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Click! Analysis of Public and Public/Private Collaboration Models

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Agenda

- Background and summary
- Public Option model
 - Elements, costs, potential outcomes
 - Financial model scenarios
- Public-Private Collaboration model
 - Elements, costs, potential outcomes
- Conclusion and next steps


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BACKGROUND

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CTC Developed Options

1. January-July: Develop RFI/Q & recommend test of public-private collaboration
 - Three promising proposals, worth testing through detailed negotiation
 - Potential to meet City policy goals through network ownership
 - Potential to shift financial risk to private sector
2. July-August: Review & vet TPU financial model for public option
 - Develop full financial model and cost estimates
 - Use the model to understand range of possible outcomes
 - Market risk
 - Technology risk
 - Potential service fee pricing

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Background: Policy goals

1. Adopted by Council and Board in 2018
2. Reflect areas of policy success over life of Click!

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The 12 Policy Goals

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

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Investment Needed, Now & in Future

- Click!'s assets must be upgraded & maintained frequently
 - Preserve asset value
 - Extend Click!'s considerable policy achievements
- New capital costs ensure adequacy of network to compete
- New operating costs to support customer service, marketing, & sales (essential functions)

*CTC did not do new engineering or cost estimation for this effort, but rather applied data developed in other markets

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THE PUBLIC MODEL

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Elements of the Public Model

- No cable TV
- Click! will offer retail internet service
- Continued open access for internet
 - Providers offer service in and outside City
- Upgrade to DOCSIS 3.1 to support services
 - New capital spending within City only
- Funded by comb. of tax (\$10 million/yr) & service fees
- Subsidy for low-income community of \$10 for 50 Mbps
 - Assumes use by 5% of households
 - Can be increased

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Goal of the Scenarios

- Enable full understanding of potential outcomes
 - Illustrate best and worst case
 - Understand drivers
- Take-rates are based on experience in other markets
 - 37% is the high-end of what we've seen in competitive markets
 - 15% or less not inconceivable

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Scenario 1: TPU Estimate

- Lowest-cost upgrade estimate
- In addition to tax of \$10/month/passing

		Average Monthly Residential Fee	Average Monthly Business Fee	Bonding
Service fees required at 15% take-rate		\$39.50	\$50.75	\$10.90 million
Service fees required at 25% take-rate		\$27.50	\$38.87	\$12.60 million
Service fees required at 37% take-rate		\$22.00	\$33.43	\$17.40 million

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Scenario 2: Mid-range Estimate

- Mid-range upgrade estimate
- In addition to \$10/month/passing

		Average Monthly Residential Fee	Average Monthly Business Fee	Bonding
Service fees required at 15% take-rate		\$64.50	\$75.50	\$33.50 million
Service fees required at 25% take-rate		\$42.75	\$53.97	\$36.40 million
Service fees required at 37% take-rate		\$33.00	\$44.32	\$39.60 million

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Scenario 3: High-end Estimate

- Higher-cost upgrade estimate
- In addition to \$10/month/passing

		Average Monthly Residential Fee	Average Monthly Business Fee	Bonding
Service fees required at 15% take-rate		\$89.50	\$100.25	\$54.40 million
Service fees required at 25% take-rate		\$58.00	\$69.07	\$57.20 million
Service fees required at 37% take-rate		\$42.85	\$54.07	\$62.40 million

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Scenario Summary

	Average Monthly Residential Fee	Average Monthly Business Fee	Bonding (million)
Low estimate			
15% take-rate	\$ 39.50	\$ 50.75	\$ 10.90
25% take-rate	\$ 27.50	\$ 38.87	\$ 12.60
37% take-rate	\$ 22.00	\$ 33.43	\$ 17.40
Midrange estimate			
15% take-rate	\$ 64.50	\$ 75.50	\$ 33.50
25% take-rate	\$ 42.75	\$ 53.97	\$ 36.40
37% take-rate	\$ 33.00	\$ 44.32	\$ 39.60
High estimate			
15% take-rate	\$ 89.50	\$ 100.25	\$ 54.40
25% take-rate	\$ 58.00	\$ 69.07	\$ 57.20
37% take-rate	\$ 42.85	\$ 54.07	\$ 62.40

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Summary of Findings: public model

1. Retains City ownership
2. Secures City policy goals, but at a cost:
 - Market Risk - City will hold all risk associated with consumer interest in buying Click! internet service in a competitive market
 - Financial Risk - If take-rates insufficient to achieve positive cash flow (pay for operations & debt service), will require ongoing subsidy
 - Technology Risk - If upgrades are more costly than anticipated, or technology changes in the next 20 years, more bonding will be required

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Summary of Findings: public model, cont'd

3. Costs likely to be high because upgrade required
 - Higher capital or operating expenses will require higher service fees
4. Tax (\$10 million/year) somewhat reduces market and financial risk but increases political & legal risk


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THE PUBLIC/PRIVATE COLLABORATION MODEL

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BC3

Elements of the Public/Private Collaboration Model

- City owns existing assets
 - Private entity pays for use of assets (no City or TPU funding)
- Binding contract controls relationship
 - Private entity operates network (under terms of negotiated contract)
- Private entity commits to invest to expand & upgrade network
 - Near-term upgrade to DOCSIS 3.1; long-term upgrade to Fiber-to-the-Premises
- Market, financial, & technology risk shifts to private entity
- Private entity and City negotiate terms for competition & equity:
 - Open access
 - Low-income affordability
 - Equitable access
 - Net neutrality, privacy

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BC(3) Should you mention that this model could include cable tv
Bacha, Chris (Legal), 8/24/2018



Summary of Findings: Public/Private collaboration model

1. City ownership of Click! asset can be leveraged:
private commitment to meet City policy goals
 - Continued public ownership of Click!, with enforcement authority under contract
 - Potential negotiation of net neutrality, digital equity, low-income support
2. May shift market, financial, & technology risk to private entity
3. May eliminate ongoing operating losses, while securing ongoing achievements for community

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NEXT STEPS

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Next Steps

- Commence negotiations in September with potential partners as previously directed by the Council and Board
- Intent is to develop term sheets by year-end and approve a contract with a partner in 2019
- In meantime, Click! to continue operations
 - Preserve asset, brand value, customers
 - Support and advise existing employees
- Assessment of 12 policy goals

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