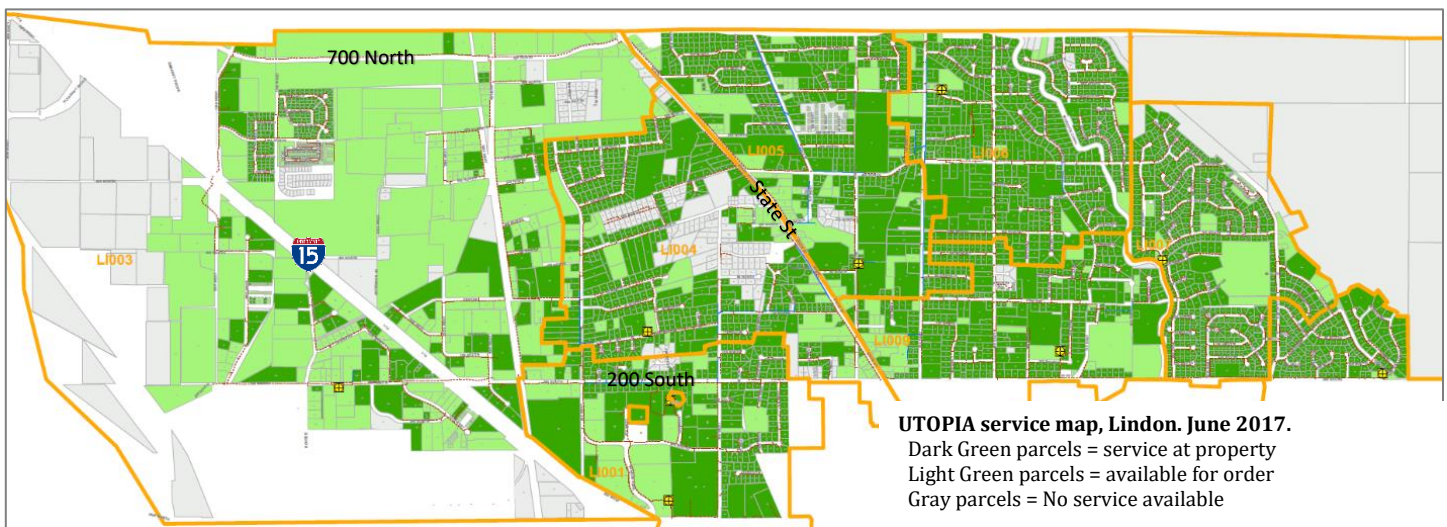


# UTOPIA and Lindon City – Historical Overview

## UTOPIA Is a City-Owned Telecommunications Network

In 2000 and 2001 multiple cities were receiving comments from their businesses and residents that internet services were too slow or inaccessible. Service providers at the time seemed unable to supply satisfactory solutions. In 2002, a group of Utah cities participated in a feasibility study that led to the eventual formation of an interlocal agency called the Utah Telecommunication Open Infrastructure Agency (UTOPIA). Their goal was to build an advanced fiber-optic communications network that would offer broadband services to each home and business within their cities. UTOPIA aimed at providing its users with some of the most advanced communications services available and sought to allow all service providers use of the network to level competition between service providers and therefore decrease end-user fees. Completion of the network in each city will help improve the quality of life for city residents and promote economic growth for the business community.

As of July 2017 UTOPIA has 16,295 active services throughout its entire network. Of those services 1,421 are within Lindon City constituting 8.72% of UTOPIA's customer base. While Lindon City is not entirely 'built out' with UTOPIA fiber, about 89% of the addresses within the city do have services available (see map below). Of the Lindon addresses that have the network available, about 45% have signed up for UTOPIA services. This is the highest 'take rate' of any UTOPIA member city, suggesting there is substantial community interest in the services provided.



## UTOPIA Offers Advanced Speed through a Fiber-to-the-Home Network

The fiber-optic network offers its users access to high-speed video, data, and phone services that most consumers now consider critical and essential infrastructure. UTOPIA is a fiber-to-the-home (FTTH) network, meaning that it employs fiber-optic cable throughout the entire network to speed the transmission of data. The iProvo network (recently acquired by Google) was the only other city-owned network in Utah to install a municipal FTTH network.

UTOPIA's network has three main sections: (1) the *Network Operations Center* (NOC) and other central infrastructure (lines running from city to city), (2) the *middle mile* or local level infrastructure (e.g. fiber-optic lines running down neighborhood streets or electronics shelters), and (3) the *last mile*, which represents the fiber-optic line extending from the street curb to the customer premise (normally much shorter than an actual mile).

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## **UTOPIA Offers a Public Sector Solution to a Local Need**

UTOPIA's critics often question whether a public entity should provide services already offered by private industry. Lindon agrees that most goods and services can be adequately provided by the private sector. However, at the time of UTOPIA's formation, private sector providers were not satisfactorily meeting demands for broadband services and higher speeds. UTOPIA's founding members believe that advances in entertainment, business, medicine, and education are continuously increasing the demand for high bandwidth communications that can only be provided through a fiber optic network. In the past the private sector was reluctant to replace its existing copper wire and coaxial cable technologies with the more advanced fiber-optic technology required to meet that growing need. Some private sector investments in fiber have occurred in recent years but deployment of fiber to many locations is still limited. In fact, the leaders of several UTOPIA member cities report that the lack of advanced communication services makes it difficult to attract new businesses to their communities and retain existing ones. For this reason, UTOPIA is addressing a vital community need that is not being addressed by private sector providers.

## **Pledging Member Cities – Backstop Payments**

In 2004 member cities authorized UTOPIA to bond for the first phase of construction on the proposed fiber network. Eleven member cities agreed to pledge some of their sales tax revenue as a security guarantee (or *backstop*) if UTOPIA revenues were not sufficient to cover the bond payments. UTOPIA has also utilized grants, stimulus funds, and federal loans to build the network. Unfortunately, in 2009-10 UTOPIA was unable to meet its financial obligations for approximately \$185 million in bonds, thus requiring the member cities to pay their portions of the backstop pledges. Lindon is contractually obligated to pay 3.059% of the owed shortfall to prevent default on the bond obligations. Lindon is not able to get out of this commitment. If sufficient UTOPIA revenues are generated in the future then the backstop payments may decrease or could be eliminated. If sufficient revenues are not generated, Lindon's total remaining backstop obligation of \$12,583,651.01 will continue to be paid over the next 23 years. During this time the member cities and UTOPIA pared back UTOPIA operations yet remained positioned to grow the network.

## **Creation of UIA**

Due to multiple issues and past decisions several member cities have seen little to no fiber development while other member cities have had larger amounts of infrastructure installed. Regardless of early financial hardships most member cities desired to continue building the network to reach sustainability and provide infrastructure in critical areas. Due to its financial position UTOPIA could no longer continue to grow the network. In 2010 nine UTOPIA cities formed another related entity called the Utah Infrastructure Agency (UIA) thus enabling borrowing for more funds to build out the network. UIA is essentially a shell company that contracts with UTOPIA to build and operate that portion of the network which will be funded through UIA financing. Both UTOPIA and UIA are overseen by separate Board of Directors comprised of administrators, staff, and elected officials from member cities.

During the formation of UIA eight of the nine UIA cities pledged some of their franchise tax revenue as an additional security guarantee enabling UIA to bond for more funds needed to continue construction of the fiber network. To date, UIA has issued three rounds of debt and is planning one additional draw down of previously authorized bonds, all totaling \$65 million. If UIA were to fall short on revenues and failed in making its bond payment obligations, Lindon's maximum portion of UIA backstop payment would be \$172,516 per year (3.35% of UIA). Thus far the organization has been able to meet financial obligations on its bonds and has not needed cities to pay any backstop of UIA indebtedness. However, some financial assistance with UIA operational expenses (OpEx) occurred in 2013 through 2015 of which several UIA cities have fully or partially participated, including Lindon City.

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During this time when operational expenses were being off-set by City contributions, the Board of Directors was strongly considering a sale of UTOPIA and divesting the member cities of ownership. However, after several serious interests in the network, a suitable sale never materialized. Over the last few years UIA revenues have steadily increased and the organization has deployed fiber in many new areas, thus being able to connect many new customers. Operational expenses appear to have stabilized and are now fully covered by revenues.

### UTOPIA and UIA Network Membership

UTOPIA has 11 pledging member cities. Eight pledging cities went on to form UIA, which raised the funds needed to complete additional construction of the network.

Member Cities <sub>1</sub>	UTOPIA	UIA
Brigham City	X	X
Centerville	X	X
Layton	X	X
Lindon	X	X
Midvale	X	X
Murray	X	X
Orem	X	X
Payson <sub>2</sub>	X	
Perry	X	
Tremonton	X	
West Valley	X	X

1. UTOPIA non-pledging cities: Cedar City, Cedar Hills, Riverton, Vineyard, and Washington.

2. Non-pledging UIA member.

### State Law Prohibits UTOPIA from Offering Retail Services

Prior to UTOPIA commencing operation, the State Legislature passed *Utah Code* 10-18-101 *et seq.*, which limits head-to-head competition between the public and private sectors by requiring municipal broadband networks to offer services on a wholesale basis. Unlike private networks, governmental agencies have since been prohibited from selling telecommunications services directly to consumers. As a result, UTOPIA services are wholesaled to service providers, such as Xmission or Veracity, and then must rely on these retail service providers to directly engage the customer. In contrast, Spanish Fork created its broadband network before legislative restrictions were put in place and their network is allowed to offer services directly to city residents.

### Attention on UTOPIA and Other Municipal Fiber Optic Networks

The State of Utah Legislative Auditor has conducted two audits of UTOPIA, the latest being completed in late 2012. The audits have focused on the startup phase of UTOPIA spotlighting the problems that lead to the slow build out of the network. Constructive recommendations from the audit have been implemented by UTOPIA. However, these audits and past opposition from the press and competing private service providers have hampered the growth of the network.

Despite this past negative attention the UTOPIA network is gradually growing and UIA is working to build out critical service lines and sign up new customers. Revenues have never been higher. All new infrastructure installation locations are prioritized by highest estimated return on investment with emphasis on building within member cities that have limited infrastructure. UTOPIA continues to seek out possible public/private partnerships and is eager to decrease reliance on member city financing.

In the summer of 2013 Google and Provo City announced a merger of the iProvo network. The introduction of Google Fiber into the Utah market was an exciting validation of UTOPIA's efforts to bring the most advanced communication opportunities to its residents and businesses.

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This rekindled an interest in municipally supported broadband networks and focused attention on the importance of connectivity with fiber-optic networks as the backbone of a ‘connected’ community.

### Lindon City Payment History with UTOPIA

Below is a list of expenses paid by Lindon City to UTOPIA and UIA since inception of the organizations. A schedule of anticipated UTOPIA backstop payments is also provided. Payments to UTOPIA in the 2016 fiscal year (FY) constituted about 4.5% of the city’s General Fund expenditures.

<u>FY</u>	<u>Amount</u>	<u>Description</u>
2002	\$5,250.00	Membership, preliminary study
2003	\$40,000.00	Feasibility study
2004	\$3,994.00	Assessment for up-front costs
2005	\$102,900.00	Pmt #1 toward \$308,700 req’d backstop
2006	\$102,900.00	Pmt #2 toward \$308,700 req’d backstop
2007	\$86,976.19	Final pmt toward req’d backstop less interest earnings on backstop funds
2010	\$9,176.36	Litigation fees (RUS litigation)
2011	\$186,125.50	Lindon’s allocation of UTOPIA bond pmts
2012	\$379,783.00	Lindon’s allocation of UTOPIA bond pmts
2013	\$450,936.16	Lindon’s allocation of UTOPIA bond pmts; includes UIA OpEx (\$55,810 Jan-Jun)
2014	\$465,373.76	Lindon’s allocation of UTOPIA bond pmts; includes UIA OpEx (\$62,345 Oct-Jun)
2015	\$411,089.28	Lindon’s allocation of UTOPIA bond pmts
2016	\$419,311.07	Lindon’s allocation of UTOPIA bond pmts
2017	<u>\$427,697.29</u>	Lindon’s allocation of UTOPIA bond pmts
	\$3,091,512.61	

Lindon City’s remaining allocation of the UTOPIA bond payments are below. Lindon City will be required to make these payments until UTOPIA revenues can offset the bond payments (which is unlikely to occur in the near future). Lindon City’s agreement with UTOPIA indicates that UTOPIA is obligated to repay these bond payments to Lindon City when financially feasible.

<u>FY</u>	<u>Amount</u>	<u>Description</u>
2018	\$436,251.24	Lindon’s allocation of UTOPIA bond pmts
2019	\$444,976.27	Lindon’s allocation of UTOPIA bond pmts
2020	\$453,875.79	Lindon’s allocation of UTOPIA bond pmts
2021	\$462,953.31	Lindon’s allocation of UTOPIA bond pmts
2022	\$472,212.37	Lindon’s allocation of UTOPIA bond pmts
2023	\$481,656.62	Lindon’s allocation of UTOPIA bond pmts
2024	\$491,289.75	Lindon’s allocation of UTOPIA bond pmts
2025	\$501,115.55	Lindon’s allocation of UTOPIA bond pmts
2026	\$511,137.86	Lindon’s allocation of UTOPIA bond pmts
2027	\$521,360.62	Lindon’s allocation of UTOPIA bond pmts
2028	\$531,787.83	Lindon’s allocation of UTOPIA bond pmts
2029	\$542,423.58	Lindon’s allocation of UTOPIA bond pmts
2030	\$553,272.06	Lindon’s allocation of UTOPIA bond pmts
2031	\$564,337.50	Lindon’s allocation of UTOPIA bond pmts
2032	\$575,624.25	Lindon’s allocation of UTOPIA bond pmts
2033	\$587,136.73	Lindon’s allocation of UTOPIA bond pmts
2034	\$598,879.47	Lindon’s allocation of UTOPIA bond pmts
2035	\$610,857.06	Lindon’s allocation of UTOPIA bond pmts
2036	\$623,074.20	Lindon’s allocation of UTOPIA bond pmts
2037	\$635,535.68	Lindon’s allocation of UTOPIA bond pmts

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2038	\$648,246.40	Lindon's allocation of UTOPIA bond pmts
2039	\$661,211.32	Lindon's allocation of UTOPIA bond pmts
2040	<u>\$674,435.55</u>	Lindon's allocation of UTOPIA bond pmts
	\$12,583,651.01	

According to agreements between Lindon City and UIA, Lindon utility customers may sign up for access to the UTOPIA fiber optic network and have the following choices of how to pay for the network connection. Lindon City collects the payments for connection to the fiber network as part of the monthly utility bill and remits the majority of the collected monies back to UIA.

<u>Up-front Payment</u>	<u>Monthly Payment</u>	<u>Term of Payments</u>
\$2,750.00	\$0.00	no additional payments
\$300.00	\$30.00	10 years
\$0.00	\$25.00	20 years

Lindon remits 100% of the up-front payments and 95% of the monthly payments to UIA. The remaining 5% of monthly payments is retained by the City as an administrative cost for collecting the payments.