

**OFFICE OF THE CITY COUNCIL
CITY OF PALO ALTO
M E M O R A N D U M**

TO: City Council
FROM: Council Members Beecham and Kishimoto
DATE: July 21, 2005
SUBJECT: Revised Approach for Fiber to the Home

Recommendation: We recommend Council direct staff to issue a Request for Proposal for the construction and operation of a minimum 100 Megabit per second city-wide infrastructure providing access to service to all residential and commercial residents and open to all providers. The first step in this process will be for staff to return to Council with a discussion of legal and financial issues regarding the issuance of the RFP.

Discussion: The City's FTTH trial has been useful in that it has shown the City can successfully operate the technical aspects of a fiber link to residences. It has served its purpose – we know that “fiber to the home” works as a technology and is highly valued by its users - and it is now time for the trial to be over.

In parallel with the trial, the City has worked to develop a business model and plan for a City-owned and operated FTTH enterprise. To date, this effort has been unsuccessful. There remain major unresolved legal, financial, and marketing issues. We are not convinced that a City financed and operated FTTH system can overcome these issues. But it is possible that some type of public/private partnership structure could meet all requirements of the City.

We believe there are still substantial benefits to the community of an alternative, ultra high bandwidth, competitive and open system. The United States continues to lag other nations in residential access to ultra high bandwidth. There is little comprehensive competition at the local level. National providers, such as Comcast, SBC, and Time Warner, seem to compete in court, in Congress and at the FCC to limit actual competition at the local level rather than to provide it.

Prior to the FTTH trial, the City issued an RFP to solicit proposals for an open system in which the City would provide the physical infrastructure to allow all service providers, including local incumbents, ultra high bandwidth access to our residents. Six years ago, the City received no viable bids and so embarked on the FTTH trial.

Before we consider switching off comprehensive access for our citizens, we recommend the City issue an RFP for:

- the construction and operation of an ultra high bandwidth city-wide system,
- capable of providing data, video and telephony service, with
- physical infrastructure owned by the City and
- limited capital/risk exposure for the City

The City would consider the option of making the existing dark fiber system available to the successful bidder for a specified period of time. The bidder may take over operation of the dark fiber system, retain revenues from such operation for specified period of time, and incorporate unused portions of the dark fiber system into the desired city-wide system. The RFP would specify neither structure nor technology. Instead, it would welcome proposals using one or more various technologies, including but not limited to optical fiber, copper wire, wireless, or AC power lines.