

Fiber Optic Network Partnership Proposal

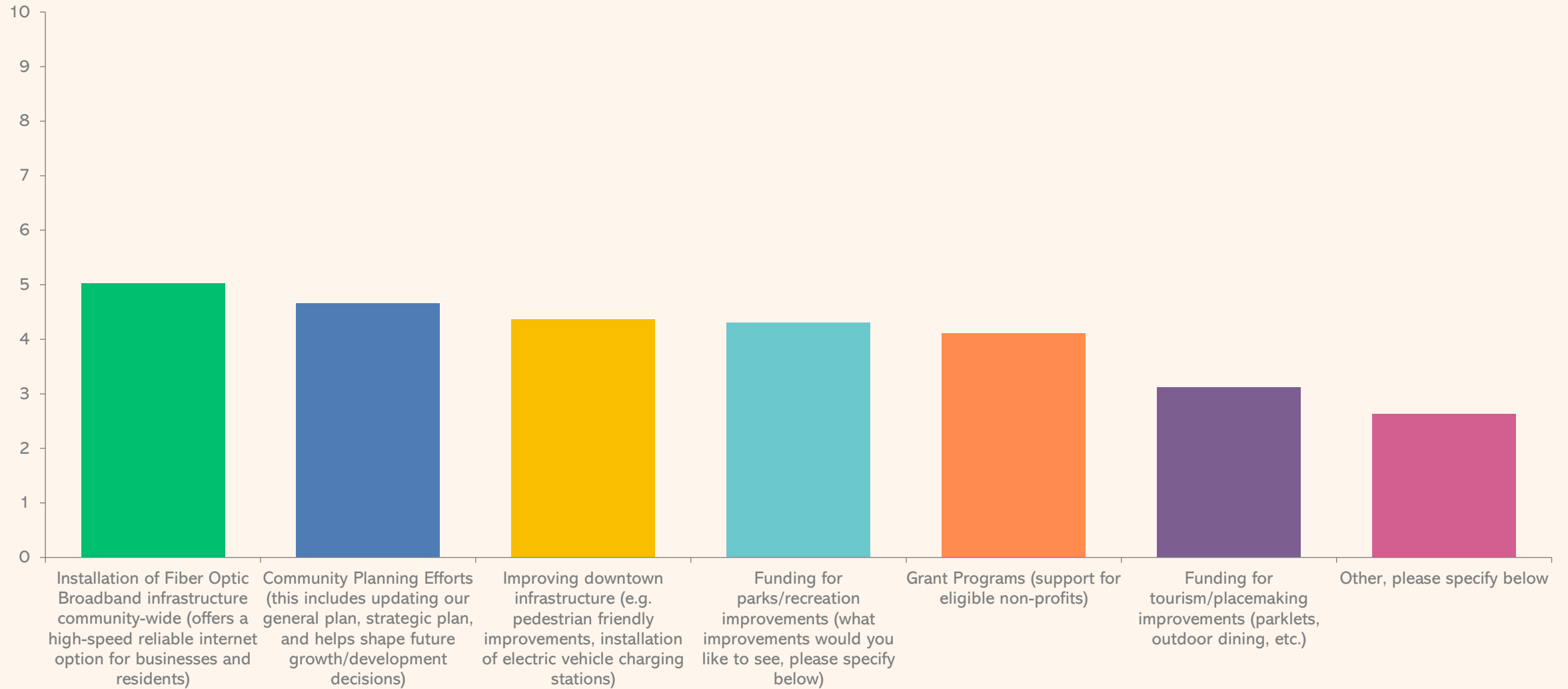
Proposed Development
and Operating Agreement
08/17/2022



Fiber Roadmap – How We Got Here

- During the height of the pandemic, the city received several inquiries/complaints about existing internet options. Need for higher speeds, more individuals at home on more devices, and cost challenges associated with current offerings.
- During the council's workshops regarding the use of use of American Rescue Plan Act Funds (ARPA) funding, council provided direction to staff to solicit public feedback on use of ARPA funds through an online survey. The survey identified potential projects to utilize the funding for, and asked residents to rank them based upon priority.
- The installation of fiber broadband was ranked as the highest priority. We also received several comments to use the funds for public safety cameras and other improvements that require investment in network infrastructure. As such, council directed staff to explore opportunities to improve upon Kingsburg's broadband infrastructure (eligible ARPA use).
- Staff engaged both non-profit and private sectors for options to complete a buildout that will allow all city residents and businesses the opportunity to connect to a new fiber optic internet option.
- As part of the FY2023 budget development and capital improvement project designs, council held discussion and ultimately approved the use of an inter-fund loan and ARPA funds (both are non-recurring revenues) to help pay for the construction and implementation of a fiber optic network, should an appropriate arrangement materialize.

Q1: Please rank (by preference) the projects you would like to see move forward. (1 Most Preferred - 7 Least Preferred)



Access to the Internet is perceived as a necessity – Similar to a utility

Citizens are becoming more dependent on internet access as part of daily life, to:

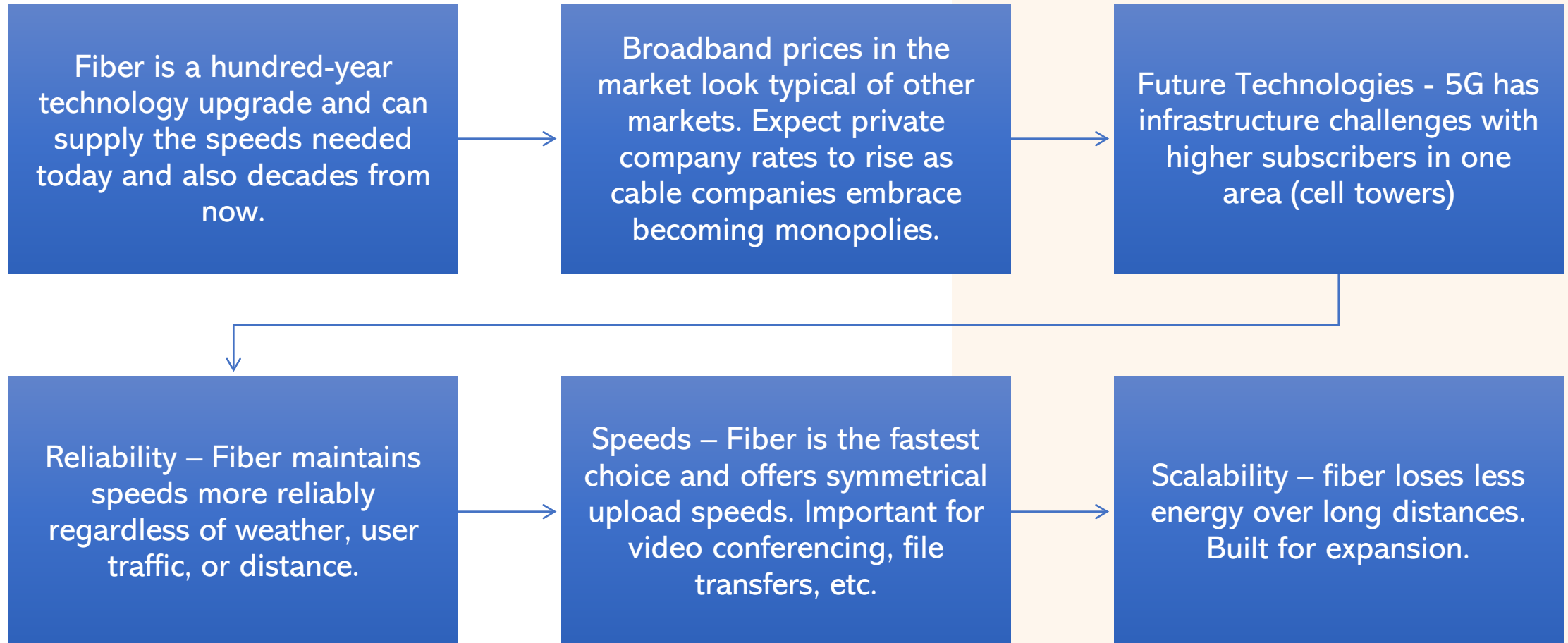
- Provide **security** and/or enable **smart home systems (Internet of Everything)**
- Allow them to **work/study from home** (video conferencing, FTP uploads)
- Provide **connection to a global world (Dr. visits)**
- Enable entertainment (via streaming, video-games, social media, etc.)

For business users, Internet connection is **vital to business**. It becomes so inextricably linked to productivity and commerce that most cannot function for long when service is down.

- Many businesses need fiber reliability and speeds to complete their regular operations. This is a major component of business decision making when choosing where to locate.
- When POS systems are down, **retail stops**
- When Internet systems fail, **employees may leave for the day (VoIP = no business phone access)**
- When upload speeds are too slow, **employees have to stay late or businesses are unable to complete transactions.**



Why Fiber?



Potential Structure of Public/Private Partnership – P3



City of Kingsburg

- Provides initial loan and grant (ARPA) to KBMF to finance construction of FON.
- Benefits from revenue sharing throughout the life of the project.
- Reviews design and processes permitting and coordinates construction with private entities.



Kingsburg Media Foundation

- Serves as Internet Service Provider (ISP) – provides customer service, in-home installation, invoicing, etc. Makes monthly payments on loan to city.
- Leases bandwidth and monitors system usage to ensure speeds remain (min. speeds defined in agreement)
- Works closely with Vast Networks, contractors and City to coordinate build-out of fiber optic system and location of access points.
- Connects all city facilities (buildings, water wells, public safety cameras, etc.) to fiber system.



CVIN/Vast Networks

- Contracts with KBMF - Installs conduit and fiber in city ROW.
- Provides and leases bandwidth to KBMF.
- Owns and maintains fiber optic infrastructure.
- Responsible for repairs/maint. of fiber.

Public/Private Partnership

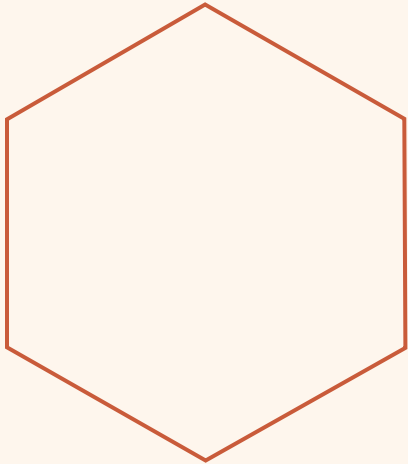
City and Internet Service Provider (ISP), build the network together. The ISP operates the business, interacting with the customer/subscriber to complete the in-home installation.

City of Kingsburg/Kingsburg Media Foundation/Vast Networks



Benefits of a Local Provider

- Consistent service regardless of location
- Competitive pricing
- Local Customer Service Reps
- Keeping money in community
- Access for all (Subscriber subsidies for eligible households)
- Trust (reliability/consistency)
- Provides an additional Option for residents and businesses. Doesn't require "bundling" of TV/Phone for higher speed plans
- Supports a local non-profit that partners with the City on existing projects (public Wi-Fi, public safety cameras, VoIP, IT solutions)
- Vast Networks has infrastructure throughout the Valley – ability to respond quickly to potential repair/maintenance issues.



P3 Financing – City Loan/Grant



City of Kingsburg

Provides initial loan and grant (via ARPA) to KBMF to finance construction.

- \$2,200,000 loan + \$1M in ARPA funds (not included in loan repayment) \$3,200,000 total
- 4% interest; 8-year payback on \$2.2M; (no pre-payment penalty)
- Total payback amount to city: \$2,574,374.94 (regardless of payback timeframe)
- Total interest payment to city: \$374,374.94 (regardless of payback timeframe)
- Based upon the business structure of KBMF, the repayment of the loan by KBMF will only be secured by KBMF's Subscriber accounts receivables.

Kingsburg Media Foundation – Proposed Structure of Loan Payback

- KBMF will commence making monthly principal and interest payments under the Loan on the date which is thirty (30) days after the date KBMF sends the first billing invoices to Subscribers of the System and principal and interest payments shall be made on the same day of each and every month thereafter during the Loan Term.
- Until the total number of Subscribers reaches four hundred (400), principal and interest payments under the Loan shall be equal to fifty percent (50%) of KBMF's monthly net profit amount received from all Subscribers.
- When the total number of Subscribers reaches four hundred one (401), principal and interest payments under the Loan shall be equal to sixty percent (60%) of the net profit for all direct connection and Wi-Fi Subscribers.
- If at least fifty percent (50%) of the principal balance of the Loan has not been paid in full by the sixth (60th) month of the Loan Term, monthly payments of principal and interest under the Loan shall increase to seventy-five percent (75%) of the monthly for all direct connection and Wi-Fi Subscribers until all amounts due under the Loan are paid in full.
- City can audit KBMF books/records to ensure payments are being correctly applied.

P3 Post-Loan Financing



Once the Loan is satisfied, City and KBMF will renegotiate the Take-Rate Percentage due to the City.

- On the date that is thirty (30) days after the date the Loan is paid in full by KBMF and in further consideration of the City's covenants, the City's performance of its obligations and responsibilities under this Agreement and the use of the City's share to pay a portion of the costs and expenses of construction and installation of the System including equipment purchases, KBMF shall commence making monthly Take Rate payments to City in an amount equal to 15% - 40% of the monthly Net Profit from KBMF's monthly charges to direct connection Subscribers and Wi-Fi Subscribers (collectively "Monthly Take Rate Payments").
- At least 180 days prior to the date of final payment of the Loan, the Parties agree to negotiate in good faith to determine the appropriate City take rate percentage to be paid to the City. If the parties fail to agree on a post Loan take rate, KBMF will continue to pay a 27.5% Take Rate to the City until a post Loan Take Rate percentage is agreed to in writing by the City and KBMF.
- At any time during the Term of this Agreement the Parties may agree, in writing, to amend the Monthly Take Rate Payment based upon City bandwidth and IT service needs such as internet service, telephone service, public wi-fi service and public safety camera system services and other matters as agreed to by the Parties.
- Additionally, the City shall have the right to pay any Subscriber charges due by the City to KBMF by applying all or a portion of the Monthly Take Rate Payment due to the City to the Subscriber charges due by the City to KBMF. (Credits for city-related services performed by KBMF.)

Example of City Payments

For illustrative purposes, the city's monthly payment (P) is calculated by taking the total number of subscribers (S), multiplied by the average billing (B), multiplied by the total take rate (TR) percent in effect. ($S \times B \times TR = P$). The average billing is based upon the net profit of KBMF.

KBMF's net profit ("Net Profit") for direct FON connections shall be equal to the total monthly Subscriber charges billed by KBMF less the VAST Circuit Cost and less five percent (5%) of the total monthly subscription charges by KBMF to cover KBMF's operations and equipment costs. Net profit for Wi-Fi Connections shall be equal to the gross amount billed to the Subscriber multiplied by the Take Rate in effect at the time of billing.

Total Subscribers	Average Billing to all Subscribers	Income Total	Take Rate	Payment to City
150	\$ 50.00	\$ 7,500.00	50%	\$ 3,750.00
400	\$ 50.00	\$ 20,000.00	50%	\$ 10,000.00
700	\$ 50.00	\$ 35,000.00	60%	\$ 21,000.00
1000	\$ 75.00	\$ 75,000.00	60%	\$ 45,000.00
1000	\$ 75.00	\$ 75,000.00	25%	\$ 18,750.00

- i. *Final row shows less take-rate percentage as it is illustrating a payment to the city after the loan has been satisfied. (Actual percentage to be negotiated)
- ii. Staff estimates 4,000+ customers that could become subscribers. Nationwide, the subscriber percentage for retail municipal systems after one to four years of operation averages 54 percent.

Non-P3 Financing



For purposes of due diligence, the parties have also engaged in conversations regarding the potential of building the infrastructure without city financing (loan). In this scenario, Vast Networks would finance the construction and KBMF would be responsible for repayment of the financing. From the city's perspective, this option has both benefits and drawbacks.

Benefits

- The significant benefit is the elimination of the \$2.2M loan from the build-out. The city reduces their overall risk of non-repayment, which could occur in case of default or poor subscriber activity.
- Keeps the funds available for city-use. It should be noted, however, that these funds have been earmarked for future use. The inter-fund loan proposed here is suggested only because it is a loan, which will be repaid with interest.
- Still provides an additional community option and provides all the benefits of next generation technology for Kingsburg.

Drawbacks

- Loss of participating in revenue sharing. Without the city's loan, the revenue sharing structure would be removed. This would include the repayment of the 4% interest (\$374,374.94), as well as future revenue sharing post-loan.
- Higher costs for services utilized by the city. The structure of the take-rate and partnership model offered "credit swaps." In addition, additional infrastructure buildouts (public safety cameras, additional facility needs, etc.) will increase the bandwidth requirements for city operations, which are offset by the future take-rate revenue and ongoing relationship with KBMF.
- Timeline of construction. Vast Networks Board of Directors would need to approve the financing, which would delay the proposed construction schedule.

Process for Construction



Installation of 17 miles of conduit and fiber through major thoroughfares and strategic locations in Kingsburg. Installed in city right-of-way via directional boring, open trenching or micro-trenching.



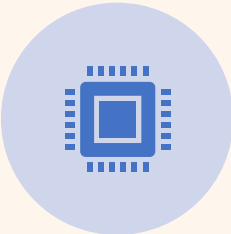
Strategically placed access points allow internet access to all homes and businesses via Wi-Fi. Direct fiber connections available depending upon location.



The 17-mile buildout will connect municipal buildings/facilities, park locations, and provide strategic access for current and future expansion of the system.



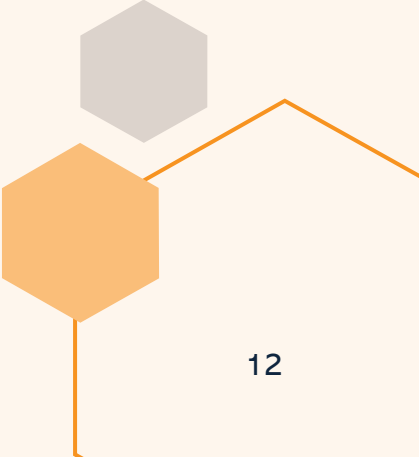
Vast Networks will own and maintain the fiber, as well as provide the dedicated bandwidth. Vast Networks will maintain the fiber optic cable including but not limited to servicing, repair and upgrading fiber as needed in partnership with KBMF.

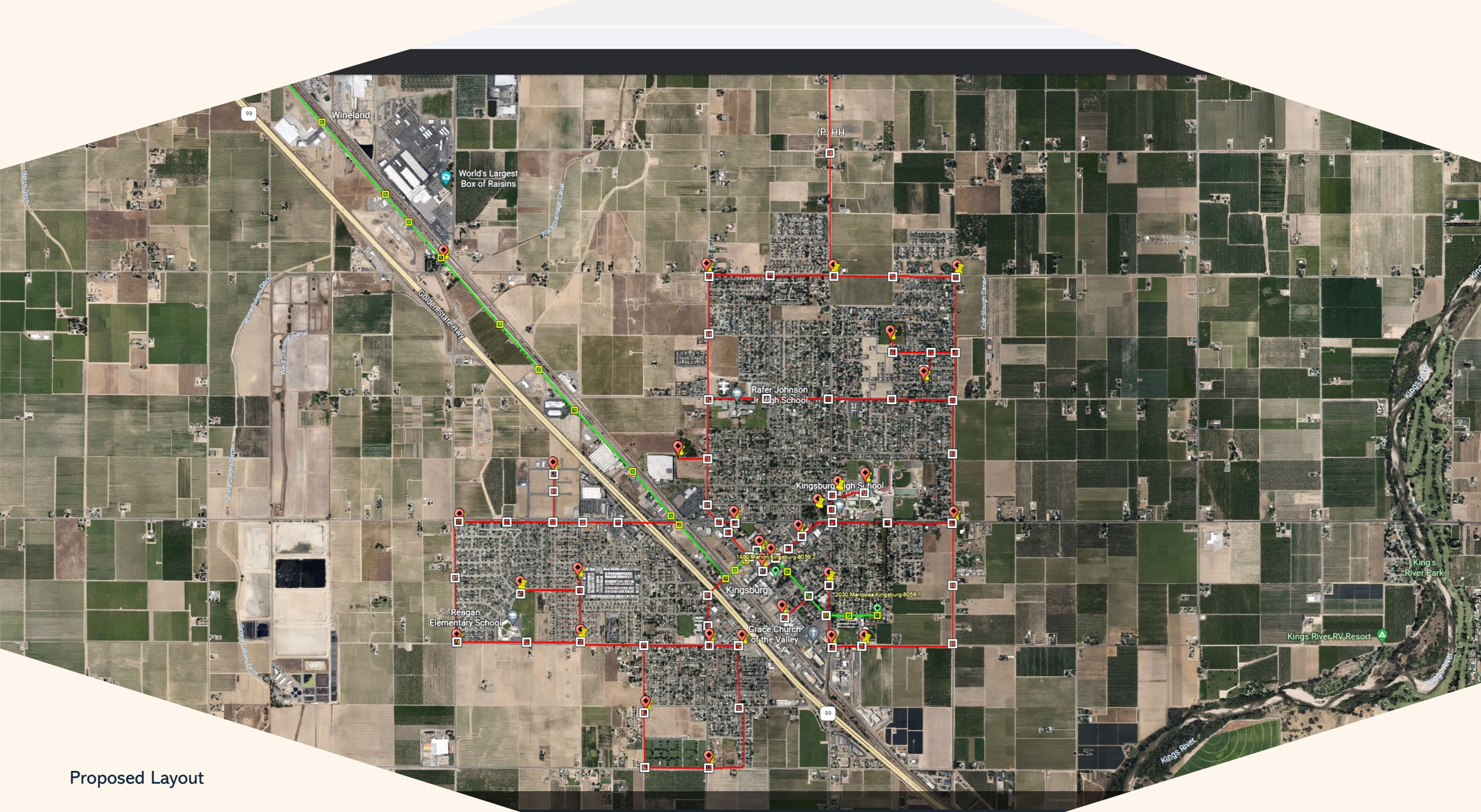


The bandwidth will be leased to Kingsburg Media Foundation, who will be the local internet service provider (ISP). Residents and businesses would request to be connected, working directly with Kingsburg Media Foundation.



Timing – depending upon final design and construction schedules, work should be completed in early 2023, with subscriber connections made shortly thereafter.





Proposed Layout

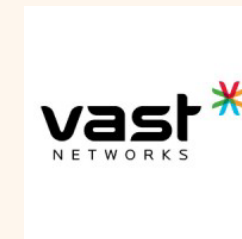
Benefit/Need to Residents/Businesses

- Additional Option for Service
- Competitive pricing
- Provides reliability and speed that may not exist with existing private offerings
- Customer Service (local company)
- WFH Needs – download and upload speeds
- Multiple devices; need for more bandwidth
- Access to Telemedicine
- Improved Public Safety (Public Safety Cameras, Body Worn Cameras, Dash Cams)



Benefits/Need to City

- Necessary backbone for facilities/public safety
- Higher bandwidth for less cost for city facilities; organizational needs are growing.
- Customer Service (local company)
- Recruit new businesses/companies to the area (remain competitive in the market)
- Keeping money in community
- Supports/Partners with a local non-profit that works with the City on existing projects (public Wi-Fi, public safety cameras, VoIP, IT solutions)
- Potential for future partnerships with schools (lower costs to taxpayers)





Thank you

Questions/Input from Council and Public