

CITY OF SAN LEANDRO

MEMORANDUM

Date: June 19, 2012
To: City Council Community Development Committee
Via: Luke Sims, Community Development Director
From: Jeff Kay, Administrative Analyst
Subject: Proposed Parameters for the Broadband Connection Business Incentive Program

Summary and Recommendation

On April 17, 2012, the Community Development Committee recommended that a Broadband Connection Program be included as an eligible use of the FY2012-13 funding appropriation of \$180,000 for business incentive programs. This memorandum contains proposed parameters for that program for discussion and feedback from the Community Development Committee.

Background

Broadband connectivity has become basic infrastructure for economic development. A lack of sufficient bandwidth is a significant impediment to successful business operations. By contrast, access to state-of-the-art broadband networks is a competitive advantage; both for existing businesses and for the City as it seeks to attract companies in growth industries.

Research conducted as part of the development of the San Leandro's Commercial Broadband Strategy revealed several areas of the City that suffer from a lack of acceptable broadband infrastructure. Most of the broadband infrastructure in the City is owned by either AT&T or Comcast and those systems were primarily constructed to serve residential customer bases. As a result, commercial areas, and industrial zones in particular, are commonly underserved in San Leandro.

For businesses in underserved areas, the challenge isn't necessarily an issue of a complete lack of broadband availability, but rather the high cost of connecting their facilities to the network infrastructure. In San Leandro, staff is aware of instances where Internet service providers presented costs as high as \$40,000 for a business to connect. Upfront connection costs of \$5,000 to \$20,000 are common. These costs are typically for installation of conduit, connecting the business to the existing network lines, although point-to-point wireless antennas can also serve this purpose.

While the ongoing deployment of the Lit San Leandro fiber network holds great potential to bring extremely fast broadband service to San Leandro businesses, there will also be costs for

businesses to make a physical or wireless connection to the fiber loop. For a business directly adjacent to the loop, the cost of connecting and running a conduit to the building could be as high as \$15,000, depending on the specific characteristics of the site. Those costs will obviously increase with distance from the loop.

Assisting businesses in upgrading their broadband capacity is an effective tool for the City to meet our economic development goals. Businesses are better positioned to innovate and modernize their operations if they are connected to world class digital infrastructure. Additionally, once a building is connected to a broadband network, if the current business relocates, the property will be far more attractive to prospective tenants.

With that in mind, one of the recommendations of the of the Commercial Broadband Strategy was to add a broadband connections program to the list of incentives the City offers in order to assist local businesses in meeting the upfront capital costs of connecting to broadband networks.

Proposed Parameters for the Broadband Connection Incentive Program

The City's two existing business incentive programs– the Commercial Rehabilitation and Industrial Competitiveness Programs – provide an effective starting model for the Broadband Connection Program. Those programs offer forgivable loans for up to 50% of a business's out-of-pocket costs for an eligible project. If the business complies with the terms of the loan agreement, the loan balance is forgiven by the City and no payment is owed.

Available Funding – Due to limitations in available funding, the Broadband Connection Program is proposed as a subset of the existing \$180,000 appropriation for business incentives. Funds will be allocated across all three programs as applications are received. A reasonable starting assumption is that the Broadband Connection Program would use about a third of the total budget in FY2012-13. In future years, once staff has had an opportunity to assess the program, a more precise allocation between incentive programs might be appropriate.

Eligible Projects – The Broadband Connection Program is proposed to fund physical and wireless (point-to-point) connections between a business and a broadband network. The program would be carrier neutral, supporting connections to Lit San Leandro as well as more tradition service providers such as AT&T and Comcast. Internal networking equipment, such as switches and routers, would not be eligible for City funding.

City Funding Contribution – The program is proposed to contribute 50% of a business's out-of-pocket costs to connect, up to a maximum contribution of \$10,000. The minimum City contribution would be \$2,000. The City contribution would be structured as a reimbursement, paid after the participant provides proof of the project cost and completion. If a need for a higher funding limit is identified, the change would first be brought to the Community Development Committee for reconsideration.

Forgivable Loan Terms – As with the other incentive programs, loans will be structured as interest-bearing forgivable loans. The loan terms will require the business to maintain the

improvements in good condition through the term of the loan. The loan balance would be due in the event of a default. Loans are proposed to be for one year under this program.

Business Eligibility – Participants would have to be businesses or property owners within the City of San Leandro. Applicants must own the commercial property to be connected, be tenants of the commercial property or hold a master lease for the commercial property. Tenants will be required to include a copy of the lease agreement and written authorization from the property owner allowing them to make the proposed building and site modifications. Tenants will also be required to verify that they have at least a five-year lease on the property. Participating businesses would also be required to ensure that the business is legal and complies with all applicable City regulations.

Prevailing Wage - To the extent applicable to the project, all contractors and agents hired by the participant will be required to comply with California Labor Code Section 1720 et seq. (“Prevailing Wage Laws”) and will be responsible for carrying out the requirements of the law.

Evaluation Criteria – Applicants would be evaluated under the following criteria:

1. Likelihood of the project to maintain or create quality jobs in San Leandro
2. retention
3. Ability of the project to stimulate high-tech business activity
4. Potential for the improvements to improve broadband access for neighboring properties, particularly in locations that have been identified in the Commercial Broadband Strategy as priority improvement areas

Project Approval – Given the funding limit of \$20,000 per project and the importance of moving projects through the process efficiently, funding decisions are proposed to be made on the staff level and then reported out to the Community Development Committee.