



Economic crisis stalls Palo Alto fiber project

Fiber to the Premises' consortium seeks new investors — possibly including Palo Alto — after earlier funding sources blow away

by [Gennady Sheyner](#), Palo Alto Online Staff, Uploaded: Friday, January 16, 2009, 9:10 AM

Palo Alto's 12-year-long effort to install a citywide, high-speed fiber-optics communications network could become the latest casualty of the international economic crisis.

Six months ago, city officials hoped to have at least a portion of the \$44-million fiber network called "Fiber to the Premises" (FTTP) up and running by the end of 2008.

The plan called for the city to use its existing "fiber ring" to provide the core of a system that would bring high-speed Internet to 28,000 homes and businesses throughout the city. The city leases fiber in the ring to private firms, and currently has about \$5 million in excess revenues in a special revenue-based fund separate from the city's general fund.

A consortium of technology companies — Axia NetMedia, 180 Connect and PacketFront — would finance, build and operate the network, which would eventually revert to full city ownership.

City officials said the network would create jobs, encourage educational innovation and promote "green" technological development in Palo Alto as a foundation for assuring the future vitality of Palo Alto's largely information-based economy.

But times have changed: Investor funds blew away in the worldwide economic storm.

The consortium now is looking for an additional investor and has asked the city to come up with some funds for the project, according to Joe Saccio, deputy director of Administrative Services for Palo Alto.

"They've made some requests for the city to be more involved financially," Saccio said. "They provided us with some analyses as to what kind of contributions they're looking for."

City officials met with consortium leaders last week to discuss the financial situation and negotiate the city's potential contributions, City Manager James Keene said.

Saccio would not disclose details about the request because negotiations are underway, but confirmed that the revenues from the fiber ring are involved in the discussions about how to leverage other investments.

Saccio acknowledged that talks are taking longer than expected, but said the city is still working diligently on implementing the FTTP program.

"I wouldn't say I'm pessimistic or optimistic," Saccio said. "We just need to be patient and see what's best for the city."

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"There are some challenges with the information (the consortium) presented to us as far as it not being in keeping with the council's directives," Keene told the council Monday night.

He said the city is now "in the final stages of conversation" with the consortium and said he expects to update the council on the negotiations at the March 2 council meeting.

Meanwhile, city officials hope the federal government might help. The city has included the "Fiber to the Premises" (FTTP) program on a list of 10 projects for which the city is likely to seek federal "stimulus" funds once the Obama administration and Congress release their widely anticipated economic-stimulus package.

Keene identified FTTP as a high-priority for grant applications because of its potential for generating "green" jobs, a criterion that could be used for evaluating proposals, and because it is virtually ready to go forward. The council has unanimously supported this view.

Councilman Greg Schmid, who sits on a subcommittee charged with exploring FTTP, said funding the project has become much more complicated in the last few months, with the global economy in a shambles.

"The whole financial world ... entered into a new context last September," Schmid said. "Everyone in there who tried to fund future projects is trying to figure out how to raise money, where conditions are for getting money and where the investments are.

"This makes working out a long-term deal more complex."

But he maintained that the opportunities the fiber network presents to the city remain as promising as ever. The city already has a 41-mile fiber backbone, known as the "fiber ring," which Schmid said would make installing a high-speed network a faster and easier process than it would otherwise be.

He also pointed to comments by members by Obama's transition team that promote broadband projects as a great way to generate jobs as positive signs for a project looking for federal help.

Schmid said the subcommittee has only considered options that wouldn't require general-fund cash, as directed by the council in July. But it remains to be seen whether the council at large considers expanding its financial options when it discusses the fiber project in early March.

"So far, we are working under those conditions because that's the only thing that this subcommittee can do," Schmid said. "The goal is to get as far as we can under those conditions."

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