



RESOLUTION NO. U-10829

1 A RESOLUTION relating to Tacoma Power; authorizing Tacoma Power to
2 solicit lease and property sale proposals for a third-party operator to use
3 and maintain Tacoma Power's telecommunication network and purchase
4 Click!'s physical assets to offer cable television and retail internet
5 services including voice over data internet ("VoIP") protocol, commercial
6 broadband and Gigabit service ("Retail Services") to residential and
7 commercial customers within Tacoma Power's service territory.

8 WHEREAS a strategic planning effort has been completed concerning
9 the development of a viable future business plan for the Department of Public
10 Utilities, Light Division (dba "Tacoma Power"), Telecommunication Section
11 ("Click! Network" or "Click!", as authorized through City Council Substitute
12 Resolution No. 33668 approved April 8, 1997, and Public Utility Board
13 Amended Substitute Resolution U-9258 approved April 9, 1997), and several
14 alternative business model options were developed for consideration, and

15 WHEREAS these alternative business models were presented at
16 multiple Public Utility Board Study Sessions, Joint Board and City Council Study
17 Sessions, and at public meetings, and

18 WHEREAS Click!'s financial sustainability faces some risks, including a
19 relatively high-cost structure, costly and necessary technology implementations,
20 growing competition for video services, aging network infrastructure and
21 components, making effective competition with private entities extremely
22 difficult, and

23 WHEREAS the Public Utility Board has determined that amongst these
24 risks, the most reasonable path to meeting community objectives and financial
25 sustainability is to pursue a business model where the Tacoma Power/Click!
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1 physical plant and assets are leased or sold to a third-party operator to provide
2 Retail Services, and

3 WHEREAS the City Charter and state law require that property not
4 needed for utility purposes be declared surplus to the utilities' needs prior to
5 sale or lease without a vote of the citizens, and

6
7 WHEREAS the purpose of this Resolution is to provide Tacoma Power
8 authority to solicit proposals from third-party operators to use and maintain
9 Tacoma Power's telecommunication network, establish the elements of
10 acceptable proposals, and establish a timeline for submitting a recommendation
11 to the TPU Board and City Council; Now, therefore,

12 BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

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14 Sec. 1. Tacoma Power is authorized to bring forward a Resolution
15 declaring appropriate portions of the properties owned by Tacoma Power/Click!
surplus to the Utilities' needs to the Board for approval.

16 Sec. 2. Authorize Tacoma Power to solicit proposals for a third-party
17 operator to use and maintain the City of Tacoma's telecommunication network
18 operated by Tacoma Power and purchase Click!'s physical plant assets to offer
19 cable television and retail internet services including voice over data internet
20 ("VoIP") protocol, retail and commercial broadband, Gigabit service and related
21 and enhanced services offered to customers from time to time as new
technologies and services become available ("Retail Services") to residential
and commercial customers within Tacoma Power's service territory. Such
solicitation should occur by February 15, 2016.

22 Sec. 3. Tacoma Power is authorized to waive the City of Tacoma
23 standard request for proposals process and use the services of an outside
24 consultant(s) to solicit proposals. This consultant contract will be subject to the
approval of the Board.

25 Sec. 4. TPU shall solicit proposals that include the following elements:

26 a. Agreement term that is a minimum of 10 years and maximum (including
options to extend) of 40 years.



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- b. Require the third-party operator to secure and maintain a telecommunications and/or cable franchise agreement with the communities currently served and with communities into which the telecommunications system may be expanded to in the future.
- c. Pay at least \$1,000,000 to purchase Click!'s physical plant and operating assets.
- d. Pay at least \$2,000,000 per year with CPI increases in years two and beyond for rent.
- e. Invest at least \$1,500,000 per year with CPI increases in years two and beyond in direct capital investment in the physical network which shall become the property of Tacoma Power at the end of the agreement.
- f. Assume Click!'s I-Net obligations with the City of Tacoma.
- g. Assume the infrastructure provisioning, support and maintenance of Tacoma Power's Power Control and Operations Networks. This condition is to be performed under a separately negotiated agreement (see Sec. 10 below).
- h. Agree to maintain the Open Access status of the network.
- i. Agree to limit cable television rate increases to no more than 5% in the first two years of the term of the agreement.
- j. Agree to maintain the existing Click! cable television packages and associated rates for the first two years of the term of the agreement (except rates may be adjusted due to increases for programming and retransmission consent license fees but such adjustments are limited to 5% as noted in Sec. 3.i. above)
- k. Offer to assume and continue Click!'s existing wholesale relationships with Rainier Connect, Advanced Stream, Net-Venture, Optic Fusion, Integra, CenturyLink, twtelecom, Noel Communications, and Spectrum Networks.
- l. Offer lifeline cable, internet and phone service priced at \$9.95 per service to Tacoma Power's low-income program qualifying customers.
- m. Deploy Gigabit internet service over the course of the first few years of the agreement.
- n. Employ at least 81 people with living wage jobs to operate the network.
- o. Agree to interview all Click! employees who express an interest in employment with the third-party operator.
- p. Agree to negotiate measures and standards to maintain the level of customer service currently provided by Click! and provide for enforcement of customer service standards through the final agreement and the City right of way franchise agreement.
- q. Agree to negotiate terms in the final agreement that tie the third-party product offerings and performance to the achievement of public policy objectives identified by the TPU Board and City Council, including but not limited to City of Tacoma Vision 2025 goals, economic development, educational opportunity, access equity, living wage employment and cyber-security defense, which will be enforced through the final



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agreement, and the City right of way franchise agreement, all to be approved by TPU Board and the City Council.

- r. Permit variation of each of the criteria described above in the proposal with an explanation of why the variation will provide improved operations and/or performance to the customers, TPU, the City Council and the third-party operator.

Sec. 5. Tacoma Power shall evaluate proposals based on the elements above and make a recommendation to the TPU Board and City Council no later than March 1, 2016.

Sec. 6. Tacoma Power is authorized to develop a transition plan for implementing the terms of the successful proposal.

Sec. 7. Tacoma Power is authorized to stop providing retail cable television services and wholesale internet and related services, and establish a transition plan to move existing Click! customers to the third-party operator upon approval of the third-party operator proposal.

Sec. 8. Tacoma Power is authorized to continue all private internet service provider contracts on a month-to-month basis and assist in transitioning the internet service providers to receive wholesale service from the third-party operator upon approval of the third-party operator proposal on terms that would facilitate the transition to the third-party operator according to the terms of this Resolution.

Sec. 9. Tacoma Power and Click! Network are authorized to develop and implement a transition plan for unneeded Click! staff positions, including the potential transition of employees to employment with the third-party operator or in other areas of the City organization, and to provide severance benefits for any Click! employees not employed by the third-party operator and who do not remain employed by the City as a result of the transition to the third-party operator.

Sec. 10. Upon approval of the third-party operator proposal, Tacoma Power is authorized to negotiate an agreement with the third-party operator to perform operation, maintenance, and support on the Tacoma Power telecommunication network used by both Tacoma Power and the third-party operator without a formal bid. This agreement shall be subject to TPU Board approval.

Sec. 11. A fiscal note is attached to and incorporated in this Resolution U-10829. The fiscal note estimates the Capital and O&M budget requirements/impacts and the financial gains/losses anticipated over the next five years in connection with the Click! business plan contemplated herein.



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Sec. 12. The City Council is requested to pass a resolution concurring in the above policy direction for Click!.

Approved as to form and legality:

William Foshe

Chief Deputy City Attorney

Chair

Secretary

Clerk

Adopted _____



TACOMA PUBLIC UTILITIES

3628 South 35th Street

Tacoma, Washington 98409-3192

To: Chair and Members of the Public Utility Board

From: William A. Gaines, Director of Utilities/CEO

Date: November 19, 2015

Subject: Financial Impact of Authorizing Click! to Enter Into a Private Use Contract involving Tacoma Power/Click! facilities

Background:

A variety of business models were developed and presented to the policymakers, including a base case or status quo model and prospective models for Click! offering retail services, Click! offering wholesale-only and Click! entering into a private use contract involving Tacoma Power/Click! facilities. Five-year financial models covering the period January 1, 2016 through December 31, 2020 have been developed for each of these business models. This report addresses the financial impact of authorizing Click! to enter into a private use contract involving Tacoma Power/Click! facilities ("Lease option").

The key elements of the 5-year financial model for the Lease option are as follows:

- It anticipates revenue of \$11.5 million.
- It anticipates operations and maintenance expenditures (O&M) of \$4.6 million.
- It anticipates that the Lessee will invest at minimum \$1.5 million annually with CPI in years 2 and beyond in direct capital investment in the physical network.

Fiscal Impact:

As shown in Table 1 below, the Lease option is expected to generate \$6.9 million in free cash flow over the 5-year business plan period. In comparison to the base case or Status Quo option, which anticipates deficit spending of \$37.4 million over the same period, the Lease option changes the City's financial position from deficit spending to cash generating and improves cash position by \$44.3 million.

Table 1

	Lease
Revenue	\$11.5
O&M Expenditures	\$4.6
Capital Investment*	\$0.0
Cumulative Cash Flow	\$6.9

*Third-party operator will make direct capital investments of at least \$1.5 million annually in the physical network.

