



# City of Culver City

Mike Balkman  
Council Chambers  
9770 Culver Blvd.  
Culver City, CA 90232  
(310) 253-5851

## Staff Report

File #: 15-399, Version: 1

Item #: A-1.

**CC - FOUR-FIFTHS VOTE REQUIREMENT:** 1) Receive and File the Categorical Exemption Report Prepared for the City of Culver City Municipal Fiber Network Project, and Determine that the Project is Categorically Exempt from the California Environmental Quality Act (CEQA) Pursuant to CEQA Guidelines; 2) Authorize the Chief Financial Officer to Establish the Municipal Fiber Network Enterprise Fund; 3) Authorize a Construction Loan (in a Not-to-Exceed Amount of \$10,000,000) and a Working Capital Loan (in a Not-to-Exceed Amount of \$1,500,000) from the General Fund to the Municipal Fiber Network Enterprise Fund; 4) Approve a Related Budget Amendment Appropriating \$10,265,000 from the General Fund; 5) Approve a Consultant Agreement with MOX Networks, LLC to Provide Consulting Services for the Design and Development of the Municipal Fiber Network; and, 6) Authorize the City Manager to Initiate and Conclude Negotiations and Execute e Related Additional Agreements for the Operation, Maintenance, and Ongoing Planning and Business Development of the Municipal Fiber Network Project.

Contact Person/Dept: John M. Nachbar, City Manager  
Michele Williams, CIO/Information Technology Department

Phone Number: 310-253-6000

Fiscal Impact: Yes ☒ No ☐

General Fund: Yes ☒ No ☐

Public Hearing: ☐

Action Item: ☒

Attachments: Yes ☒ No ☐

Commission Action Required: Yes ☐ No ☒ Date:  
Commission Name:

Public Notification: (E-Mail) Meetings and Agendas - City Council (11/05/15); (Email) Ongoing Topics - Proposed Municipal Fiber Network (10/29/15 and 11/05/15); Culver City Chamber of Commerce (Steven Rose on 11/02/15); Culver City Unified School District (Mike Reynolds, Asst. Superintendent on 11/02/15); (PUBLISH) Culver City News (10/29/15 and 11/5/15); and MOX Networks, LLC (Jason Misicka, Director of Sales, on 11/02/15)

Department Approval: John M. Nachbar, City Manager (11/02/15)

### RECOMMENDATION

Staff recommends the City Council:

1. Receive and file the Categorical Exemption Report (Attachment 2) prepared for the City of Culver City Municipal Fiber Network (Network) project and, based on the Categorical

Exemption Report, determine that the Network project is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to four Categorical Exemptions set forth in CEQA Guidelines Sections 15304 (Minor Alterations to Land), 15301 (Existing Facilities), 15302 (Replacement or Reconstruction), and 15303 (New Construction or Conversion of Small Structures) and is not subject to any exceptions thereto set forth in State CEQA Guidelines Section 15300.2; and,

2. Authorize the Chief Financial Officer to establish the Municipal Fiber Network Enterprise Fund (Fund 205) for the accounting and financial reporting of revenues and expenditures related to the Network; and,
3. Authorize construction and maintenance loans from the General Fund in an aggregate amount not-to-exceed \$11,500,000; and,
4. Approve a related budget amendment appropriating \$10,265,000 in the Municipal Fiber Network Enterprise Fund (requires four-fifths vote); and,
5. Approve a Consultant Agreement with MOX Networks, LLC (Culver City, CA) to provide consulting services with regard to the design and development of the Network; and,
6. Authorize the City Manager to negotiate and execute agreements for the operation, maintenance, and ongoing planning and business development of the Network.

## **BACKGROUND**

On May 13, 2013, the City Council authorized contracting with CTC Technology & Energy (CTC) to assist the City with developing a Fiber Network Design and Business Plan. CTC analyzed the demographic makeup of Culver City businesses, their Internet access needs, and emerging industry trends. CTC's report revealed that there was an opportunity for Culver City to deploy a fiber network with the objective of providing the needed infrastructure for businesses to obtain high-speed Internet access.

MOX Networks, LLC, a Delaware limited liability company located in Culver City, California (MOX Networks), expressed an interest in working with the City to assist with the design, implementation, operation, and ongoing maintenance of the Network. At the City Council meeting of November 10, 2014, the City Council directed the City Manager to negotiate a professional services contract with MOX Networks. Pursuant to the City Council's direction, staff began working with MOX Networks to design the Network.

On June 8, 2015, the City Council discussed a proposed project to build and operate a network that would be used to facilitate providing high-speed Internet service to the City itself, Culver City Unified School District (CCUSD), and Culver City businesses located within certain target service areas. The project background and proposed network designs are detailed in the City Council Agenda Report Item A-2 for the meeting of June 8, 2015 (Attachment 1).

After discussion of the item, City Council directed the City Manager to proceed with the project in the

following areas:

1. Conduct the appropriate level of environmental review (including the preparation of a proposed agreement with a duly qualified consultant, if necessary); and,
2. Enter into formal negotiations with MOX Networks for the engineering, design, construction management, business development/planning, operations and maintenance of the Network; and,
3. Prepare a detailed financial analysis for the construction and ongoing maintenance of the Network.

Upon completion of the above items, staff was directed to return to the City Council to present the Network project for the City Council's consideration.

## **DISCUSSION**

The City currently has an extensive fiber network that is dedicated to providing network computing services to all City buildings. Additionally, there is city-owned fiber that supports the Public Works Department's traffic signal operations and street intersection video monitoring. MOX Networks analyzed the high level design that was initially completed by CTC. MOX Networks also conducted additional analysis to extend the initially proposed network to all of the CCUSD locations (five locations) and certain target service areas. The resulting proposed design delivered by MOX Networks encompasses a larger area than what was previously designed in CTC's initial feasibility study.

### ***Environmental Review***

Staff contracted with the Chambers Group, Inc. (Chambers Group) to assist with conducting the environmental assessment of the Network project in accordance with CEQA. The Chambers Group is headquartered in Orange County with a number of offices located throughout Southern California. This firm was selected by staff due to their extensive experience with conducting environmental assessments for telecommunications/fiber network projects. Their client list includes the cities of Irvine, Moreno Valley, Los Angeles, and Ventura, among others. Private sector clients in the telecommunications industry also include AT&T, Freedom Communications, and Level3 Communications.

Staff worked with the Chambers Group to provide detailed project information related to the design and construction of the Network. The Chambers Group conducted a thorough review of the Network project and concluded that the City's Network project is categorically exempt from CEQA pursuant to the following four sections of the Guidelines for the Implementation of CEQA known as the "State CEQA Guidelines":

- Categorical Exemption Class 4 - Section 15304: Minor Alternations to Land
- Categorical Exemption Class 1 - Section 15301: Existing Facilities
- Categorical Exemption Class 2 - Section 15302: Replacement or Reconstruction

- Categorical Exemption Class 3 - Section 15303: New Construction or Conversion of Small Structures

Additionally, the Chambers Group concluded that the Network project does not fall within any of the exceptions to the Categorical Exemptions as set forth in State CEQA Guidelines Section 15300.2.

The Chambers Group's analyses and conclusions resulting from its environmental assessment of the Network project are detailed in its Categorical Exemption Report (Attachment 2).

Staff recommends the City Council receive and file the Categorical Exemption Report (Attachment 2) prepared and delivered by the Chambers Group for the Network project and, based on the Categorical Exemption Report, determine that the Network project is categorically exempt from CEQA pursuant to four Categorical Exemptions set forth in CEQA Guidelines Sections 15304 (Minor Alterations to Land), 15301 (Existing Facilities), 15302 (Replacement or Reconstruction), and 15303 (New Construction or Conversion of Small Structures) and is not subject to any exceptions thereto set forth in State CEQA Guidelines Section 15300.2.

### ***Contract Negotiations with MOX Networks***

MOX Networks (an affiliate of NantWorks) is a business located in Culver City. The company has significant expertise in building global, custom fiber networks for data intensive organizations. The MOX Networks team has an average of fifteen years of industry specific experience in telecommunications, global fiber network architecture and design, global data center strategies, and network deployments. At the direction of City Council provided on June 8, 2015, the City Manager entered into formal negotiations with MOX Networks.

Both parties have agreed that moving forward with the Network includes four detailed phases: (i) Design and Engineering, (ii) Construction (including Construction Management and Equipment Installation and Testing), (iii) Pre-operations Planning and Business Development, and (iv) Post-Completion Ongoing Operations, Maintenance, and Planning and Business Development. The following table provides a summary of each phase and the agreed upon cost of services.

<b><i>Description</i></b>	<b><i>Cost for Services</i></b>
<b><i>Scope of Work #1</i></b> <u><i>Design and Engineering</i></u> - MOX Networks will provide consulting services toward finalizing the Network design. Engineering specifications and construction-ready drawings will be delivered in preparation for construction. A detailed audit of the City's existing infrastructure will also be performed. This cost will be considered part of the capital investment.	\$710,500

<p><b><u>Scope of Work #2 Construction Bid</u></b> - MOX Networks will assist the City with drafting construction bid documents to solicit bids for the construction of the Network in accordance with the City's competitive bid process. <b><u>Construction Management</u></b> - MOX Networks will provide direct oversight and serve as the construction manager for the build-out of the Network. Dedicated staffing resources from MOX Networks will manage the life-cycle of the construction project. <b><u>Optical Hardware Installation and Testing</u></b> - MOX Networks will install the optical devices required to operate the Network at the three proposed Network nodes and at the co-location facilities located at One Wilshire (in the City of Los Angeles) and Equinix (in the City of El Segundo). This includes the staging of the optical equipment, configuration of the software, physical installation at five locations, and testing to confirm that the hardware will support a scalable, high bandwidth system. These costs will be considered part of the capital investment.</p>	<p>\$735,592 \$280,000</p>
<p><b><u>Scope of Work #3 Pre-Operations Planning and Business Development</u></b> - MOX Networks will assist the City with contacting, communicating, and contracting with the service providers and other licensees who would have an interest in utilizing the City's Network infrastructure. MOX Networks will provide dedicated resources toward the development of a wholesale licensing structure, development and implementation of the marketing plan, accounting, financial reporting, invoicing and payment processing. MOX Networks will also provide pre-operations planning and business development services related to the implementation of the Network, including without limitation on-boarding of the Network Operations Center (NOC). <i>Note: Given the Network project will likely not commence until December 2015, only a portion of this amount will be appropriated for Fiscal Year 2015/2016. The remainder will be appropriated the following year. This cost is <u>not</u> included in the capital investment.</i></p>	<p>\$657,986 (Estimated cost for initial 12 months of Network project)</p>

<p><b><u>Scope of Work #4 (Still under negotiation) Post-Completion Ongoing Operations, Maintenance, and Planning and Business Development of the Network</u></b> - Subject to conclusion of negotiations, MOX Networks is anticipated to be responsible for the ongoing operations and maintenance of the Network. This includes licensing fiber from MOX Networks necessary for the long-haul to connect to the interconnect sites of One Wilshire (Los Angeles, CA) and Equinix at El Segundo (El Segundo, CA), utilizing the NOC to monitor the health, quality, and functional components of the Network, and responding to and resolving failures related to the hardware components and fiber infrastructure. MOX Networks will also provide resources for the ongoing sales consulting and contract administration for the Network. <i>Note: This cost will not be incurred until mid-Fiscal Year 2016/2017, and therefore, will not be appropriated until that time. This cost <u>is not</u> included in the capital investment.</i></p>	<p><i>TBD (Cost for Year 1 beginning after Network is operational; cost still being negotiated)</i></p>
---	---

A draft Consultant Agreement has been prepared and approved by the City Attorney's Office for the above listed Scopes of Work #1, #2, and #3. The draft Consultant Agreement provides detailed scopes of work for the design and engineering, construction phase (including construction management and equipment installation and testing), and pre-operations planning and business development phases of the Network project (Attachment 3). The agreement detailing the scope of work for the post-completion ongoing operations, maintenance, and planning and business development phase (Scope of Work #4) will be finalized after the detailed Network designs are completed and will be executed before the City Council awards a contract for the construction of the Network.

### **Network Nodes**

The operation of the Network requires local interconnection sites (network nodes) within the City. The Network design has identified three sites (NantWorks, Culver Studios, and at City Hall or another City facility) that will be used to host the electronics and network devices that enable the Network to operate. Additionally, Internet Service Providers (ISPs) that ultimately begin providing Internet service within the City would also need to install networking devices at one or more of these identified locations. For the NantWorks site, the City will be provided with co-location services including rack, space and power.

In exchange for the hosting services provided at the NantWorks site, MOX Networks has requested a 20-year license for use of 12 strands of Network fiber across the proposed Network backbone. The City entered into a second agreement with CTC to conduct a market analysis to determine the market value of this infrastructure. The table below lists the results of the analysis.

IRU Price Range	One Time Payment (per strand mile)	Annual Maintenance Payment (per route mile)	Today's Value (20-year NPV at 3.0 percent)	Equivalent Cost per Mile
Low	\$1,700	\$200	\$471,600	\$22,800
Middle	\$2,600	\$250	\$704,000	\$34,000
High	\$3,500	\$300	\$936,500	\$45,200

As discussed below under Consultant Agreement Provisions, MOX Networks and the City intend to negotiate and enter into a licensing and co-location services agreement to address the above services and license of fiber strands.

Another Network node is planned to be located at The Culver Studios. It is envisioned that a similar agreement will be established between the City and The Culver Studios exchanging the use of infrastructure for co-location services. Specific terms of an agreement with The Culver Studios will be the subject of future negotiations should the City Council approve the actions requested this evening.

## **FISCAL ANALYSIS**

### ***Capital Investment***

When this Network project was presented to the City Council on June 8, 2015, preliminary cost estimates to construct the Network totaled approximately \$6.9 million. This included a preliminary estimate of \$4.9 million to build the backbone network and an additional \$2 million for the construction of network laterals.

After completing a detailed analysis, the following table outlines the estimated capital investment to construct the Network.

DESCRIPTION	COST ESTIMATE
Professional/Consultant Services (Engineering Design and Construction Project Management)	\$1,726,092
Construction Labor and Materials	\$4,503,943
Optical Electronics (Hardware required to operate the network)	\$1,414,303
Budgetary Estimate for the 1 <sup>st</sup> Phase of Lateral Construction	\$1,500,000
<b>TOTAL:</b>	<b>\$9,144,338</b>

The following factors contributed to the difference between the current cost estimate compared with

the initial estimate presented in June, 2015:

1. Prevailing Wages - When the initial estimate for construction labor was developed, MOX Networks was not aware that the City was subject to prevailing wages as mandated by the State of California. Historically, charter cities have not been subject to the State's prevailing wage requirements for public works projects that constitute a municipal affair. However, SB 7 added section 1782 to the California Labor Code. It requires charter cities to comply with the State's prevailing wage as a condition of receiving State funds for public works projects awarded after January 1, 2015. (Cost differential: \$130,000)
2. MOX Networks Construction Management - The initial estimate did not include costs for project management during the construction phase. (Cost differential: \$675,592)
3. Restoration Costs - The initial estimate did not include an expenditure for sidewalk and street repairs that would be required post-installation of the fiber infrastructure. (Cost differential: \$680,000)
4. Network Design Modifications - Changes were made to the Network design to minimize major street crossings during construction. These changes are beneficial in that construction impacts will be reduced. As a result of these changes, additional engineering design services will be required. (Cost differential: \$300,000)
5. Construction Materials - The cost estimate for construction materials was increased to accommodate the Network design changes. Also, the original estimate did not include materials for replacing existing hand-holes, bridge attachments (where required in the Network design), and additional fiber termination panels. (Cost differential: \$865,328)
6. Lateral Design Modifications - Additional hand-holes were included within the backbone design to facilitate the lateral connections. These changes increased the construction costs for the backbone by \$500,000 but enabled reducing the original lateral construction estimate by an equal amount. (Net cost differential: \$0)
7. Infrastructure Audit - The City does not have detailed specifications (cable size, number of working fibers, number of spare fibers, termination points, GPS locates) related to the current fiber infrastructure. Prior to initiating this project, there has not been a need for this level of detail and location accuracy. An infrastructure audit to facilitate the final design and construction of the Network will be completed. (Cost differential: \$130,900)

### ***Maintenance and Operations***

Extending the City's infrastructure for commercial use requires agreed-upon service level contracts that demand reliability and quality control in order for the business model to be successful. Subject to conclusion of negotiations related to the operations, maintenance, and ongoing planning and business development agreements, MOX Networks would be responsible for the ongoing operation and maintenance of the Network. In this capacity, MOX Networks would provide staffing resources that would serve as front-line support to the ISPs and other licensees using the City's infrastructure as technical support and service issues arise.



At a summary level, the following components are required for the ongoing operations and maintenance of the Network:

- Equipment Maintenance - Fixed equipment maintenance contract with hardware manufacturers (vendor technical support)
- Networks Operations Center (NOC) - Includes the monitoring of each hardware device, component, alarm notification, analysis, and troubleshooting for backbone ring infrastructure. Engagement with underlying fiber providers, co-location providers, fiber locate management, and hardware onsite support.
- First Line Maintenance - Supports Outside Plant and Inside Plant infrastructure. Onboarding of new and existing ISPs. Engagement of vendors to support fiber repairs, maintenance, and emergency restoration.
- MOX Networks Staffing Resources - Resources will be provided to support the following activities during the operation of the Network: accounting, contract services, sales and consulting, and engineering design for additional lateral connections.

The annual estimated cost for operations, maintenance, and ongoing planning and business development services is \$1.8 million (\$150,000 per month). However, details are still under negotiations. The actual costs for the operations and maintenance of the Network will be lower during the ramping-up period. However, the construction of the Network will be completed in phases, and the Network will become operational before all construction phases are complete. It should also be noted that actual costs for the operations and maintenance of the Network will increase as there is increased utilization and demand for the Network.

### ***Revenue Projections***

The recommended business model consists of the City licensing the fiber to multiple service providers, thereby providing them with the required infrastructure to service the business community. The City would enter into contractual agreements with service providers and potentially other businesses granting use of the City's infrastructure. Revenue would be generated from licensing the City's infrastructure. Some of these licenses are expected to be long-term (twenty years), while others are expected to be of a shorter term.

Staff has worked with MOX Networks in developing conservative revenue projections. It cannot be overstated, however, that these are just projections at this point. Staff will continue to work closely with MOX Networks as the sales effort ensues to refine these projections. For long-term (twenty year) licenses, the City is anticipated to receive an up-front cash payment. However, Generally Accepted Accounting Principles (GAAP) dictate that this revenue will be recognized over the course of the license period as opposed to all at once. It is estimated that the City may generate approximately \$7 million in cash during the first three (3) years of Network operation through long-term license agreements. It is further estimated that an additional \$3 million in month-to-month revenues could be realized during the first three years of Network operation. However, applying the

applicable GAAP to recognize the up-front payments over time results in approximately \$3.6 million in recognized revenue during the first three years of Network operation and approximately \$2 million per year thereafter starting in the fourth year. The table below provides a general summary of estimated GAAP revenues, construction expenditures, and pre- and post-operation and maintenance costs for the first three years of Network operation:

<u>Item</u>	<u>Constr. Year</u>	<u>Oper. Year 1</u>	<u>Oper. Year 2</u>	<u>Oper. Year 3</u>
<b>Estimate Revenues (GAAP)</b>		<b>430</b>	<b>1,210</b>	<b>1,923</b>
<b>Expenses</b>	<b>9,801</b>	<b>1,500</b>	<b>1,750</b>	<b>2,200</b>
<i>Fiber Ring and Lateral Construction</i>	9,144			
<i>Pre-Operations and Maintenance</i>	657			
<i>Operations and Maintenance (Estimated)</i>		1,500	1,750	2,200
<b>Revenues - Expenses</b>	<b>(9,801)</b>	<b>(1,070)</b>	<b>(540)</b>	<b>(277)</b>

Once the backbone Network is fully operational, after the third year of Network operation, estimated revenues are estimated to be sufficient to cover all operational costs and equipment depreciation. However, there is a likelihood that the initial capital investment to construct the backbone Network will not be directly recaptured.

The Network project was not initiated for the sole reason to deliver direct immediate financial returns. It is envisioned that the City will also benefit from indirect and sometimes intangible benefits related to enhanced economic development, improved strategic advantage, and the ability to even more effectively attract and retain creative office and technology companies. These indirect benefits may prove to provide the most significant long-term returns to the General Fund in the form of increased tax revenues.

### ***Enterprise Fund***

Staff recommends that the City Council authorize the Chief Financial Officer to establish a Municipal Fiber Network Enterprise Fund (Fund 205) for the accounting and financial reporting of revenues and expenditures related to the Network. Construction costs and working capital are recommended to be provided as a loan from the General Fund Reserve (Unassigned Fund Balance). The required 30% Contingency Reserve for the General Fund is completely funded. During Fiscal Year 2014/2015, approximately \$14 million in land sale proceeds were realized. At the regular City Council Meeting held on October 26, 2015, the City Council approved placing this \$14 million directly into General Fund Unassigned Fund Balance in anticipation of providing funding for the Network project, as well as some additional infrastructure needs at a later date. As detailed below, \$11.5 million of this amount is recommended to be loaned to the Municipal Fiber Network Enterprise Fund.

### ***Construction Loan***

It is recommended that the General Fund provide a \$10 million start-up loan to the Municipal Fiber Network Enterprise Fund to cover the design and construction costs for the backbone and laterals. The proposed loan includes the total estimated costs and a nine percent contingency. Loan terms would be as follows:

Principal: \$10,000,000

Interest: Simple annual interest equal to the average Local Agency Investment Fund (LAIF) rate of return from June through May

Terms: Twenty year term. Principal and interest due and payable each June, with first payment due in June 2018. Should adequate revenues not be available to make a payment, City Council may approve full or partial payment deferral and make other modification to the terms as deemed appropriate.

As mentioned previously, there is a likelihood this loan will not be fully paid off, but rather future economic development stimulus and increased tax revenues would be the long-term benefit to the General Fund. In this regard, the design and construction costs should be viewed more as an investment. The land sale proceeds, which were derived from a previous City investment in the former Pacific Theaters, will be re-invested in a new physical asset, the Network. It is also important to note that this asset will have a tangible value that the City could determine to sell in the future. If the Network ultimately provides sufficient revenues, this loan could be paid off. This will not be known for a number of years, and any potential forgiveness of part or all of the proposed Construction Loan would be a decision for a future City Council.

### ***Working Capital Loan***

It is also recommended that a second loan of \$1.5 million be provided from the General Fund to provide working capital for pre-operations, operations, maintenance, and planning and business development costs for the first two to three years of Network operations. Loan terms would be as follows:

Principal: Up to \$1,500,000

Interest: Simple annual interest equal to the average Local Agency Investment Fund (LAIF) rate of return from June through May

Terms: Twenty year term. Principal and interest due and payable each June, with first payment due in June 2018. Should adequate revenues not be available to make a payment, the City Council may approve full or partial payment deferral and make other modification to the terms as deemed appropriate. .

It is anticipated the Working Capital Loan would be fully repaid from revenues generated from the Network.

**Fiscal Year 2015/2016 Budget Amendment**

The full amount of the Construction Loan will be appropriated for Fiscal Year 2015/2016 into a Network project budget, although a significant portion will likely carry over to Fiscal Year 2016/2017. Only a portion of the Working Capital Loan will be appropriated at this time in an amount sufficient to cover pre-operations, maintenance, and planning and business development costs incurred through June 2016. Additional appropriations of the Working Capital Loan will occur in future operating budgets. The recommended Budget Amendment for Fiscal Year 2015/2016 makes the following appropriations:

**Construction Loan**

ACCOUNT	AMOUNT
20580000.619800.PT003 Contractual Services	\$ 1,726,092
20580000.730100.PT003 Improvements	\$ 6,003,943
20580000.732150.PT003 IT Equipment	\$ 1,414,303
20580000.910200.PT003 Contingency	\$ 855,662
<i>Sub-Total Municipal Fiber Network Project (PT003)</i>	<i>\$10,000,000</i>

**Working Capital Loan**

ACCOUNT	AMOUNT
20524500.619800 Contractual Services	\$ 265,000
<i>Sub-Total Municipal Fiber Network Operations</i>	<i>\$ 265,000</i>

<b>Total Appropriations</b>	<b>\$10,265,000</b>
-----------------------------	---------------------

**A Budget Amendment Requires a 4/5 Vote****Consultant Agreement Provisions**

Should the City Council authorize contracting with MOX Networks, the attached Consultant Agreement (Attachment 3) also includes provisions authorizing the City Manager to execute the following agreements pending the review and approval of such agreements by the City Attorney:

- Operations, Maintenance and Business Development Agreement (Post-Completion) between MOX Networks and the City referenced in the Agreement as Scope of Work #4.
- License and Co-location Services Agreement between MOX Networks and the City to facilitate the network node that will be hosted at the NantWorks/MOX Networks facility located at 9920 Jefferson Boulevard (Includes the license to MOX Networks of 12 fiber strands across the Network backbone)
- License and Co-location Services Agreement between Culver Studios and the City to facilitate

the network node that will be hosted at the Culver Studios facilities.

- Co-location Services Agreement and any required licenses to interconnect the Network with Equinix (in El Segundo, CA) and One Wilshire (in Los Angeles, CA).
- Any appropriate agreements required for the provisioning, financing, construction and operation of the Network laterals.

Based on MOX Networks' extensive experience with developing fiber broadband networks, its ability to facilitate and implement the development of the proposed Network, and its accessibility as a local Culver City business, staff finds that MOX Networks is uniquely qualified to carry out the complex processes necessary for the proposed Network and, based thereupon, recommends the City Council approve the Consultant Agreement.

Pursuant to Culver City Municipal Code Section 3.07.085.A, professional services are exempt from competitive bidding provided the contract is based upon competitive quotations, whenever practical, as determined by the City Manager. Based on the above-mentioned unique requirements of this professional service, the City Manager has determined that obtaining competitive quotations is not practical.

As referenced above in this report, MOX Networks is an affiliate of NantWorks LLC. In this regard, NantWorks LLC has provided a letter (Attachment 4) to the City expressing its support of MOX Networks and its obligations under the proposed Consultant Agreement and other related agreements with the City.

### ***Next Steps***

Should the City Council approve proceeding with designing and developing the Network as detailed in this report, the first phase of the effort, Design and Engineering, would begin after executing the Consultant Agreement. Once the Network design is finalized, MOX Networks would assist the City with drafting a Request for Bids (RFB) to solicit bids for the construction of the Network backbone and the first phase of lateral connections. Staff would return to the City Council at a future meeting to request authorization to release the RFB and take other related actions. After responses to the RFB have been received and reviewed, staff would again return to the City Council requesting approval to award a construction contract to the recommended contractor. MOX Networks would also assist the City with engaging in pre-operations planning and business development for the Network.

### **ATTACHMENTS**

1. Staff Report for Item A-2 from the City Council Regular Meeting held on June 8, 2015: Discussion of the Proposed Municipal Fiber Network and Provide Direction to the City Manager as Deemed Appropriate.
2. Categorical Exemption Report for the Municipal Fiber Network (Report completed by the Chambers Group)

3. Draft Consultant Agreement for Services Relating to the City of Culver City's Municipal Fiber Network

- Attachment 1 - Scope of Work #1
- Attachment 2 - Scope of Work #2
- Attachment 3 - Scope of Work #3
- Attachment 4 - Site Plan Maps
- Attachment 5 - Schedule of Performance
- Attachment 6 - Insurance Requirements
- Attachment 7 - Rider to Contract
- Attachment 8 - Schedule of Compensation

4. Letter of Support from NantWorks

## **RECOMMENDED MOTIONS**

That the City Council:

1. Receive and file the Categorical Exemption Report prepared by Chambers Group for the City of Culver City Municipal Fiber Network Project (Network Project) and, based on the Categorical Exemption Report, determine that the Network Project is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to four Categorical Exemptions set forth in CEQA Guidelines Sections 15304 (Minor Alterations to Land), 15301 (Existing Facilities), 15302 (Replacement or Reconstruction), and 15303 (New Construction or Conversion of Small Structures) and is not subject to any exceptions thereto set forth in State CEQA Guidelines Section 15300.2; and,
2. Authorize the Chief Financial Officer to establish the Municipal Fiber Network Fund - Fund 205 to account for the revenue and expenses directly related to the design, construction, operation, maintenance, planning, and business development of the proposed Network; and,
3. Authorize a \$10,000,000 Construction Loan from the General Fund Reserve (Unassigned Fund Balance) to the Municipal Fiber Network Enterprise Fund under the terms contained in this staff report; and,
4. Authorize up to a \$1,500,000 Working Capital Loan from the General Fund Reserve (Unassigned Fund Balance) to the Municipal Fiber Network Enterprise Fund under the terms contained in this staff report; and,
5. Approve a Budget Amendment to appropriate \$10,265,000 into the Municipal Fiber Network Enterprise Fund (motion requires four-fifths vote); and,
6. Approve a Consultant Agreement with MOX Networks, LLC to design and develop the proposed City of Culver City Municipal Fiber Network; and,

7. Authorize the City Manager to enter into and conclude negotiations and execute on behalf of the City all other agreements referenced in the Consultant Agreement for the operation, maintenance, and ongoing planning and business development of the Network; and,
8. Authorize the City Attorney to review/prepare the necessary documents; and,
9. Authorize the City Manager to execute such documents on behalf of the City.