

ctc technology & energy

engineering & business consulting

To: Elizabeth Pauli, City Manager, City of Tacoma
Linda McCrea, Interim Director, Tacoma Public Utilities

From: Joanne Hovis, President and Director of Business Consulting
Tom Asp, Principal Analyst and Engineer

Re: Preliminary Evaluation of Tacoma Click! RFI/Q Responses
and Recommendations for Next Steps

Date: May 21, 2018

This memorandum summarizes CTC Technology & Energy's initial, preliminary evaluation of the responses received by the City of Tacoma and Tacoma Public Utilities in response to the Request for Information/Qualifications (RFI/Q) seeking ideas from potential public and private collaborators regarding the future of Tacoma Public Utilities' Click! Network. This memorandum also provides CTC's recommendations regarding next steps.

CTC's evaluation of the RFI/Q responses addressed the following key considerations:

- Responsiveness to the RFI/Q and recognition of the underlying challenges as well as the City's vision for Click!
- Business experience, technical expertise, financial viability, and capital capacity to support Click! and invest in network upgrades
- Stated willingness to address some or all of the City's 12 goals, as adopted by the City Council by resolution, as well as track record in regard to the goals

Summary and Recommendations

The five respondents are Advanced Stream, Rainier Connect, Wyyerd, Yomura Fiber, and Wave.

In summary, all five responses reflect thoughtful consideration of the City's needs and significant effort to respond to the RFI/Q. All five suggest that they are amenable to many or all of the City's key goals, including network neutrality, robust competition, and privacy protection. All five propose interesting financial relationships, with at least three of the respondents proposing arrangements that would greatly reduce or eliminate TPU's current operating losses. At least three of the respondents have significant track records in broadband deployment and services.

Recommendation 1: The RFI/Q successfully demonstrated that there is sufficient market interest

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in the Click! assets to launch more extensive, concrete negotiations.

- Though there are questions that will require extensive examination and negotiations with all five respondents, we believe that most of them align sufficiently with the City's stated **policy goals** for this effort that there is justification for proceeding to the next step in evaluation.
- At least three of the five responses align sufficiently with the City's stated **financial goals** for this effort that we believe there is justification for proceeding to the next step in evaluation.

Recommendation 2: All five of the responses are worth further consideration, more research, and due diligence on the part of the City. We recommend against discounting any of them at this point. The concerns requiring further examination may be resolvable through discussion and negotiation with the respondents. If the concerns can't be addressed through conversations in follow-up to the written submissions, those respondents can then be eliminated from further consideration. In this way, appropriate further process will enable TPU and the City to winnow the field and conduct significant, concrete negotiations with one or more of the respondents who have presented the strongest proposals, both in writing and in further conversations.

Recommendation 3: Subject to procurement rules and regulations, we recommend that the City proceed with the further discussions described above and then either begin negotiations with one or more of the respondents, with the intent that such negotiations will lead to contractual agreement, or undertake a formal Request for Proposals.

The Five Responses

Below we summarize our preliminary sense of the strength of each proposal, with attention to the level of risk each proposal presents to the City and a discussion of the financial and technical capacities of each respondent.

With respect to the 12 goals, all five respondents provided narratives addressing how they would meet these goals. For example, all said they would interviewing existing Click! employees for available positions. This illustrates at a high level that the city has the potential to meet many or all policy goals while alleviating the present financial burden. But these are nonbinding statements, and they vary considerably in terms of detail and approach. And these statements will become more meaningful as negotiations proceed and produce more concrete language leading to contractual commitments.

Advanced Stream

Advanced Stream is an existing provider well known to TPU and customers in the City. Its response was notable in that it did not fully address the underlying financial challenges that drove the issuance of the RFI/Q. In brief, Advanced Stream proposes to solve Click!'s financial problems by having TPU change budgetary allocations so that ratepayers cover more of the network's costs. In this way, Advanced Stream's submission essentially promotes the status quo. But given that Advanced Stream has a strong stake in the future of Click!, it may be willing to revise its proposal if Tacoma/TPU requests that it do so as a first step in the negotiating process.

Rainier Connect

Rainier Connect is also very well known as an existing local provider, and its response was thoughtful in how it addressed the City's concerns. The Rainier Connect proposal reflected considerable work and effort. The company emphasized its existing local presence and customer relationships and its commitment to meeting the City's goals.

But Rainier Connect's proposal also raises concerns in that it proposes to lease, manage, and operate the network and be a service provider, so long as TPU effectively holds all risk and funds network upgrade costs over time. Its model proposes that TPU provide a \$26 million loan to upgrade infrastructure and then share in long-term revenues when they materialize, presumably to support debt service. These revenues, however, are speculative rather than guaranteed and would require the company to dramatically grow the take-rate for data services. But Rainier Connect has been a data service provider for a long time in Tacoma and has not been able to achieve such take-rates, and we are therefore concerned about a collaboration in which TPU takes on more financial risk based on speculative revenue growth.

Still, Rainier Connect says it is flexible in terms of its approach. We believe the City should include Rainier Connect in the negotiating phase, and engage particularly on the question of the extent to which the company is willing and able itself to invest.

Wyyerd

Wyyerd stated that its strong preference was to purchase the network (leaving some portions in City and TPU hands for public uses). This was a disappointment given that the RFI/Q clearly stated that continued municipal ownership was a key City goal. But Wyyerd also stated that it would be open to a long-term collaboration through a leasing mechanism that would allow it to build a long-term business in Tacoma.

Wyyerd is a new company, but appears to be well capitalized and led by experienced executives who came from companies like Zayo and Level3, both of which are highly successful, substantial providers of infrastructure and enterprise services nationally. And the company has capital

available through Columbia Capital. Wyyerd's proposal does not provide significant detail regarding what services it would provide other than saying it would be locally competitive and provide high-quality, high-bandwidth services. Wyyerd's proposal commits to meeting most of the City's goals, though its privacy policy might not be as protective as others.

Given that Wyyerd has strong leadership and financial backing, we believe that it's worth exploring further how the City can work with Wyyerd.

Yomura Fiber

Yomura is a U.K.- and Sweden-based provider with extensive operations in European markets. Yomura appears keen to expand in the United States through partnerships with municipal providers. Yomura's proposal was exceedingly strong on its face. The company says it will fund upgrades of Click!'s coaxial plant to Fiber-to-the-Premises and that the fiber, after a lengthy lease period, will be owned and controlled by the City. Yomura's response is highly detailed in describing service plans, and even proposed to provide a free tier of service to low-income customers. It was particularly strong in stating adherence to net neutrality and privacy principles.

A concern with Yomura is that the company is little known in the United States. The company notes in the RFI/Q response that it has projects underway in Denver, Atlanta, and Charlotte, NC. Given the strength of the RFI/Q response, we recommend moving to next steps with this company and an effort to learn more about the company.

Wave

Wave's ownership and some management has changed since Tacoma last considered a proposal from the company two years ago. It was acquired about 18 months ago by a private equity firm, TPG Capital, which also recently acquired RCN Communications (located primarily on the east coast) and Grande Communications (located in Texas). As a result, TPG, which had developed combined management for the three brands, now owns one of the largest cable companies in the country, and probably represents the most significant competitor to Comcast on the west coast other than AT&T.

Wave is an experienced cable and internet company with substantial operations in Seattle, Tacoma, San Francisco, and other parts of Washington, Oregon, and California. One interesting element about Wave is that most of its infrastructure is the same as that of Click!: hybrid fiber/coax (rather than fiber-to-the-premises).

Wave's response is very thoughtful and credible. Like Yomura, Wave seeks a long-term right of use, for which it would pay TPU in the form of lease fees, network upgrades, and performance guarantees. The company states that it would commit to all 12 of the City's goals.

Evaluation Summary of Responses

Below we show three measures of the proposals' strengths in terms of responsiveness to the RFI/Q and the proposers' technical and financial capacity.

CONSIDERATIONS	Advanced Stream	Rainier Connect	Wyverd	Yomura Fiber	Wave
Responsiveness to RFI/Q	Doesn't address challenges the RFI/Q seeks to remedy	Responsive but requires TPU financial risk	Responsive, but prefers purchase	Responsive	Responsive
Technical Capacity	Established local service provider	Established local service provider	Management team has significant experience in industry	Appears to have significant technical capacity and FTTP experience, but new to U.S. markets	Significant technical capacity and U.S. experience
Financial Capacity	Unclear; seeks status quo	Unclear; would require loan from TPU to expand and upgrade network	Appears to have private	Privately funded; requires analysis	Backed by private equity
Policy Goals	States willingness to meet all 12 goals	States willingness to meet all 12 goals	States willingness to meet all 12 goals	States willingness to meet all 12 goals	States willingness to meet all 12 goals

Summary of Respondents' Stated Support for Tacoma's Goals

	Advanced Stream	Rainier Connect	Wyverd	Yomura Fiber	Wave
CITY GOALS (abbreviated)					
1: Municipal Ownership	Y	Y	Y ¹	Y	Y
2: Equity	Y	Y	Y	Y	Y
3: Affordability	Y	Y	Y	Y	Y
4: Net Neutrality	Y	Y	Y	Y	Y
5: Open Access	Y	Y	Y ²	Y	Y
6: Preserving Competition	Y	Y	Y	Y	Y ³
7: Safeguarding public sector use	Y	Y	Y	Y	Y
8: Maintaining financial stability	⁴	⁵	Y	Y	Y
9: Promoting economic development/education	Y	Y	Y	Y	Y
10: Job security/intellectual capital	Y	Y	Y	Y	Y
11: Protecting customer privacy ⁶	Y	Y	Y	Y	Y
12: Goodwill/customer service	Y	Y	Y	Y	Y

¹ Wyverd offered that its preferred model is ownership, but signaled openness to leasing arrangements.

² Wyverd says it supports open access, but would need to assess to what extent the network would support this at a technical level.

³ In answering the question about competition, Wave simply pointed out that it is the leading Comcast competitor on the west coast, and that RCN is the leading Comcast competitor on the east coast.

⁴ Advanced Stream says it supports financial stability but fundamentally does not acknowledge today's financial problems.

⁵ Rainier Connect says it supports financial stability, but is seeking a \$26.25 million loan from TPU which would be repaid by speculative increased revenues.

⁶ Assessing privacy policies will require considerable additional discussion with the respondents. Most were specific in saying they'd follow the law, but it's not clear that would afford Tacoma the level of protection sought. Advanced Stream was alone in citing Tacoma City Council Res. No. 39702. Wyverd said it shares data but limits the data it collects and tells customers what is shared. It is not fully clear from the available information to what extent Wyverd's policy might differ from the policies of the other four.