

June 18, 2019

RE: REPORT OF THE MAYOR'S TASK FORCE ON TELECOMMUNICATIONS

To the American Fork City Council:

In May 2019 American Fork Mayor Brad Frost assembled an ad hoc Task Force on Telecommunications, consisting of four city residents with varied expertise, to examine a proposal to extend fiber optic connectivity as a city utility to every residence and business in American Fork. Mayor Frost, members of the American Fork City Council, and other City officials have studied the city's present broadband situation and various alternatives, including the present proposal, for several months.

The task force's commission has been to examine the proposal deeply and from every useful angle, to ask every tough question we could devise, and to report our thinking to the city council. This letter summarizes our activities, findings, recommendations, and concerns.

We met as a group in May and June 2019 with the following experts:

- David Shaw, a retired attorney, formerly of Kirton McConkie; a leading specialist in information technology, telecommunications, public utilities, and public finance; and former General Counsel to the Utah Telecommunications Open Infrastructure Agency (UTOPIA) and UIA (Utah Infrastructure Agency).
- Kathy Shaw, a project coordinator with expertise in municipal broadband projects, and an adjunct professor at Brigham Young University and Utah Valley University.
- Todd Marriott, an expert in municipal broadband design and implementation, and former Executive Director of UTOPIA and UIA, where he was principal architect of UTOPIA's turnaround to profitability.

All members of the task force served without compensation from the City or any third party. None of us presently holds any administrative responsibility with the City, paid or volunteer.

We found our three experts to be candid, well informed, helpful, reasonable, and credible. They reported that Mayor Frost directed them to answer all of our questions and, in doing so, to withhold no relevant information which City officials have received, and to facilitate any contacts we wished to make with other municipalities. We thank them for their patient and thorough explanations and answers to many questions.

THE PROPOSAL

In summary, the proposal under consideration is that American Fork City establish fiber optic service to every residence and business in the city as a public utility, as permitted by Utah Code 10-8-14. Basic service will be offered to each residence for a nominal monthly fee, perhaps \$10-12, for which every home and business will be billed as part of the City's monthly utility bill. Faster service will be available at an additional charge, at competitive or lower rates. There

will be provision for residents to opt out of the fee and the service (but not the physical connection) on the basis of economic hardship.

The proposal includes the City issuing approximately \$30 million in revenue bonds (which must be backed by City revenue but do not require voter approval), primarily for the initial capital investment, but also to retire the remaining \$2.6 million debt from the legacy system and perhaps to support operations for a very short initial term (not more than a year or two).

Citywide buildout is expected within two calendar years, but may be complete much sooner.

Even deliberately conservative financial models lead the City to expect the system to cover its own costs within a year or two, and to deliver surplus revenue which can be used to retire the debt early, pay off other debt, and better fund essential services such as road maintenance and repair, and public safety – without increasing taxes on city residents, and perhaps lowering them.

Providing Internet service to residents is not the sole object. The City itself could leverage the system in such areas as the metering of irrigation water, which will soon be required under state law. Other municipalities, such as Ammon, Idaho, have demonstrated that such networks can be used to enhance public safety, including school safety. The system will also accommodate virtual networks and private networks, which will be separate from the Internet, to serve financial, health care, and other industries, as well as educational institutions. A city-wide fiber network will also facilitate and deliver future technologies and services, which are already in development.

Such a system is expected to mitigate an ongoing problem which American Fork shares with many municipalities. The private broadband market significantly underserves the city and its residents, as a predictable matter of economics. At the same time, citywide fiber will make American Fork more attractive to large and small businesses and encourage home-based businesses and telecommuting.

FINDINGS

We examined the proposal on several levels. We were briefed and asked numerous and detailed questions about law, finance, technology, economics and economic growth, infrastructure, implementation, operations, environmental implications, political considerations, and the varied experiences of other municipalities. While presenting a detailed analysis of each point is beyond the scope of our assignment and would duplicate information that is and will be available from other sources, we summarize our thinking as follows.

1. While functional, the City's current municipal broadband system, which reverted to City ownership when Surpha, its purchaser, defaulted, is not adequate to present or immediate future needs. It cannot feasibly be upgraded to a city-wide all-fiber system, and much of its copper cable is approaching the end of its rated life.
2. We expect that 5G technology, if it ever reaches every neighborhood of American Fork, will not render a citywide fiber system obsolete. Moreover, the fiber optic cable installed for such a system will accommodate likely future advances in fiber optic technology without replacement.

3. We believe that the provision in state law which allows the project is vulnerable to repeal in coming legislative sessions, under pressure from the telecommunications lobby, which is arguably the largest and most active political lobby addressing state and federal governments. This, as well as favorable current bond rates, the city's projected rapid growth, the available knowledge and experience of hundreds of other municipalities which have similar systems, and other conditions, suggests that the City has a window of opportunity to act aggressively to upgrade its future -- a window which may close early in 2020, during the next legislative session.
4. We are satisfied that the proposed citywide fiber optic utility would rely on technology that is already well established and in use on a similar and larger scale in numerous municipalities.
5. We are satisfied that City officials have conscientiously examined a wide variety of approaches to the legacy system's remaining debt and to the city's current and future technical and economic needs. We agree that this option is in the best interest of the city's residents and businesses.
6. We are satisfied that a well-managed citywide fiber system will be fiscally advantageous for the City. Conservative estimates based on revenue from residential service alone (excluding businesses and educational and other institutions) suggest that the system may begin to cover its costs by the end of its first year of operation, and that subsequent revenues are likely to allow a 30-year bond issue to be paid off many years before its term.
7. We are satisfied that the proposed system can be funded, built, and administered in such a way as to be fiscally sustainable even through tight economic times. The current proposal's financial models do not depend for long-term success on an endless economic boom.
8. We believe that a citywide fiber system will dramatically expand telecommuting opportunities for residents. The positive environmental effects of thus reducing automobile commutes are predictable and desirable, in view of existing air quality issues, anticipated dramatic population growth, and current and future pressures on our transportation infrastructure.
9. We believe that a citywide fiber system will serve and appeal to businesses directly, but also indirectly benefit the city's economy. Many businesses consider the resources, infrastructure, and quality of life in a community before moving their employees to it, whether they anticipate telecommuting or not. Moreover, a broader range of home-based businesses will thrive with a modern level of broadband service.
10. We are satisfied that established businesses and residents will have better connectivity available at a substantially lower cost than at present. Educational, voluntary, and nonprofit institutions will enjoy similar benefits.
11. We believe that with effective public education, the City may reasonably expect the proposal and its subsequent implementation to receive broad public support.
12. While some opposition may be expected from competing public and private services, as well as political interests inside and outside American Fork, all of whom will seek to advance their own causes, we are confident that the city council can resist such pressures and act in the best interest of American Fork.
13. We reject the likely argument that providing citywide fiber connectivity should be left to the private sector. The private sector has underserved American Fork and will continue to

do so. This is a natural economic consequence of large externalities. Most of the benefits of municipal broadband do not accrue to the provider; the natural effect is for the private sector to underserve city residents and businesses. Accordingly, large externalities are widely accepted as a strong indicator that public ownership of resources is desirable – in this case, in the form of a public utility.

Merely considering such a proposal seriously can have unpredictable political consequences for elected officials. We applaud elected City officials for considering this proposal when the timing is right, despite this being a municipal election year.

CONCERNS

The task force believes that the following concerns must be addressed, if the proposed utility is to bring the promised and needed benefits to American Fork. These concerns are reflected in our recommendations, which follow.

1. Best-in-class, 24/7 customer support must be established and maintained. We are also concerned about the ability of the city utility to enforce a high level of customer service from the ISPs which will inhabit the system.
2. Marketing must be ongoing and intelligent, and the City cannot rely on ISPs which join the system to provide adequate marketing to insure an excellent take (participation) rate.
3. Initial and ongoing public support for the proposal depends on effective public education. There must be a thorough, transparent, multichannel, persistent effort to educate the public in the coming months, or this proposal could both fail and have serious political repercussions -- not just for present officials, but for the cause of good local government in the future.
4. Municipal broadband and fiber systems are often top-heavy with management in their initial years, which delays and impedes a system's ability to cover its own costs. It is important that the City fully absorb this lesson, in part by employing experts who have been involved in successful municipal fiber projects elsewhere.
5. To be viable for businesses, the utility must offer the Service Level Agreements which businesses require.
6. We are concerned in the long term that future City leaders and officials may be tempted to economize in customer service and other crucial areas, in order to divert funds to other purposes. However, we understand that a present council cannot bind a future council.

The task force believes that, with the proper leadership, all of these concerns except the last can be answered. The last may best be averted by the fiber optic utility's long-term success.

RECOMMENDATIONS

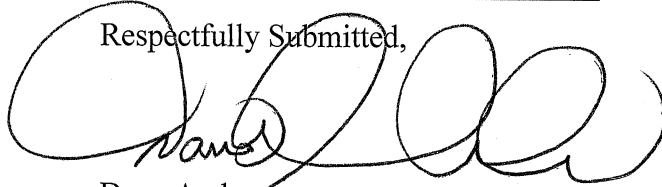
1. We recommend that the city council seriously consider funding and creating the proposed utility without delay. This recommendation is pending the final feasibility and market studies, which are about to be reported, and drafts of which have been made available to the task force; and to reasonable assurances that basic service can be offered in the \$10-12 per month range.

2. If the council chooses to proceed, we strongly recommend that residents with genuine financial hardship be permitted to opt out of the monthly utility fee for fiber. We recommend that the council not proceed without such a provision.
3. We urge the city council to insure that the concerns we have listed above are answered conscientiously; to insure that public education and marketing are conducted thoroughly, professionally, accurately, and effectively; and to counter any published misinformation aggressively with clear and correct information.
4. We urge the City to take reasonable measures to encourage ISPs to maintain a high level of customer service, and to provide its own best-in-class customer service to which residents and businesses can readily turn -- perhaps at the ISPs' expense -- if their ISP does not provide excellent, timely service.
5. If it is possible, and to the extent possible, we urge the City to separate this utility from the City's general fund, to insulate it from the vagaries of local politics.

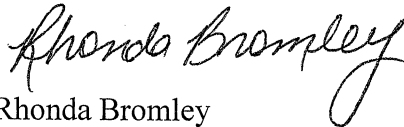
CONCLUSION

The Mayor's Task Force on Telecommunications unanimously offers the American Fork City Council a favorable recommendation of this proposal. We find it to be forward-looking but also sensible and realistic. Properly implemented, we believe it will not only improve the City's fiscal position and promote economic growth, but also improve residents' quality of life and encourage businesses and their employees to come to and remain in American Fork.

Respectfully Submitted,



Dave Anderson
Member



Rhonda Bromley
Member



Allen Frost
Member



David Rodeback
Member