

City of Lawrence
Public Incentives Review Committee
January 21, 2014 minutes

MEMBERS PRESENT: Boog Highberger, Mike Amyx, Mike Dever, Mike Gaughan, Linda Jalenak

MEMBERS ABSENT: Brad Burnside, Shannon Kimball, Cindy Yulich

STAFF PRESENT: David L. Corliss, Diane Stoddard, Britt Crum-Cano, Jim Wisdom,

PUBLIC PRESENT: Joshua Montgomery, Kris Adair, Will Katz, Brian Dennis, Chad Lawhorn, and additional members of the public

Mayor Dever called the meeting to order. Amyx made a motion to approve the August 20, 2013 meeting minutes, Highberger seconded. Motion approved 5-0.

Kris Adair, co-owner of Wicked Broadband, provided a presentation on fiber optic verses traditional broadband service and discussed how fiber technology would benefit the community within the context of the City's economic development policy goals. Additional information was presented on the history of the company and their request for funding support. Adair read excerpts from letters of support from some of their customers.

Adair mentioned that their proposed common carriage infrastructure could accommodate up to four additional providers to utilize their fiber network technology. Information was given on how the company selected the initial neighborhoods for the pilot project.

Adair acknowledged that their funding request has not been budgeted by the City. She stated that franchise fees are a good source of revenue for the City, although fees from phone and video service have stabilized and are not likely to increase in the future. Adair proposed that one source of non-budgeted funds to cover the amount of their \$500,000 grant could be utility franchise fees. She suggested that reinvesting future fee revenues, based on a projected increase in Westar's electricity usage, could restore fee revenues that might be lost due to declining phone and video usage, as well as help cover the cost of Wicked Broadband's request. Adair mentioned that given this scenario, they have estimated the City would realize a cost/benefit ratio of 1:1.53 (\$600K direct costs/\$956K in benefits) over five years, based on a projected increase in franchise fees over the same time period.

Highberger asked if other service providers would have the same rights and connection access under this proposal. Joshua Montgomery, co-owner of Wicked Broadband,

clarified that the company would build out the fiber network and any vendor could lease fiber access from them at 50% of their lowest cost service.

Gaughan asked if the other communities charge a franchise fee for broadband service. Montgomery responded that Google is paying 5% in the Kansas City community.

Will Katz, director of KU Small Business Development Center (KUSBDC), summarized their report of Wicked Broadband's proposal. They were asked to prepare an economic impact analysis, but were not able to put a number on projected job creation and could not quantify the advantage to the community of the Fiber To The Premises (FTTP) proposal by Wicked Broadband. Their report methodology consisted of reading reports previously prepared by CTC and Springsted, consulting information on other communities that had invested in fiber technology, reviewing the City's economic development budget, interviewing co-owners of Wicked Broadband, and meeting with staff to collect information. They summarized that fiber technology would likely benefit the community economically.

Gaughan mentioned two failed projects: Gigabit 2 in Chicago proved a failed experiment as well as Century Link in Seattle, which was funded by Federal dollars. Katz mentioned they did not have enough time to address those cases clearly in report.

Amyx asked about Wicked's proposed 30 year lease on the City's middle mile infrastructure. He stated that although the City may not have any up front expense on this lease, there could be a loss of foregone revenues. These foregone revenues may be hard to quantify. Mayor Dever asked if the City would get any revenue off of the subleasing of one of the four fibers by other providers. Montgomery stated that Wicked Fiber would retain those leasing fees to help pay back the company's investment in infrastructure, but the City would get the associated franchise fees.

Highberger asked about the legality of franchise fees: Would other providers subleasing the fiber infrastructure also have their franchise fees waived, as would be the case for Wicked Fiber? David Corliss stated that would be the case in order to be competitively neutral.

Gaughan asked about clarification on the agreement to charge franchise fees on the company's current wireless services (Community Wireless Communications). Charging franchise fees to the company was suggested by Montgomery as part of the package when that request was being considered.

Gaughan asked if the City has alternatives for a municipal fiber project in the future. Mayor Dever stated that the issue has been lingering for a while. There is a question of is this a want or a need, which has not yet been determined.

Highberger stated that the KUSBDC report suggests that FTTP service would likely have a significant economic development impact and that it is unlikely private market will provide this investment. Highberger acknowledged that the \$500,000 grant was unprecedented.

Amyx stated the investment in fiber technology is an economic development tool that can be used in order to be competitive. He believes the middle mile has a value and that an RFI should be sent out to help determine that value. Highberger mentioned that there is value to fiber already in the ground and the \$0 lease being proposed by Wicked Broadband does not consider the value of foregone revenues.

Mayor Dever asked how this new proposal would be different than the current FreeNet arrangement with the City; because the first company in takes the risk, would the City have to give other competitors the same deal? Corliss remarked that the City has to treat all the companies the same under competitive neutral requirements set by Federal and State laws.

Gaughan stated he didn't know if this is the right package and right combination of tools for the City to use, although it seems that investing in fiber is the direction the City should go. He asked about the City's appetite for this type of investment. The Mayor said the City has set aside future money for building out the City's fiber ring. However, there has been no clear vision on how to use it, yet. Gaughan suggested the committee send a message of support for fiber technology, but was not sure of recommending support for this proposed package.

Linda Jelenak stated that fiber technology is a need and a fairly high priority for growth, but she was not sure the Wicked Broadband proposal is the right vehicle for pursuing it as there were too many questions remaining around this request. The Mayor mentioned that he is in favor of enhancing & widening broadband infrastructure, but how to harness that technology is the hard part.

Amyx reiterated his concern about the 30 year length of the lease being proposed. He also would like to know about the value of the middle mile infrastructure and strategy. Gaughan suggested the RFI not be limited to one neighborhood, but City-wide. Highberger suggested that if the Wicked Broadband proposal be pursued, the \$500,000 City investment be structured as a forgivable loan, contingent on full build-out.

Issues summarized included:

- RFI to identify competitive options
- Placing no limitations on the geographic neighborhood for an RFI
- Consideration of the value of the middle-mile within an RFI
- Consideration of the 30 year lease being proposed
- Structuring the City's \$500,000 investment as a forgivable loan instead of a grant

The Committee asked for a month to study additional options and related economics. The follow up PIRC meeting was set for March 4, 2014. The meeting was adjourned at 5:25 p.m.