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Capital's Wi-Fi hopes hit snag

Consortium chosen to build system seeks additional financing.

By Clint Swett - Bee Staff Writer

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The plan to blanket Sacramento with free and paid wireless Internet access has stalled as the group ramrodding the project has been unable to line up funding for the \$7 million to \$9 million effort.

The delay is the second for Sacramento and a further example of setbacks for cities nationwide in their efforts to deploy municipal Wi-Fi service. High-profile projects in San Francisco and Chicago were scrapped recently, and experts say more turmoil is inevitable as cities and the wireless industry search for reliable ways to finance the systems and then make money operating them.

But Anne-Marie Fowler, who's heading Sacramento Metro Connect LLC, the consortium seeking to build the system, said she's closing in on the nearly \$1 million in credit lines and investments needed to get the first phase under way.

Venture capitalist Scott Lenet, who runs the West Sacramento office of DFJ Frontier, said investors may have lost their taste for such projects: "There are more crash stories than success stories in the muni Wi-Fi space, so investors are really careful."

While Fowler acknowledged the difficulty, she said she's been "making good progress" in lining up investors and a bank line of credit for the first stage.

Construction on that phase – bounded by the Sacramento River, 16th, H and R streets – was to have ramped up last month and been completed in December, with full city coverage by October 2009. But no work has yet begun, according to Sacramento chief information officer Steve Ferguson.

"At this point, we are being patient with them," Ferguson said of Sacramento Metro Connect. "We want this to get done."

Sacramento Metro Connect is composed of technology heavyweights Cisco Systems, International Business Machines and Intel Corp., as well as Azulstar Inc., a small Michigan Internet service provider involved in other muni Wi-Fi projects. Another partner is SeaKay Inc., a San Francisco nonprofit that would help low-income residents access the Internet.

Fowler wouldn't project when the financing might be nailed down: "We have a lot of interested investors, but it's a matter of assembling the right group. We don't want someone coming in for a quick buck. We want someone who will stay with us for a few years."

Once the initial phase begins operations and investors see how it works, she said, it should be easier to finance the remainder of the money to build out the system.

The city has the option of canceling the deal after giving Azulstar a 45-day notice, but Sacramento City Councilman Rob Fong said the city is willing to give Sacramento Metro Connect time even though construction was originally set to begin Sept. 21.

"This is a really great package for the city, and they have worked really well with us," Fong said.

Terms of the deal call for Sacramento Metro Connect to hang equipment from city light poles and other facilities to cover up to 95 percent of Sacramento with wireless Internet access. Connections of up to 1 megabit per second would be free, while Sacramento Metro Connect could charge between \$15 and \$50 a month for those who want faster connections.

To help provide revenue for Sacramento Metro Connect, the city has agreed to serve as an "anchor tenant" by buying Internet service at a 30 percent discount from the retail price.

This isn't the first time the city's Wi-Fi plans have stalled. In June 2006, Maryland-based MobilePro pulled out of a deal over a last-minute demand that it provide free ad-supported access.

City leaders have touted Wi-Fi as a way to burnish Sacramento's image as a modern city and to help lower-income people gain Internet access.

It also would give residents an alternative to broadband service provided by companies such as Comcast and AT&T. Comcast has said it doesn't worry about the competition, while AT&T last year submitted an unsuccessful bid on the Sacramento project.

But the failure of projects in larger cities has called the concept's financial viability into question.

In August, for instance, EarthLink pulled the plug on plans to install Wi-Fi networks in both San Francisco and Chicago when neither city agreed to act as an anchor tenant.

And last month, the city of Rio Rancho, N.M., canceled its contract with Azulstar, citing poor customer support, unreliable service and unpaid electric bills.

An ambitious project to cover 40 municipalities in Silicon Valley, also headed by Azulstar, is off to a slow start, with no coverage more than a year after the contract was signed.

"It's going a lot more slowly than we had hoped," said Seth Fearey, who's acting as a go-between for the cities and the Azulstar group. "It's been very challenging and complicated. We are making progress in inches."

Wi-Fi experts say such problems could dampen investor enthusiasm.

"The EarthLink decisions raise questions ... precisely at a time when a number of projects are ready to move forward after years of planning," said Andrew Kreig, president of the Wireless Communications Association International, a trade group representing wireless companies.

"On a brighter note, the companies involved in the Sacramento project have huge resources and credibility with financial markets. And the fact that Sacramento has agreed to become an anchor tenant bodes well."

To be financially viable, experts say, such projects need more revenue streams than one anchor tenant. Craig Settles, a municipal Wi-Fi consultant in Oakland, said for such systems to pencil out, the providers need several anchor tenants.

Other revenue could come from online advertising and search, connecting parking meters to a network, or utilities such as SMUD beaming residential meter readings to its home office. Other uses could include connecting to remote security cameras and selling service to companies whose workers travel around the city.

Fowler said she's pursuing all those avenues, including her goal of landing as many as 10 anchor tenants ranging from large businesses to local colleges.

Fong, the Sacramento City Councilman, said he's eager to do what it takes to get the system built: "If we need to be getting a little more creative or help find another anchor tenant, it's

something we need to be doing."

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