.

Mr. Ramage said yes; the intention had been to share the financial model.

Jory Francis, Layton City Councilmember, thanked Mr. Ramage for the presentation. He thanked Macquarie for being such an earnest and viable partner. Mr. Francis said aside from any cities that would opt-out, what was their level of confidence in the $20 per month utility fee.

Mr. Ramage said they were very confident in the fee.

Mr. Francis said they could envision some atypical customers such as a cell phone tower that might want to leverage the network; would the cities participate in that type of revenue source.

Mr. Ramage said absolutely. The concept was that the wholesaler would manage the sale of all the fiber, whether to an ISP or to a wireless carrier; all of that would go into the pie to be shared.

Alex Jensen said this had been a great discussion. He said unless there were other questions that were not repetitive or redundant, he would ask Mr. Ramage to close.

Someone from the audience asked if the presentation this evening was available on line.

Mr. Ramage said the entire 100 page report, the executive summary of the report, and this presentation would be on gofiberutah.com.

Alex reminded the various cities that they each had a representative on the various committees; UIA, UTOPIA, the Steering Committee, and the Mayors had been meeting. He said there was a tremendous amount of opportunity for questions to be answered. Alex said it was very important that everyone continued to be engaged over the next 60 days to be able to get the questions out and the answers given. He said this was not the end of something it was the beginning, and they needed everyone's participation.

Mr. Ramage said there was a process that the cities would want to undertake from here to get to the point of saying yes or no. He said they wanted to support that process; if there was any other data or information that would help with that process, they were available. Mr. Ramage said the elephant in the room was the utility fee; he asked that the cities look at that through the lens of most of the time, if not all the time, the residents were already paying more than that. He said in a lot of cases it was for a lot less service. Mr. Ramage said this was a build for the future, for 30 years, and it would leave the cities with a very valuable infrastructure. He said frankly, he didn't know of any other way to mitigate the cities' debt service. Mr. Ramage said this was a very good proposal on its own, but it was really good when compared to the options. He said there was a hole from the existing asset that they were trying to fill; take away all the existing operating deficit and substantially pay down, if not completely pay down, the debt the cities were facing on the asset. Mr. Ramage thanked everyone for their time.

The meeting adjourned at 9:01 p.m.

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Thieda Wellman, City Recorder