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EXECUTIVE SUMMARY

***Report: Financial Analysis of Completing the City's Municipal Fiber Network
for Ubiquitous Citywide Internet Access***

INTRODUCTION

This is an executive summary prepared by Supervisor Mark Farrell of the budget analyst's report (attached). The report, requested by Farrell, represents the first-time in the City's history that financial estimates have been provided on the costs of constructing, owning, and operating a low-cost citywide Gigabit speed municipal fiber network. The report examines two key approaches to delivering low-cost citywide Gigabit speed Internet for everybody in San Francisco.

The Problem:

- Twelve percent of residents, over 100,000 people, do not have Internet service at home – including 14% of public school students. 50,000 residents have sluggish dial-up speeds.
- The price of Internet access is a reason residents do not have access at home.
- Gigabit speed Internet access at speeds of at least one Gigabit per second, the standard in next-generation broadband, is currently available to just 2.6% of San Franciscans.
- Currently, the City has limited ability to limit service levels, download and upload speeds, and retail prices for services offered by Internet Service Providers (ISPs).
- Industry experts do not believe a Gigabit speed citywide network will be deployed by the private sector absent government intervention.
- California, the birthplace of the Internet, and San Francisco, the innovation capital of the world, is falling behind other states and countries across the country and world in providing fast and affordable Internet to their residents and businesses.

Two Key Approaches to Deliver Gigabit Speed Internet:

- **Demand Driven:** Network connections to individual premises would only be constructed at the time a customer subscribes to the service, but would not ensure all residences and businesses are connected with at least a baseline level of Internet access.
- **Utility-Based:** All premises in San Francisco would have some level of Internet access as the Gigabit speed network would be connected to all premises at the time of construction.

Models to Deliver Citywide Gigabit Speed Internet:

- **Public Model:** The City would establish a municipal fiber enterprise and assume responsibility for the constructions and operations to provide a Gigabit speed network.



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- **Private Model:** The City would assume no responsibility for deployment of a Gigabit speed network, but would rely on the private sector electing to provide Gigabit speed Internet to all premises – most experts believe this model is not feasible.
- **Public-Private Model:** The City and one or more private sector partners would share costs, financial, and operational risks with construction a Gigabit speed network. NOTE: Under any proposed public-private model Farrell and other proponents of Gigabit speed Internet will ensure the City owns the network.

Costs to Deliver Citywide Gigabit Speed Internet:

- **Public Model:** Under a **demand-driven** approach, an estimated \$393.7 million in network construction costs and \$103.2 million in annual debt service. Under a **utility-driven** approach, as estimated \$867.3 million in network construction costs, and ongoing annual costs of \$231.7 million. Subscriber revenue would be \$86.3 million per-year, and would leave an annual deficit of \$145.4 million per year.
- **Private Model:** No costs to the City, but most experts believe this model is not feasible.
- **Public-Private:** An imposed utility fee on all premise owners of a negotiated range of up to an average of \$26 per month for baseline Internet access. The utility fee could be reduced from \$26 per month if the City negotiates an arrangement where premium services are used to offset costs and if commercial customers are charged more in proportion to their use of Internet services.

Potential Solutions:

- While the utility-based approach is higher cost, it would further advance the objectives of bridging the digital divide and providing Gigabit speed Internet access to all premises in San Francisco at affordable prices.
- The demand-driven model under the public or public-private partnership model is overall less costly, but it would not address the digital divide issue or provide Gigabit speed Internet access for everybody in San Francisco.
- The public-private partnership model would reduce costs and risks associated to the City with creating and successfully operating a complex new business enterprise.
- Everybody in San Francisco would benefit under a public-private partnership. More providers would be allowed to use the fiber network, providing more competition in the marketplace.

CONCLUSION

Everybody in San Francisco has the right to Internet access. Past efforts to bring low-cost Internet access to the entire city have failed, and we have learned from those efforts. After this analysis, we are more committed than ever to bringing low-cost, Gigabit-speed Internet to everybody in San Francisco.