



City of Culver City

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Staff Report

File #: 20-696, **Version:** 1

Item #: A-4.

CC - (1) Approval of a Five-Year Professional Services Agreement with Inyo Networks, Inc. to Operate, Maintain, and Provide Internet Service Provider Services on the City's Municipal Fiber Network (Culver Connect); and (2) Authorization to the City Manager to Approve Amendment(s) to the Agreement, including up to Five Optional One-Year Terms, up to the Approved Budget for the Network.

Meeting Date: March 18, 2020

Contact Person/Dept: Jesse Mays, Assistant City Manager
Michele Williams, Chief Information Officer

Phone Number: City Manager's Office (310) 253-6000
Information Technology Department (310) 253-5950

Fiscal Impact: Yes ☒ No ☐

General Fund: Yes ☐ No ☒

Public Hearing: ☐ **Action Item:** ☒ **Attachments:** ☒

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

Public Notification: (E-Mail) Meetings and Agendas - City Council (03/11/20, 03/16/20); Municipal Fiber Network GovDelivery Email List (03/11/20, 03/16/20); Nick Keeler, President/COO Inyo Networks (03/11/20)

Department Approval: John Nachbar, City Manager (03/10/20)

RECOMMENDATION

Staff recommends the City Council (1) approve a five-year professional services agreement with Inyo Networks, Inc. ("Inyo") to operate, maintain, and provide internet service provider (ISP) services on the City's Municipal Fiber Network (Culver Connect); and (2) authorize the City Manager to approve amendment(s) to the Agreement, including up to five optional one-year terms, up to the amount of the approved budget for the Network.

BACKGROUND

In July 2018, Culver City completed construction of a fiber optic network backbone (the "Network") in order to facilitate the delivery of high speed internet access to City businesses, to the City itself for

municipal purposes, and to the Culver City Unified School District. The City's fiber infrastructure assets that are used for City Government purposes ("CCGOV") and for closed-circuit television ("CCTV") monitoring of major street intersections are not a part of the Network for the purposes of this report.

Mox Networks ("Mox") currently operates, maintains, and provides marketing and development services for the Network. In the interest of ensuring the City is receiving these services at a reasonable cost, and consistent with City policies and the Culver City Municipal Code ("CCMC"), on March 11, 2019, the City Council approved an informal proposal process be conducted for these professional services. Pursuant to CCMC Section 3.07.065.A, professional services are exempt from formal competitive bid procedures, provided the contract is based upon competitive quotations, whenever practical, as determined by the City Manager.

The City accepted proposals between March 13, 2019 and June 27, 2019. The City received seven proposals. Attachment 1 contains a summary of the proposals received by the City. After follow-up meetings with several of the companies that submitted proposals, and meeting with the Ad Hoc City Council Fiber Subcommittee on October 22, 2019, staff began extensive discussions with Inyo Networks, Inc. ("Inyo") to further develop its proposed scope of service. Staff recommends approval of an Agreement with Inyo based on the below outline.

DISCUSSION

Inyo Networks

Inyo is a national recognized broadband network operator and service provider incorporated in April 2009 and based in Rancho Cucamonga, California. Inyo designs, builds, operates and maintains broadband networks. Among Inyo's clients are globally leading high technology companies (e.g. Google, AT&T, Apple, Frontier, PG&E, Verizon) as well as federal, state, and local governments. Inyo currently serves as network manager and service provider for OntarioNet and RC Fiber, the commercial and residential fiber networks of the City of Ontario and the City of Rancho Cucamonga, respectively. Inyo also operates and manages Digital 395, which is a regional fiber network serving 287 schools, hospitals, government buildings and wholesale customers along the US Route 395 corridor in eastern California.

The City engaged accounting firm The Pun Group, LLP ("Pun") in November 2019 to perform a financial due diligence investigation of Inyo in relation to Inyo's proposal. Pun findings are that:

- Inyo has a significant number of key personnel who have extensive experience in the telecommunications industry.
- Inyo has adequate internal controls in place for customer billing and cash collections.
- Inyo's financials are consistent with a company that is scaling in an industry with high fixed startup costs, with growing revenues and costs.
- Several cities who currently work with Inyo state that they would recommend Inyo's services to another city.

Services Provided

Under the proposed agreement, which would be for five (5) years with five (5) optional one-year renewals, Inyo would provide the City the following services:

- Operations and maintenance of the network, including managing a 24/7/365 Network Operations Center, equipment management, fiber asset management, overseeing hub facility and colocation facility maintenance, engineering project management, customer interface, and supervision of the City's existing outside plant maintenance vendor.
- Sales of Network dark fiber, transport, and other Network services.
- Collection of billing data for the City with respect to users of dark fiber or other facilities of the Network.
- Design and construction management of lateral facilities to connect properties to the Network.
- Commercial ISP services (such as internet access and voice over internet protocol (VoIP)) to subscriber businesses and institutions in Culver City using the Network, for a fee to be charged to subscribers.
- Inyo will share with the City 50% of the gross revenues from subscribers to commercial services (internet and VoIP) provided by Inyo on the Network. Inyo will keep the other 50%.

The City's obligations to Inyo would be as follows:

- 3% of revenues from dark fiber licenses, leases, or indefeasible right of use agreement ("IRU") payments that Inyo negotiates on the City's behalf. Inyo will not receive a share of revenue from the City's existing dark fiber licenses, leases, or IRU payments.
- Use of the Network to provide internet service provider ("ISP") services. This includes the City purchasing the network hardware necessary for Inyo to provide ISP services on the network. The City will retain full ownership of this hardware and the Network.
- Funding the cost of lateral construction to subscribers of commercial ISP services. Subscribers will pay back the City for the cost of lateral construction either as a one-time fee or over three or five years with interest.
- Office space for two Inyo employees at a City facility.

FISCAL ANALYSIS

The City will not pay Inyo a fee for its network maintenance and operation services. This represents a monthly savings of \$142,418 compared to the existing agreement with Mox (see Attachment 2). It is difficult to accurately project expected revenues from the City's 50% share of ISP revenues, since the amount of revenue depends on the local "take rate," or number of Culver City businesses who

become customers; however, based on Inyo's best projections, the City's share of commercial services revenue is expected to be \$168,407 in Year 1, \$339,440 in Year 2, and \$340,430 in Year 3.

ATTACHMENTS

1. 2020-03-18_ATT - Fiber Network Operator Proposal Response Comparison
2. 2020-03-18_ATT - Culver Connect Ongoing Expenses and Revenues

MOTION

That the City Council:

1. Approve a five-year professional services agreement with Inyo Networks, Inc. to operate, maintain, and provide internet service provider services on the City's municipal fiber network (Culver Connect); and
2. Authorize the City Manager to approve amendment(s) to the Agreement, including up to five optional one-year terms, up to the approved budget for the Network; and
3. Authorize the City Attorney to review/prepare the necessary documents; and
4. Authorize the City Manager to execute such documents on behalf of the City.