1) **What’s this we hear about a private partner for UTOPIA?**

A private company, Macquarie Capital, has become interested in forming a ‘public-private partnership’ (P3) with the eleven cities that make up UTOPIA. Macquarie would assemble the capital needed to complete construction of the fiber network started a decade ago. It would then form a special company that would manage and maintain the renamed network under the oversight of the 11 cities. The cities would incur no more bond debt for the buildout and would pay back Macquarie and its investors over 30 years by collecting a utility fee for delivery of a no-cost, minimum level of internet service to each address.

2) **Is this a done deal?**

No, it is not. Macquarie and the Utopia cities have entered into a “Pre-development Agreement,” an intensive investigative and research process by which both sides can see if a deal can and should be made. For simplicity, the responses below will read as if a deal can be reached, but nothing is certain at this point. Should the predevelopment process reach a positive conclusion, each city, its leaders and citizens will have a decision to make as to whether they are willing to accept any proposed deal.

3) **What does this mean to my city and me?**

The P3 proposal will resolve a number of challenges for the UTOPIA network. The transaction will more than double the number of residences that have access to the network, and will result in a portal being installed at every residence, single family home, business and anchor institution within the 11 cities. This portal will be the conduit through which consumers can connect to the UTOPIA network.

All premises that have an access portal installed will be eligible to pay a monthly utility fee to the cities. The utility fee will cover the cost of constructing, operating and maintaining the network over the long-term. Payment of this utility fee will also entitle consumers access to a basic level of connectivity, competitive with current entry level offerings of current providers.

The network will remain open access, and customers will be able to select a preferred provider from which they will receive the basic service. Where user preferences require higher speeds and/or bandwidth, the providers will also offer upgraded services with speeds of up to 1Gbps. Any fees charged by the provider for these upgraded services will be additional to the utility fee. A portion of revenues generated from up-selling of services is proposed to be routed back to the member cities and may be used for payment of existing bond debt.

Users that have paid or are paying the installation fee will be compensated – see question 25 for more details.

Macquarie believes that the all-in cost for users will remain competitive with the current pricing environment for high speed broadband access.

4) **Who is Macquarie and why would they do this?**

Macquarie is a global leader in infrastructure investment and has played a leading role in developing the P3 model. Globally, Macquarie manages over $360 billion of assets, including $100 billion of infrastructure assets in the United States, diversified across ports, telecoms infrastructure, bridges, tunnels, roads and airports. Approximately $25 billion of these assets have been developed under the P3 model, and Macquarie believes that municipal fiber assets such as the UTOPIA network are well-suited to the P3 model.

5) **Why is an Australian bank so prominent in P3 projects?**

April 11, 2014
Australia is a very large country with relatively sparse population. That means they had the need for large infrastructure projects, without the tax base to efficiently fund them. The government there was among the first in the world to adopt the P3 model. Macquarie is Australia’s largest and among its oldest financial institutions so it was a natural fit. And success breeds success as more governments worldwide have seen the wisdom in P3 projects.

6) I have never heard of Macquarie. Do they have the resources to follow through?

Macquarie Capital is the financial advisory business of Macquarie Group. Macquarie Group, based in Sydney, is one of Australia’s premier financial institutions, with a market capitalization of over $16 billion, balance sheet assets of over $40 billion and more than $360 billion of funds under management. Macquarie is a global leader in infrastructure investment which, directly and through its more than 100 portfolio companies, employs more than 85,000 people worldwide. Macquarie is considered a ‘trusted partner’ of governments around the world with several large capital infrastructure projects here in the U.S.

7) Why are governments entering into public-private partnerships?

As is well known, state and local governments have mounting infrastructure needs. Revenues are simply not keeping pace, and some entities have alarming debt levels. A P3 is a way of leveraging government resources without incurring the expense of going to the capital markets and incurring more debt. P3s also give governments a means of ensuring ‘asset performance’, since payments to the private entity are based on fulfillment and performance. Such normal burdens as labor issues, debt and managing costs fall to the private partner. Macquarie’s government partners have seen cost reductions of 20-30% compared to similar, government run projects.

8) It is it like Google Fiber in Provo and maybe Salt Lake?

Yes and no. Google has begun working on one model where they are the sole provider on their fiber network; Macquarie’s model is quite different. For one thing, the former UTOPIA network would remain an open wholesale network on which any number of providers could utilize. Therefore, customers would have a broad choice of providers for home telecom services – voice, data and television. The sponsoring government entities also retain ownership and ultimate control.

9) Why not just let Google do it?

The news about Google in Provo and potentially Salt Lake City is exciting. But it does not extend to the 11 cities of UTOPIA. It does demonstrate two things about this type of undertaking. First is that fiber is the next wave of infrastructure for thriving cities, and others recognize it. The second is that the incumbent providers (existing companies with older networks) are simply not meeting the needs of today’s communities. Google knows there is a critical need to be met, and so does Macquarie.

10) Will my city still carry huge debt from UTOPIA?

Unfortunately, despite Macquarie’s best efforts it will not be possible to redeem existing debt in this deal. The good news is that a very real possibility exists that the new network operation may be able to help repay that debt over time. The P3 will create a large increase in the number of users able to access the network, and as more users join the network and receive services from providers, there will be a greater amount of revenue available to the cities to help pay their existing debt obligations.

11) How large an investment are we talking?

The current estimate is about $300 million. Again, a significant portion of that cost covers updating network facilities over the 30-year period of the agreement. No matter what, Macquarie’s investment and the cities’ obligation will be clearly specified and binding at the outset of any agreement.
12) How do we know that Macquarie can provide such a large capital investment?

Macquarie is the world’s leading infrastructure investor, and over the past five years, Macquarie has participated in transactions that created over $23 billion of infrastructure investment, a sum more than $5 billion greater than its closest competitor. In the U.S. alone, Macquarie has either invested directly or arranged financing for P3 projects worth over $8 billion, including the $1.6 billion Denver Eagle P3, the first mass transit rail P3 in the U.S., in 2010. Macquarie also has a history of investing in fiber assets, including an $860 million trunk line development that connected three major capital cities in Australia.

13) UTOPIA has had significant difficulties in paying for and completing the system. Why is Macquarie different?

A key benefit of P3s is that a substantial proportion of risk is transferred away from the cities and UTOPIA to the private sector partner. Macquarie will guarantee the cost and completion date for the buildout, and will be immediately required to pay penalties if either of these guarantees is not fulfilled. The cities will not have to make any payments to Macquarie until the network is fully built and operational in that city (or until each footprint of deployed area is completed).

14) UTOPIA has not been able to provide a strong product offering. Why is this different?

Although Utopia’s current providers are able to provide excellent service, the network is only partially built; therefore not enough customers have ever signed up to attract the number and variety of service providers needed to make it successful. A P3 with Macquarie would be different because the number of households served would be sufficient to attract a robust product offering.

15) UTOPIA has struggled for various reasons since its inception. Why should we believe things will change?

Macquarie has a long track record of success in setting up and running P3 projects. The renewed UTOPIA network will be managed and operated to private sector standards with private sector methods. Even more important, Macquarie’s repayment from the cities will have to meet certain performance and service standards or the cities can withhold payment.

16) How do we know Macquarie won’t come back for more money in the future?

As on most of its projects, Macquarie will be putting its own capital at risk. It is up to them to properly calculate the costs. There is no provision for increasing the amount later. That is why our feasibility process is so costly and detailed. Macquarie will not only factor in the costs of construction, but also the cost of refreshing the network over 30 years. In fact, 20 to 30% of the total deal will be for keeping the network up to date. If Macquarie fails to properly calculate costs, its own capital is at risk.

17) Why is the city even in this business?

UTOPIA founders were responding to demands for high speed broadband services in their communities that were not being adequately provided by private industry. As technology advances, high speed broadband is increasingly being viewed as the “fourth utility”, as essential as electricity and water; a recent survey of the UTOPIA cities that shows 55% of residents believe that “high speed internet is a basic need” for modern communities. Research has shown that access to higher speeds contributes to a community’s economic development through new opportunities and increased productivity, increased employment through new and retained jobs, and an increase in the breadth and quality of municipal services.
A key objective of the partnership between the cities, UTOPIA, and Macquarie is to maximize benefits for the communities. Keeping the infrastructure in the control of the cities ensures all residents, regardless of income, are provided a basic level of connectivity at a competitive price.

18) Should government compete with the private sector?

No, it should not. Under the P3 model, the cities will no longer have a direct role in the operations of the network. Macquarie will become the network operator and wholesaler, overseen by the partner cities to ensure that the contractually agreed performance standards are achieved. Macquarie will be wholesale only and will not compete to provide services directly to end users. The network will remain open access, and Macquarie will seek to maximize competition between providers on the network, consistent with our research that 86% of residents in UTOPIA cities believe it is at least ‘somewhat important’ to have a choice among ‘multiple service providers’ for home and business telecom services. An open wholesale network has the potential to increase private competition several times over.

19) But will government still be competing with incumbent providers?

The government will not compete with the incumbent providers, nor will Macquarie. The cities will retain ownership of the network assets, and the private partner Macquarie will take operational responsibility for the network over a 30-year period, effectively leasing the network from the cities.

Macquarie will not compete directly with private providers for residential or business customers. Macquarie, as operator of the UTOPIA network, is providing a “fiber highway” that any provider can use to deliver data, voice, video and other services to customers. This highway is open to any provider that wishes to use it, including the incumbents. The incumbent providers own a different, non-fiber digital highway, which does not have nearly the capabilities of fiber and provides services exclusively to their own customers.

20) Why am I paying taxes or fees for a system I never plan to use?

Macquarie and its partners hope you will change your mind, and will work hard to earn your trust and your business. But even if they never do, all citizens will benefit from this partnership. First, simply completing construction of the UTOPIA network will increase the alternatives available to all residents. Providing communities greater choice of providers generally reduces prices for telecom services, even from current providers. Macquarie understands that Google’s entry into the Provo and Kansas City markets has resulted in price reductions and speed increases from incumbent providers. Second, this P3 network will help your city save money in a number of ways in delivering services and information to residents. Third, network cities may offer free services such as public ‘hot spots’ throughout the community. In short, the benefits will not begin or end at your front door.

21) What about my very senior neighbors who can’t afford or won’t use the service?

Chances are good that they are now purchasing or need to purchase some minimal level of service. The plan is to provide at least a basic level of service for the minimum utility fee charge. It may very well be less than they are paying now, and will certainly be competitive. Even so, many cities are discussing ‘circuit breaker’ mechanisms for lower income residents.

22) What happens if technology changes? Are we going to be left behind?

Technology has changed, and many American states and cities are being left behind. That is why fiber infrastructure has become so critical. Fiber optic cables transport signals at the speed of light, and fiber is increasingly accepted as the next generation delivery technology for data, voice and video applications. Macquarie, UTOPIA and the cities are confident that the core fiber infrastructure will continue to be competitive technology over the long term. A more relevant consideration is the electronic equipment used to transmit and receive those signals. Macquarie will be required to ensure that all users have reliable access to
connection speeds up to 1Gbps, and it will be at Macquarie’s cost that new technology is deployed to make that access more efficient.

Macquarie and the cities are also discussing strategies to protect against a 1Gbps connection becoming obsolete over the term of the contract – however, with average U.S. broadband speeds of ~4-5Mbps, we believe that the network technology will have sufficient capacity to ensure that users stay at the forefront of national broadband access.

23) **UTOPIA has done the best it could with the resources provided. How do we ensure the best services possible in the future?**

The UTOPIA network has labored under an operations deficit for some time. Macquarie does not face the same capital constraints as UTOPIA or the cities and is undertaking a rigorous feasibility analysis to ensure that the network is designed in such a way that the bandwidth available to providers and, in turn, consumers, is capable of meeting the cities’ desired performance standards.

The performance standards will be set to ensure users have a reliable network on which they can utilize the full capacity of connection speeds up to 1Gbps. Macquarie must meet these standards, both in network design, construction and operations, to receive any payment from the cities. Macquarie’s ultimate success hinges on superior network capability, a robust product offering and high customer satisfaction.

24) **At times, management of UTOPIA has had considerable difficulties and has failed to move the organization forward to meet its obligations. How will this be addressed?**

There have been difficulties with network management in the past, though some improvement has come in recent years. But what matters is future management. As with all its projects, Macquarie will recruit a management team with network experience and credentials to operate the completed network. Macquarie is happy to be held to the highest standard going forward.

25) **What about people who paid huge fees for installation, placing liens on their homes?**

Macquarie and UTOPIA are working through structuring considerations to ensure that these users are treated equitably relative to those individuals that did not pay the fee. Our anticipation is that these users will be compensated in some way to reflect the installation fees, and we will look to discuss the mechanism in more detail with key stakeholders once it has been further developed.

26) **What about Wi-Fi?**

Wi-Fi is a great tool and important to any community. But Wi-Fi can only exist via a robust facilities base to support it with backhaul and other functions; it can never be a stand-alone solution. Our network will provide for enhanced Wi-Fi accessibility in homes and in public spaces throughout the city.

27) **Why don’t we just mothball the system and get out of the business?**

You could, but your city would still carry the obligation for debt service and would still be required to pay per the terms of the original agreement. Based on the cities’ current repayment profile, UTOPIA’s annual obligations are expected to increase 25% by 2025, and so mothballing the asset would not only keep the full burden of the existing debt with the cities, but also devalue an extremely valuable asset and shut off any revenue. Fiber networks are increasingly being viewed as highly preferable to cable, evidenced by the 1,100 applications that Google Fiber received prior to its initial rollout in Kansas City.

28) **What if I’m basically satisfied with my current provider and don’t want to change it?**
You are free to make that choice. If you are purchasing a home telecom package now, it is very likely that you will save a significant amount each month by using the fiber network. Competition brings better service and lower prices in every market we know. The evidence is clear – when additional providers enter a market, speed increases and prices decrease. Two good examples are Kansas City and Provo, where non-Google customers have received enhanced service along with price reductions. We expect that same effect. Your household will also benefit from free services provided in your community and from better and lower cost delivery of some municipal services.

29) No matter what you call it, isn’t the $300 million still another debt for my city?

It is not debt, though it is an obligation. Let’s assume you plan to eat lunch every day for the next thirty years. Let’s assume that with a mix of lunches ranging from a sandwich and an apple from home, to nice business or social lunch that costs several dollars, your average lunch costs about three bucks. You probably eat lunch every day, so that is three dollars per day. Rounding off in a few places, does that mean you owe $33,000 in ‘debt’ for your future lunches? If you spend $300 per month for gasoline (a little low) does that mean you are in ‘debt’ to the tune of over $100,000 for gas? Would you list that on a financial statement? No, and neither would your city. It may be an “obligation” to pay for a service, as many cities do for garbage collection or other services, but it is not a debt. That means your city would still be able to borrow for other appropriate projects, services or emergencies. And this obligation may yet help your city pay off that debt from before.

30) How is my city supposed to repay this obligation?

The proposal is to use a ‘utility model’ to pay for completion of the network and connection to every address. Each household will be charged a modest fee to cover the basic costs of the wholesale portion of the network. At this point we believe that basic fee will also include a basic level of internet service. Provo has instituted a similar fee called a ‘Telecom Debt Charge’ to pay for past debt obligations incurred when they installed their fiber network prior to the Google deal.

31) Will that utility fee increase over the thirty years of the agreement?

Macquarie and the cities are still determining the methodology of calculating the utility fee. While it is likely that this fee will increase over the term of the agreement, annual increases will be capped and will most likely be linked to a public index, such as CPI.

However, no adjustment will be made to cover any unexpected or unforeseen increases in costs that could have been mitigated by Macquarie. For example, even if the cost of the buildout exceeds the price guaranteed to the cities, or costs to operate the network are materially higher than calculated by Macquarie, the utility fee cannot be adjusted without written consent from the cities.

32) How do the Cities insure performance?

Following the P3, the UTOPIA network will be a world away from its historical performance. The P3 model is a performance-based model, which requires Macquarie to achieve the requirements outlined in the concession agreement in order to earn a return. Under this model, the cities no longer bear the costs if the network does not deliver its required objectives.

33) Isn’t part of the problem that UTOPIA was always been subject to political influences?

Again, in the future, the network will be run by private sector personnel and management. The eleven cities will still maintain oversight, but the construction, operation and maintenance will be performed by a private company.

34) What is a concession agreement?
A concession agreement means a private entity takes over management and operation of a public asset. An example might be the café at a public golf course. The concessionaire operates and maintains the location, but the city retains ownership. Macquarie will take over all management and operation functions and will be paid by the cities over the 30 years of the agreement, but the cities retain ownership.

35) **Don't most private providers charge one rate for homes and another for business?**

Most do. Following implementation of the P3, each household or business will receive an equal bill for the utility fee collected by the cities. Any additional billing will come from upgraded services purchased from private providers, beyond the free basic service provided under the utility fee model. Pricing of these additional products – television programming, for example - will be set by private providers in a highly competitive market, which may result in different rates for homes and businesses.

36) **What does ubiquitous mean?**

Ubiquitous means in this case, “seemingly everywhere.” It means the intent is to provide a fiber connection to every home and business in the 11 member cities.

37) **What if I don’t need that much speed and don’t want to pay the cost?**

The new network entity will provide services at many different price points. You would not have to subscribe to a “superfast” connection you do not want. We do believe there will be a level of service appropriate for almost every consumer, at extremely competitive pricing. But even if you stay with your current carrier, you will still benefit from competitive pricing, enhanced city services, increased economic development and a host of other positives.

38) **I like bundled services; will the new network offer that sort of thing?**

The network itself will be wholesale and won’t offer services. But it is expected that service providers will offer such bundled services when the network is completed and there is enough reach to attract a much stronger service offering. Macquarie is currently in discussions with a number of such providers not currently available on Utopia.

39) **What is the bottom line? Why should we buy this deal?**

Everyone understands that the eleven Utopia cities are in a tough position. The original financing, planning, construction and operation of Utopia all fell short. As a result, Utopia has become a “stranded asset,” loaded with debt and unable to break into the black or achieve “launch velocity” for success. Inadequate revenue means insufficient “take rates,” which ensure even more inadequate revenues. A P3 with Macquarie – though not without cost – provides a way forward. Macquarie’s injection of private capital, experience and know how breaks the cycle of failure in which Utopia is mired.

There are many other reasons, as well - like the future. Fiber and the superfast connectivity it brings is the future in medicine, education, public safety, business and economic development – almost every aspect of our lives. Who could have imagined fifty years ago where we find ourselves today in terms of telecommunications and information technology? Connectivity affects everyday living in ways our grandparents could never have imagined. A successful, prosperous future will require even greater vision, innovation and investment, and that is what this “deal” is really about.