



## **UTILITIES ADVISORY COMMISSION MEETING MINUTES OF AUGUST 3, 2022 SPECIAL MEETING**

### **CALL TO ORDER**

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Vice Chair Johnston called the meeting of the Utilities Advisory Commission (UAC) to order at 6:02 p.m.

Present: Vice Chair Johnston, Commissioners Bowie, Forssell, Metz, and Smith  
Absent: Chair Segal and Commissioner Scharff

### **AGENDA REVIEW AND REVISIONS**

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Vice Chair Johnston announced the September 7, 2022 meeting has been rescheduled to September 14, 2022 and the October 5, 2022 meeting has been rescheduled to October 12, 2022.

### **ORAL COMMUNICATIONS**

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None.

### **APPROVAL OF THE MINUTES**

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Vice Chair Johnston invited comments on the June 8, 2022 UAC draft meeting minutes.

Commissioner Metz moved to approve the draft minutes of the June 8, 2022 meeting as presented.

Commissioner Bowie seconded the motion.

The motion carried 5-0 with Vice Chair Johnston and Commissioners Bowie, Forssell, Metz, and Smith voting yes.

Chair Segal and Commissioner Scharff absent.

### **UNFINISHED BUSINESS**

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None.

### **UTILITIES DIRECTOR REPORT**

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Dean Batchelor, Utilities Director, delivered the Director's Report.

**Water Supply Update:** The San Francisco Regional Water System storage is in relatively good shape as of July 5, with total reservoir storage about 72%. Normal system storage for this time of year is about 91%. In May, the San Francisco Public Utilities Commission (SFPUC) managed releases from runoff to fulfill ecological wetland inundation goals on the upper Tuolumne River. On May 24, SFPUC increased its call for regional statewide water use reductions. We are at about 2% but the State goal is 8%, so we need to get the word out to the community. On June 20, the City Council implemented new water use

restrictions, including limiting irrigation to two days per week except to ensure the health of trees and other non-turf plantings, requiring restaurants to serve water to customers only upon request, and hotels and motels to provide guests with the option of not having linens laundered daily.

**Sustainability and Climate Action Plan (S/CAP) Progress:** The Sustainability Leadership Team continues to move forward efforts focused on the S/CAP update. As a result of meetings with the S/CAP Ad Hoc Committee, its Working Group and community members who joined the Working Group teams, staff are assessing program options to spur heat pump water heater adoption. Staff is making progress on the Sea Level Rise Vulnerability Assessment, implementing the updated tree ordinance and supporting outreach during the drought.

**Business Electrification Technical Assistance Program:** The City will soon launch a Business Electrification Technical Assistance Program to offer free consultation and on-site assessment to business customers. With CLEAResult, the City will support the customer's electrification journey with contractor and equipment selection, assist with building permits and utility rebate applications.

**Page Mill Pastures:** The City is beginning an investigation on the equestrian facility, Page Mill Pastures, on potential use of unpaid, unmetered water through their fire hydrant use. The City received an anonymous tip from a resident that they were pumping water into a water truck from a fire hydrant. Pastures rents land from Stanford, so Stanford has been involved with the City to work out a resolution. An update will be provided once the investigation is complete.

**Outage Management System (OMS):** The City's current OMS, National Information Solutions Cooperative (NISC), was purchased in 2011. The system has not been upgraded and no longer meets the staff needs. The City received two RFP responses and upon evaluation, a contract with Milsoft is being recommended to Council at the September 12 meeting. Once implemented, the new OMS will improve the CPAU's ability to mobilize resources. Outage updates can be sent to customers by text message, emails and social media outlets. Estimate six to eight months to remove the old OMS and connect the new OMS to our GIS platform and SAP.

In reply to Council Liaison Cormack's question about what citizens should do when they see watering, Mr. Batchelor responded that citizens should call 311.

Mr. Batchelor confirmed Council Liaison Cormack's belief that the 311 app only works on iPhones.

Council Liaison Cormack suggested using 311 from your desktop computer if you have Android.

In answer to Vice Chair Johnston's query about our plans to encourage further water reduction, Mr. Batchelor replied more outreach is needed. Email blasts can be sent to customers. We are in the process of hiring a temporary water person to knock on doors and get the word out to the neighborhoods.

In response to Vice Chair Johnston's inquiry if we have seen any impact from the City Council's restrictions enacted in June, Mr. Batchelor answered no. More outreach and community education is needed regarding watering two days a week.

In answer to Commissioner Forssell's question regarding the point of reference for the 10% reduction, Mr. Batchelor responded we would measure against 2019 usage because that was a high year.

Mr. Batchelor addressed Commissioner Forssell's query if it was the City or State who picked 2019. The State went down to 10% and used 2019. Upon review, the highest usage timeframe was 2019.

In reply to Commissioner Forssell's questions regarding how this reduction compares to what we achieved last drought and if businesses and residents have picked all the low-hanging fruit off their water-saving measures, Mr. Batchelor responded no. Customers are watering in the middle of the day, so there is plenty of opportunity. We reduced by 36% the last time we were in a drought, so we should be able to at least achieve 8% to 10%. We need to educate the community better.

## **NEW BUSINESS**

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### **ITEM 1: ACTION: Adoption of a Resolution Authorizing Use of Teleconferencing for Utilities Advisory Commission Meetings During COVID-19 State of Emergency**

**ACTION:** Commissioner Metz moved Staff recommendation that the Utilities Advisory Commission (UAC) Adopt a Resolution (Attachment A) authorizing the use of teleconferencing under Government Code Section 54953(e) for meetings of the Utilities Advisory Commission (UAC) and its committees due to the COVID-19 declared state of emergency.

Seconded by Commissioner Forssell.

Motion carries 5-0 with Vice Chair Johnston, and Commissioners Bowie, Forssell, Metz, and Smith voting yes.

Chair Segal and Commissioner Scharff absent.

### **ITEM 2: DISCUSSION: Discussion and Presentation on Sea Level Rise**

Julie Weiss, Watershed Protection Manager, Public Works, delivered the presentation. Diana Edwards of AECOM and Dr. Kris May were consultants on the project.

The Vulnerability Assessment is a 200-page technical document that examines how five asset categories could be exposed to 12-84 inches of sea level rise during daily high tides, 100-year storm tides and changing shallow groundwater conditions and when action is needed to prevent damage. The inundation and groundwater work was done in consultation with the San Francisco Estuary Institute as well as City staff. Palo Alto is one of two Bay Area cities to consider groundwater hazards as part of sea level rise. The final report will be posted soon, which reflects peer review comments and changes.

The San Francisquito Creek Downstream Project widened the creek channel and built new levees, which provides protection from a 100-year creek flood and 3 feet of sea level rise. This project was a partnership with the San Francisquito Creek Joint Powers Authority.

The South San Francisco Bay Shoreline II Study looked at needed improvements for the levee system surrounding Palo Alto. Portions of South Palo Alto are in the FEMA floodplain and subject to flood insurance requirements because the older levee system does not meet current FEMA accreditation standards. The Shoreline II team is working on a hydrology model, met with permitting agencies and anticipates having a study completed by fall 2024.

The Palo Alto Tide Gate is going to be repaired. It provides protection from creek flooding and sea level rise changes. The tide gate regulates the water between the bay and the Palo Alto Flood Basin, which holds the downstream water levels from Matadero, Adobe and Barron Creeks during large storms.

The Horizontal Levee Pilot Project will provide protection from sea level rise as well as habitat benefits. As this project would be the first to connect hydrologically to the bay, it could change Bay Area levee approaches. The Watershed Protection team presented to the Parks and Recreation Commission about this project last week and the video can be viewed on the Parks and Recreation Commission website.

We have begun physical adaptation efforts, such as raising equipment at the wastewater treatment plant. Another effluent outfall will be built so treated effluent can get out to the bay with the 3 feet of sea level rise anticipated around the turn of the century.

Education is a critical part of our future planning. We developed K-6 curricula on sea level rise that we provide to our teachers. We have also done several webinars on sea level rise planning.

Our plan's two goals are to protect and expand habitat and protect the community and City assets. The three strategies are protect, adapt and retreat. We protect by using levees and tide gates. We adapt our existing infrastructure by raising or waterproofing equipment. We need to consider possible retreat after 2050, especially for assets outside of future levees such as our Baylands habitat, ranger station, interpretive center and Sailing Station. The plan will tell us when we need to start planning these projects and a rough cost estimate.

At 36 inches of sea level rise, we anticipate our Municipal Services Center (MSC) would see high tides (HT) and storm tides (ST). We would see shallow groundwater within 6 feet of the surface at Mitchell Park. As the decades move forward, we might start seeing emergent groundwater at Mitchell Park.

We usually see a small amount of overtopping near the Baylands Interpretative Center during our annual high tides in December and January, so we use sandbags. At 36 inches of sea level rise, our transportation system could be exposed to bay water along 30 miles of streets and 5 miles of evacuation routes in the Palo Alto Airport. Caltrain would not be impacted. About 2700 residential parcels, two schools and two senior centers could be exposed. Marshes would begin to transition to a different habitat. Urban forests could be damaged, so we may need to change the tree species. This scenario would also pose some hazards to our wastewater treatment plant, pump stations and other utilities.

Increasing shallow groundwater can mobilize contaminants closer to the surface and expose underground utilities such as water, recycled water, sanitary sewer lines and electrical equipment. Maps shown of anticipated shallow and emergent groundwater elevation with 36 inches of sea level rise. Liquefaction can be exacerbated in vulnerable areas.

The Vulnerability Assessment will be released in early fall or late summer. Staff, public and Commission meetings will be held over the next 1½ years. Council approval of the Adaptation Plan is anticipated at the beginning of 2024. The plan will be updated every five years along with the Sustainability and Climate Action Plans.

Vice Chair Johnston invited public comments. Mr. John Petrilla stated he visited the Netherlands and they have carved out large amounts of land for the North Sea for centuries, so there are tested solutions

available that will be useful to us. He is concerned about groundwater rise because a lot of the bay is landfill, so he wanted someone to speak about contamination seeping up.

Commissioner Forssell stated she wanted Mr. Petrilla's question be addressed about concerns of contaminants from our landfill. Dr. Kris May, Pathways Climate, stated she worked on the groundwater report and they looked at the landfill near Palo Alto. The landfill is safe and there are measures in place to prevent or early-detect escaping contaminants. Palo Alto is in a much better situation than other landfills around the bay.

Dr. May addressed Commissioner Forssell's inquiry as to the reasons we are in a good position, if there were barriers in place or better sorting of waste when it was put in the landfill. There is a sophisticated leachate collection and monitoring system. Per the wells' monitoring records, there has not been any detection of leaked contaminants, although contamination extends below ground.

Ms. Weiss responded to Commissioner Smith's query if we were having conversations with Mountain View about how we might mitigate some of these issues together as a community. Santa Clara County's Department Of Sustainability has started coordinating meetings with cities to look at sea level rise planning, which Mountain View and Palo Alto are attending. We have had conversations with Mountain View relating to the Shoreline II project.

In answer to Commissioner Smith's questions if we can adopt the same tactic for Adobe Creek as San Francisquito Creek and if it would make any difference, Ms. Weiss responded that Commissioner Smith could talk to one of the engineers working on the shoreline levee improvements.

Commissioner Bowie stated he did not see liquefaction mentioned on the slide but it was mentioned in the presentation. Ms. Weiss confirmed that is correct, closer to the shoreline. Dr. May responded this study did not address the increasing liquefaction hazard but the USGS and Dr. Anne Wein have been researching how a rising groundwater table will increase liquefaction risks. The USGS produced a set of story maps for the public that can be shared after the meeting.

Dr. May agreed with Commissioner Bowie's comment that as we are considering infrastructure placement moving forward, we should be building to what we think the seismic risk is going to be in 2050 based on liquefaction changes.

In response to Vice Chair Johnston's understanding that it is harder to protect from groundwater rise than from sea level rise, Ms. Weiss responded we can waterproof and have design standards for underground features to be raised up and adaptable for changing conditions. Dr. May responded it depends how much you are willing to pay to manage the groundwater table.

In answer to Vice Chair Johnston's question regarding rethinking or redesigning the fiber network, sewer replacement and undergrounding our electrical utilities, Ms. Weiss responded it is important to keep these considerations in mind.

Vice Chair Johnston commented we are putting facilities in the ground, so the sooner we have a plan we can start making allowances for it. Ms. Weiss said we could start addressing these issues in our scopes of work with the people designing these projects.

In response to Commissioner Forssell's queries about where the peer-reviewed report was published and who are considered our peers, Ms. Weiss responded the Vulnerability Assessment includes an attachment on shallow groundwater which was peer reviewed by Dr. Kristina Hill.

**ACTION:** None

**ITEM 3: DISCUSSION:** Discussion of Preliminary Financial Business Models for Palo Alto Fiber and Internet Survey Results

Vice Chair Johnston invited public comments. Mr. Jeff Hoel stated he supports citywide municipal fiber to the premises. He believes staff should report the survey questions and flow chart. Since he did not have home internet, he feels he did not have a chance to participate fully in the survey. He wants a discussion regarding concern about the CPAU brand. He thought that since participants were not asked where they lived, the results would not show where AT&T already had fiber. He hopes the survey data confirms you do not have to do TV. He was interested to know how many residential and business surveys invitees there were and if people could take the survey multiple times.

Dave Yuan, Strategic Business Manager, stated we are about 90% complete with the FTTP engineering design, community engagement and ISP business models. On June 23, the Palo Alto Internet Survey and deposit program was launched. Tonight's presentation includes survey results as of July 13. The preliminary results were shared with the UAC Fiber Subcommittee on July 20. The survey results and competitive market analysis will be updated for the Joint Council UAC Study Session in September.

Three business models were evaluated (insource, outsource, hybrid of 70% insource and 30% outsource). The total staffing and vendor cost for the hybrid model was almost the same as the insource model. It is planned as an action item for the UAC in October and recommendation to Council.

John Honker, Magellan Broadband, delivered a presentation on Preliminary Internet Survey Results and Financial Business Models for Fiber to the Premises (FTTP). The pro forma financials are 90% complete. The pricing for materials and labor will be updated for September's Joint meeting. The fiber engineering design is 90% complete. At 100% completion, it can be put out to bid for network construction RFPs.

There were 21,925 emails sent to individual Palo Alto households, 3241 completed surveys were received, which is an almost 15% response rate. About 700 deposits of \$50 were received for Palo Alto Fiber. For statistical validity, the goal was 380 surveys to achieve a 95% confidence interval with a 5% margin of error. Currently, we have a 99% confidence interval with a 2.2% margin of error.

Before the Joint Session in September, you will see a quantitative analysis to determine the most effective pricing model, service tiers and speeds to warrant the greatest take rate. About 60% are paying \$40-80 monthly and about 20% are paying \$81-\$100 monthly. Palo Alto's high-speed internet market is a duopoly with Comcast dominating around 67%, AT&T at 24% and a few local providers around 6% of the total market share. The service, provider and where they are located will be determined from the survey data as addresses are known for each individual respondent.

Cable TV is not a highly demanded service in Palo Alto and it would not adversely affect take rates for Palo Alto Fiber if it were not offered. Fewer than 30% of residents are purchasing cable TV with their internet service. Of those 30%, about 17% would cancel their cable TV and use internet streaming.

In response to the survey question about home internet satisfaction, about 30% are dissatisfied and typically will be early adopters for a new fiber-to-the-home provider that has better customer service, speeds, symmetrical service (same speeds up and down) and reliability. Almost 13% are neutral, so we have to think of how they can be incentivized to switch. About 60% are somewhat or very satisfied.

In reply to the survey question on the top three reasons you would switch from your existing provider to Palo Alto Fiber, speed and price are very close with reliability third. To ensure strong take rates and community satisfaction, prices need to be at the right rate, deliver higher speeds and higher reliability.

In answer to Commissioner Smith's question if the slides were updated to reflect the 3200 responses, Mr. Honker responded the numbers may change but they are trending the same way. Not every survey question is required but they are adjusted for the margin of error and confidence interval.

Commissioner Smith commented he is pleased our statistics show that half the population do not need a landline or Comcast for cable TV and are most concerned about broadband internet.

In response to Vice Chair Johnston's query if the survey shows what people are paying for which speeds, Mr. Honker answered that in the coming weeks a price per megabyte will be calculated and a competitive analysis will be made to ensure appropriate rate setting.

Commissioner Forssell stated reliability is based on the survey respondent's perception and asked if the survey data showed whether the perception of reliability comes from their internet service provider (ISP) or their in-home wireless setup not being configured well and if there were any insights on how that affects this process. Mr. Honker explained reliability is somewhat subjective but there are tools in the speed test to measure internet service performance. For quantitative data, there are tools on the internet to determine how often the existing ISPs have been down or had network issues.

Commissioner Forssell commented it might be a differentiator if Palo Alto could provide in-home consulting to optimize the Wi-Fi setup. Mr. Honker stated most municipal utilities do. If an ISP has control over the wireless network inside the home, the environment can be controlled and preemptively improve reliability. The customer can be proactively called when there is an issue, which keeps your reputation strong with the customer. In some cases, it avoids an expensive truck roll (the Utility dispatching someone to fix a problem in the customer's home).

In response to Council Liaison Cormack's question if the data showed specific areas within the city that might be more or less likely to participate in this program, Mr. Honker replied a heat map would be released in a couple weeks to reflect customers' location, how much they are paying and providers.

Council Liaison Cormack believes speed will be the opportunity because there is a great differentiation within the city in her experience and in talking to others.

Mr. Honker presented a table on the staffing requirements for each business model. The outsource model requires five City full-time employees (FTEs). A 70/30 hybrid model requires 17 FTEs if the City is outsourcing 30% and insourcing 70%. The insource model requires 25 FTEs. A slide was shown to demonstrate the differences in staffing costs for the three models. Over a 10-year period, the insource staffing costs are estimated at \$55M versus \$38M for the outsource model but you lose some control when you move functions to multiple vendors.

In reply to Commissioner Smith's understanding that the numbers in the Summary of Staffing Models are assuming a 32% take rate, Mr. Honker confirmed that is correct.

Commissioner Smith commented it might be worthwhile to identify what a 32% take rate means in terms of number of lines we are delivering and how many FTEs are necessary to support X number of lines. Mr. Honker stated he could provide a graph with high, medium and low estimates.

Commissioner Smith commented he wants to show Council and Palo Alto citizens that our capital investment assumes full rollout to Palo Alto, so that does not increase if our take rate goes from 32% to 65%. Mr. Honker explained that a higher take rate has variable capital costs for service drops and routers for those customers but the increased revenues will support higher operational costs.

Mr. Honker addressed Commissioner Forssell's question on why the estimates in 2025 for outsourced only requires \$0.87M of vendor cost to complete tasks that require 23 FTEs if it is insourced. In the first few years of an insource model, the City has to hire new staff. In an outsource model, you pay as you go for connected customers. In the first couple years, the numbers are lower by a couple million dollars and then they catch up in the later years as the demand increases. Most vendors bill you by the customer, so if you only have a few customers in the first year it is going to be considerably less than staffing 19 FTEs.

Vice Chair Johnston agreed that speed to market and scalability are vital to success. He believes we would want to do more outsourcing on the front end to have the expertise available on Day 1 and build the expertise in-house over time. In response to Vice Chair Johnston's query if there is a way to model starting with more outsourcing and then ramping down the outsourcing over time, Mr. Honker replied they can provide a model and it is their recommendation to move in that direction, which is the way most municipal utilities do it.

Mr. Honker presented the Financial Plan. About \$12.5M of startup capital is needed. The most recent cost estimates went up from about \$116M to \$128M because of material shortages and inflation. Project cost estimates, which includes the fiber backbone and fiber to the home assuming they are built together with a potential \$8.5M of savings is about \$128M in total cost. The existing fiber fund had a balance of about \$32.5M plus a \$10M contribution from electric toward the fiber backbone gives us about \$42.5M total funding available today, so a little less than \$86M in new funding is required. Over the next couple weeks, pricing estimates are expected from two local contractors.

Commissioner Smith stated \$32.5M was the fiber fund balance in January, so he assumed in December 2022 the fiber fund would be \$36.5M. Mr. Yuan explained the net income for FY22 was \$1.2M whereas previously it was \$2.5M, so conservatively the estimate is \$1.5M yearly.

In response to Commissioner Smith's understanding that the fiber fund balance will be roughly \$34M in December, Mr. Yuan responded that is correct.

In reply to Commissioner Smith's question if the contribution from electric to fiber backbone is a loan from the electric fund or a contribution because we are using the fiber backbone to support electric, Mr. Yuan answered it is a contribution because electric would own the fiber to the substations.

Mr. Honker continued the presentation. A "Sample Pricing Bands" slide was presented with five pricing bands for residential and commercial. The top tiers are 10 Gbps and 2 Gbps. The competition is offering 2 Gbps and could offer 10 Gbps in the future, so it is important that Palo Alto Fiber be ready to serve



customers with next-generation broadband and market itself as a provider of the future in the City. The residential monthly packages are 2 Gbps \$95-\$150, 1 Gbps \$85-\$95, 600 Mbps \$60-\$80 and 200 Mbps \$40-\$60. The FCC definition of broadband is moving to 100 Mbps, so Palo Alto may want to offer 200 as the first tier to show you are giving a lot more to the community. The marginal cost of providing 200 Mbps versus 100 Mbps is close to zero. For commercial, the monthly packages are Premier Dedicated \$500-\$1000, 500 Mbps \$300-\$500, 250 Mbps \$200-\$250, 100 Mbps and 50 Mbps. The residential and commercial pricing bands will be refined over the coming weeks based on survey data.

A pro forma for the insource model was presented. In 2028, a 32% take rate yields about 10,000 residential subscribers, \$14M gross revenue minus \$5M cost of providing services, with a gross profit margin of 67%. Typically, gross margins for ISPs are 65% to 75% for successful operations.

Mr. Honker addressed Commissioner Bowie's questions regarding if there was a data cap in the 2 Gbps and 10 Gbps packages and if not having a data cap would be a differentiator for Palo Alto Fiber. It is a value to the customer because some applications are over 1 Gbps. Palo Alto Fiber should be marketing no data caps, as do most municipal utilities. The price for every additional megabit goes down when buying more bandwidth wholesale from your suppliers.

Commissioner Bowie commented more high-data applications are coming online, which may impact take rate as data caps become more relevant. Mr. Honker stated that marketing no data cap helps take rate because customers like it and it builds the combined value proposition but it is hard to quantify.

Mr. Honker presented the slide "Financial Plan - Outsource." There are relatively similar margins across outsourcing versus insourcing. It is important to determine the best business model that will drive the highest take rate because more customers will offset higher operational costs. The final pro formas will be available over the next couple weeks.

Mr. Honker presented the slide "Sensitivity Analysis – Take Rates", which demonstrates the balance of funds at different take rates over the first 10 years of the network. We have beginning contributions of \$17.5M and \$15M from the fiber fund, which will give us a strong balance of cash but in the first couple years it will be used to operate because expenses typically will be higher than revenues.

Mr. Honker addressed Commissioner Metz's questions regarding having a negative net income for about 10 years and the cash balance declines under most scenarios, how do we pay for or eliminate this loss because borrowing money for this business has an impact on Utilities borrowing for other businesses. Mr. Honker stated the business plan should address this question. Since operational expenses are higher than revenues in the front end of the operation, it is important to get revenues above expenses as quickly as possible. Driving higher take rates in the early years of the project creates higher sustainability versus having declining cash flows over a much longer term. With most utilities, the average take rate is around 40% to 45%, so 32% is a very conservative estimate. There need to be strategies to build Palo Alto Fiber and connect customers as quickly as possible. The crucial years are 2023-2026 where we need to get as high as we can in take rates.

Mr. Honker took note of Commissioner Metz's request for a future presentation to address whether we should consider wireless drops instead of fiber drops to accelerate receiving revenue.

In response to Commissioner Forssell's request to understand the financial plan spreadsheet on Page 71 showing a take rate of zero and revenues of \$1.7M in 2023, Mr. Honker explained it includes the existing revenues from the fiber business.

In reply to Commissioner Forssell's question as to why the revenues are different on the insource versus outsource financial plans, Mr. Honker answered the difference may have been a rounding issue in the model but they should effectively be the same.

In response to Council Liaison Cormack's understanding that this was to prepare for the study session with the Council, Mr. Yuan replied yes and to give the UAC a preview of what we are presenting.

Council Liaison Cormack stated our other utilities are more regulated, we have cost of service issues, we cannot cross-subsidize between the different classes and we cannot charge certain things, which those differences need to be explained to the Councilmembers. She appreciates the emphasis on take rate. She thinks if prices are slightly above speed in the survey, she contests the belief that this is a random sample. She thinks the people who answered this survey are more likely to be interested, so they are not representative of the entire City's population.

In response to Council Liaison Cormack's question if the financial models could reflect pricing based on expenses or if pricing should be flat, Mr. Honker replied the financial model has to be a bottom-up cost model to determine minimum pricing but rates are based on what the customer is willing to pay and what the competition charges. In answer to Council Liaison Cormack's query if we should be making our decision based more on expenses driving the price, Mr. Honker responded that utilizing cost plus X percentage needs to be tested from a market perspective, which is an easy exercise to do.

Council Liaison Cormack stated she asked about this last time and it is extremely important for her to have detailed information regarding who is issuing the \$85M funding, what is the rate, how long and what it is being bonded against. She has received some emails from people who were very supportive of this project over the past couple years and are less so now.

Mr. Yuan's assumption was we would bond finance \$85M and depreciation is either 10 or 20 years. Council Liaison Cormack stated the ratings would depend on how it is structured. If it is not the City but instead is a new governance structure, we will not have the City's bond rating. Mr. Yuan commented they are still exploring if federal loans are available and is hoping for more information by September.

In response to Commissioner Smith's question regarding the Sensitivity Analysis – Take Rates chart if the 10M contribution from the electric fund was missing, Mr. Honker answered no. The \$10M was set aside in capital for the fiber backbone, so it is not in the cash. Mr. Honker confirmed Commissioner Smith's understanding that \$10M was spent on Day 1. In reply to Commissioner Smith's assumption that this represents end-of-year or end-of-fiscal-year capital available from 2023 to 2033, Mr. Honker responded it is the end-of-year fund balance.

Commissioner Smith made several comments and questions. He asked if we have established a working capital base. As a public entity, we are not driven by a profit margin. We are driven by our ability to deliver service at the best quality and at a marginable rate. He argued that some of the working capital values at the end of the fiscal year may be too high and our assumptions should be closer to breakeven. He asked what we would do with \$46M by the end of Year 10 if we could not spend it on anything else other than fiber. He is thrilled with Council Member Cormack's comment about emails from the public

and hopes the City Council would make the emails available for discussion in the final report. Council Liaison Cormack stated those are public records and have been posted on the website.

Commissioner Smith reemphasized that public discourse on this subject, given the great value we are talking about bringing to the City, is incredibly important and necessary.

In reply to Vice Chair Johnston's question if the \$45M could be used to pay down the debt faster, Mr. Honker responded there is no principal repayment penalty, so if there is a fund balance available after reserves then retiring the debt early is an option. Vice Chair Johnston thinks paying down the debt faster would help us with financing for other projects. He stated if we can provide faster speeds at lower prices, which we should be able to do since we do not have to make a profit, we have an opportunity to capture a significant share of the market.

In response to Council Liaison Cormack's question about when this service could be available to buy, Mr. Honker replied that engineering would be complete by the end of 2022, construction begins in 2023 and potentially connect the first customers by the end of calendar year 2023. That is an aggressive but doable goal if the City can move forward in a relatively rapid progression from today.

In reply to Council Liaison Cormack's query on how long it would take until everyone in the City had the opportunity to purchase this service, Mr. Honker anticipates the citywide construction project would take three to four years, conservatively closer to four. Aerial construction could go quicker if the pole prep work is done efficiently. For the underground construction, City departments need to be aligned, have a high-quality construction contractor and a high-quality construction manager overseeing the construction contractor, schedule and production.

Mr. Honker addressed Council Liaison Cormack's question about focusing on areas where speeds are worse or competitors are not offering something. Mr. Honker explained that construction of the aerial plant will be easier than underground, so you could build more for less money and connect more customers. There is granular data on where customers have the most interest. He suspects we would want to build in aerial areas first where we have the most customer signups.

Council Liaison Cormack said her questions are about whether to move forward, not the specifics of the various financial plans. We need to be sure we have asked and answered those questions before the study session. She is open to thoughts about how she can be helpful in preparing the staff report.

**ACTION:** None.

**ITEM 4: ACTION:** Staff Recommends the Utilities Advisory Commission Consider and Adopt an Attendance Policy

Vice Chair Johnston was advised Staff did not have a presentation. He assumed the recommendation is based on a request from City Council that the UAC adopt an attendance policy. Tabatha Boatwright, Utilities Administrative Assistant, confirmed that Council is recommending all boards and commissions have an attendance policy, which there currently are none other than Council's. The recommendation is based on Council's attendance policy with UAC legal team revisions.

Commissioner Metz's understanding is if a commissioner attends a meeting remotely, they have to allow other people to show up at their vacation home or wherever, so he requests further explanation.

Vice Chair Johnston stated that if someone attends remotely, that person has to post an agenda and make sure the public is invited, which although cumbersome is required by California law.

In response to Commissioner Forssell's question regarding if this only applies when California is not in a declared a State of Emergency, Vice Chair Johnston replied that is his understanding.

Vice Chair Johnston asked if City Council's remote attendance policy is the same. Council Liaison Cormack stated the Brown Act requirement is to allow the public to see us doing our work, which applies when not in a State of Emergency. The Council has limited the number of remote participants, which staff would have to discuss. Someone could have moved from the city but be on video.

Vice Chair Johnston is in favor of adopting the least cumbersome remote attendance policy that complies with the Brown Act. Commissioner Smith agrees with Vice Chair Johnston. He thinks the consequence of passing this attendance policy is most would choose not to participate, which would put in danger our ability to establish a quorum and have a meeting. He suggests extending the maximum number of meetings that UAC commissioners can miss during the course of their tenure but is very reluctant to endorse something so restrictive. He agrees with Council Liaison Cormack's concern that people could live out of state while attending Palo Alto meetings. Vice Chair Johnston commented to Commissioner Smith that this might be what the law requires whether we like it or not.

Commissioner Forssell's understanding is the only thing up for debate is how many times a year we permit remote participation. Her suggestion is four times a year but between two to seven can be further discussed. She stated that being available on the first Wednesday of every month to attend Commission meetings is not supposed to be an issue.

Vice Chair Johnston stated he participates remotely because his wife is immunocompromised, so he is not going to take unnecessary opportunities to expose himself to COVID unless it is critical. Assuming the Emergency is over, he does not have a problem with putting a number on meetings you can miss per year, four seems reasonable or even generous but he believes people will either attend in person or not attend. He asked a question to Ms. Boatwright and she received a response from the City Attorney confirming this requirement of the government code applied to the UAC because we are a legislative body as defined under the government code even though we just advise and cannot make decisions.

Ms. Boatwright addressed Vice Chair Johnston's request for confirmation that this is no more restrictive and cumbersome than what applies to City Council and that all boards and commissions will be required to follow. The drafted policy is based off the City Council's policy. All the boards and commissions throughout the City have been requested to submit a policy for Council's review. Our board meets once a month and typically we miss one during summer break, so that is 11 meetings yearly. She supported Council for 10 years and every time a councilmember was not physically present, their address was on the posted agenda and the City Clerk's Office had to verify posting. If they were on vacation, she called the hotel to verify the agenda was posted and had to ask for photo confirmation. It is cumbersome but it is for the benefit of the citizens who may happen to be in that location.

Dean Batchelor, Director of Utilities, stated that if the Commission has concerns, he could ask an attorney to attend next month's meeting to answer questions. Vice Chair Johnston stated the only reason he believes to defer it is if anybody had any suggestions about how to make it the least cumbersome but still comply with the law.

Commissioner Smith commented he would love to hear alternatives. He wondered if there was any reason why we cannot allow Zoom meetings going forward unless the Brown Act does not allow it. We all certify we are Palo Alto citizens when we took the oath of office for the Commission. It seems sensible to him that we continue Zoom particularly for those like Vice Chair Johnston and himself (his son is also immunodeficient) who are not in a state where they can come back. Ms. Boatwright stated the Brown Act did make a temporary adjustment to allow virtual attendance during COVID. She can verify with the attorney's office if that is a consideration.

Commissioner Bowie shares the sentiment that thinking through options seems to be a prudent course. He would appreciate more information on Brown Act compliance. He wondered if different technologies were being applied to this problem. There is geolocation technology to confirm where we are. Things have changed fundamentally in how we interact with one another without physically being in the same space. He thinks a complete reversion loses a degree of access and equity that we have established through this Emergency. We have learned a lot, so he is curious if there are new paths to compliance.

Commissioner Forssell commented we should table this until next month as Mr. Batchelor suggested. She thinks everybody is making very good points but their points need to be made to our State Legislators. If the attorney comes to next month's meeting, she would like insight into how much longer the State of Emergency is likely to last. Vice Chair Johnston stated it is something we have no control over because when the emergency is declared over we will have a policy in place. Commissioner Forssell thinks we should all write our State Legislators as members of a commission grappling with these issues because it does not help us to raise these points with each other.

Council Liaison Cormack feels she does not need to represent the Brown Act and what the Council has done. She thinks more education needs to be provided. The UAC is welcome to look at the recent report from our State lobbyist. Two bills are proposing to reform the Brown Act. Members of the press are strong advocates for everyone coming back in person where it could be seen what they are doing.

Vice Chair Johnston stated the Commission should defer this and have more education. It would be helpful to have someone from the City Attorney's office explain to the UAC what is required under the Brown Act and then we can discuss the number of absences. Commissioner Forssell commented we are talking about participating remotely via teleconference Zoom, which is different from a complete absence.

**ACTION:** Commissioner Forssell moved that Staff return to the UAC on September 14 with a City Attorney for a clearer discussion.

Seconded by Commissioner Bowie.

Motion carries 5-0 with Vice Chair Johnston, and Commissioners Bowie, Forssell, Metz, and Smith voting yes.

Chair Segal and Commissioner Scharff absent.

#### **COMMISSIONER COMMENTS and REPORTS from MEETINGS/EVENTS**

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None.

**FUTURE TOPICS FOR UPCOMING MEETINGS:**

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Commissioner Metz requests that the Resiliency Update in October be tied in with emergency response. He suggested a date be set to discuss distributed energy resources because he has received requests from City Council to address that topic. He requested that building the electrical infrastructure for S/CAP be added to the calendar. Vice Chair Johnston replied to Commissioner Metz that grid modernization will be scheduled for September or October and he thinks it is critical it is addressed in that timeframe. Commissioner Metz stated that because past grid modernization discussions did not address S/CAP, he thinks it is important to have it on the agenda. Dean Batchelor, Director of Utilities, stated a consultant is looking at the grid in sections. The Commission will be given an overview of the early findings at the grid modernization update next month, including a discussion on the plan.

Vice Chair Johnston stated he is now more interested to hear about the underground process and progress because we have to think about how aggressively we want to be undergrounding given the potential risk of groundwater issues. Mr. Batchelor replied he would talk to the engineers and come up with a timeline by next month's meeting.

**NEXT SCHEDULED MEETING:** September 14, 2022

Commissioner Smith moved to adjourn. Commissioner Bowie seconded the motion. The motion carried 5-0 with Vice Chair Johnston, and Commissioners Bowie, Forsell, Metz, and Smith voting yes.

Chair Segal and Scharff absent.

Meeting adjourned at 9:33 p.m.

Respectfully Submitted  
Tabatha Boatwright  
City of Palo Alto Utilities