
CITYWIDE ULTRA-HIGH- SPEED BROADBAND SYSTEM

i.e. Fiber to the Premise in Palo Alto

Purpose of our Fiber Optics Utility Enterprise

- Fiber Optics Utility Fund will be our 9th enterprise fund
- Current Fiber Enterprise services are limited to customers, commercial or residential, who have technical resources to light own fiber and the financial resources to fund connection charges up front
- City's objective for past decade has been to provide service to the Fiber Enterprise's potential residential customer base
- Unable to accomplish this with Fiber Enterprise's cash flow and staff level
- We believe this proposal offers the leverage to accomplish the City's objectives

Previous Council Action and City RFP

- Per Council direction, RFP issued September, 2006
- “The primary goals for this system are:
 - Capability of providing to each customer a minimum bandwidth of 100 megabits per second symmetrical service;
 - Provision of at least data, video, and telephony services; and
 - Eventual City ownership of the physical system.
- A secondary goal for the system is to promote competition between multiple service providers. In addition, the following features are preferred:
 - An open system
 - Network neutrality
 - Minimal financial risk to the City”.
- Council directed staff to enter discussions with Consortium, March 2007

Overview of proposal

- Consortium proposes to:
 - Fund, Build, Own and Operate open access, wholesale fiber network throughout residential and commercial Palo Alto
 - Sell to City for \$1 at end of agreement
- In return for:
 - Long-term use of 36 fibers (out of 144-288 fibers throughout the Fiber Enterprise)
 - Consortium assumes management and support responsibility for existing commercial dark fiber contracts **and** receives revenue from these contracts
- Not a joint business venture
 - No business plan
 - Arms-length contracts/agreements with specified and limited city responsibility

Consortium members

■ PacketFront:

- Automation and control of broadband networks, 78 clients in 20 countries including, as of last fall, Vienna, Austria

■ 180Connect

- Install, integrate and fulfill services to the home entertainment, communications and home integration service industries. Customers include providers of satellite, cable and broadband media services as well as home builders, developers and municipalities. 4,000 skilled technicians and 750 support personnel based in over 85 operating locations in 22 states.
- Being acquired by DirecTV

■ Axia

- Axia provides Real Broadband™ IP services and solutions through planning, designing and operating Open Access Next Generation Networks. We lead by example having created the Alberta SuperNet, which we believe is the world's best IP regional broadband network.
- Axia will provide investment capital for the Palo Alto buildout and will own the Special Purpose Enterprise (SPE) as an independent subsidiary

Open access wholesale network in Palo Alto

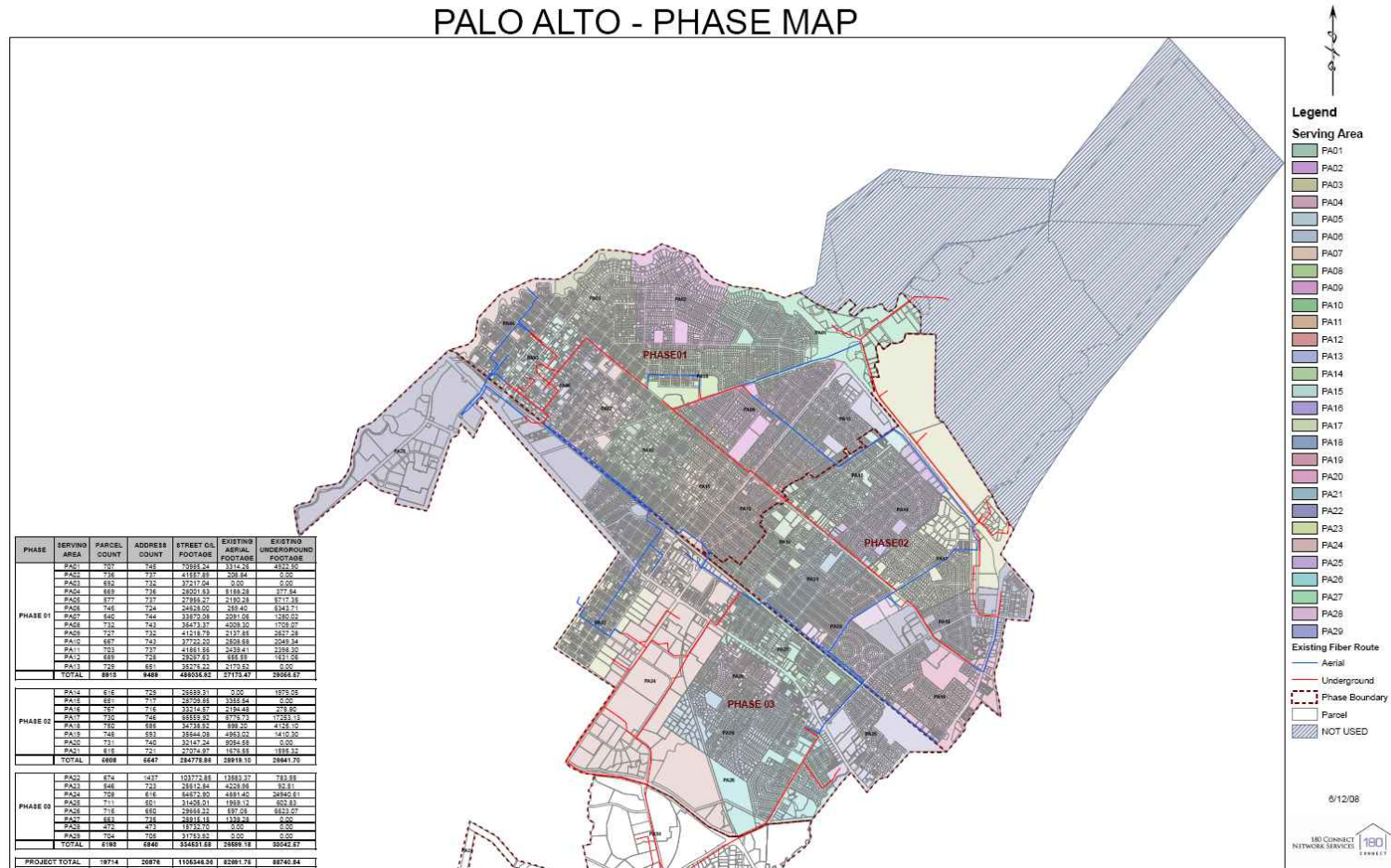
Up to 1 Gbps symmetrical infrastructure throughout Palo Alto

- Three year build-out (west of I-280 TBD)
- Fiber network access for all residents and businesses
- Consortium is wholesale operator
- Open to all service providers (although none specified at this time)
- City has right to purchase entire network for \$1.00 at the end of 25 years

Fiber to the Premise in Palo Alto

Open access wholesale network in Palo Alto

PALO ALTO - PHASE MAP



City obligations

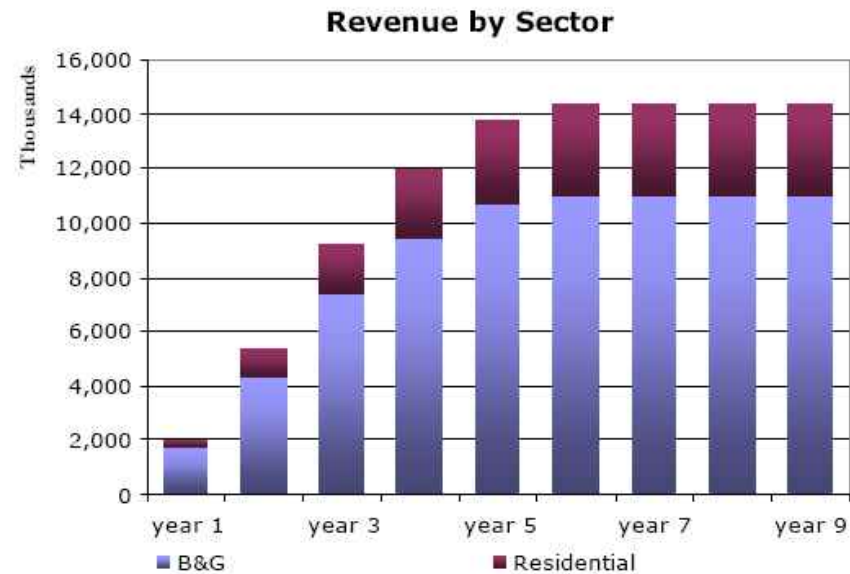
In return for Consortium's commitment to fund, build and operate wholesale system, City would commit to:

- Provide Consortium 36 fibers of the City's 144-288 fiber loop*
- Turn over management of, support of, and revenue from existing dark fiber customers*
 - All 45 existing customer contracts remain in place and valid
- Seek competitive bids from network service providers where applicable for city needs

So why does this proposal potentially work?

Previous proposals for FTTH have not financially penciled out and have had too much risk for the city

- Those plans relied primarily on revenues from residential customers
- This plan relies on additional revenues from commercial customers
 - New, lit service to new commercial customers
 - Lit service is not in the City's Fiber Enterprise business plan



So why does this proposal potentially work?

City financial risks are limited to specific contracts with Consortium. City is not responsible for build-out, financing or operations.

What are the City's risks?

If the Consortium fails to meet agreed-upon performance requirements:

- City retains reversionary interest rights to all city-owned assets used by the Consortium.
- Reversionary interest rights may be triggered, and may be immediately exercised by the City, at anytime during the life of the agreements should certain circumstances arise

What are the City's risks?

- Service risk: absence of retail service providers
- Litigation from others
- If the Consortium fails
 - Will the City be responsible for continuing operations
 - Loss of net margin from dark fiber customers
- Consortium (or other) walks away with City's current dark fiber customers
- Risk if no project
- Contrast to other municipal broadband projects

Mayoral Advisors' recommendation

We believe this is a reasonable and realistic proposal to leverage a stranded asset that provides limited services to a limited set of customers into an infrastructure that offers service to every residential and commercial parcel in Palo Alto.

We concur with staff that there should be no General Fund contribution nor liability.

Mayoral Advisors' recommendation

1. Confirm the City's commitment to expedite negotiations with the Consortium. Develop with the Consortium a Letter of Intent to be followed with presentation to Council by October of the requisite agreements/contracts.
(Similar to staff's option 1. b.)

Mayoral Advisors' recommendation

1. Provide staff with directions as follows:
 - a) The City will provide 36 dark fibers at a new rate that accepts specified investment in city infrastructure as in-kind payment (different from staff recommendation)
 - b) City use commercially reasonable efforts to purchase services via the broadband system (staff recommendation)
 - c) Consortium manages existing dark fiber contracts and receives net margin (similar to staff recommendation)

Mayor Advisors' recommendation

1. Provide staff with directions as follows (cont.)
 - a) City would contribute existing unused FTH trail assets (same as staff recommendation)
 - b) City would provide access to spare conduit but charge conduit usage fees as well as street-cut fees (same as staff recommendation?)