

# ISSUE SUMMARY: BROADBAND SEPTEMBER, 2017

## The Basics

The City of Fort Collins 2016 Strategic Plan includes the objective to “Encourage the development of reliable high-speed internet services through the community.” City government staff has interpreted that to mean the goal is to bring reliable, Gig speed internet to the city of Fort Collins by making an informed decision through evaluation of risk and opportunities.



The City was successful in passing an exemption from SB-152 that allows the City to consider numerous options for being involved in broadband services. Since that passage, the City has spent the last 24 months evaluating options for the community, ranging from “do nothing” to a retail model through which city government would provide broadband services directly to the public.

After a failed attempt to finalize a public-private partnership with a company called Axia, the City Council placed on the November 2017 ballot a measure that asks the citizens of Fort Collins to authorize the City of Fort Collins to add telecom (broadband) services to the Light and Power Enterprise and to allow the Council to go into executive session to discuss matters relating to competition in the electric utility industry. This authorization is required as it is a change to the City Charter. As well, Council included a question on debt to ensure that voters are aware of the cost and risk to provide telecom infrastructure (up to \$150 million in bonding capacity).

At the same time, the City has issued a RFP requesting third party partners. Eleven responses were received by July 5. The City is still in the process of reviewing those proposals.

## Broadband Proposal Data Points

- Estimated cost to build the system: \$130-\$150 million. The primary build would be funded by a bond with ongoing costs for the system supported by user fees.

This bonding would take up the Light and Power bonding capacity for about 5 years.

- Pricing assumption: \$70 per month for 1 Gig provided to residential addresses (up from \$50 in previous modeling) with a “take rate” (i.e. market penetration) of 28 percent (down from the original projected take rate of 38 percent)
- If the pricing and customer acquisition assumptions are achieved, the City would be able to cash flow the utility by year 14 of the bond.
- If the assumptions are not achieved and the project fails, all of the Fort Collins utilities customers would be held responsible for the bond payments resulting in an additional cost on each utility bill of \$17/month until the debt is retired.
- If the ballot measure passes and the Council proceeds with the retail model, service to the first broadband customer would begin in 2019 with the last customer being served by 2022.

### **Tracking of the Issue**

The Chamber Local Legislative Affairs Committee has been tracking this issue for over two years. Below are key questions that the committee has been asking City government officials. The answers have largely been insufficient or incomplete. Chamber leaders are very supportive of a well-connected City, but have been concerned about this government-centered solution, specifically the risk to residents due to a failed enterprise and the use of bonding capacity that may be needed for the electric utility, a business plan centered on “cheap high-speed internet for residents” and naive risk analysis.

### **Questions Asked by the Business Community**

- Why the hurry? The data and assumptions keep changing (take rate drop, pricing increase, bonding amount going up) and complete analysis of the 3<sup>rd</sup> party option has not been completed.
- What needs will go unmet by using all of our utility’s bonding capacity on this project?
- Exactly what problem are we trying to solve? According to the City’s own analysis, 98 percent of the Fort Collins citizenry is already connected to the internet.
- Why is government moving into an industry already filled by private business?
- Beyond a desire to try to provide low cost service to residents, what is the motivation for city government to risk residents’ money on this project? Benefits to the larger community has not been articulated beyond vague statements like ‘future-proofing the community.’ What is the business case for doing this?
- Business competitiveness has been touted as a reason for this investment, yet very little time or effort has been invested in making an affordable business product available. The current draft business plan notes that 25 Mbps would be offered to business at \$59.95 a month with 1 Gig service being offered at

\$599.95 a month – a pricing model that isn't even competitive with current service providers.

- The City has identified several risks for the retail model (competition, starting up a new business, legislative changes, competitive market influences, technology changes and financial loss), but has done little to explain their plan, competence and capacity to effectively address such challenges. As well, they have done little risk review of security issues related to managing such a system.
- The business plan is incomplete to the point it would not meet conventional borrowing standards. In fact, City staff has stated that this is not a “take to the bank plan.” Then why is it acceptable to ask the citizens of Fort Collins to risk \$150 million?

### **November 2017 Ballot Language**

Shall Article XII of the City of Fort Collins Charter be amended to allow, but not require, City Council to authorize, by ordinance and without a vote of the electors, the City's electric utility or a separate telecommunications utility to provide telecommunication facilities and services, including the transmission of voice, data, graphics and video using broadband Internet facilities, to customers within and outside Fort Collins, whether directly or in whole or part through one or more third-party providers, and in exercising this authority, to: (1) issue securities and other debt, but in a total amount not to exceed \$150,000,000; (2) set the customer charges for these facilities and services subject to the limitations in the Charter required for setting the customer charges of other City utilities; (3) go into executive session to consider matters pertaining to issues of competition in providing these facilities and services; (4) establish and delegate to a Council-appointed board or commission some or all of the Council's governing authority and powers granted in this Charter amendment, but not the power to issue securities and other debt; and (5) delegate to the City Manager some or all of Council's authority to set customer charges for telecommunication facilities and services?

\_\_\_\_\_ Yes/For \_\_\_\_\_ No/Against

### **Position on the Issue**

As required by our Chamber by-laws, the LLAC reviewed the ballot issue and forwarded a recommendation to the Chamber Board. The Board, at their September 18 meeting, voted to oppose the ballot issue.

While supporting the concept of a connected community, the Chamber is opposing this ballot issue while encouraging the City to come back with a stronger plan that favors public private partnerships, and does a better job of making the business case and addresses concerns about risk management.

The Chamber staff will share this position and additional information about the ballot issue with the larger membership.