

Update and Analysis: Alignment of Click! Policy Goals with Partner Proposals

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To the City of Tacoma City Council & Utility Board

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Agenda

Background

Financial and technical review of bidders

Comparison of negotiated term sheets

Summary of outcome and alignment with Council/Board policy goals



BACKGROUND



12 Click! policy goals

Adopted by Council and Board in
2018

Reflect areas of policy success
over life of Click! operations



The 12 Click! Policy Goals

1. Public ownership of assets
2. Equitable access
3. Low-income affordability
4. Net neutrality
5. Open access
6. Competition
7. Safeguard City and TPU use
8. Financial stability
9. Economic development & educational opportunity
10. Job options for Click! staff & protection of intellectual property
11. Consumer privacy
12. Consumer goodwill



2017 – mid-2018: evaluative process

Consideration of a range of models for Click!, focused on 2 key requirements

- Best means to achieve policy goals into future
- Best means to cover operating costs

Over course of multiple processes, considered multiple models

- Status quo with additional efficiencies
- Municipal ISP (“All In”)
- Utility model (tax-supported)
- Public-private collaboration

2018: RFI/Q to test collaboration model



Non-responsive bidder opportunity to revise

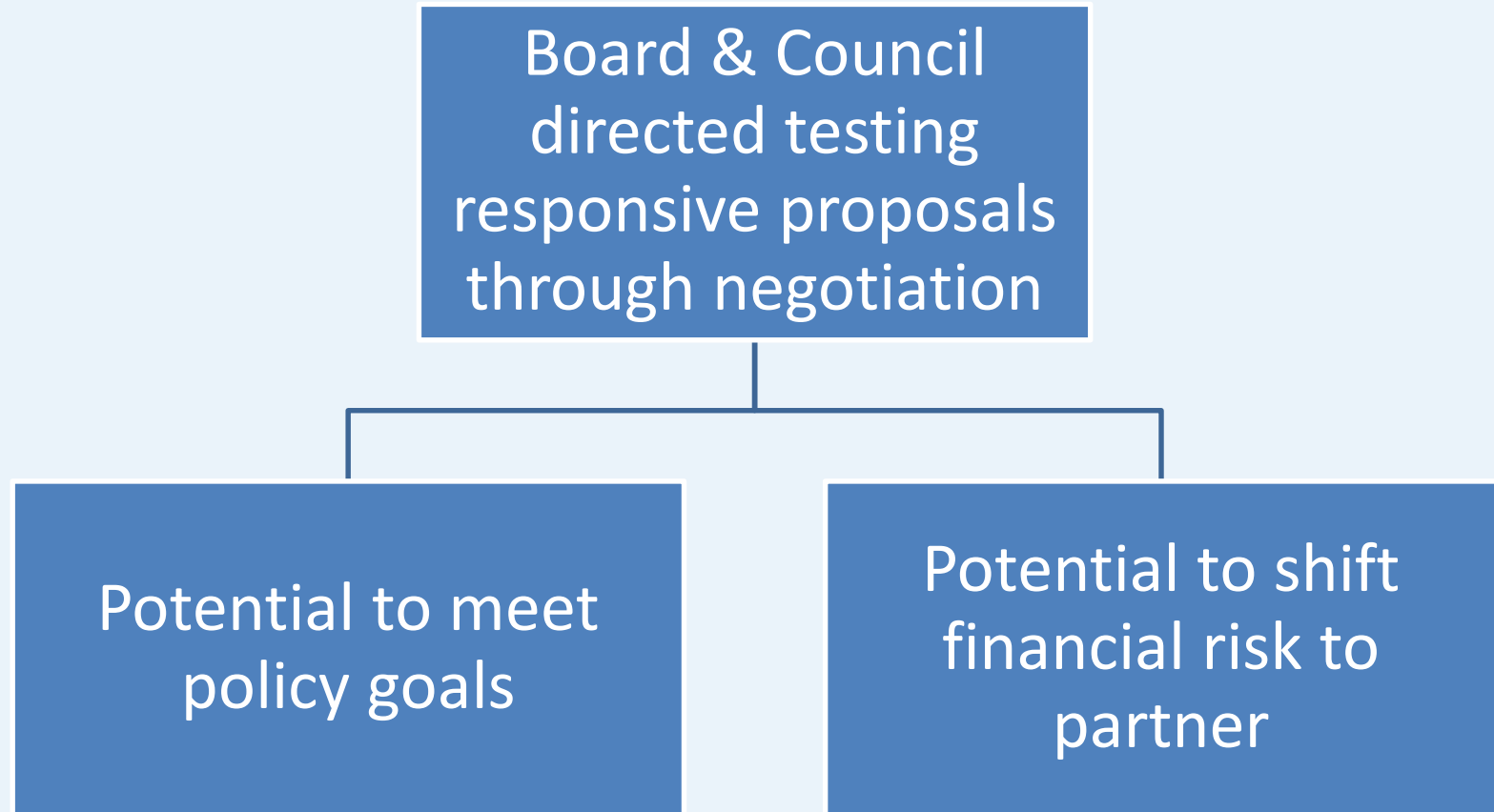
Rainier Connect
revised proposal to
align with policy
goals

Wyverd declined to
participate unless
able to buy Click!

Advanced Stream
proposal required
substantial increase
in City/TPU financial
risk



August 2018




Fall 2018

Stakeholder engagement process

- City and TPU undertook formal process of outreach
- Consultation with community members, Click! customers, and Click! employees

Stakeholders affirmed key policy goals

- Public ownership
- Competition
- Low-income affordability



Fall 2018 – present

Negotiations with three final bidders

- **Yomura Fiber:** Promising discussions ended due to incompatibility regarding control of fiber to meet power utility security regulations
- **Wave Broadband:** Extensive discussions led to completed term sheet
- **Rainier Connect:** Extensive discussions led to completed term sheet



FINANCIAL AND TECHNICAL CAPACITY OF THE TWO POTENTIAL PARTNERS



Summary: technical & financial capacity

Wave	Rainier Connect
1. Demonstrates technical and operating capacity to upgrade and operate Click! Assets	1. Demonstrates technical and operating capacity to upgrade and operate Click! assets
2. Has provided independent verification of financial capacity to meet partnership obligations	2. Has provided independent verification of financial capacity to meet partnership obligations
3. Large, private equity-backed , enterprise that is part of sixth largest broadband company in US. Should easily be able to meet partnership obligations	3. Small, family-owned enterprise. Appears to have capability to scale up operations to meet partnership obligations



COMPARISON OF TERM SHEETS



1. Public ownership of assets

Wave	Rainier Connect
1. 20-year IRU with two 10-year extensions possible	1. 20-year IRU with two 10-year extensions possible
2. Upgrade to DOCSIS 3.1 (gigabit speeds) to minimum of 75% within 24 months and minimum of 95% within 36 months	2. Responsible for ubiquitous upgrades to DOCSIS 3.1 within 36 months
3. TPU will own both existing and all new & upgraded outside plant assets in Click! service area	3. TPU will own both existing and all new & upgraded outside plant assets in Click! service area



2. Equitable access

Wave	Rainier Connect
1. Will offer like services, at like prices, across entire Click! service area	1. Will offer like services, at like prices, across entire Click! service area
2. Will not decline service to any customer in good standing and services will be available on equitable basis throughout Click! service area	2. Will not decline service to any customer in good standing and services will be available on equitable basis throughout Click! service area

3. Low-income affordability

Wave	Rainier Connect
1. Will offer substantially reduced-cost broadband service to households eligible for TPU electric service low-income program	1. Will offer substantially reduced-cost broadband service to households eligible for TPU electric service low-income program
2. Will provide free wired or Wi-Fi service to at least 30 locations within Click! service area that provide services to low-income members of the community	2. Will provide free wired or Wi-Fi service to at least 30 locations within Click! service area that provide services to low-income members of the community
	3. Will offer federal Lifeline subsidy (\$9.25 per month) to qualified low-income consumers

4. Net neutrality

Wave	Rainier Connect
1. Will operate Network on neutral basis	1. Will operate Network on neutral basis
2. Customers will be fully informed about services	2. Customers will be fully informed about services
3. Customers will have access to internet content, applications, and services without intentional degradation	3. Customers will have access to internet content, applications, and services without intentional degradation
4. No blocking of lawful websites	4. No blocking of lawful websites
5. No discrimination against lawful network traffic	5. No discrimination against lawful network traffic
6. No paid prioritization	6. No paid prioritization



5. Open access

Wave	Rainier Connect
<ul style="list-style-type: none">• Will provide wholesale services consistent with its practices and policies in other markets	<ul style="list-style-type: none">• Will provide wholesale services consistent with its practices and policies in other markets



6. Competition

Wave	Rainier Connect
1. Will not sell, grant, or transfer IRU without TPU's agreement; TPU can decline based only on legal, technical, & financial capacity of entity to meet IRU obligations	1. Will not sell, grant, or transfer IRU without TPU's agreement; TPU can decline if transfer violates any of the 12 policy principles or based on legal, technical, & financial capacity of entity to meet IRU obligations
2. Will not sell to any entity that has residential fixed data market share of 33% or more in Click! service area	2. Will not sell to any entity that has residential data market share of 25% or more in Click! service area
3. Will require assignee to comply with IRU terms, including 12 policy goals	3. All IRU terms transfer to purchasing entity



7. Safeguard City and TPU use

Wave	Rainier Connect
1. IRU does not include fiber used by Tacoma Power or CityNet	1. IRU does not include fiber used by Tacoma Power or CityNet
2. Tacoma Power will maintain critical fiber routes	2. Tacoma Power will maintain critical fiber routes
3. Wave will maintain coaxial cable	3. Rainier Connect will maintain coaxial cable
4. Wave will maintain new fiber on non-critical routes	4. Rainier Connect will maintain new fiber on non-critical routes



8. Financial stability

Wave	Rainier Connect
1. Will pay TPU approx. \$1.5 million annually during each year of the IRU term, of which \$500,000 will be applied to Wave's electricity costs	1. Will pay TPU \$2.5 million in the first year, increasingly incrementally to \$3 million annually beginning in year six
2. Net revenue to TPU: \$1 million	2. Net revenue to TPU: \$2.5 increasing to \$3 million over the first five years
3. Will invest \$1.5 million each year to deliver service that meets or exceeds federal definition of broadband	3. Will invest \$1.5 million each year to maintain state-of-the-art network

All numbers to be adjusted annually for inflation



9. Economic development & educational opportunity

Wave	Rainier Connect
1. Will work with TPU to develop internship program to provide work opportunity and training for students and residents of Tacoma, including veterans	1. Will work with TPU to develop internship program to provide work opportunity and training for students and residents of Tacoma, including veterans
2. Will work with TPU to assist City economic development department to support efforts to attract businesses	2. Will work with TPU to assist City economic development department to support efforts to attract businesses



10. Job options for Click! staff

Wave	Rainier Connect
1. Will make good-faith effort to interview Click! employees interested in employment	1. Will make good-faith effort to interview Click! employees interested in employment
2. Will potentially make job offers prior to execution of the IRU	2. Will potentially make job offers prior to execution of the IRU



11. Consumer privacy

Wave	Rainier Connect
<ul style="list-style-type: none">Will comply with City Council Resolution No. 39702, which prohibits ISPs that serve as retail broadband data providers on the Click! network from collecting or selling personal information from a customer without express written approval	<ul style="list-style-type: none">Will comply with City Council Resolution No. 39702, which prohibits ISPs that serve as retail broadband data providers on the Click! network from collecting or selling personal information from a customer without express written approval



12. Consumer goodwill, customer service

Wave	Rainier Connect
1. 24/7 customer service contact options	1. 24/7 customer service contact options
2. Will schedule installation and service appointments within maximum 4-hour time block during normal business hours	2. Will schedule installation and service appointments within maximum 4-hour time block during normal business hours
3. Will meet standards at level consistent with its operations elsewhere	3. Will meet standards at least 90 percent of the time
	4. Will begin repair of service interruptions within 24 hours
5. Will give 30 days' notice for changes	5. Will give 30 days' notice for changes
6. Will maintain a physical presence in Tacoma, including a store open during normal business hours & Saturday mornings	6. Will maintain a physical presence in Tacoma, including a store open during normal business hours & Saturday mornings. Customer service staff will be located in Tacoma



SUMMARY OF OUTCOMES AND ALIGNMENT WITH POLICY GOALS AND PUBLIC ENGAGEMENT



Summary: Achievements

Both term sheets represent substantial achievements

- Meet or exceed policy goals
- Unprecedented private sector commitments to net neutrality, privacy, non-transfer to entity with substantial market share, and low-income affordability – will serve as a model for other communities

Both entities are stable, capable competitors

- Provided financial data to demonstrate capacity to meet IRU obligations
- Solid technical and business track records
- Long history of providing competitive services
- Headquartered in Tacoma/Seattle region, with substantial local operations



Summary: Key differences

Wave	Rainier Connect
1. Proposes to pay net \$1M million/yr. (\$1.5M less electricity cost)	1. Proposes to pay \$2.5 million/yr., increasing to \$3 million in year 6
2. Does not participate in federal Lifeline subsidy program	2. Participates in federal Lifeline subsidy program (\$9.25/mo. for qualified consumers)
3. Will not sell to any entity with more than 33% market share	3. Will not sell to any entity with more than 25% market share
3. TPU can decline transfer of IRU interests based on legal, technical or financial capacity of transferee	3. TPU can decline transfer that violates any of the 12 policy principles or based on legal, technical, & financial capacity
4. Offers good customer service guarantees	4. Offers exceptional customer service guarantees
5. Able easily to scale to meet IRU obligations	5. Capability to scale to meet IRU obligations



Summary and recommendation

Both term sheets meet and exceed the policy goals and represent optimal market outcomes

Wave's scale, resources, and capacity offer lower risk in execution

- But higher risk of sale of company

Rainier Connect offers higher compensation and some better terms

- Modestly better terms with respect to customer service and low-income affordability
- Substantially better term with respect to oversight of sale or transfer of IRU rights

Recommend proceeding to detailed IRU negotiations with Rainier Connect