



REPORT TO CITY COUNCIL

FROM: Steven C. Carter, City Manager

DATE: July 6, 2012

SUBJECT: UC2B Business and Strategic Plan SS 2012-36

A. Introduction: This purpose of this Report is to present the UC2B Business and Strategic Plan to the Urbana and Champaign City Councils. The Report summarizes the Plan and requests that the Councils direct staff to place it on the agendas for the July 16 and July 17 regular business meetings, respectively, for its acceptance and implementation.

B. Recommended Action: The Administration recommends Alternative 1 which directs staff to place the UC2B Business and Strategic Plan on the next regular business meeting agendas for both Cities for formal acceptance and to authorize its implementation.

C. Prior Council Action:

- As lead agency for operations for UC2B, the Champaign City Council approved Council Bill No. 2011-244 authorizing the City Manager to contract with NEO Fiber, LLC to provide professional business planning and consulting services on December 13, 2011.
- Diane Kruse of NEO Fiber, LLC, along with her subcontractor Mark Ansboury of Gbps2, both nationally-recognized industry experts, visited Champaign-Urbana and met with community stakeholders and the UC2B member agencies in January 2012 to gather input and seek direction from both City Councils regarding the future of UC2B.
- The Champaign City Council approved Council Bill No. 2012-101 approving Change Order #2 (Change Order #1 was approved administratively) to the NEO Fiber contract in order to complete the original scope of work, in addition to preparing requests for proposals for call center services and electronics repair.

D. Summary:

- The UC2B Policy Board approved a scope of work to develop a business plan, which included providing recommendations for developing service tiers and pricing for both retail and wholesale customers; identifying and evaluating opportunities for expansion; and identifying and evaluating options for UC2B's organizational model and governance structure.
- UC2B sought qualified firms to deliver these services. NEO Fiber, LLC was selected as the best qualified firm for the identified scope of work, particularly because of its familiarity

with similarly situated and federally funded projects and its experience owning and operating its own fiber to the premise network.

- NEO Fiber worked with community stakeholders, staff, the UC2B Policy Board, both City Councils, and other local service providers gathering input and preparing the UC2B Business and Strategic Plan.
- This Plan is built upon that stakeholder input and the approved pricing structures and policies previously approved by the UC2B Policy Board.
- The Plan is based upon a rigorous financial analysis of the projected customer base from the eligible areas, 11 census blocks where connections are provided without charge, to narrow the digital divide, and approximately 200 organizations that are identified as anchor institutions serving vulnerable populations.
- The attached Plan has 8 Sections: Introduction and Mega Trends; Guiding Principles; Overall Findings and Recommendations; Operational Structure and Governance; Market Overview, Competitive Assessment, and Pricing; Operating Models, Outsourcing and Staffing; Financing Options; Glossary.
- The Plan discusses industry trends and key assumptions and identifies opportunities and options for UC2B to consider as it moves forward from its construction phase into its operational phase. The Plan and financial models are “working” documents meant to guide strategic decision-making in the future. The Plan does not contain all the “answers” for UC2B, but rather provides a road map for the future based upon a thorough analysis of the options, along with their advantages and disadvantages, particularly as they relate to UC2B’s operational structure and governance model, pricing, staffing, and financing expansion.
- As the Plan is implemented, there are many positive outcomes that can be expected. These include opportunities for narrowing the digital divide especially in our communities’ underserved areas and for expansion of a cutting edge fiber optic infrastructure into the remainder of the Champaign-Urbana area.
- The Plan describes how expansion of the infrastructure may position the Champaign-Urbana area and the University of Illinois to lead the nation in developing a gigabit network that can be utilized as a unique economic development tool to retain and recruit business and industry, create jobs, and mobilize local intellectual capital to expand high tech applications that are currently not available.

E. Background:

1. NEO Fiber, LLC Hired to Provide Business Planning and Consulting Services. In September, 2011, the UC2B Policy Board endorsed a scope of work that was incorporated into a Request for Interest and distributed to industry experts with the intent of identifying a qualified firm able to assist UC2B in the development of a business plan and financial model analysis. Staff from each of the UC2B member agencies reviewed responses, interviewed firms, and collectively made a recommendation to the Policy Board. In October, 2011, the Policy Board recommended that the City of Champaign, as lead agency for operations, contract with NEO Fiber, LLC for such services. Under City staff supervision, Diane Kruse, NEO Fiber’s President, subcontracted with Mark Ansboury of Gbps2 to begin work immediately on a preliminary and time-sensitive scope of work in November. The Champaign City Council approved Council Bill No. 2011-244 in December.

Kruse and Ansboury visited the community in January, 2012 meeting with member agencies, stakeholders and potential subscribers, gathering their input on the future of UC2B. Kruse and Ansboury provided an early recommendation that the introductory residential service tier and pricing be “20 mbps for \$20”. This was approved in January and incorporated into UC2B’s marketing and outreach materials and customer acquisition activities.

Over the next several weeks, Kruse and Ansboury prepared a report titled “NEO Fiber Evaluation and Recommendations for Pricing and Positioning Strategies, Best Practices for Retail Service Offerings, Residential and Business Services” which coupled the stakeholder and community input received in January with their industry expertise. They also prepared and provided preliminary financial models and feasibility objectives. The UC2B Policy Board officially endorsed both the Report and its recommendations - with a few revisions related to residential pricing, and the feasibility objectives - at its March 22, 2012 meeting. Decisions relating to business pricing were made on April 11 and 18.

All of the Policy Board decisions made to date have been incorporated into this UC2B Business and Strategic Plan.

2. UC2B Business and Strategic Plan. The Plan and its supporting financial model workbook are considered to be “working” policy documents that will help guide future decision-making. The Plan is based upon UC2B’s current scope which is to provide high speed internet/intranet access to the underserved areas of Champaign-Urbana and to connect anchor institutions that serve vulnerable populations. To this end, it is consistent with the goals of the federal grant that was used to construct the high speed fiber optic infrastructure that will set Champaign-Urbana apart from thousands of other communities across the country and the world. The Plan does look into the future as well and offers an analysis of the issues and opportunities that UC2B may want to consider operationally, including viable operating models and system expansion.

3. Plan Composition. The UC2B Business and Strategic Plan has 8 key Sections: Introduction and Mega Trends; Guiding Principles; Overall Findings and Recommendations; Operational Structure and Governance; Market Overview, Competitive Assessment, and Pricing; Operating Models, Outsourcing and Staffing; Financing Options; and Glossary. Rather than re-iterate the content of the Plan in this Report, each section is briefly described below.

Introduction and Mega Trends. This section explains how the Plan is organized and discusses national and international trends in the industry, with particular attention to fiber to the premise trends. In this section, it is clear that the U.S. lags far behind many other countries and their investments in broadband infrastructures. Currently, upload and download speeds in the Champaign-Urbana area are much slower than U.S. averages and even as much as 10 times slower than those reported in leading global metropolitan areas. With the addition of this new broadband network, Champaign-Urbana has the opportunity to leap ahead and attract/retain business and industry, create jobs and provide an improved quality of life for all of its residents. This Section also summarizes how customers are utilizing bandwidth, noting that intensive applications and the growing use of cloud computing are demanding faster symmetrical upload and download speeds.

Guiding Principles. The UC2B Policy Board spent a significant amount of time ensuring that this section provide a set of guiding principles that recognize both the social mission of UC2B and the need for business and technology independence. Much effort was spent acknowledging that this section provides a sound basis for the current and future status of the organization. In particular, there are references to openness and transparency, along with maintenance of the open access structure and level playing field for service providers. This section is core to the Plan and will provide the basis for the operation of the entity moving forward.

Overall Findings and Recommendations. This section discusses the findings and recommendations of the Plan, particularly with regard to expansion. These findings and recommendations are supported by the financial modeling workbook/tool also provided by NEO. This section recognizes that if UC2B maintains the grant funded area only and does not expand the network further, the system will operate at a breakeven level, only as long as the University subsidizes the backhaul costs of internet service, i.e. purchases bandwidth on the internet. This scenario improves with the addition of revenue received from offering dark fiber leases during that period, but not to a level that is sustainable long term. That UI subsidy is provided via agreement only for the first 5 years of operation for UC2B, so the need exists to grow the customer base and expand the system, unless further public subsidy is going to be provided.

Given that the base model of only serving the grant funded customer base is not sustainable, this section also then discusses and prioritizes expansion models (both retail and wholesale) with alternative pricing schemes and take rates, i.e. the percentage of potential customers actually subscribing to service, utilizing a previously-approved set of financial feasibility criteria which were approved by the UC2B Policy Board.

Again, this Plan is a “working” tool that is designed to assist UC2B and its member agencies in their decision-making capacities in the future. The Plan includes a working financial model that is based upon a set of key assumptions that should be considered when exploring expansion options.

Operational Structure and Governance. This section recognizes that the current UC2B structure operating as an intergovernmental consortium administered by the City of Champaign may be adequate for the short term, but encourages the member agencies to consider 5 other business models for the long term. In particular, it notes that the member agencies do not have experience in the utility, telecom, internet or fiber optic business which is a real disadvantage when trying to operate an open access network and compete effectively with the incumbent service providers. This section provides a comparison of the business model options with their advantages and disadvantages. Ultimately, NEO provides a recommendation to restructure from an intergovernmental consortium into a 501(c)3 non-profit entity with a for-profit C-corporation subsidiary that is governed by the “community”. It notes that this option does not remove the member agencies from the overall governance of the entity, but rather establishes the new organization as one that can be more nimble, competitive, and responsive to the private sector. The Plan notes that, even as a not-for-profit entity, UC2B can maintain its

commitment to be open and transparent, while having the ability to interact with private partners in a way that enhances their willingness and ability to provide services on the network. Much of this flexibility will need to be addressed and provided for in a new set of bylaws, that will need to be approved by each of the member agencies at subsequent meetings.

Market Overview, Competitive Assessment, and Pricing. This section incorporates, re-iterates, and updates the report previously provided by NEO, "NEO Fiber Evaluation and Recommendations for Pricing and Positioning Strategies, Best Practices for Retail Service Offerings, Residential and Business Services". It also incorporates retail and wholesale pricing decisions made by the UC2B Policy Board to date. This section points out that there currently are no providers offering services via fiber to the premises in this market, a huge advantage for UC2B. It also notes that current providers do not provide symmetric upload and download speeds and that customers do not always receive the speeds they are buying. The pricing structure and service tiers established by the UC2B Policy Board are much better than the incumbents' overall. The major disadvantage is that UC2B does not have a triple play option, i.e. voice, internet, and video, to compete effectively in that arena at this time.

Operating Models, Outsourcing and Staffing. The UC2B fiber network is organized and operated in layers: passive infrastructure (physical network); active network (electronics); and retail services. Each requires varying levels of operational support and management. This Section recognizes that the maintenance and operation of each of these layers can be provided by outsourcing or by hiring staff. It is not recommended in this section that UC2B organize or grow into an entity that will hire and employ numerous staff in the short term, but rather that UC2B contract for the various support services necessary to operate the system. To this end, staff, in conjunction with NEO Fiber, is currently working on two Requests For Proposals, one for customer call center services and one for electronics repair.

Financing Options. This Section suggests opportunities to partner with other entities, both public and private, to secure or generate additional funding to expand the physical infrastructure and use of the network.

Glossary. The acronyms and terms unique to the industry are identified and defined in this Section. These acronyms and terms have been utilized throughout the Plan.

4. Next Steps. Staff is seeking approval of the Plan from each of the UC2B member agencies and authorization to implement it. To this end, staff seeks preliminary direction from both City Councils at this Special Joint Study Session meeting on July 9, 2012 to place the Plan on the following week's regular business meeting agendas for formal action. The University of Illinois has indicated that it has the authority administratively to provide such approvals and will do so immediately following the Cities' actions.

Approvals of the Plan are somewhat time sensitive as staff prepares UC2B's application into the Gigabit Neighborhood Gateway Program (<http://gigabitsquared.com/gngp/about-the-gigabit->

neighborhood-gateway-program/) endorsed by Gig.U (<http://www.gig-u.org/>). Approval of the Plan will demonstrate to Gigabit Squared (<http://gbps2.com/>) that UC2B is taking actions to compete aggressively to build out the fiber optic, open access network throughout Champaign-Urbana without any public funding or subsidy.

F. Alternatives:

1. Endorse the UC2B Business and Strategic Plan and direct staff from both Cities to place it on the next regular business meeting agendas for approval and authorization to implement its recommendations.
2. Do not endorse the Plan and provide further direction.

G. Discussion of Alternatives:

Alternative 1 would endorse the UC2B Business and Strategic Plan and place it on a regular business agenda for formal approval by the Councils and implementation.

a. Advantages

- Based upon stakeholder and Board input and previously-approved pricing structures and services, creates a plan for UC2B operations, its future growth and development.
- Provides a road map for decision-making regarding the future of UC2B, including UC2B's future organizational and governance structure.
- Provides a usable tool for analyzing financial implications of future decision-making, including rate structures for customers located outside of the grant-funded areas; future holders of dark fiber lease agreements; IRU holders beyond initial investors; etc.
- Identifies industry trends for partner entities to consider for system use and expansion.
- Recognizes operating options for the entity, including outsourcing and staffing considerations.
- Recognizes that there are many different options for the operational future of UC2B; provides the advantages and disadvantages of each; delivers on the scope of services required by the contract.
- Approval of the Plan acknowledges that UC2B and its member agencies will need to deliberate on implementation actions in the near future, including development of bylaws if organized differently than an intergovernmental consortium.

b. Disadvantages

- The Plan is a working document that will change over time so there is some uncertainty in the outcomes.

Alternative 2 would not endorse the Plan and requests that the Councils provide staff with other direction.

a. Advantages

- Allows for revisions to be made to the Plan or provides an alternative method of completing the Plan that Staff or NEO Fiber may not have considered.

b. Disadvantages

- Revisions may not reflect stakeholder, UC2B Policy Board or public input provided to date.
- Would delay implementation items including further consideration of the operational structure/governance model necessary to implement system expansion, if desired.

H. Community Input: Input and support from the community is important to the successful implementation of the Plan. Stakeholder input gathered in meetings in January and February, 2012 and at UC2B Policy Board or Technical Committee meetings to date has been used to develop the Plan. Collaboration with member agencies and initial investors was used extensively in the creation of the Plan.

Presentations were made to many different organizations, service clubs, and interest groups throughout the planning process. Staff invited representatives from community organizations, other units of government, and members of the faith community to assist in the preparation of the UC2B Business and Strategic Plan. These organizations also included utility providers, anchor institutions, economic development organizations and members of the local development community. Opportunities for additional public input were held at the UC2B Technical Committee and Policy Board meetings, and at the Champaign City Council and Urbana City Council meetings in January, 2012. Approximately 50 people attended these public meetings, ranging from potential users of the infrastructure to retail customers and from young professionals to senior citizens. Participants expressed favorable comments about the new high tech infrastructure as a better, more-reliable option and encouraged deployment beyond the grant-funded areas.

I. Budget Impact: The Plan has been developed primarily by industry expert, NEO Fiber in conjunction with staff. Costs have been incurred, and are projected to be incurred, for those professional services, in an amount not to exceed \$77,300. These costs are shared by the UC2B member agencies as follows, \$19,325 (25%) for Urbana; \$25,509 (33%) for the University and \$32,466 (42%) for Champaign.

J. Staffing Impact: As expected, the development of the Plan is currently consuming a significant portion of staff time. Once the Plan is adopted, staff can focus on Plan implementation which is necessary for UC2B's future, even during the start-up operations phase through June, 2013.

Prepared by:

A handwritten signature in black ink, appearing to read "Teri Legner". The signature is fluid and cursive, with a large initial "T" and "L".

Teri Legner
Interim UC2B Consortium Coordinator

Attachment: UC2B Business and Strategic Plan

RESOLUTION NO. 2012-07-049R

A RESOLUTION APPROVING THE UC2B BUSINESS AND STRATEGIC PLAN

WHEREAS, the UC2B Business and Strategic Plan ("Plan") examines the question of how UC2B should structure its internal line-of-business operations and customer service offerings and provides analysis and guidance to assist UC2B in determining how best to meet its fiscal requirements and to serve the larger community needs; and

WHEREAS, the Plan recommends that that the current organizational structure of UC2B as an intergovernmental agency created under an Agreement among the City of Champaign, City of Urbana, and the University of Illinois be restructured into a hybrid non-profit 501(c)3 organization with a for-profit C-corporation subsidiary; and

WHEREAS, the UC2B Policy Committee did on the 20th day of June 2012, pursuant to Resolution No. 2012-13, accept the Plan; and

WHEREAS, the City Council finds that the best interests of the City are served by approving said Plan.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

The UC2B Business and Strategic Plan, in substantially the form of the copy of said Plan attached hereto and hereby incorporated by reference, be and the same is hereby authorized and approved.

PASSED BY THE CITY COUNCIL this ____ day of _____, _____.

Phyllis D. Clark, City Clerk

APPROVED BY THE MAYOR this ____ day of _____, _____.

Laurel Lunt Prussing, Mayor