NOT YET APPROVED

RESOLUTION NO. _______
RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO
DETERMINING UNDERGROUND UTILITY DISTRICT NO. 41
PROPERTY OWNERS WHO ELECT TO PAY UNDERGROUND
CONVERSION COSTS OVER A PERIOD OF YEARS

The Council of the City of Palo Alto does RESOLVE as
follows:

SECTION 1. The Council of the City of Palo Alto amended
Section 12.16.020 of Chapter 12.16 of Title 12 of the Palo Alto
Municipal Code by establishing Underground Utility District No. 41
on October 24, 2005, by adopting Ordinance No. 4882.

SECTION 2. The owners of certain properties have exercised
the option offered in said Ordinance and in Section 12.16.092 of
said Code, to pay the cost over a period of years with such
obligation secured by special assessments. A list of the
properties owned by persons who have exercised the option to pay
the costs of converting their electric service connection to
underground locations over the period of ten (10) years as
indicated thereon is attached hereto as Exhibit "A" and hereby made
a part hereof.

SECTION 3. It appears to this Council that in its proceed-
ings under and pursuant to Resolution of Intention to form said
District, being Resolution No. 8515, adopted on April 25, 2005, the
assessments proposed to be levied should be made to mature over a
period of ten (10) years.

SECTION 4. The public convenience and necessity required
that the proceedings heretofore taken with respect to said
underground utility districts being changed and modified to provide
that the rate of interest to be paid by said owners of said
properties shall be three quarters of one percent (3/4 of 1%) in
excess of the rate shown in the New York Bond Buyer Index of
Municipal Bond Average Yields for 20 bonds for the week next
preceding the day on which the Underground Districts were formed.

SECTION 5. The assessments now remaining unpaid are as
shown on Exhibit "A" attached hereto and by this reference made a
part hereof, and that the aggregate amount thereof is $201,306.
This Council hereby determines that the owners of the properties
shown on Exhibit "A" hereto have elected to pay the cost of
converting electric service connections to underground locations
over the period of ten (10) years and that said costs shall
represent the unpaid assessments in these proceedings.

SECTION 6. The City shall advance all loans to assessed
property owners from available funds, and shall succeed to all
rights under the assessment and to all rights which would have
NOT YET APPROVED

accrued if bonds had been issued as provided in Section 13.04.170(i) of Chapter 13.04 of Title 13 of the Palo Alto Municipal Code. Loans for the Underground District will be funded to the assessed property owners from the Electric Reserve for Underground Connections. The total estimated principal amount to be funded by this Reserve will be $201,306, pending any changes in actual moneys loaned. The principal plus interest and loan processing fee shall be amortized and repaid through the owner's property taxes for a period of ten (10) years.

The loans shall bear interest from the latest of the date of completion and energizing of underground electrical facilities, or the date of disbursement of the loan. The rate of interest will be 5.12 percent. Principal payments will be refunded to the Reserve for Underground Service Connections and interest will be added to the Electric Rate Stabilization Reserve.

SECTION 7. A fee of $50 is added to the principal amount of each loan for loan processing.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

APPROVED:

City Clerk

Mayor

APPROVED AS TO FORM:

City Manager

Senior Asst. City Attorney

Director of Utilities

Director of Administrative Services
### List of Property Owners

<table>
<thead>
<tr>
<th>Property Owners (s)</th>
<th>Parcel No.</th>
<th>Address</th>
<th>Assessment Principal</th>
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<tr>
<td>Barbara M Davidsom</td>
<td>132-01-054</td>
<td>2527 Webster St</td>
<td>$5,451.96</td>
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<td>Geradus &amp; Elisabeth Staal</td>
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<td>635 Marion Ave</td>
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<td>Patrick Lin</td>
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<td>Ruth M Brown</td>
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<td>541 Bryson Ave</td>
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<td>Eliot Tarlin &amp; Sharon Fox</td>
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<td>2510 Webster</td>
<td>$6,653.82</td>
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<td>Steinberg Revocable Trust</td>
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<td>628 Marion Ave</td>
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<td>Christine &amp; Stanley Czarnecki</td>
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<td>Marlin Korfhage</td>
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<td>Mary Wong</td>
<td>132-01-063</td>
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<td>John Horan</td>
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<td>521 Colorado Ave</td>
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<td>Debra Summers</td>
<td>132-07-004</td>
<td>2420 Tasso St</td>
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<td>Doris Wong</td>
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<td>Ralph Accola</td>
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<td>Louis T. Weis</td>
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<td>2590 Middlefield Rd</td>
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<td>Helen Colyen</td>
<td>132-55-018</td>
<td>2712-22 Byron</td>
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**TOTAL** $201,306
BACKGROUND AND HISTORY ON
UNDERGROUNDING OF ELECTRIC UTILITIES

BACKGROUND

History of Undergrounding
The City of Palo Alto began a program to underground overhead electric, telephone, and cable TV facilities in 1965 with a project along Oregon Expressway. Since that time 42 Underground Districts have been formed. The main reasons for starting the undergrounding program in Palo Alto were to improve the aesthetics of the neighborhoods and to improve service reliability by reducing the impacts of weather on the electric distribution system.

To establish the undergrounding program, the city amended the Municipal Code adding Chapter 12.16 titled Underground Utilities. All new development after 1965 was required to have underground facilities. This requirement resulted in the undergrounding of electric facilities for most of the commercial areas outside of the older commercial developments in the University Avenue and California Avenue districts.

Types of Underground Districts
Rules for establishing an underground district in the City are covered by Utility Rule and Regulation 17. This rule establishes three types of underground districts: General Public Benefit, Primarily of Local Public Benefit, and areas that do not qualify under the preceding types. General Public Benefit projects are established by the City and the City pays for the installation of the electric system in the public right-of-way (ROW) and the residents pay for conversion of the facilities on their property. In the remaining two conversion area types, the residents must request the underground district and fund the service conversion on their property as well as a portion of the utility costs in the public ROW.

Most of the projects completed have been established under the General Public Benefit provision.

Joint Construction on Utilities Poles
The poles within the City of Palo Alto are jointly owned with AT&T or in some cases jointly owned with AT&T and PG&E. Comcast leases space on the poles from AT&T for the attachment of cable TV cables. Due to the joint ownership of the poles, underground districts require agreement by the other joint owners. Once agreement on the Underground District boundaries has been reached, the conduits and structures are jointly constructed. Joint construction is used to reduce costs and coordinate the construction to minimize impacts on the neighborhoods.

Agreement on Underground District boundaries by AT&T is subject to AT&T's ability to recover its costs pursuant to California Public Utilities Commission's (CPUC) Schedule A2 Rule 32 on undergrounding which specifies the criteria for different levels of financial participation by AT&T.
The applicable section of Rule 32 is critical to the financial viability of the underground project. If a project qualifies under section A.1 of Rule 32, the project has been found to have General Public Benefits, and AT&T and Comcast fund all the their improvements in the public right-of-way. If it is determined that Rule 32A.2 or 32A.3 are applicable to the project, the cost responsibility for the Cable TV and Telephone conduits and other structures shifts either to the City or to the residents. In the past, once AT&T had determined that the proposed area did not qualify under Rule 32A.1 the City has cancelled the underground project because of the increased costs to the Electric Utility and moved forward on undergrounding projects in areas where the telephone company would participate. Currently there are only a few small areas where the telephone company will participate.

To facilitate the coordination between the parties in an Underground District, a master agreement has been signed by the City, AT&T, and Cable TV. This master agreement is amended each time an underground district is formed to include the new Underground District.

**Funding for Underground Districts**

General Benefit Undergrounding was funded at approximately 2% of annual electric revenues. Beginning in 1998, funding was reduced to 1% per year due to the need to shift electric resources to rebuilding aging infrastructure. The current funding which has been recently returned to 2% of annual electric revenues converts, on average, electric facilities for approximately 150 to 200 homes per year.

The reduction in funding to 1% of revenues for underground districts was initiated about 10 years ago to “free up” revenues and resources to focus on replacing underground facilities reaching the end of their useful lives. Cables installed in the sixties and seventies had an expected cable life of 30 years. In the late nineties a significant portion of the city’s underground system had exceeded its expected life and failures were beginning to occur at an increasing rate. To reduce the rate of failure, an accelerated infrastructure program was initiated to replace the cables that had exceeded their life expectancies. Because of staffing constraints the underground program was temporarily scaled back.

Costs that AT&T can recover from its rate payers for funding General Public Benefit Undergrounding under Rule 32A.1 are limited. The restrictions on AT&T’s funding limit the City’s ability to accelerate the undergrounding program beyond 2% of revenues while still receiving the full rule 32A.1 level of participation from AT&T.

In addition the cost of the required service conversions on private property is borne by the individual owners in accordance with Utility Rule and Regulation No.17. This cost can range from $5,000 to $8,000. In order to reduce the burden of the service conversion cost to property owners in underground districts the property owners are offered the option of financing their service conversion costs over a period of ten years with interest in accordance with the procedure given in Section 12.16.090 through 12.16.096 of the Palo Alto Municipal Code. The CMR that accompanies this document seeks approval of a resolution listing property owners electing to participate in the service conversion financing offered by the City.

**Budgeting**

Funding for the Underground Districts is approved by the City Council during the annual budget process. In addition to the current fiscal year’s funding, staff also provides four additional years of projected funding for proposed undergrounding projects. These future projects are not approved for construction until the budget for these projects is approved each fiscal year. Each year staff reevaluates the future year recommendations and proposes changes based on additional information acquired since the last budget cycle including AT&T’s participation in covering project costs.
Selecting Underground Districts
Proposed undergrounding districts are determined by applying the priorities in Rule 17 and negotiations with AT&T as joint pole owners. In addition, Comcast, which leases pole space from AT&T, must also fund part of the underground costs to move their facilities.

The City Electric Utility takes the lead in proposing boundaries for an underground project. AT&T's agreement is driven by its ability to recover costs under rules that differ from Utility Rule and Regulation No. 7. Recently the City was advised by AT&T that the proposed underground district planned for FY 2007-08 did not qualify under section A.1 of Rule 32, and that AT&T would be unable to fund all the improvements in the public right-of-way, resulting in the cost responsibility for the telephone substructure shifting to the City or the residents within the proposed districts.

To give a perspective on this impact, the present cost to the City for undergrounding is about $15,000 per home. This does not include the additional cost for each homeowner of about $5,000 for their service conversion. If the City continues undergrounding without AT&T and Comcast reimbursements, the cost to the City per home increases to approximately $20,000, an increase of 33%.

Future of Program
The overhead lines for approximately 14,100 homes remain to be undergrounded and the current program undergrounds facilities for approximately 200 homes per year.

If the City were to proceed with the program without AT&T and Comcast reimbursements at the present funding rate of 2% of annual electric revenues, it is expected to take approximately 100 years more to complete the undergrounding of the entire city at a cost of $296,100,000. This is based on the current value of the dollar. Under the current program the electric rate payers would be responsible for funding approximately $225,600,000 and the property owners would be responsible for funding about $70,500,000 of total cost.

In light of the recent position taken by AT&T to suspend participation in undergrounding of utilities where AT&T is not able to recover costs from its ratepayers, staff is reviewing with AT&T and Comcast potential undergrounding project areas in the City. If an agreement is reached with AT&T on additional areas for undergrounding of utilities, then staff will obtain Council approval for undergrounding of such areas to continue the undergrounding program.