



City of Gonzales

AGENDA
ITEM

12

PUBLIC WORKS DEPARTMENT

STAFF REPORT

TO: Honorable Mayor Orozco and City Council

DATE: May 15, 2017

FROM: Harold R. Wolgamott, Public Works Director

THROUGH: René L. Mendez, City Manager

SUBJECT: Broadband Infrastructure Strategy Update

RECOMMENDATION

Staff recommends that the City Council accept this update and provide feedback as necessary on the City's Broadband Infrastructure Strategy.

BACKGROUND

For a number of years, staff has been working with the Central Coast Broadband Consortium to improve broadband access to Gonzales and South County. Steve Blum of Tellus Venture Associates has been retained as a consultant in this subject area to supplement staff's efforts.

As part of this effort, the City took advantage of two separate projects/processes in front of the California Public Utilities Commission (CPUC).

The first one was Gonzales being the only City to appear before the CPUC as it pertained to the Sunesys LLC, Connected Central Coast Unserved and Underserved Broadband Project that connect Santa Cruz to Soledad. This project, which was recently completed, will allow communities and others along the way to be connected with the appropriate infrastructure to more reliable, less costly and higher speed internet.

The second more recent effort was the City taking a very proactive and aggressive stand on Charter Communications and several other cable television companies' proposal, to merge nationally and share systems. Unfortunately, as part of this proposal, they planned to not serve the lowest 1% of the systems because of connection problems. They thought that was going to be approved. Gonzales took action to not allow this area to be part of that 1% that was not going to be served by the upgrades. Mayor Orozco appeared at the California Public Utilities Commission (CPUC) meeting in San Francisco to block the merger if small areas were allowed to be unserved or underserved.

On February 19, 2016, after several negotiations, the City of Gonzales and Charter Communications agreed that in exchange for the City withdrawing its opposition to Charter's acquisition of Time-Warner and Bright House cable systems in California, Charter would upgrade its cable system serving Gonzales to full digital capability within two years of the transaction closing. As agreed by Charter, this upgrade

will bring broadband, video and telephone service in Gonzales up to the same level as Charter offers in Watsonville and Hollister, and it would be available to every home located in an area zoned for residential use within the City limits.

The CPUC subsequently approved the Charter transaction, with fulfilment of this agreement an enforceable condition of approval. The transaction closed on May 18, 2016 and in keeping with the terms of the agreement, Charter began submitting quarterly reports and meeting with City staff to review progress.

The most recent meeting was held on April 26, 2017. A number of topics were discussed with Charter's representative and afterwards, among staff. These topics included:

- The timeline for completion of Charter's required upgrade project.
- The status of a related but independent regional fiber optic project.
- A plan to provide broadband service to every home in Gonzales.
- A plan to develop industrial-class broadband infrastructure in Gonzales.

In addition, staff continues to meet with representatives from the California Public Utilities Commission (CPUC) and the State Advanced Services Fund (CASF) as team as recently as Tuesday, May 9th, as part of the Central Coast Broadband Consortium regarding the Central Coast progress on connectivity.

REVIEW AND ANALYSIS

CHARTER UPGRADE PROJECT

Charter's upgrade project involves two parallel phases. Phase 1 is upgrading its hybrid fiber/cable (HFC) distribution system within the City. Phase 2 is constructing or obtaining a fiber optic connection between the City and its existing service area in Santa Cruz and San Benito Counties. Although both phases need to be finished before full digital service can begin, the construction work required for one phase can be completed independently of the other.

According to Charter, preparations for the upgrade of its HFC system in Gonzales will be finished and construction will be underway by the end of June 2017, and will be completed by the end of 2017. This time frame is consistent with Charter's obligation to begin full digital service by May 2018 and should result in an earlier start date.

FIBER OPTIC CONNECTIVITY

Charter has two options for connecting its upgraded system in Gonzales to its existing network:

1. Build a fiber optic line between Gonzales and one of its existing service areas.
2. Lease capacity on a recently completed fiber optic line that could link Gonzales to one of Charter's existing service areas.

Charter's preferred option is to build its own facilities, and it says it is making progress toward completing plans and designs, obtaining the necessary equipment and materials, and getting the required permits. Charter has also been in discussions with Sunesys LLC, the owner of the new fiber route, about leasing capacity on it.

The Sunesys route, officially known as the Connected Central Coast Unserved and Underserved Broadband Project, was largely paid for by a grant from the CPUC and was notably supported by the

Mayor, the City Council, and staff. It was completed on March 31, 2017 and is available for use on an open access basis at deeply discounted rates, as ordered by the CPUC. Any qualified lessee, including Charter, may obtain fiber strands for \$8.50 per mile between any two points on the system.

Leasing two fiber strands between Watsonville and Gonzales, for example, would cost Charter less than \$1,000 per month. By contrast, a similar market rate connection in the San Francisco Bay Area was recently quoted at \$18,000 per month. Even allowing for additional connection costs and differences in circumstances, obtaining the necessary connectivity to Watsonville, would cost Charter less than one-tenth of what it would have to pay on the open market.

Although building and owning fiber infrastructure has long term, strategic benefits to Charter, leasing the necessary connection presents no financial hardship and may even save money in the short term. This lease option was discussed with Charter's representative and their representative agreed that it was a viable "Plan B" and, if necessary, Charter "will use Sunesys for a period of time."

When coupled with its schedule for completion of the HFC system upgrade, interim use of the Sunesys fiber route is consistent with Charter's obligation under its agreement with the City to "use its best efforts" to begin providing full digital service in Gonzales by May 2018. Staff will continue to monitor Charter's progress. If Charter's actual work or assurances appear to be inconsistent with this obligation, staff is prepared to immediately seek timely remedies with the CPUC and/or the courts.

BROADBAND SERVICE TO EVERY HOME

Staff has been exploring the possibility of entering into a bulk services agreement with a qualified Internet service provider (ISP) to deliver a basic level of Internet access to every home in Gonzales. Although this is a novel approach for a City to take, it is a common method of contracting for service in private communities. There are significant differences between the legal, regulatory and market conditions in cities and private communities, but staff has concluded that distributing a Request for Proposals to qualified ISPs, will clarify those issues and should produce legitimate options that can be implemented.

All technically and financially feasible proposals will be entertained. The major incumbent ISP in Gonzales is AT&T and it will have an equal opportunity to respond. As noted above, Charter is on track to become the second major ISP in Gonzales and, given the necessary time frame for such a project, will be in a position to respond assuming it meets its contractual obligations. However, consideration will be given to proposals from any ISP with the necessary capabilities and qualifications.

Staff anticipates bringing a draft RFP back before the Council for its approval in August.

INDUSTRIAL CLASS BROADBAND INFRASTRUCTURE

The lack of competitive, high capacity broadband service and infrastructure, has been an obstacle for companies considering locating or expanding in Gonzales. The completion of the Sunesys fiber route, as described above, was the essential first step toward closing this gap.

Staff has taken the second step, which is to place an order with Sunesys to construct an access point along its route on Alta Street in Gonzales. This access point can be used by the City to upgrade its existing internal information technology network, as well as by schools, businesses, and Internet service providers. In effect, the City of Gonzales is building an onramp to Sunesys' fiber freeway.

The third step will be to release a Request for Proposals to make use of this access point and other City assets to build a high speed, fiber distribution network that will connect existing businesses and areas slated for commercial, industrial and agricultural development to the Sunesys route and, potentially,

other fiber networks such as those that run along the Union Pacific right of way or are maintained by local incumbent providers.

An initial assessment indicates that up to six miles of new fiber lines will be necessary for complete commercial and industrial coverage, with approximately 50% installed on poles, 20% in new construction, and the remainder in existing streets and right of ways.

Staff anticipates presenting a draft of the Industrial Class RFP to the Council at the same time as the Residential RFP. The two RFPs will be managed separately, but joint proposals will be entertained.

Explain Recommendation and How it Supports the Vision

Gonzales will continue to be a safe, clean, family-friendly community, diverse in its heritage, and committed to working collaboratively to preserve and retain its small town charm.

Explain: This broadband effort is designed to improve the community connectivity in a safe and clean manner while offering services to all segments of the community preserving our small town charm.

Explain how the Recommendation Directly Implements the Mission

The City Council and Staff of the City of Gonzales will realize our Vision by providing the leadership, commitment, and resources necessary to provide excellent services that enhance the quality of life of our diverse community.

Explain: This effort provides resources for excellent services that will bring Gonzales residents into the 21 century and beyond to enhance the quality of life into the future.

City services will be delivered in a cost-effective, respectful, and friendly manner to insure the safety and well being of the residents and the promotion of business, recreational, housing and employment opportunities in an environmentally sustainable manner.

Explain: This effort is designed to ensure cost-effective connectivity to the internet for all to promote business, recreational, housing, and employment opportunities in Gonzales.

Strong fiscal policies allow us to provide appropriate infrastructure for:

- *Public Safety* X Yes ___ No ___ NA
- *Housing* X Yes ___ No ___ NA
- *Recreation* X Yes ___ No ___ NA
- *Environment* ___ Yes ___ No X NA
- *Education* X Yes ___ No ___ NA

Explain: This broadband effort must be cost-effective and follow approved procedures for procurement. The City Council must approve all programs that use public funds. Specific programs will be brought to the Council as they develop. This is an overall update.

ALTERNATIVES

The City Council could determine there is no need for government involvement in broadband. Private enterprise could provide the needed services to Gonzales. Staff began this effort to insure private

businesses were interested in Gonzales. Currently, business interests are interested in Gonzales because of staff's efforts. Our subscribership has been insufficient to make the area profitable.

The City Council could direct staff to approach any of the efforts in a different manner. Staff will take direction provided by the Council to the City Manager.

BUDGET IMPACT

Staff has included the consultant contract in next year's budget.

CONCLUSION

Staff recommends that the City Council accept this update and provide feedback as necessary on the City's Broadband Infrastructure Strategy.