The Rebirth of UTOPIA

Financial problems at two neighboring municipal systems, UTOPIA and iProvo, are being held up as proof the muni model is weak. Not so fast. Both systems faced unique problems, and both may be on the mend despite Utah’s restrictive muni networking law. One has been privatized.

By Lawrence Kingsley ■ Contributing Editor

When it was emerging in fall 2004, the Utah Telecommunications Open Infrastructure Agency (UTOPIA) was considered a model of the kind of fiber optic network that could be built by municipalities. Sixteen towns (originally more) located north and south of Salt Lake City banded together to launch what was intended to be a 300-plus-mile fiber optic network.

The scale of this network and its advantages to the member communities were breathtaking, but within a few years trouble became painfully apparent. UTOPIA is only now beginning to recover, and iProvo, Provo’s municipal network, which helped inspire UTOPIA, has been sold to a private provider, Broadweave.

In the sparsely populated areas where construction began, UTOPIA’s take rate failed to meet expectations, in part because UTOPIA had trouble attracting video providers. Under a Utah law passed at incumbents’ behest, UTOPIA could build and own the network, but not provide its own services. Thus, UTOPIA can only “rent” bandwidth to service providers that deal directly with the end users. But service providers wanted scale before investing resources in UTOPIA.

UTOPIA thus aimed for a huge footprint as soon as possible in order to attract service providers, generate rapid revenue growth, and, it was thought, lower the cost of capital. UTOPIA gambled on an ambitious three-phase construction plan that became unwieldy and has never been completed.

The alternative would have been to add, debug and “saturate” one town at a time, then use surplus cash to help finance new construction. Lessons learned from each small build could have increased the efficiency of the next stage, adding to the meager fund of US-based experience with open access networks.

Another reason for UTOPIA’s “big footprint” approach was related to the political issue faced by most consortia – how to assure each member of fair treatment. Jesse Harris says that after the member communities of UTOPIA passed bond issues to finance the construction, “all had skin in the game; they all wanted to have some service in their cities. Nobody wanted to be left holding the bag.” Harris chairs the UTOPIA Citizens Advisory Network established by UTOPIA to solicit citizen input. He also runs a Web site about UTOPIA, www.FreeUtopia.net.

A COMPLEX FINANCIAL HISTORY
UTOPIA was planned and built with $85 million in revenue bonds, guaranteed with a pledge of future sales tax revenues from the 16 towns. UTOPIA then obtained a $67 million loan commitment from the Rural Utilities Service (RUS), a branch of the US Department of Agriculture, and issued another $30 million in new bonds.

After construction was under way, RUS took issue with UTOPIA’s performance – in particular, the take rate and number of homes passed by the network. RUS was supposed to close on its loan within 60 to 90 days. But as UTOPIA’s financial consultant Laura Lewis explains, “about 18 months passed during which RUS said, ‘We’re not meeting the pro forma [projections], and UTOPIA said, ‘We’re not meeting it because you didn’t give us the money.’”
Finally, RUS balked at reimbursing UTOPIA for more than $21.3 million of the $37 million that UTOPIA owed, principally to vendors and contractors who were laying the fiber. UTOPIA was left on the hook for $14 million of this sum.

Work ceased, leaving residents to ask: “Why can’t I get connected when the adjoining neighborhood is?” For example, no more than 36 percent of Brigham City can get UTOPIA services today.

Incumbents were not passively waiting for UTOPIA. Qwest, sensing the competitive threat of municipal networks, used what UTOPIA terms “scare tactics,” saying that UTOPIA would not survive. Qwest’s corporate relations manager in Salt Lake City, Gary Younger, summarizes: “Qwest strongly believes that government should not compete with private industry. UTOPIA is a risky venture and if it fails, local citizens will pay the bill with higher taxes and reduced city services for years to come.”

Qwest, which has been unable to provide world-class broadband access to all but a handful of communities in its footprint, expressed this point of view in community newspapers and at city council meetings, as when Salt Lake City considered joining UTOPIA. Salt Lake City decided not to join. Delaying the buildout, Qwest also sued UTOPIA over use of utility poles to string fiber, but later settled the suit.

AN UNALLURING FINANCIAL PICTURE

Although UTOPIA has not published complete financial information, the project’s 2006 earnings suggest the kind of results that may have shocked RUS. In the fiscal year ending June 30, 2006, UTOPIA reported operating revenue of $1,550,426, operating loss of $7,257,531 and negative net assets of $18,424,962. The conservative Utah Taxpayers Association calculates that UTOPIA lost $37.8 million in its first three years.

These numbers would not be uncommon for a capital-intensive venture; network builds rarely turn cash-flow positive before year 4 or 5. But the projections going forward also appeared unappetizing, and the project clearly had outrun its resources.

After the initial money was spent, UTOPIA’s top management was forced to resign. In June UTOPIA installed a new chief executive director, Todd Marriott. “When I showed up,” Marriott concedes, “UTOPIA was fairly dead in the water.” Diplomatically, he states that neither UTOPIA nor RUS “knew how to work with each other.”

Marriott is from a branch of the family known for hotels – his grandfather and Willard Marriott, who built the hotel chain, were cousins. Todd Marriott also claims an entrepreneurial background, though he declines to name specific companies.

After Marriott came on board, UTOPIA secured $185 million in new bonds guaranteed by all but one of its member towns. Payson voted down the measure, although it still participates in UTOPIA. The new bonds paid off the balance of the RUS loan and helped in obtaining new loans from Bank of America and Key Bank.

AMBITIOUS PLANS

With new funding, UTOPIA is planning to reclaim and extend its original goals. Marriott is discreet about his technology plans, because he does not want to reveal his hand to Qwest and Comcast. However, he talks openly of his ambitions and what will distinguish UTOPIA going forward.

“Our number one goal,” Marriott says, “is to recapture our stranded network” – fiber laid in the ground but abandoned when the money was exhausted. Low-hanging fruit that he wants to harvest comprises service to businesses, most of which remain to be connected.

UTOPIA, he emphasizes, is an infrastructure similar to a highway. Over the highway roll “trucks” from service providers which, under Utah law, have to operate the “retail” side of the business. After Spanish Fork built a successful municipal network, the Utah legislature in 2001 passed the Municipal Cable Television and Public Telecommunications Services Act, Utah Code 10-18-101, to discourage municipalities from competing with private enterprise.

Under this law, UTOPIA can own the network, but the voice, data, and video services running on top of it have to be marketed by independent service providers. Currently UTOPIA has four service providers, only one of which offers triple play – Mstar.

UTAH LAW

Fiber-to-the-Home Council President Joe Savage contends that state government needs to get out of the way of UTOPIA. Similarly, the consensus of the panelists at the Internet Innovation Alliance conference covered in the June issue of this magazine is that there is little profitability in building the infrastructure of the Internet: the “real money” goes to companies like Google that have figured out how to commercialize services that use the transmission facilities of other companies.

The inability to earn revenue by providing services, not just connectivity, has imposed a heavy burden on UTOPIA. Not only are Internet services like triple play profitable, but inability to offer them leaves UTOPIA at the mercy of incumbents, which already offer prof-
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UTPIA continues to investigate applications that it can commercialize on a wholesale, as opposed to retail, basis. These applications, Marriott notes, center on gaming; genealogy; interconnection between government, hospitals and other large entities; backhaul; telemedicine; distance learning; data storage for Las Vegas casinos; and interactive commerce, enabling purchases of products shown on the video screen.

Increasingly, he says, UTOPIA will bring network operations in-house, “cutting off middlemen” like iProvo and PacketFront. PacketFront bought Dynamic City, which ran UTOPIA’s network operations center (NOC), but UTOPIA is ending this relationship. UTOPIA is building its own in-house NOC and already operates some of the processes.

According to Tim Scott, PacketFront’s VP of development and sales for North America, PacketFront has always operated some of the processes. PacketFront’s interest in UTOPIA, Scott explains, was in helping to assure a success story for municipal networks, an area in which PacketFront competes as a leading vendor.

Marriott stresses that UTOPIA has a 30-year horizon, while most network operators plan only three to five years in advance. “We need to be looked at as an infrastructure builder,” creating jobs and helping communities develop, Marriott says. This long view also corresponds to the maturity of the bonds on which UTOPIA depends.

Lessons From Utopia

Although UTOPIA is an ongoing story, certain conclusions are already apparent:

- Something must be going right, for as Paul Larsen, economic development manager for Brigham City, notes, UTOPIA’s churn rate is only half of 1 percent.
- UTOPIA is more than its financial statements; many dedicated people have been willing to devote their time and labor to UTOPIA for little or no pay. Their sweat equity represents a form of paid-in capital not reflected on the balance sheet.
- UTOPIA’s detractors are disingenuous in expecting immediate profitability, and they ignore the many successful municipal networks tracked by this magazine. Qwest obviously wants to suppress the muni build-it-yourself “insurrection” before it spreads across the West. Qwest, having been unwilling to provide fiber services to the UTOPIA towns, is now starting a limited fiber-to-the-neighborhood rollout, Qwest Connect Quantum and Qwest Connect Titanium, in 23 markets. It might make financial (if not ideological) sense if Qwest were to rent bandwidth from UTOPIA, much as AT&T, before pulling out, offered its CallVantage (VoIP) service on the UTOPIA network. Verizon, whose wireless service is already sold through Qwest, says that it is willing to make similar deals with municipal networks.
- UTOPIA does not enhance its credibility by overprotectiveness of its.

Royce Van Tassell of the Utah Taxpayers Association says even elected officials of UTOPIA communities are unable to get ready answers about its inner workings.

itable services on their own networks. The lack of services to offer, of course, reduces UTOPIA’s take rate.

The idea that UTOPIA should be free of all restrictions is the subject of Jesse Harris’s www.FreeUtopia.net. Harris is an astute observer of the local scene, his site should be a port of call for anyone interested in news and customer feedback about UTOPIA. He says Mstar has experienced financial difficulties and is now down to a “skeleton crew.” Mstar President Steve Russo replies that his company is ably served by hosting and outsourcing partner Center 7.

There also has been wariness among UTOPIA’s partners as Broadweave, a young Utah company, has come into the picture. Broadweave acquired the nearby iProvo muni network, whose headend in Provo is used by UTOPIA. (See accompanying sidebar.)

This spring, Broadweave also announced its intention to acquire UTOPIA’s service provider Veracity Communications, but the Veracity deal fell through. Harris considers Broadweave “good at PR,” but untried on the scale of iProvo and UTOPIA.

Marriott hopes to broaden UTOPIA’s roster of service providers to 15 companies, each of which would help to make UTOPIA a compelling buy for consumers. His goal is to provide “an innovative, open access, out-of-the-box solution,” which has never before been tried on this scale in North America.

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iProvo, which started building its FTTH pilot projects in 2002, could be considered a forerunner of UTOPIA, though it was owned solely by the city of Provo. This spring, the city decided to sell iProvo to Broadweave Networks for $40.6 million, and the deal was finalized recently (see this month’s Fiber Deployment Roundup). This divestiture has been questioned both inside and outside city government. Factors that may have influenced Provo include yearly losses at iProvo (around $1.8 million this year) and political pressure from conservative groups averse to big government.

Provo Mayor Lewis K. Billings recalls how foes hired pickets at City Hall and telemarketing firms that called his constituents to inveigh against the creation of iProvo. Up until the divestiture, Mayor Billings was generally considered the head cheerleader for iProvo.

He says that city government has always been prepared to step aside if private enterprise would come forward and build a citywide fiber optic network. Five companies, he says, had franchise rights to provide fiber connectivity in Provo, but none of these companies were interested in doing so. Provo thus had to proceed on its own.

At various times the mayor has received offers to acquire parts of iProvo, but until Broadweave came along, none of the proposals were from companies that had experience in running a network. Broadweave appeared to meet the criteria of experience, seriousness and participation by members of the local community.

Other factors that may have influenced the sale to Broadweave include the cost of upgrades to iProvo, reported dissension among IT professionals and municipal workers, and the appeal of a quick sale as opposed to new taxes. Mayor Billings, who is running again in November’s mayoral election, concedes that the divestiture will remove a headache. In 2001 he won a narrow victory by 362 votes. He came back for an unprecedented third term, he says, “to make sure that no one would kill iProvo.”

Broadweave provides telephone, video and Internet connectivity to iProvo subscribers, but under the terms of the sale, Provo retains 3 Mbps of bandwidth to every home and business in the city. (Documents concerning the sale are listed at www.provo.org/util.iprovo_sale.html#comments.) Provo will use the 3 Mbps for activities like connecting city agencies, broadcasting town meetings, traffic light control and meter reading. When a new account is opened, the resident no longer has to wait days for service: Electricity can now flow 60 seconds after a credit card payment is made by phone.

Another application will map GPS-enabled vehicles through iProvo. Police and fire department vehicles now have roof-mounted strobes that can switch red lights to green during emergencies – this technology is an example of SCADA (Supervisory Control and Data Acquisition), found in a wide range of industries. However, SCADA pulses can be affected by snow and ice and are therefore less reliable than GPS.

By the end of 2011 Mayor Billings expects that Provo’s Bus Rapid Transit system will use the same GPS technology. In fact, iProvo, he says, could support “services not yet even thought of today.”

Despite the momentum behind privatization, it is doubtful that we have heard the last of iProvo in terms of valuation (bargain basement pricing), procedure (allegations of uncompetitive bidding), financing (minimal cash outlays by Broadweave), and failure to consider alternative solutions..