



## CITY COUNCIL AGENDA REPORT

DATE: 6/17/2015

AGENDA OF: 6/23/2015

DEPARTMENT: Economic Development

SUBJECT: Approval of Exclusive Negotiation Agreement with Cruzio Internet (ED)

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**RECOMMENDATION:** Motion approving an Exclusive Negotiation Agreement (ENA) and directing the City Manager to execute the agreement in a form approved by the City Attorney with Cruzio Internet to continue to pursue a public-private partnership opportunity to expand gigabit broadband infrastructure in the City of Santa Cruz.

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**BACKGROUND:** Broadband infrastructure, also known as fiber-optic networks, has been identified as a fundamental need for the City of Santa Cruz for several years.

Since 2011, City Council directed staff to develop a Broadband Master Plan that is responsive to industry needs, streamlines permitting, and is consistent with regional partners, thereby encouraging further broadband infrastructure development. On September 27, 2011, City Council unanimously approved the Ad-Hoc Committee on Technology's recommendations, including developing a Broadband Master Plan as a comprehensive, citywide policy for the development of the infrastructure that makes the fast, affordable Internet access possible. Then on April 22, 2014, October 28, 2014, and February 24, 2015, City Council unanimously approved the policy direction updates provided for the Broadband Master Plan, including directing staff to pursue opportunities for the City to partner with the private sector in order to spur significant broadband infrastructure investment.

Improved broadband infrastructure is necessary for the Internet-based, high-growth economy to advance and keep pace with consumer, business, and government demands. Considering the City's needs for long-term cost savings, public safety requirements for secure Internet access, and creating efficiencies to encourage the private sector, the time is right to invest in more robust and faster networks.

**DISCUSSION:** Since May 2014, City staff has engaged Cruzio Internet for their input on refining broadband policy. During this time Cruzio approached the City of Santa Cruz with an opportunity to partner in order to build a world-class gigabit (1,000 Megabits per second) fiber-optic network, placing Santa Cruz in a handful of select cities with unprecedented broadband access and speed (See Attachment A). Cruzio has over twenty-five years of experience as an Internet Service Provider (ISP) and is uniquely positioned as an Internet exchange point using Sunesys fiber and a connection in Silicon Valley.

While evaluating broadband policy, staff has initiated evaluating the capital investment cost, engaged a consultant for operations and maintenance feasibility, and initiated due diligence pro forma analysis to see if a public-private partnership was a viable option for the City of Santa Cruz and Cruzio.

After further exploration, City staff pursued how the two parties could partner in a market-driven way to quickly build a network, owned by the City and operated by Cruzio, with a goal of providing affordable, next-generation fiber broadband to 100% of the homes and businesses as possible.

The Santa Cruz Fiber project provides the following benefits:

- Universal coverage – using economies of scale and the benefits of a public-private partnership to cover every property in Santa Cruz, including those least likely to be served by commercial providers
- Extremely fast speeds – 1 Gigabit per second (Gbps) available to all customers
- Extremely competitive pricing – help to drive competition with a price point for a vastly superior product
- Scalable network – ability to offer even faster speeds and expand to other areas
- Open network – the network can be designed to accommodate multiple Internet Service Providers if the City would like to open up the network after a period of time to encourage more market competition
- Efficient and economical to the City as owner and Cruzio as operator
- Sustainable – keeping revenues local and environmentally conscious
- Free or subsidized service – Internet can be made available to local institutions for public benefit
- Saves on long-term City costs - replacing the Comcast iNet serving City assets, saving tens of thousands of dollars annually while increasing service
- Builds economic development – Creates a tech “ecosystem” that rivals San Francisco and Silicon Valley. Many businesses begin and grow from the home and an ever-growing variety of companies require high-speed Internet. The 21st-century workforce expects fast Internet for business, research, and entertainment.
- Builds the Santa Cruz brand - Santa Cruz Fiber will put Santa Cruz on the national map because few cities have a gigabit network

The next step in pursuing the possibility of building the Santa Cruz Fiber gigabit network is securing an Exclusive Negotiation Agreement with Cruzio in order to share costs in evaluating the feasibility of the public-private partnership. In its current form, the City of Santa Cruz has committed to provide the attached cost estimate for building the network with several possibilities as well as a future analysis of the operations and maintenance feasibility study of the proposed Santa Cruz Fiber. Similarly, Cruzio is committing to provide a market analysis to identify the “take rate,” or the likely percentage of subscribers that would sign up for the gigabit service at a variety of price points as well as performing marketing to advocate for economically effective adoption.

Staff proposes to return to City Council by the end of September 2015 with a potential Santa Cruz Fiber project with full analysis and due diligence for the comprehensive project.

**FISCAL IMPACT:** Approval of the Exclusive Negotiation Agreement has no fiscal impact on the general fund nor does it commit the City to fund the project. Matching the City’s cost in

securing the Cost Estimates for FTTP Network Construction report (Attachment B) as well as the upcoming financial feasibility report due July 15, 2015 from CTC Technology & Energy, Cruzio Internet will be depositing up to \$45,000 as a part of the ENA, once finalized. These funds can be spent on future costs in the coming months including market analysis, network software, and other items mutually agreed upon by the City and Cruzio.

Constructing Santa Cruz Fiber requires the issuance of revenue lease bonds to cover the capital investment as well as two years of debt service while the project is being constructed and brought online. City staff's current pro forma conservatively demonstrates the network can meet debt service and likely create additional revenues over the life of the project, unique to a capital investment.

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**ATTACHMENTS:**

Attachment A - Cruzio Internet Proposal

Attachment B - Cost Estimates for FTTP Network Construction – May 2015