



AGENDA
CITY OF OREM
SPECIAL CITY COUNCIL EDUCATION MEETING
Senior Friendship Center
93 North 400 East Street, Orem, Utah
June 19, 2014
6:00 p.m.

*This meeting will be for educational purposes only.
The City Council will take no action at this time.*

6:00 P.M. – SPECIAL CITY COUNCIL MEETING – Senior Friendship Center

1. Welcome and Introductions – Lorie Fowlke, moderator
2. Summary Presentation of Proposal – Macquarie Representatives – 20 minutes
3. Presentation on Financial Impact of Options – Lewis & Young – 10 minutes
4. Questions and Answers – Lorie Fowlke, moderator
5. Adjournment of Meeting

NOTE: The City Council will hold a special City Council meeting on Thursday, June 26, 2014, to consider moving forward with Milestone 2 of the UTOPIA/Macquarie Public-Private Partnership (PPP) proposal. The meeting will be in the Council Chambers at the Orem City Center—56 North State Street, Room 100—at 6:00 p.m.

THE PUBLIC IS INVITED TO PARTICIPATE IN ALL CITY COUNCIL MEETINGS.
If you need a special accommodation to participate in the City Council Meetings and Study Sessions,
please call the City Recorder's Office at least 3 working days prior to the meeting.
(Voice 229-7074)

This agenda is also available on the Internet at orem.org



MACQUARIE

UTOPIA Network PPP Orem Public Meeting

19 June 2014

STRICTLY CONFIDENTIAL

Important notice and disclaimer



IMPORTANT NOTICE

"Macquarie Capital" refers to Macquarie Capital Group Limited, its worldwide subsidiaries and the funds or other investment vehicles that they manage. Macquarie Capital Group Limited is an indirect, wholly-owned subsidiary of Macquarie Group Limited.

This document is confidential and is intended only for the use of the person(s) to whom it is presented. It may not be reproduced (in whole or in part) nor may its contents be divulged to any other person without the prior written consent of Macquarie. Notwithstanding the foregoing, the recipient (which includes each employee, representative, or other agent of the recipient) is hereby expressly authorized to disclose to any and all persons, without limitation of any kind, the tax structure and US federal income tax treatment of the proposed transaction and all materials of any kind (including opinions and other tax analysis) if any, that are provided to the recipient related to the tax structure and US federal income tax treatment.

This document does not constitute an offer to sell or a solicitation of an offer to buy any securities. It is an outline of matters for discussion only. Any person receiving this document and wishing to effect a transaction discussed herein, must do so in accordance with applicable law. Any transaction implementing any proposal discussed in this document shall be exclusively upon the terms and subject to the conditions set out in the definitive transaction agreements.

By accepting this document you hereby acknowledge that you are aware and that you will advise your representatives that the federal and state securities laws prohibit any person who has material, non-public information about a company from purchasing or selling securities of such a company or from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities.

You may not rely upon this document in evaluating the merits of participating in any transaction referred to herein. This document contains selected information and does not purport to be all-inclusive or to contain all of the information that may be relevant to your participation in any such transaction. This document does not constitute and should not be interpreted as either a recommendation or advice, including investment, financial, legal, tax or accounting advice. Any decision with respect to participation in any transaction described herein should be made based solely upon appropriate due diligence of each party.

Future results are impossible to predict. Opinions and estimates offered in this presentation constitute our judgement and are subject to change without notice, as are statements about market trends, which are based on current market conditions. This document includes forward-looking statements that represent our opinions, expectations, beliefs, intentions, estimates or strategies regarding the future, which may not be realized. These statements may be identified by the use of words like "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "will," "should," "seek," and similar expressions. The forward-looking statements reflect our views and assumptions with respect to future events as of the date of this document and are subject to risks and uncertainties. Actual and future results and trends could differ materially from those described by such statements due to various factors that are beyond our ability to control or predict. Given these uncertainties, you should not place undue reliance on the forward-looking statements. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

We believe the information provided herein is reliable, as of the date hereof, but do not warrant its accuracy or completeness. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. Without limiting the generality of the foregoing, no audit or review has been undertaken by an independent third party of the financial assumptions, data, results, calculations and forecasts contained, presented or referred to in this document. You should conduct your own independent investigation and assessment as to the validity of the information contained in this document and the economic, financial, regulatory, legal, taxation, stamp duty and accounting implications of that information. Except as required by law, Macquarie and its respective directors, officers, employees, agents and consultants make no representation or warranty as to the accuracy or completeness of the information contained in this document, and take no responsibility under any circumstances for any loss or damage suffered as a result of any omission, inadequacy, or inaccuracy in this document.

Nothing in this document contains a commitment from Macquarie Capital to subscribe for securities, to provide debt, to arrange any facility, to invest in any way in any transaction described herein or is otherwise imposing any obligation on Macquarie Capital. Macquarie Capital does not guarantee the performance or return of capital from investments. Any participation by Macquarie Capital in any transaction would be subject to its internal approval process.

Any securities in a consortium vehicle or acquisition company would not be registered under the U.S. Securities Act of 1933 (the "Act") and may only be offered in a transaction that is not subject to or that is exempt from registration under the Act. Investors must have the financial ability and willingness to accept the risks, including the loss of the investment and lack of liquidity. Any such securities would not be able to be resold, transferred or otherwise disposed of in the U.S. unless registered under the Act or pursuant to an available exemption from registration.

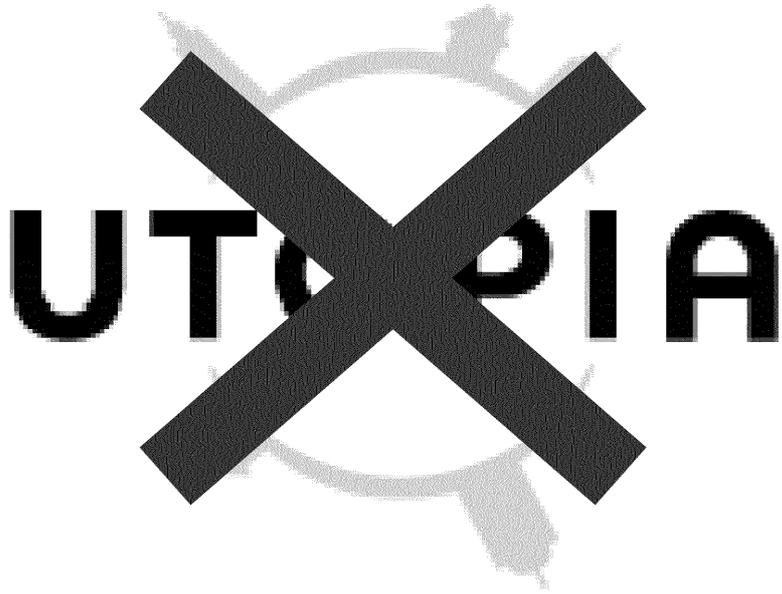
None of the entities noted in this document are authorized deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these entities do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities.

CIRCULAR 230 DISCLOSURE

Macquarie Capital does not provide any tax advice. Any tax statement herein regarding any US federal income tax is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties. Any such statement herein was written to support the marketing or promotion of the transaction(s) or matter(s) to which the statement relates. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

© 2014 Macquarie Capital (USA) Inc.

Myth: This is more of the same



Myth: This is more of the same



World's largest infrastructure investor
\$23 billion infrastructure capital raised in last 5 years
>\$390 billion under management



**#1 Ranked Telecommunications Design /
Engineering contractor for past 4 years**
Laid >30,000 miles of fiber
>\$3bn annual revenues



10 years experience with UTOPIA
\$28.2bn market capitalization
>\$8bn annual revenues



World's 4th largest IT provider
>\$46bn annual revenues
162,000 employees across 100 countries
>\$2bn annual R&D investment



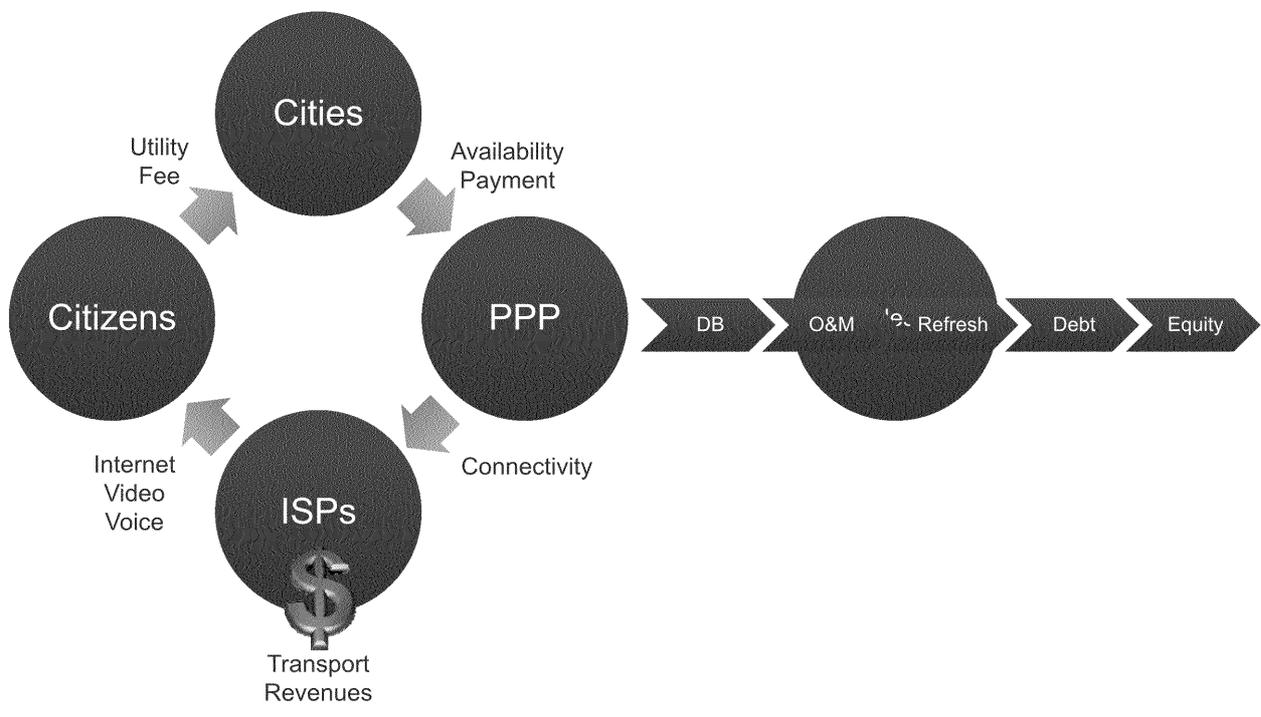
#2 globally in IP Services Edge Routing
#3 globally for total routing and switching
~\$20bn annual revenues (44% in North America)
Top 100 Global Innovator

The Proposed Model



- ✓ ▪ All residences and businesses access to a gigabit connection. No upfront charge
- ✓ ▪ Network will remain open access, meaning residents will have choice
- ✓ ▪ Everyone receives basic service of 3Mbps / 3Mbps with 20GB monthly data cap
- ✓ ▪ Upgraded services (TV, voice, higher speed) available from variety of ISPs
- ✓ ▪ All project risks are transferred from city to private sector
- ✓ ▪ Performance based model means payment deductions for underperformance
- ✓ ▪ Cities regain control of asset with significant cashflow at the end of the term
- ✓ ▪ From day one, no more operating deficit AND ~50% of upgrade revenues to the cities
- X ▪ A \$18-20 per month utility fee will be charged on all houses; 50% discount for apartments; double for businesses.
- Utility fee will only increase at inflation. No more

The Proposed Model



***OF COURSE you don't like the Utility Fee
Neither do we
It doesn't make sense on its own
But it's necessary for this model
And there are good reasons for it***

***If you're willing to look past the fee, you'll see
this is a good deal
Much better than the alternatives***

***To the UTA / CenturyLink: What's your
suggestion??***

Why is This a Good Deal Again??



SAVE YOU MONEY

Nearly every type of customer will save money, whether they join the network or not

GREATER CHOICE. FOR EVERYONE

Frustrated with your provider? Then switch. Today

UPSIDE TO THE CITIES

Paydown the debt
Reduce utility fee
Own the asset

**ECONOMIC
DEVELOPMENT**

DIGITAL DIVIDE

NET NEUTRALITY

How free is your market?

- **Comcast and CenturyLink have free markets**
 - **Free to charge what they want**
 - **Free to provide poor level of service**
- **Free to be the most hated companies in America**
 - *Comcast just raised triple play prices by 9% in UTOPIA Cities*
 - *Punishment?*

***Because you don't have REAL CHOICE
Industry needs to be shaken up***

Why is CenturyLink spending so much to fight?

- There are 18 different ISPs on UTOPIA
- There is choice but only for those with access
 - Problem is scale
- Comcast and CenturyLink aren't worried about the Current UTOPIA
 - They are worried about the New UTOPIA
 - Comcast second biggest lobbyist in Washington – \$16 million per year
 - *Pushing Mega-Merger – approx. 45m subs*
 - *Fighting net neutrality*
 - **WHO HAS THE REAL MONOPOLY?**

***What's this Australian group doing in Utah?
I'm not comfortable sending my \$ overseas***

- **Much of the \$300 million build cost will be paid to local contractors**
 - **Most of the ISPs are local**
 - **Cities retain most of the upside**
 - **Asset remains property of the Cities**
- **Many of Macquarie's investors are US-based**
 - **Local group with capital and expertise?**

How much of the money you pay to Comcast and CenturyLink stays in Orem??

UTOPIA Network PPP

Open Access Model Provides Users' Greater Choice



PPP will provide a fiber highway open to all qualified providers, removing a key barrier to new entrants and promoting competition to create value for users

OPEN ACCESS UTOPIA NETWORK

PPP builds, operates and maintains the fiber highway
ISPs pay a transport fee to supply bandwidth to users
ISPs are not required to pay infrastructure costs

GREATER CHOICE OF PROVIDERS

Open access model eliminates a material barrier to entry for
ISPs wanting to ride the fiber highway

BETTER VALUE PRODUCTS

Users have greater bargaining power, can demand better value
services from new and existing providers

PRICE
REDUCTIONS

NETWORK
INVESTMENT

PRODUCT
DEVELOPMENT

- 92% of Utah accesses internet at home
 - (SL Tribune, 7 Dec 2013)
- 27,500 homes in Orem
- 25,300 with at least internet
- 26,000 with internet or home phone
 - *2.5% with phone only*
- 1,500 no service
 - *Conservative – assumes 5.5% with nothing*

Switching to Saves You Money



Basic Internet and Home Phone: Save \$35-45

	Macquarie Proposal	CenturyLink
Utility Fee	\$20	\$0
Telephone	\$0-10	\$30
Internet	\$0	\$35
Total Monthly	\$20-30	\$65
Households	27,500	26,000
Total Orem	\$8.25m	\$20.28m
Savings (\$)	59%	
Savings (%)	\$12.03m	

Orem could save over \$12 million, assuming all current internet and home phone owners switched

Switching Saves You Money



Home Phone Only: Save \$10-20 PLUS get internet for free

	Macquarie Proposal	CenturyLink
Utility Fee	\$20	\$0
Telephone	\$0-10	\$40
Total Monthly	\$20-30	\$40
Savings (\$)	\$10-20	
Savings (%)	25-50%	

Home phone users would save 25-50% by switching their landline, PLUS they would receive free internet

Citizen Jane

Needs Internet for Gaming, Phone & Video



Current Situation

Only service fast enough is cable company. She gets triple play for unlimited phone, basic cable, and 50/10Mbps service, for introductory price of \$90/month rising to \$147/month after 1 year

Receives 50Mbps / 10Mbps service.

Future Situation

Decides to switch to an ISP on the UTOPIA network. Jane pays the \$19/month Utility Fee and an additional \$80/month for a premium 50Mbps service, unlimited long distance and TV, for a total of \$99/month

Receives a 50Mbps / 50Mbps service.

Savings

Citizen Jane will pay \$9/month more the first year if she switches and then save \$48/month thereafter

Citizen James

Serious Gamer, Unlimited Calling, Premium TV



Current Situation

Only service fast enough is the cable company. He gets the triple play which comes with unlimited phone, basic cable, and 105/20Mbps service for introductory price of \$200/month, rising to \$250/month after 1 year

Receives 105Mbps / 20Mbps service.

Future Situation

Decides to switch to an ISP on the UTOPIA network. Jamal pays the \$19/month Utility Fee and an additional \$190/month for a premium 1Gbps service, unlimited long distance and premium channels, for a total of \$209/month

Receives a 1Gbps / 1Gbps service.

Savings

Citizen James will pay \$9/month more for the first year if he switches and gets the faster speed and then save \$41/month thereafter

Competition Saves You Money



Even if you don't switch providers, you will likely save money

Comcast Pricing in Provo

Before Google July 2013	After Google October 2013
<i>HD Preferred XF</i> 25Mbps 160+ channels Voice \$196.08	<i>Extreme Premier Triple</i> 250Mbps 200+ channels Voice \$146.49 Down \$50 or 25%
Before Google June 2013	After Google September 2013
\$275.87	\$138.43 Down \$137 or 50%

Kansas City with Google

- TWC doubled speeds for top tier
- TWC dropped prices 70% on lower tier
- 86% overall increase in speeds statewide

Myth: 20GB is Not Enough Data



Median monthly data use for broadband has consistently been calculated at 16-18GB. Even high speed services such as AT&T U-Verse estimates average use of 21GB per month.



Watch 100+ hours



Download 5,000 high quality songs



33 DVD quality movies



Stream 740 hours



Talk for 730 hours



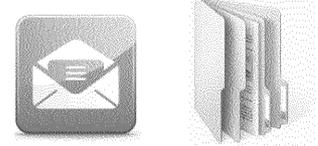
View 34,000 webpages



Several hundred hours of social media

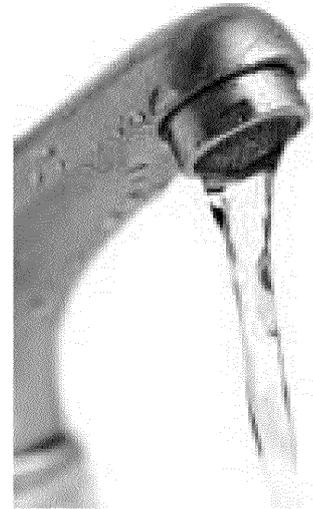
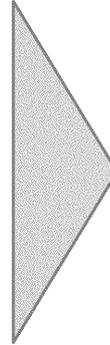


2,000 high resolution digital photos



2 million emails
41,000 documents

Myth: Basic Service Stops After 20GB Data Cap



The tap does not run dry if a user consumes more than 20GB of data on the basic service in a single month. The water continues to flow, it is simply the water pressure, or speed of service, that is reduced

UTOPIA Network PPP

Broadband Creates Growth Opportunities



CONSUMER DEMAND

*Enabling platform
for new products
(Facebook, Netflix, iPhone apps, etc)*

ECONOMIC GROWTH

*Faster speeds, more
opportunities*

**“Broadband is not just
an infrastructure...it is
a general purpose
technology”
-World Bank**

JOB GROWTH

*Maximize participation
opportunities*

PRODUCTIVITY

*Fiber connectivity enhances
flexibility*

**“As a general purpose
technology, broadband
can be used as a key
input in nearly all
industries”
-European Commission**

CAPACITY CONSTRAINTS

Future proof technology

COMMUNITY

Linking rural and urban areas

UTOPIA Network PPP

Broadband Creates Growth Opportunities



The PPP will invest over \$300 million in the Cities to develop a platform that has been proven to generate and retain significant investment

Bristol, Virginia

NORTHROP GRUMMAN



1,220 new jobs by 2008
\$50 million in private investment
\$37 million in annual payrolls
Diversifying coal-producing counties

Chattanooga, Tennessee

amazon



CLARIS
NETWORKS

Volkswagen plant created 3,200 jobs and
\$1.4 billion total tax revenues for TN
Claris Networks moved data center from
Knoxville *'just because of the network'*

"Google Fiber's first ultrafast internet connection **drew about a dozen startups to a single neighborhood** in Kansas City....and over the past 7 months, about **60 startups have presented on a weekly basis** in Kansas City"

-New York Times, November 2012

"They are calling it...Silicon Prairie"

-New York Times, November 2012

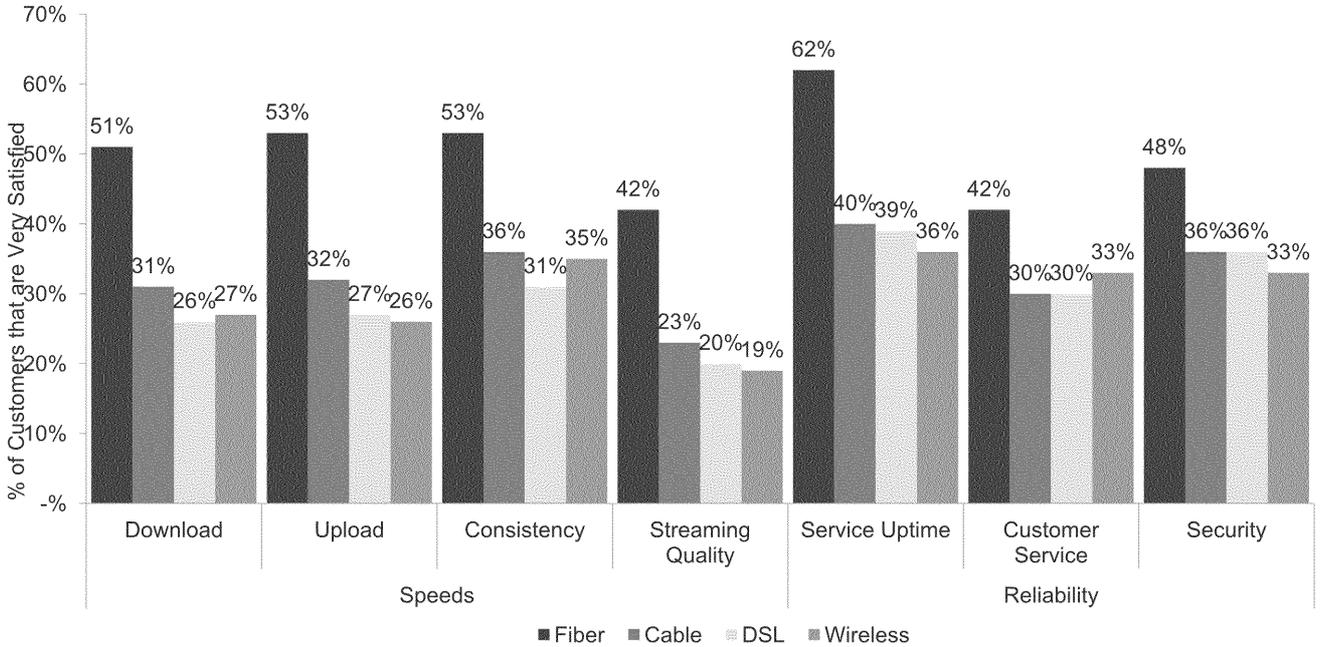
UTOPIA Network PPP

Fiber Users Consistently Exhibit Greater Satisfaction



Fiber is technologically superior to competing third party networks, and the performance based PPP model ensures that UTOPIA's past is not its future.

2013 Customer Satisfaction Survey Results



Source: The State of North American FTTH, RVA LLC 2013

STRICTLY CONFIDENTIAL | MacquarieCapital

PAGE 22



MACQUARIE



A

APPENDIX Impacts on the Customer

Citizen Joan

Landline Only, No Internet



Current Situation

Uses a landline at a cost of
\$35 per month

Future Situation

Adds a phone line to the basic 'free'
option offered through Macquarie.
Joan now pays a total of \$25 per month.

\$19 Utility Fee (3x3 basic service)
\$6 phone line

Savings

Citizen Joan will save \$10/month and will now have basic internet access

Citizen John

Landline Only, Cell Phone Only, Light Internet User



Current Situation

Uses DSL and pays the introductory price of \$20/month for a year, and will pay the standard price of \$40/month thereafter.

Receives 1.5Mbps / 896kps service.

Future Situation

Decides to upgrade his speed to the basic 'free' service option offered through Macquarie and pays the utility fee of \$19.

Receives a 3Mbps / 3Mbps service.

Savings

Citizen John will pay about the same during the introductory period for better service. After one year, he will save \$21/month

Citizen Joe

Landline Only, Cell Phone Only, Medium Internet User



Current Situation

Uses cable for his internet and pays the introductory price of \$30/month for a year and will pay \$67/month thereafter.

Receives 25Mbps / 5Mbps service.

Future Situation

Decides to switch to an ISP on the UTOPIA network. Joe pays the \$19/month Utility Fee and an additional \$30/month for a premium 25Mbps service, for a total of \$49/month

Receives a 25Mbps / 25Mbps service.

Savings

Citizen Joe will pay \$19/month more in the first year because of the cable provider's promotional pricing. He will save \$18/month after the first year

Citizen Jack

Needs Internet & Reliable Phone Service (Unlimited)



Current Situation

Uses local phone company for DSL and phone. His plan includes unlimited long distance with an introductory price of \$75/month rising to \$92/month after 1 year

Receives 7Mbps / 1Mbps service.

Future Situation

Decides to switch to an ISP on the UTOPIA network. Jack pays the \$19/month Utility Fee and an additional \$50/month for a premium 100Mbps service, for a total of \$69/month

Receives a 100Mbps / 100Mbps service.

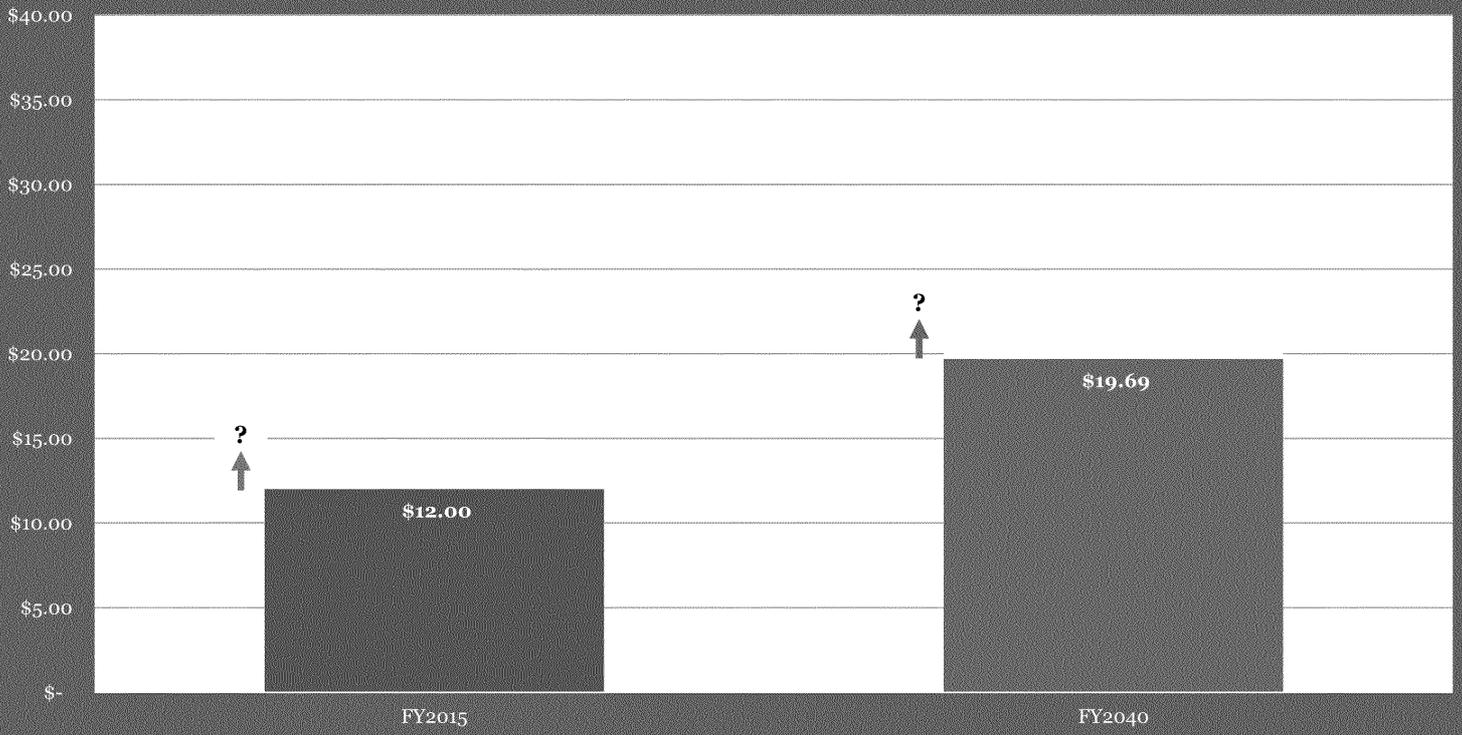
Savings

Citizen Jack will save \$6/month if he switches in the first year and \$23/month thereafter for much faster speeds

Conservative Comparison



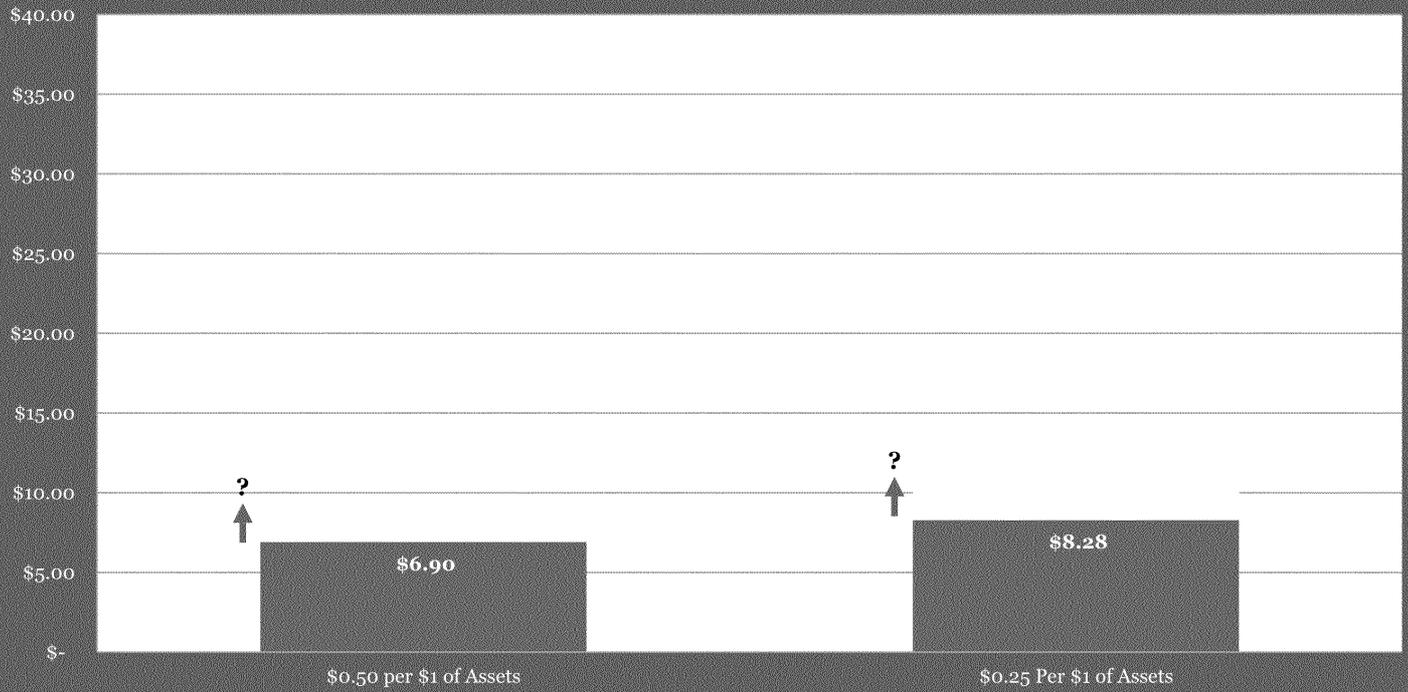
Keep Muddling Along



Conservative Comparison



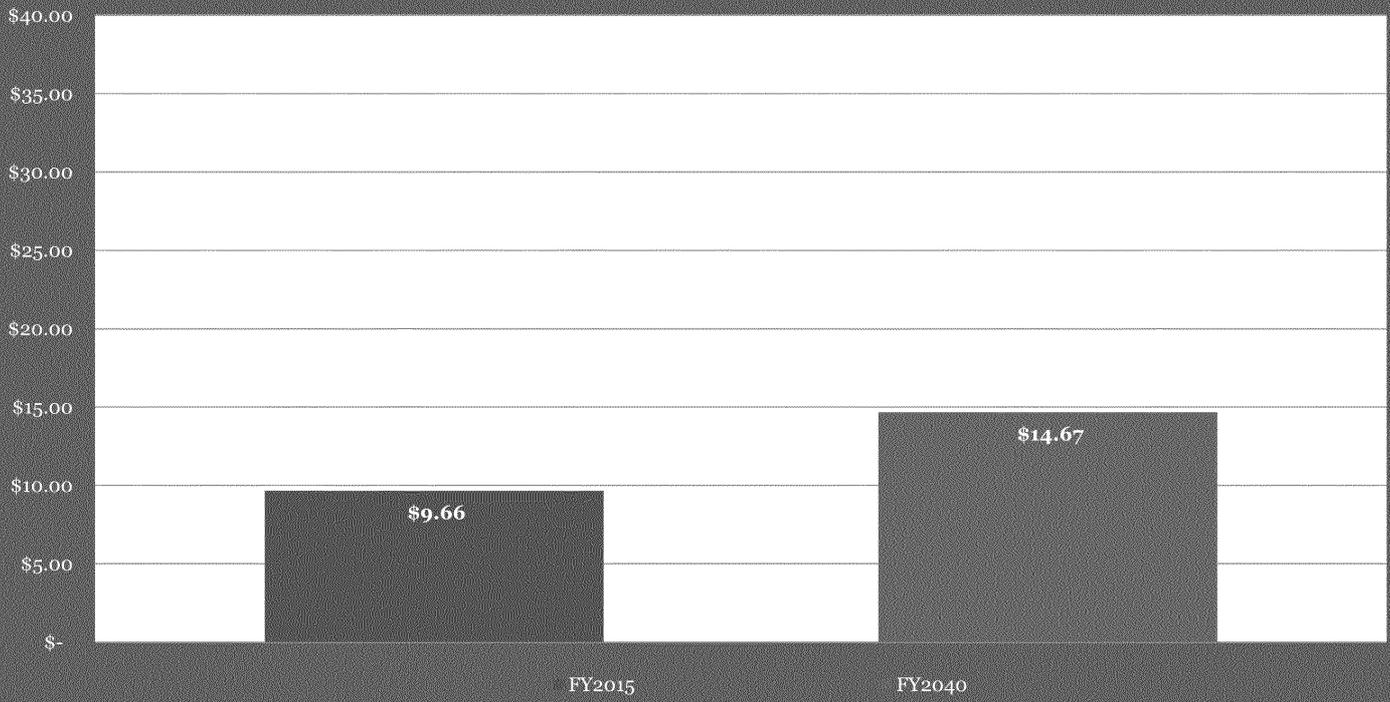
Sell Entire System



Conservative Comparison



Go Dark



Conservative Comparison



Macquarie Proposal (30%)

