

January 5, 2005

Honorable Mayor and Members of
the Hermosa Beach City Council

Regular Meeting of
January 11, 2005

REPORT ON FULL DEPLOYMENT OF WIFI SYSTEM

RECOMMENDATION:

That the City Council receive the additional information that was requested at the 11/9/04 meeting and that the City Council determine whether or not it wishes to proceed with the full deployment of the Wifi system.

If the City Council decides to proceed with the full deployment the wifi system, direct the City Manager to sign a sole source contract with LA Unplugged based on the attached proposal dated 9/28/04; appropriate \$126,496 from the Equipment Replacement Fund to cover the cost of the system; authorize the City Manager to contract with Google for online ads in exchange for ad revenue; authorize the City Manager to contract with Ad Connect; direct the City Manager to enter into a service agreement with SCE for the installation of fiber to the City Hall to carry the bandwidth for both the wifi system and the City operations.

BACKGROUND:

The City Council, at the 11/9/04 meeting, directed staff to return with additional information concerning the Wifi Program. The requested information included a review of the franchise option; an amortization schedule for the wifi equipment so that it is set up on a reasonable replacement schedule, and whether or not the costs of system could be recovered during the life of the equipment. A copy of the minutes of that meeting are attached for reference.

Franchise Process

I have attached, as part of this report, examples of other cities that have chosen to use the franchise process in order to provide wifi coverage in their cities. The only one that has actually been deployed has been the City of Cerritos. The franchise/agreement with the City of Cerritos is attached for you review. The agreement provides for an exclusive use of right of way and other City of Cerritos facilities to the holder of the franchise. The residents and businesses that sign up for the service in Cerritos pay a monthly fee of \$29.99 for wifi system broadband service. The interest by the City of Cerritos in assisting and entering into the agreement was to encourage the development of a broadband service. Prior to the development of the agreement, neither the telephone company nor the cable company provided high-speed bandwidth to the entire city. This was at least one of the reasons that the franchise holder, AirMesh, was interested in building the system, as at least for some timeframe they would be the only provider offering high-speed bandwidth. The business plan for AirMesh is to offer service

broadband in areas that are not serviced by telephone or cable companies. They have a number of installations and are working on others that meet their business plan. The motivation of providing the only high-speed bandwidth also has been a driving force in other areas where either the telephone company or cable companies have not chosen to offer the high-speed service. Whether a company would be willing to build and operate a system in the city under a franchise is hard to know. Our residents and businesses have access to both high-speed bandwidths from both the telephone company and cable company and each have a number of users. They charge anywhere from \$29.95 to \$59.95 depending on other services purchased as part of a package or special offers. The only way we would really know is to put the proposal out to bid and see if anyone is interested.

A bid process for the city would take about 6 months.

The other two RFP's that I have received are currently out to bid now. In addition, the City of West Hollywood has proposals out to build a system similar to ours. The approach that they are taking is to start with a pilot or test area and expand later.

Costs

The costs for the full deployment of the wifi system will total \$126,496. This amount includes a \$20,000 cost to bring fiber connection to the city hall. This fiber line will serve both the city operations and the wifi system. This cost will be treated separately and not included in the equipment replacement fund as the ongoing responsibility for the line will be SCE not the City's.

The cost of the equipment for the wifi project considering both Phase I and the Full Deployment will total \$141,026.00. This total includes \$36,530.00 for Phase I and \$104,496 for the full deployment costs.

Staff was directed to set the replacement costs and include them in the ongoing monthly expenses for the wifi system. Using a total cost of the wifi system of \$141,026.00, the replacement schedule has been set up on a 90 month or 7.5 years program. This results in a monthly cost of \$1567.00. This cost becomes the replacement component of the expenses of the system. I have discussed the replacement schedule with our contractor and the timeframe for equipment replacement was determined to be reasonable. This replacement schedule would allow the accumulation of funds to service the system following the 1 year limited warranty period. One of the potential service providers at the last meeting offered to provide a warranty period longer than offered by the manufacturer's warranty. The offer that they made is in connection with providing a broadband service connection for the system. The city currently uses a different company to provide this service. The warranty offered was for the equipment that they use to provide the service.

Broadband Costs

The cost of purchasing bandwidth to the Internet is the largest ongoing cost that the system has. The approach for full deployment includes moving to a fiber optic line. This

would also allow us to change over our two T-1 lines and share the new fiber line. The full deployment will start with a bandwidth of 10 Mbps. This will have a cost of \$1500 per month. This includes a loop charge and the bandwidth. The line would have a capacity of 45Mbps but that would not be needed at first, if ever. In any case, the costs for increased bandwidth could be tied to revenue growth or users. This cost represents one of the ongoing cost components at \$1500 per month. The others are \$500 for system support and \$500 for the hardware support. The total ongoing operational charges are \$2500. per month. If the existing T-1 line is transferred over to the fiber line and those charges (\$750.00 per month) used to offset the cost of the fiber line the ongoing cost for the broadband is \$750 per month. This then brings the total monthly operational component to \$1750.00

Revenue Model

The proposal that I have received shows an estimated revenue of stream of \$4800.00 per month. The number of signed contracts now totals 10 (this represents 5 new contracts in addition to the 5 that have signed up during Phase I). There are two additional contracts that are expected. These are agreements are for \$250.00 per month and may be cancelled with 60 days notice to the City. This represents a total of \$2500.00 per month of committed revenue. A spreadsheet is attached that goes into detail for each potential source of revenue. The purpose of entering into a contract with an advertising broker is to have them continue to seek the ads and revenue without impacting city staff. Maintaining the revenue stream will require ongoing work, which will be handled by the broker. This will reduce the time city staff might have to spend on this aspect of the system.

MONTHLY ONGOING OPERATING COSTS

System Replacement Cost (\$141,025.96 over 90 months)	\$1,567.00
T-1 Line (10Mbps to start) (50/50 share for City Hall usage)	\$750.00
System Support (L.A. Unplugged)	\$500.00
Hardware Support	\$500.00
TOTAL COSTS	<u>\$3,317.00</u>

The current amount of committed revenue is \$2500, which is \$817 short of the monthly costs. The revenue may grow once it is operational and, in fact, may represent a chance to market the system and gain additional revenue in a manner similar to the proposal contained in the letter from Organix Worldwide, LLC involving creation of outdoor digital media along with the WiFi portal, home page and other outlets. This proposal is worth pursuing also and could end up part of the evolution of the wifi system. The lead

time to develop an agreement and complete service offering can be done while the wifi is being fully deployed and the community issues concerning placing a “lighthouse” on the Plaza is more fully explored.

Respectfully submitted,

Stephen R. Burrell
City Manager