TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DEPARTMENT: UTILITIES
DATE: OCTOBER 4, 2004

SUBJECT: RESOLUTION DETERMINING UNDERGROUND DISTRICT NO. 38 PROPERTY OWNERS WHO ELECT TO PAY UNDERGROUND CONVERSION COSTS OVER A PERIOD OF YEARS

RECOMMENDATION
Staff recommends that Council approve and authorize the Mayor to execute the attached Resolution determining Underground District No. 38 property owners electing to pay conversion costs over a period of years, determining and classifying unpaid assessments, and funding loans to property owners from the Reserve for Underground Connections.

BACKGROUND
At its meeting on February 23, 1998, Council adopted Ordinance No. 4483 creating Underground Utility District No. 38 for the High Street, Cowper Avenue, Oregon Expressway and Colorado Avenue area. The ordinance provided notice that any property owner located within the district had the option of paying the cost of service conversion over a period of ten years, with interest. A total of 39 of the 192 property owners in the district selected the deferred payment plan. The underground project is a general benefit underground district with the City paying all costs except the individual property underground service conversions.

DISCUSSION
The conversion costs for the 39 property owners who have chosen the deferred payment plan total $168,704. The original estimates are seven years old, as this project was initially delayed due to insufficient funds and later delayed due to prolonged negotiations with SBC California over the joint construction agreement. Based on six property owners who have reported their 2004 estimated costs, the average 2004 estimated service conversion cost is $4625 compared with the average 1997 estimated cost of $3666. This represents a cost increase of 26%. Therefore, to compensate for the inflation and increasing contractor prices over that period of time, 30% been added to the original estimated cost of each property to offset the estimated increase in materials and labor costs. The higher costs are primarily due to the current demand for construction work and limited number of contractors interested in performing residential service conversion work. The remaining property owners chose to be responsible for their own financial arrangements.
Assessments will be secured by liens on each property for the ten-year term of the loan. Repayment to the City will be made through the owner’s property tax bills. As mandated in the Palo Alto Municipal Code, interest rates were established the week preceding adoption of the Ordinance forming the underground district. Using this rate guideline, the interest rate for the loans will be 5.82%. A $50 loan-processing fee is added to each assessment.

**RESOURCE IMPACT**
On August 21, 1984, Council approved the funding of individual electric connections from the Electric System Improvement Reserve, thereby establishing the reserve for underground connections. As of August 16, 2004, the balance in the reserve for underground connections was $664,000.

The total estimated service conversion cost for all customers in Underground District No. 38 is $638,755. The City’s total cost for Underground District No. 38 is estimated to be $2,300,000.

**POLICY IMPLICATIONS**
This recommendation is consistent with the Council approved Utilities Strategic Plan Key Strategy #7, “Implement programs that improve the quality of the environment”.

**ENVIRONMENTAL REVIEW**
This project is categorically exempt from California Environmental Quality Act (CEQA).

**ATTACHMENTS**
A: Resolution
B: Property Owner List

**PREPARED BY:** Tom Finch

**DEPARTMENT HEAD:**

JOHN ULRICH
Director of Utilities

**CITY MANAGER APPROVAL:**

EMILY HARRISON
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