

Report FR-CW-12-17

To: Warden Barfoot and Members of Grey County Council
From: Kevin Wepler, Director of Finance
Meeting Date: April 27, 2017
Subject: **SWIFT Municipal Capital Agreement**
Status: Recommendation adopted by Committee as presented per Resolution CW76-17; Endorsed by County Council May 11, 2017 per Resolution CC22-17;

Recommendation

1. That Report FR-CW-12-17 regarding the SouthWestern Integrated Fibre Technology Inc. (SWIFT) Municipal Capital Agreement be received; and
2. That a by-law be brought forward for council's consideration authorizing the Warden and Clerk to execute the SWIFT Municipal Capital Agreement; and
3. That the County of Grey exercise the option within the Municipal Capital Agreement to irrevocably waive any rights to repayment by SWIFT of all Annual Refundable Amounts, authorizing SWIFT to reinvest all such amounts to accelerate or further expand the development of the SWIFT Network; and
4. That the prior to December 31, 2016 member contribution of \$431,992, less the \$50,000 previously advanced to the Western Ontario Wardens Caucus, be forwarded to SWIFT and this \$381,992 payment be funded from the Information Technology Broadband SWIFT Reserve.

Background

The SouthWestern Integrated Fibre Technology (SWIFT) Network is a plan to help the region by building a ultra-high speed fibre optic network across the region. The project was initiated by the Western Ontario Wardens' Caucus (WOWC). SWIFT represents the combined connectivity interests of 15 rural municipalities in southwestern Ontario, as well as the Town of Caledon, City of Orillia, and Niagara Region.

Partners in the SWIFT initiative recognize that working with the community to bring fibre-optic connectivity to every citizen, farm, business, and organization is critical to the prosperity base of Southwestern Ontario.

In December 21, 2016, the Canadian Radio-television and Telecommunications Commission (CRTC) ruled that all Canadians, including rural and remote communities, should have access to broadband internet service and CRTC set new targets for these services. The CRTC ruling means that the federal regulatory body has endorsed the principles that the WOWC and SWIFT have been advocating since 2011.

To address the challenges of connectivity, WOWC conceived SWIFT to create an extensive fibre network that connects the entire Western Ontario region with service ranging from 1Gps to 100Gps, using a combination of public and private funding to address gaps in broadband infrastructure. In July, 2016, SWIFT received \$180 million in combined funding from the Governments of Canada and Ontario through the New Building Canada – Small Communities Fund.

SWIFT will build on existing fibre to create a far-reaching regional fibre network, bringing fibre closer to customers and making it easier for Telecom Service Providers (TSPs) to connect homes and businesses to ultra-high speed internet.

The SWIFT funding will trigger private investment from TSPs, who will continue to own and operate their networks and deliver services directly to customers. All TSPs will have equal access to the fibre network, leveling the playing field and creating a more competitive marketplace that will better serve both urban and rural communities.

SWIFT Organizational Structure

SWIFT is a registered, not-for-profit, non-share capital corporation governed by public sector organizations, large commercial enterprises, small and medium sized businesses, farmers, and residents.

In September 2016, the SWIFT Board appointed Geoff Hogan, Director of IT, Grey County as Interim Executive Director.

Municipal Capital Agreement

During the planning stages of SWIFT, the founding members from the WOWC approved a formula for allocating the municipal share of the project costs based on population, land area, and property assessment.

Based upon this funding model, approximately \$1.08 million of the total \$12.8 million will be provided by the County of Grey. This translates into a five year annual contribution of approximately \$216,000.

A portion of this funding contribution is refundable to each Municipal Partner as set out in the funding formula.

Municipal partners will be required to execute a Municipal Capital Agreement and contribute

investments to facilitate the construction and interconnection of the SWIFT Network.

Attached to this report are two documents to help explain and provide greater detail on the commitments and relationship between SWIFT and the municipal partners in the project.

Phase I of the project is valued at \$288 million, which will be funded from four main sources:

- Municipal partner contributions will total about \$18 million
- Provincial and federal governments have approved contributions of \$90 million each
- Private sector investment amounts will make up the balance of funding and will be finalized as part of the Request for Proposal process

Municipal capital contributions will form part of the larger project fund and will be used to build infrastructure across the region. Municipal dollars will be used to cover costs of expenses that are eligible under the rules and contributions of the Small Communities Fund and provide cash flow for the SWIFT organization. A good portion of the funds invested in SWIFT will be used to construct core and aggregation networks, which form the foundation of the project.

SWIFT has been planned to become a self-sustaining network. This is to be achieved through the Broadband Development Fund (BDF). The BDF will enable SWIFT to perpetually underwrite the build-out of fibre-optic infrastructure until everyone is connected.

The BDF will be drawn from a small fee on services provided by providers over the network, and potentially supplemented as required by additional member investments and other funding programs.

An option has been included in the Municipal Capital Agreement that allows for the refundable portion of the initial SWIFT contribution to be reinvested into the project. It is being recommended that the County of Grey waive the repayment of the refundable portion of the County's contribution, and that these funds be reinvested in the SWIFT project. This is being recommended in order to leverage the economic benefits and economic development opportunities that will occur with the acceleration and further expansion of the development of the SWIFT Network.

Financial/Staffing/Legal/Information Technology Considerations

The County's 2017 budget included funding of \$216,000 for the County's member municipal contribution to the SWIFT Network. This funding was also included in the 2015 and 2016 budgets, and other than \$50,000 that has been previously advanced to WOWC for this project, the funding has been placed into reserves for this project.

It is anticipated that the County's municipal contribution of approximately \$1.08 million as per the Municipal Capital Agreement will be sufficient to fund this project. However, the Agreement requires the Municipal Members to acknowledge that in order to achieve a total in Municipal Funding of \$12,804,050, that SWIFT may request that the County of Grey and each of the other Municipal Partners proportionately increase their respective contributions towards the Municipal Funding if one or more Municipal Partners withdraws from participation in the development of

the SWIFT Network or otherwise fails to contribute its share of the Municipal Funding.

Link to Strategic Goals/Priorities

Goal 1 – Grow the Grey County Economy by supporting growth in business innovation and access to broadband with providing support to the SWIFT Network project.

Attachments and Background Information

Understanding the Municipal Capital Agreement

Municipal Capital Agreement

Respectfully submitted by,

Kevin Wepler
Director of Finance



Understanding the Municipal Capital Agreement

The attached Capital Funding Agreement lays out the commitments and relationship between SWIFT and municipal funding partners in the project. For SWIFT to succeed, municipal partners must execute the Capital Funding Agreement and contribute to investments that will build core, aggregation and access infrastructure across the region. Municipal capital contributions will fund the SWIFT organization during the project.

Benefits of Regional Investment: Funding & Return on Investment

During the planning stages of SWIFT, the founding members from the Western Ontario Wardens' Caucus approved a formula for allocating the municipal share of the project costs based on population, land area, and property assessment (a table detailing these amounts is included in the agreement). Since then, Caledon and Niagara Region have joined the project as capital partners because they saw the value of the project both locally and regionally. Separated cities in the region are also being invited to become partners, and the City of Orillia has already joined as a member.

Phase I of the project is valued at \$288 million, which will be funded from four main sources:

- Municipal partner contributions will total about \$18 million
- Provincial and federal governments have approved contributions of \$90 million each
- Private sector investment amounts will make up the balance of funding and will be finalized as part of the Request for Proposal process

Because of the project's regional approach, SWIFT will produce up to a 14:1 return on investment for the collective municipal funds contributed to the project.

Municipal capital contributions will form part of the larger project fund and will be used to build infrastructure across the region. Municipal dollars will be used to cover costs of expenses that are ineligible under the rules and conditions of the Small Communities Fund and provide cash flow for the SWIFT organization. A good portion of the funds invested in SWIFT will be used to construct core and aggregation networks, which form the foundation of the project.

An RFPQ/RFP process is scheduled to begin this spring, with the first stage in the RFPQ expected to be released on or about May 14, 2017. The RFPQ process will determine the exact location of existing infrastructure and service gaps. The location and amount of fibre-optic infrastructure built in each community will be determined by the final overall design of the project, as informed by the RFPQ process. The final proposed project design will be released through RFP in late 2017 and confirmed when telecom service providers are selected to build out the project.

While core and aggregation infrastructure may not be built in every community, these critical components are required to produce the full benefit of the project for all communities by creating

a streamlined network that will connect communities and consumers in a more affordable manner. It is important to emphasize that the physical location of SWIFT's core and aggregation infrastructure does not determine the total benefit to an individual community or partner. Investing in SWIFT's core and aggregation infrastructure benefits everyone. The critical measure of return on investment will come from the value of the entire SWIFT network as the project connects as much of the region as possible to critical modern infrastructure that allows our communities to compete in the global digital economy.

SWIFT's Long-Term Plan: Leveraging the Broadband Development Fund

SWIFT has been planned to become a self-sustaining network. This will be achieved through the Broadband Development Fund (BDF). The BDF is a reserve fund that will enable SWIFT to perpetually underwrite the build-out of fibre-optic infrastructure until everyone is connected.

Currently, the broadband deficit for our region is estimated to be about four billion dollars. The first five-year phase of SWIFT will build about \$300M of infrastructure. The BDF will be used to continue building the network after the first five-year phase of the project, with the goal of filling the entire \$4 billion infrastructure gap over time.

The BDF will be drawn from a small fee on services provided by providers over the network, and potentially supplemented as required by additional member investments and other funding programs. Because the BDF has been developed as an investment stream that's built into the ongoing operations of SWIFT, it will ensure the network continues to adhere to SWIFT's guiding principles and is self-sustaining and financially viable in the medium and long-term.

Questions? We're here to help.

We understand that you may have questions about the Capital Funding Agreement and membership in SWIFT. We're here to help and happy to discuss any questions or concerns.

To discuss the Capital Funding Agreement, please contact Geoff Hogan, Executive Director, at geoff.hogan@swiftnetwork.ca or 519-375-6172.

For assistance with media inquiries or supporting communications regarding SWIFT, please contact Ashleigh Weeden, Communications Manager, at ashleigh.weeden@swiftnetwork.ca or 226-256-1640.

THIS AGREEMENT MADE THIS ____ DAY OF _____, 201__.

BETWEEN:

[v]

(hereinafter referred to as the “Municipal Member”)

- and -

SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.

(hereinafter referred to as “SWIFT”)

WHEREAS SWIFT, a not-for-profit, non-share capital corporation incorporated under the laws of Canada, has been formed and mandated by the Western Ontario Wardens’ Caucus (“WOWC”) to facilitate the construction and interconnection of an ultra-high-speed, open access fibre optic network (the “SWIFT Network”) throughout the regions of southwestern Ontario, Caledon and Niagara (the “Regions”);

AND WHEREAS the SWIFT Network is intended to enhance the prosperity and overall well-being of communities within the Regions by subsidizing private Telecom Service Providers’ (“TSPs”) network infrastructure costs so they may provide service to residents, businesses, public service organizations, First Nations and other user groups and ultimately provide equitable access to ubiquitous fibre optic infrastructure;

AND WHEREAS the SWIFT Network will be built and operated by the TSPs, owned by the TSPs (subject to any conditions of the federal and provincial funding described below), and overseen by SWIFT;

AND WHEREAS the estimated initial costs of the SWIFT Network are \$269 million (the “Initial Costs”), which will be funded as follows:

- (a) the Government of Canada and the Province of Ontario have collectively committed to fund \$180 million of the Initial Costs;
- (b) the counties and municipalities listed on Schedule “A” hereto (including the Municipal Member) (the “Municipal Partners”) have collectively committed to fund \$12,804,050 of the Initial Costs (the “Municipal Funding”) in accordance with the funding formula approved by WOWC on January 9, 2015 and set out on Schedule “A” hereto (the “Funding Formula”), a portion of which funding is refundable to each Municipal Partner as set out in the Funding Formula;
- (c) other municipalities, including but not limited to Niagara Region, the Town of Caledon and the City of Orillia, will fund an additional \$5,200,000; and

(d) the TSPs will fund the remaining Initial Costs;

AND WHEREAS in order to advance the development of the SWIFT Network, by resolution dated [v], the Municipal Member has agreed to contribute to SWIFT \$[v] of the Municipal Funding (the “**Member Contribution**”), of which \$[v] is initially refundable to the Municipal Member in accordance with the Funding Formula and which amount shall be reduced in accordance with the terms of this Agreement (the “**Refundable Portion**”);

AND WHEREAS in consideration for the Member Contribution, SWIFT shall facilitate the construction and interconnection of the SWIFT Network;

AND WHEREAS once the SWIFT Network becomes operational, a portion of the revenues of the TSPs derived from the SWIFT Network (such portion to be agreed between SWIFT and the TSPs) will be paid to SWIFT, aggregated in a Broadband Development Fund (the “**BDF**”), and used by SWIFT to (a) fund expansion of the SWIFT Network by the TSPs throughout the Regions and (b) repay the refundable portion of each Municipal Partner’s contribution towards the Municipal Funding;

NOW THEREFORE IN CONSIDERATION OF THE PREMISES AND MUTUAL COVENANTS HEREIN CONTAINED AND OF OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO DO HEREBY COVENANT AND AGREE AS FOLLOWS:

1. The Municipal Member agrees to contribute to SWIFT, for the purposes of advancing and developing the SWIFT Network, the Member Contribution.
2. The Municipal Member shall pay SWIFT the Member Contribution in annual installments, on such dates and in such amounts set out on Schedule “B” hereto, against receipt by the Municipal Member of invoices from SWIFT therefor.
3. The Municipal Member acknowledges that, in order to achieve total Municipal Funding of \$12,804,050, SWIFT may request that the Municipal Member and each of the other Municipal Partners proportionately increase their respective contributions towards the Municipal Funding if one or more Municipal Partners withdraws from participation in the development of the SWIFT Network or otherwise fails to contribute its share of the Municipal Funding.
4. The Municipal Member shall provide input and feedback to SWIFT, as requested by SWIFT from time to time, regarding the points of presence and fibre cable plant locations to be established within the Municipal Member’s territory as part of the SWIFT Network. SWIFT shall otherwise be responsible for coordinating the development of the SWIFT Network with the TSPs.
5. SWIFT shall keep the Municipal Member informed of the progress of the SWIFT Network by delivering a report to all Municipal Partners on a semi-annual basis, which report shall include financial information and information about the status of procurement, construction and operation of the SWIFT Network.
6. In respect of each fiscal year of SWIFT following the date that is twelve (12) months after the SWIFT Network commences delivering broadband services to users and generating revenues for the BDF, a portion of the net positive revenue (if any) of the BDF for such fiscal year shall be allocated to repay the refundable portion of the contributions made by the Municipal Partners

towards the Municipal Funding, which amount shall be allocated proportionately among the Municipal Partners based on each Municipal Partner's contribution towards the total Municipal Funding (the Municipal Member's proportionate share of such amount is hereinafter referred to as its "**Annual Refundable Amount**").

7. The Annual Refundable Amount shall be automatically reinvested by SWIFT to accelerate or further expand the development of the SWIFT Network unless the Municipal Member provides notice to SWIFT at least 6 months prior to the end of the relevant fiscal year that it wishes the Annual Refundable Amount for such fiscal year to be paid by SWIFT to the Municipal Member.
 - 7.1 If the Municipal Member provides such notice in accordance with Section 7, the Annual Refundable Amount for such fiscal year shall be paid by SWIFT to the Municipal Member within 3 months following the end of the relevant fiscal year.
 - 7.2 If the Municipal Member does not provide such notice in accordance with Section 7, the Annual Refundable Amount for such fiscal year shall be reinvested by SWIFT as described above.
8. The Refundable Portion shall be reduced by the Annual Refundable Amount for each relevant fiscal year, whether such Annual Refundable Amount is paid to the Municipal Member or reinvested by SWIFT pursuant to Section 7. Once the Refundable Portion is reduced to \$0, no further Annual Refundable Amounts shall be paid to the Municipal Member or reinvested by SWIFT pursuant to Section 7.
9. The Municipal Member may, at its option, exercisable by initialing where indicated on the signature page to this Agreement, irrevocably waive its right to repayment by SWIFT of all Annual Refundable Amounts and authorize SWIFT to reinvest such amounts to accelerate or further expand the development of the SWIFT Network.
10. All of the terms of this Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective successors and assigns.
11. Time shall be of the essence herein.

[Signature Page Follows.]

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed by their officers properly authorized in that behalf of the day and year first written above.

[] *The Municipal Member hereby irrevocably waives any right to repayment by SWIFT of all Annual Refundable Amounts and authorizes SWIFT to reinvest all such amounts to accelerate or further expand the development of the SWIFT Network.*

[v]

Per:

Name:

Title:

Per:

Name:

Title:

I/We have the authority to bind the Municipal Member.

**SOUTHWESTERN INTEGRATED FIBRE
TECHNOLOGY INC.**

Per:

Name:

Title:

Per:

Name:

Title:

I/We have the authority to bind SWIFT.

SCHEDULE "A"

MUNICIPAL PARTNERS AND FUNDING FORMULA

Municipal Partners	Non-refundable (based on area and population)	Refundable (based on assessment)	Cumulative Total
Grey County	\$463,704	\$616,276	\$1,079,981
Bruce County	\$391,429	\$468,663	\$860,092
Simcoe County	\$748,208	\$1,709,065	\$2,457,273
Huron County	\$334,579	\$343,978	\$678,557
Dufferin County	\$201,000	\$334,857	\$535,857
Wellington County	\$329,505	\$550,896	\$880,401
Perth County	\$276,906	\$292,578	\$569,484
Oxford County	\$308,291	\$395,947	\$704,239
Brant County	\$141,701	\$205,284	\$346,986
Norfolk County	\$218,275	\$287,156	\$505,432
Elgin County	\$271,459	\$256,334	\$527,793
Middlesex County	\$345,798	\$438,265	\$784,063
Lambton County	\$403,004	\$607,426	\$1,010,429
Municipality of Chatham-Kent	\$333,857	\$428,583	\$762,440
Essex County	\$398,181	\$702,843	\$1,101,024
	\$5,165,896	\$7,638,153	\$12,804,050

SCHEDULE "B"

AMOUNTS AND DATES OF MEMBER CONTRIBUTIONS

DATE	AMOUNT
[Prior to December 31, 2016]	\$ [an amount equal to 2/5 of the Member Contribution]
[Prior to December 31, 2017]	\$ [an amount equal to 1/5 of the Member Contribution]
[Prior to December 31, 2018]	\$ [an amount equal to 1/5 of the Member Contribution]
[Prior to December 31, 2019]	\$ [an amount equal to 1/5 of the Member Contribution]
Total Member Contribution	\$ [v]