

# Sale of ICN Assets Concept

A possible alternative to the sale of the network in its entirety is to sell certain network assets and retain the business. This will allow the ICN to continue to be a credible business partner to current customers.

Fiber located outside of the Des Moines metro area and selected core backbone equipment could be sold to the private sector.

As part of the sale, the State would retain rights to use wavelengths (or capacity) on the fiber outside of Des Moines that was sold, and dark fiber supporting extensions from switch points to distribution points. The State would commit to purchasing field services from the buyer as well as paying a monthly fee for fiber maintenance and field operations as defined, which are currently obtained from McLeod.

## Key assumptions of this concept:

- The ICN equipment located in public buildings would remain in place and the buyer would extend the network to another point of connection.
- The current ICN customer base would be served by the ICN and distance learning continues to be a priority.
- The buyer would commit to providing wavelengths to the State for its use on a long-term basis.

## Frequently Asked Questions regarding this concept

### What assets could be sold?

- Sell all fiber in the network with the exception of fiber in the Des Moines metro area.
- Sell the core equipment that lights the fiber.

### What could the State retain?

- "Indefeasible Right of Use" (IRU) agreements for wavelengths (lambda's) that provide capacity on the fiber outside of the Des Moines metro area. IRU's are long term (20-30 years) agreements that give the customer certain rights but at the end of the term the assets revert to the grantor of the IRU (in this case, whomever purchases the network).
- Dark fiber IRU agreements to connect the backbone network to switch points which are required to extend the network to all 99 counties and the Part III aggregation points.
- Equipment outside the core backbone electronics including SONET equipment, ATM switches and other equipment required to break down the signal to appropriate capacity for delivery of services to customers.
- Right to participate in future upgrades of core electronics in the fiber outside the Des Moines metro area.

### What process would maximize the return to the State if the network were sold?

- RFP for investment banker.

- Investment bankers promote the property.
- Buyer may be found as quickly as 60-90 days.

**How would the ITTC/ICN structure remain the same? How would the structure be different?**

- Outside plant functions, which provide fiber, repair, maintenance and marking of fiber in the field would not be required.
- Service Delivery, Operations, Engineering and Financial functions would remain.
- State maintains its commitment to the current limited customer base.
- ITTC/ICN would agree to pay the buyer for the proportional share of costs for outside plant functions. ITTC/ICN would agree to bear a proportional share of fiber relocation costs for projects outside the Des Moines metro area.

**What would a buyer gain from owning the assets to be sold?**

- Access to a statewide telecommunications infrastructure.
- Ability to light new capacity at a very reasonable cost.
- Ability to extend the network to commercially viable access points.
- Closing of the sale could take place within 90 – 180 days.

**What would the buyer have to do to make the purchased assets usable?**

- Fiber extension from current public buildings to a facility of their choosing to receive capacity they light on the network.
- Additional capacity added to the backbone.
- Additional equipment to break a signal down into voice, video, and data components based upon the services offered.

**What issues have to be addressed?**

1. Authorization for a private firm to take fiber carrying their capacity out of public buildings.
2. Legislative requirement for the buyer to commit to deploy Advanced Telecommunications Services (ATS) in areas of the state where it is not currently available.
3. Transfer of the annual Part III appropriation to fund the lease and maintenance for these circuits to Department of Education (DOE). Part III circuits connect most schools, libraries, AEA's and other K-12 sites to the ICN. Part III contract management would remain with the ICN for services the DOE wishes to continue.
4. Selected backbone equipment would be required to move from STARC to alternate locations close by. Both the ICN and the buyer would have to purchase additional equipment and potentially new buildings to move the network end point from STARC. Funding for this equipment would have to be provided.
5. Authorization and creation of an equipment replacement fund with some initial seed capital for the ICN. This fund would be a sum of money deposited by the agency for future

upgrades, with spending oversight by the ITTC, and authorization to draw from the fund provided by the Department of Management. Knowing that the State will be financially able to satisfy their financial responsibilities for upgrades will make this option more appealing to prospective buyers.

6. Amend Chapter 8D, *Code of Iowa* to allow ICN to charge rates that include depreciation expense to allow it to save cash for future network upgrades and to authorize the ITTC to enter into IRU agreements if required.
7. The ICN has several agreements with the Iowa Department of Transportation (IDOT) regarding use of the rights-of-way and sharing of fiber in urban areas. How would the sale of the network effect these agreements?
  - a. A 28E agreement was executed in 1991 between the DOT and the Department of General Services (DGS). DGS had ICN operations and contracting authority as the network was being constructed. In this agreement, DOT gave DGS the authority to construct, operate, and maintain the system with certain conditions.
  - b. DOT also agreed to charge a total annual occupancy fee of \$1.00 under two provisions:
    - i. The network is used solely for governmental purposes
    - ii. A four-duct conduit is installed in urban freeway sections.
      1. A Memorandum of Understanding was negotiated between DGS and IDOT in 1993 regarding the cost and financing of the multiduct fiber.
      2. IDOT paid for the conduit at a cost of \$453,193 with IDOT agreeing to transfer the conduit ownership to DGS (ICN) when payments were completed.
      3. ICN began making annual payments equaling 1/10<sup>th</sup> of the total in 2000. Final payment is scheduled for 2009.
  - c. The agreement is very clear that DOT has sole right to approve or deny other users and that any/all nongovernmental or other users of the sheath, trench, or any of the ducts must proceed separately through the IDOT approval process which includes:
    - i. Getting DOT approval
    - ii. Following the Utility Accommodation Policy
    - iii. Being subject to all fees
  - d. This 28E agreement is in effect for 20 years with an option to request a 10-year renewal.
8. The ICN has long-term contract commitments with vendors to provide connections to 399 educational sites in Iowa, which can only be reduced over time. ICN staff needs to research the Part III lease contracts in more detail to determine the implications of this concept on ICN K-12 educational users, AEA users, and public library users.
9. ICN staff needs to research the ramification of prepayment or early payment of the Certificates of Participation issued to finance the construction of the network.