



CITY COUNCIL SUMMARY MINUTES

Special Meeting
September 19, 2022

The City Council of the City of Palo Alto met on this date in the Council Chambers and by virtual teleconference at 5:00 P.M.

Present In Person: Burt, Cormack, Dubois, Filseth, Kou, Stone, Tanaka

Present Virtually: None

Absent:

Public Comment

Aram James commented on the Black Lives Matter lawsuit by members of the Palo Alto Police Department.

Closed Session

1. CONFERENCE WITH CITY ATTORNEY- EXISTING LITIGATION Subject: Charles Scrivner v. City of Palo Alto Santa Clara County Superior Court Case No. 18-CV-333834 (One Case, as Defendant) Authority: Government Code Section 54956.9(d)(1)
2. CONFERENCE WITH CITY ATTORNEY- EXISTING LITIGATION Subject: Eric Figueroa, et al. v. City of Palo Alto Santa Clara County Superior Court, Case No. 21 CV383740 Authority: Government Code Section 54956.9(d)(1)

MOTION: Council Member Cormack moved, seconded by Council Member Kou to go into Closed Session.

MOTION PASSED: 7-0

Council Member Tanaka arrived at 5:05 P.M.

Council went into Closed Session at 5:07 P.M.

Council returned from Closed Session at 6:31 P.M.

Mayor Burt indicated there were no announcements for the public.

SUMMARY MINUTES

Agenda Changes, Additions and Deletions

Mayor Burt reported Item 3 was pulled from consideration by Staff and was to be rescheduled.

Consent Calendar

Staff pulled Agenda Item 3 from consideration prior to the meeting.

3. Adopt a Resolution Authorizing the City Manager to Purchase a Portion of the City's Natural Gas Requirements From Certain Prequalified Natural Gas Suppliers Under Specified Terms and Conditions for Delivery During Calendar Years 2023 Through 2032, Inclusive, With a \$300 Million Maximum Aggregate Transaction Limit

Item Removed from Consideration

4. Adoption of a **Resolution 10071** to Appoint Adriane D. McCoy of Baker Tilly US, LLP as Interim City Auditor Through January 31, 2023

Public Comment: None.

MOTION: Council Member Cormack moved, seconded by Council Member DuBois to approve Agenda Item Number 3.

MOTION PASSED: 7-0

Mayor Burt reiterated agenda changes, that Item 3 had been removed and previous to the meeting, Item 5 had been removed from the agenda and rescheduled for October 17, 2022, 5 P.M.

Adrian McCoy Interim City Auditor voiced her pleasure in being chosen for Interim City Auditor. She spoke of the role of the City Auditor. She provided examples of her experience. She welcomed future discussion of visions, initiatives, and concerns for the wellbeing of the City, so the community could collaboratively be served.

Public Comment

Aram James directed comments to the City Attorney regarding denial of his request on September 12 for footage of a canine attack on October 10, 2021. He spoke of SB1421 and his opinion of his entitlement to the police videos and addressed transparency. He wanted canines banned.

Winter Dellenbach called attention to Item 11 on the September 27 Council agenda and assumed a Council meeting with the IPA had been agendized.

SUMMARY MINUTES

She asked Council Members to review the Use-of-Force Report submitted by the PAPD.

Matt Schlegel encouraged all to attend the climate rally Friday at 5 P.M. in King Plaza and expressed his opinion of the need to immediately stop using fossil fuels. He encouraged passing of the S/CAP Goals and Key Metrics framework and moving forward with the heat pump water heater program.

City Manager Comments

City Manager Ed Shikada participated remotely. The City Clerk presented slides. City Manager Shikada provided updates of pandemic-related news and weather-related events staff responded to and preparedness of the community for future events. He outlined upcoming events at the Art Center and the One Water Plan workshop at City Hall. The Council meeting Monday of next week had been moved to Tuesday and would focus on sustainability and climate action plan goals and key actions and would be the first of a two-part discussion by the City Council. S/CAP update Part 2 would take place Monday, October 3, as well as Council's discussion of positions they would like to take on items on the November 2022 ballot. The October 10 City Council meeting would be cancelled. October 17 would be the prescreening in reference to the Creekside Inn proposed development that was deferred from today's agenda. Upcoming items were to be the Green Building, NVCAP revised preferred alternative, and Parklets. A date was to be scheduled for a discussion between the City Council and the IPA.

Study Session

5. 3400 El CAMINO REAL [22PLN-00227]: Request for Prescreening of the Applicant's Proposal to Rezone the Subject Site From Various Zoning Districts to Planned Housing Zone (PHZ) to Allow Construction of 382 Residential Rental Units (44 studios, 243 one-bedroom, 86 two-bedroom and 9 three-bedroom units) in two Buildings. Environmental Assessment: Not a Project. Zoning District: CS, CS(H), RM-20 (Service Commercial, Hotel, Multi-Family Residential). (7:15 – 8:15 PM)
ACTION: Item Continued to October 17th, 2022.

6. Joint Study Session With City Council and Utilities Advisory Commission (UAC) Regarding Fiber-to-the-Premise Efforts

Director of Utilities Dean Batchelor stated the background, survey results, modeling, risk mitigation, the financial options, and organizational structure would be addressed. The marketing analysis and estimated costs, key values, and some of the risks involved in moving forward with owning a

SUMMARY MINUTES

Fiber-to-the-Premise (FTTP) network, and the three different models of organizational structure and costs of the models were items to be considered.

UAC Subcommittee Member Phil Metz presented slides. The UAC Subcommittee on Fiber recommended the CPAU proceed forward evaluating the plans to offer fiber-based broadband services but had specific recommendations addressing inherent risks in the City developing an internet service provider. He touched on key findings highlighting the competitiveness of this business. The benefits were to be addressed by others, but he welcomed questions. He addressed four risks. Recommendations, risks, and concerns would be addressed during open discussion.

Magellan Advisors President John Honker presented slides and gave an update on the project and shared some findings. He rehashed what had previously been approved by the Council. He spoke of their survey results, the results of a deposit program, estimated take rates, the value proposition of City-owned fiber, examples of different business models to consider, and business risks and mitigation of the business plan.

UAC Chair Lauren Segal wanted to ensure Council was aware of a cover letter and memo provided by the Subcommittee that they had not had an opportunity to vet and was hopeful the issues would be addressed tonight.

Mayor Burt stated tonight was a study session and actions would be at a future meeting.

Council Member Filseth asked how much of the City was not covered by Comcast. A stat showed Comcast market share in Palo Alto was 70% and AT&T 25% and inquired what that was for. There had been conversations that Comcast and AT&T would not be able to easily serve parts of the City with fiber. He inquired how much of the City was covered by them and if we would be able to serve that part of the City with fiber. He questioned if the analysis asked people if they would subscribe to a gigabit at \$89.99 or if they would switch from Comcast to Palo Alto at a gigabit at \$89.99. He asked what Atherton fiber's take rate was in and in Menlo Park.

President Honker noted the vast majority of the City was covered by Comcast and most were cable-based services to homes and more fiber to businesses. Broadband Comcast covered the whole City. The Comcast and AT&T market share was for fiber or cable internet services. The survey data showed 25% to 30% of the City was covered by AT&T offering fiber services to homes and most of those areas were aerial, a less expensive way to provide fiber than under streets and most providers would go where it was

SUMMARY MINUTES

cheapest to build. Palo Alto could build to about 70% of the community that did not have fiber. The City could build 100%, but what had not been built by AT&T was about 30%. The study focused on the switching aspect of service and what would be the preferred provider if households did not have service. He did not know Atherton fiber's take rate in Atherton and Menlo Park.

Council Member DuBois inquired how Palo Alto's business plan, financing, and engineering design compared to other cities. He wanted to understand the construction financial assumptions in terms of trenching and what Palo Alto Utilities would allow. He asked if the business case included the cost to replace power poles, how many broadband providers had unionized labor, and if there were opportunities for smart water and smart gas and if we would expand beyond electricity at some point.

President Honker stated demand was working in Palo Alto's favor and cost was working against Palo Alto. The financial plan was sustainable but costs were much higher than what they had seen in other communities. The overall construction assumption was the fiber network would follow the electric network. They were conservative on the construction cost and did not utilize microtrenching but utilized 90% directional drilling on the underground. They estimated make-ready costs, prepping existing poles for new fiber or replacing poles if the poles failed new fiber installation, and under 1,000 poles would need to be replaced, and the cost would be shared across users. Broadband providers were typically unionized.

Director Batchelor commented part of the cost would be expanding beyond electricity. There would be cost from an AMI portion because they were AMI in water and gas, so they paid their share now.

Council Member Stone asked what extent was the disparity of internet connection amongst various demographics in the City and the aesthetics of aerial construction.

President Honker stated Palo Alto's disparity of internet connection was smaller than most communities. As for aesthetics, they would be adding a relatively small cable where there were already other attachers to existing utility poles, and a huge amount of visual disturbance would not be added.

Council Member Stone would like images of cable additions that had been done in other communities. He addressed a significant price increase for fiber backbone and FTTP in the last year and asked if it was anticipated costs would continue to rise at similar rates or if we might see a drop. He inquired why there was concern of difficulty accessing the FTTP network for multidwelling units; if the take rate at 27% to 30% for revenues exceeding

SUMMARY MINUTES

expenses would include expenses of the start-up fee of over \$100 million or if it covered just ongoing program costs; and if the City had exploratory conversations with neighboring cities or the county see if there was an interest in a JPA.

President Honker expressed they were starting to see a bit of flattening on materials and some of the labor. There may be small price increases but nothing compared to 2021 to 2022. Prices were unlikely to drop in the near term. Regarding MDUs, he spoke of right of entry agreements with property owners and explained it was less expensive to serve MDUs if they were 20 to 50 units versus single-family homes. MDUs require more frontend work but provide better revenue streams and typically lower overall cost per subscriber. He explained the take rate being all inclusive. He did not believe there had been conversations with neighboring cities or the county regarding a JPA.

Council Member Cormack asked if regarding the take rate they extrapolated straight from the people who responded or if the number was adjusted in any way, how the choice of the business model increased or decreased the risks identified, if we had to allow other providers to access the fiber, and how worried we should be 5G would supplant this.

President Honker stated the take rate numbers were adjusted and explained why the business models reduced identified risks. Regarding other providers being allowed access to the fiber, there were requirements to share certain resources, and he provided examples. He provided examples of 5G being a threat and an opportunity.

UAC Chair Segal asked if they had looked at starting with underground versus overhead lines for various reasons and if one of the options was mostly outsourced if they thought about entering into joint venture with one of the current providers and relying on their expertise on the service side. She had spoken with community members who did not participate in the survey, and a question was whether there were opportunity costs if the utility focused on fiber, if there was risk of getting a bond for electrical updates or another large City project. She questioned if underground was laid could it be combined with other projects.

President Honker remarked it was a worthwhile strategy to try to raise take rates in underground areas, and it made perfect sense if we could get to higher take rates there and had captive markets. It could be started in the areas where it made sense and was an analysis that could happen. He gave examples of JVs in other communities with more of a public/private partnership option being utilized to provide some of those services.

SUMMARY MINUTES

Director Batchelor stated they would cover the utility focuses on fiber and bonds in the second half of their study. He commented regarding underground versus overhead lines that the underground portion was 60% to 70% of the cost, so starting with the underground portion made sense for gaining, but 30% to 35% would be cost for aerial and the rest the underground. Part of the strategy they had discussed was looking at the aerial portion first. In reference to combining laying underground combined with other projects, the easiest was to look at was underground electric at the same time but explained why that would be difficult. They could look at combining some of the fiber in the water/gas/wastewater side.

Vice Mayor Kou asked what was the staffing model of similarly sized cities that had been successful. She was concerned about phasing the build in and the cost going up in future years, whereas doing everything at one time would keep the cost at what had been quoted.

President Honker replied staffing depends on the city. Most municipal utilities staff themselves with their own employees for core services. He provided examples of what may be outsourced. There would be more cost in phasing and less impact in inflation over a shorter term build.

UAC Commissioner Lisa Forssell inquired of the take rates in other cities that already had incumbents offering fiber and/or other forms of broadband service and insight as to what drove the uptake.

President Honker commented it was typically 35% and 50% over a 5-year period for most cities similar to Palo Alto's offering. He clarified what drove the uptake being the right value proposition and better service.

Commissioner Forssell asked if we could offer white-glove service even if outsourced and if customer service involved in-home wi-fi access points; if the relationship between the City of Palo Alto and an outsourced IP would be similar to the relationship between AT&T and Sonic; and if undergrounding would involve trenching on the customer's property and who would bear that cost.

President Honker answered that all providers had to try to offer service and noted where focus should be placed. In-home wi-fi points were set up and was a full-home experience and the utility managing all the services in the home. He explained outsourcing would be thought of more as a strategic vendor. Undergrounding would typically involve trenching on the customer's property, and the City would bear the cost.

Mayor Burt inquired if take rate assumption ranges were broken down as to how many competitors there would be; asked the range of cost savings from

SUMMARY MINUTES

microtrenching and restoration costs of conventional versus microtrenching and if deposit results were an indicator of take rates.

President Honker provided examples of take rate assumption ranges depending on the community. A study would need to be done on Palo Alto's roadways regarding microtrenching cost savings, and restoration costs may be higher or lower depending on the dynamics of the roadway beds that would need restoration after the microtrenching. Overall long-term O&M of microtrenching needed to be looked at. Deposit results were an indicator of take rates.

Magellan Advisors Project Manager Broadband Implementation Chris Street explained the cost of microtrenching depended on conditions of the ground and savings could be as much as 50%.

Mayor Burt asked if there was existing undergrounding for overlap that would provide lower costs and higher take rates in the beginning and the basis of offering superior reliability than existing providers.

Director Batchelor indicated there were areas for advantages with undergrounding. There was opportunity for maximizing reliability in building a network from scratch.

Council Member Tanaka inquired as to the percentage of Palo Alto households compared to neighboring communities getting a gigabit or higher; the percentage of households with a gigabit and higher speed compared to cities that had done open access or municipal; was Palo Alto behind in terms of availability of gigabit ethernet; and how does a city provider effect the percentage of people receiving such service.

President Batchelor had not looked specifically at the speeds of other communities. Most other communities that had built out already had another provider providing gigabit services. Palo Alto was not behind other communities in terms of gigabit ethernet. The net effect of the City providing services would be lower prices for everyone.

Council Member Tanka questioned if it was really lower prices because of the money cities are putting into programs, staff time, etc., and commented the total cost needed to be looked at, not just what the consumers pay. He was worried about the City being too late in doing this and if the City could move fast enough and differentiate enough in the market to have a big effect and if we should partner and outsource and provide incentives for existing providers to create more competition versus the City trying to compete.

SUMMARY MINUTES

President Batchelor explained it was a triple net, that revenues from the consumer were paying all the cost for the service to finance, operate, and manage. All of a city's cost needed to go into the price of the service. Ninety-five percent of existing providers were offering promotional prices.

Public Comment:

Jeff Hoel had sent a list of questions and was happy the questions the Council asked considered whether to go forward with this.

Aram James opined this was a speculative proposition. He was concerned about outsourcing and wages. He questioned if the City should be putting money into a service that was already provided when other services are needed.

Hamilton Hitchings commented on those already providing service to Palo Alto. He questioned Magellan's estimates of take rates, conversion rates, financial estimates, and existing competitors' customers. He thought it was important to understand what percentage of homes would be offered fiber by competitors.

Herb Borock had sent a letter with questions and had more questions after reading the report in more detail. He voiced his preferences for services, addressed labor negotiations, and requested clearer spreadsheets regarding capital forecasting versus the operating budget.

Bob Smith spoke of the risks of broadband and the priority of the City's electrical grid.

Andy Poggio referenced concerns of fiber technology obsolesce. He felt underground fiber may not be an opportunity. He mentioned future electrification needs.

Commissioner Loren Smith discussed Slide 8 and availability, declared dark fiber was necessary, mentioned bundling and the survey results, and addressed timing. Rollout of fiber was a revenue bond and was not related to fixing or upgrading the electrical utility grid other than the physical work. He remarked on payment and improvement of the fiber fund. He referenced COVID and reliable fiber being necessary.

[The Council took a 15-minute break]

Mayor Burt noted the next segment would be a Council session covering financial sensitivity analysis, financing options, organizational structures, and additional discussion.

SUMMARY MINUTES

President Honker explained Magellan's work. He provided a presentation focused on financial aspects of costs, funding, the financial plan of different business models, and sensitivity analysis of key variables and financial performance at varied take rates. As final financial plans were worked through over the coming weeks, there would be more financial and sensitivity analyses provided. Four financing options were furnished.

Mayor Burt asked that questions be focused on the financial aspects.

Council Member Cormack inquired regarding Slide 22 as to the value of the funds, how the funds should be thought of, and what other municipalities did with excess funds. The next time this was looked at, she wanted an understanding of the expected uses for the funds and why. She voiced concerns about competition and asked how incumbents would compete if this business model was implemented and the financial risks that might occur.

President Honker replied Slide 22 was a net of replacement, typically called a free cash flow schedule. Excess funds were typically reinvested into the network for expansion, some general fund transfers if allowed, and repayment of loans to the electric utility for other municipal utilities. Regarding incumbents competing, typically those would be classified as prior to construction or deployment and post. Competition would continue to try to lock customers into long-term contracts, lower rates, etc. He gave examples of competition trying to slow projects. They had seen business risks, leadership challenges, and existing delays related to city policies in terms of permitting.

Council Member Stone asked if the City Attorney's office foresaw problems transferring excess funds to the general fund. He inquired of Magellan if the take rate analysis considered the growth the City was anticipating in housing over the next 10 years and if there had been a discrepancy in polling of customer satisfaction within MHUs compared to single-family homes.

City Attorney Molly Stump indicated the law was different than the gas and electric transfer and was evolving. They would look at it and work closely with staff over time.

President Honker replied the MSA take rate had been utilized for the local MSA, and the growth in housing was factored in, effectively factoring in the take rate. There was no specific trend in multifamily versus single family polling of customer satisfaction in Palo Alto and had varied case by case regarding other cities.

SUMMARY MINUTES

Mayor Burt inquired as to how much cash has gone into the current fiber fund per year in the last three years or so; regarding the bond, if revenues fall short, would it be paid by the general fund or utility fund; if profits would stay in the electric fund if the electric fund backs the bond and if there was profit who would get it; if dollars in the fiber fund would to be used for fiber purposes only; if the cost of service would drastically drop if there were three versus one or two providers; and if AT&T accelerated expanding service how it would affect Palo Alto's take rate and break-even point and the effects if they did not accelerate and continued at their current rate of expanding service.

Director Batchelor stated about \$2 to \$2.5 million had gone into the fiber fund per year. Regarding revenues falling short, if the electric fund was used to back the project, he understood funds would come out of the electric fund but if used from a City perspective, it would come out of the general fund.

Administrative Services Director Kiely Nose clarified if the electric fund benefitted from the investment from the funds issued from the bond, pieces of any liability could be allocated to the electric fund, but unless electric rate payors were benefitting from the investment, the general fund would be the end stop if there was a default.

City Attorney Stump needed to research to answer some of the questions posed. The area of the law was changing through judicial decisions and potentially new legislation, so the amount of flexibility the City currently had versus the time period for this activity may change. They were continuing to look at whether dollars in the fiber fund were to be used for fiber purposes only due to a Court of Appeal decision raising questions.

President Honker commented there had not been a drastic price drop in other communities going from two to three providers. If AT&T accelerated their deployment, it would make it more difficult for Palo Alto to pursue that take rate. As for as AT&T's current rate of expanding service, he guessed they had been increasing their densification of fiber across Palo Alto for five to seven years and was the typical timeline for most big providers increasing their fiber infrastructure.

Council Member Dubois commented on why fiber to the home. There was positive feedback from the survey that should be taken into consideration. The financing side was compelling. Focus should be on de-risking the business plan and moving as fast as possible. In terms of business structure, thought should be given to having this nascent business and letting it flourish, and loading a fiber utility with government processes and overhead should be avoided. He leaned toward the outsourced model and hiring key

SUMMARY MINUTES

managers internally. As for phasing, we should move quickly and get as many subscribers as possible. Hearing that 70% of the cost were in underground districts gave him pause as to where to start and where to go, and he was interested in getting that iteration of the business model. With respect to competition, a marketing and business plan needed to be executed. He spoke of innovation being an opportunity. A slow rollout was the highest risk.

Council member Kou asked if the fiber enterprise fund was restricted to the dark fiber.

President Honker stated the fiber enterprise fund was not restricted to the dark fiber and could be used for FTTP.

Council Member Filseth voiced that architectural advantages starting from scratch was intriguing. The cash flow looked great but was a high fixed cost business. The survey data raised concerns regarding the take rate. He spoke of the complications of the value proposition, competition impacting financials, and the go-to-market plan being important.

Mayor Burt asked what was the buildout time frame and if the \$2 to \$2.5 million from the dark fiber fund was built into the cash flow; regarding the backbone expansion, aside from the FTTP, would we need to soon do electric utility AMI and if it was a five-year buildout what would be done to meet that need in the next year or two; in the next five years, while rolling this out, how well would the need be met to accommodate a full rollout of AMI before a rollout of this system; would building out the backbone create other opportunities to expand business and earnings from the dark fiber network; if there was a sense of how many more businesses and customers would be attracted as the backbone rollout was done; and if there would be a way to capture the reliability premium.

President Honker responded that the buildout time frame would be about five years. The net cash flows from the existing fiber business were built into the numbers. To accommodate a full rollout of AMI before a rollout of this system, the fiber for AMI could be prioritized with the FTTP rollout, so it would happen coincident with those areas. There would be opportunity of expanding business and earnings from the dark fiber network as the backbone was built out. They could get numbers on how many more businesses would have access as the backbone rollout was done. The new fiber backbone would go through areas that did not have fiber, and those business would all be targets for new service. They could put that on the agenda to quantify. They could capture that the premium for the reliability

SUMMARY MINUTES

would not create a cost in service for the customer and should drive take rates.

Director Batchelor noted they used the existing fiber backbone for some water and gas meters.

Council Member Cormack expressed she was still waiting for the answer to the question of the problem we were trying to solve. She felt the value proposition was not written in an easy-to-understand way that would make people comfortable making a multimillion dollar decision. The fundamental questions were should Palo Alto have fiber everywhere in 5, 10, or 15 years, and should it be operated by the government. If the question of how many people will have AT&T in three years cannot be answered, maybe the responsibility should be taken on ourselves. If we knew an existing competitor was going to provide reliable fiber, she was not sure the risk should be taken. She questioned if doing this would in any way displace the crucial work of getting gas out of the City. She asked in relation to an exit strategy could infrastructure be sold to competitors.

Director Batchelor expressed this would not displace the work of getting gas out of the City. Other than from a new design standpoint if a joint trench would be done with a gas or water project, there would be no shared resources between fiber and gas.

President Honker explained possibilities of an exit strategy.

Council Member Stone believed a compelling case had been made for the take rate. He was concerned the City would be taking on responsibilities and strategies the City was not experienced in. He did not know how people would react to the switch, and it was a big stake. In reference to Staff's report of Palo Alto possibly becoming the third largest ISP in the market, he believed less competition would lead to less innovation and fewer incentives. He wondered what was government's role and should we stay out of the market, thereby having a better situation providing private actors competing for market share. He viewed the risk of connection to tenants in multi-using housing a flaw and wanted to see the Staff report further developed regarding risk mitigators. It was not sufficient to say those growing households may not be reached, and he wanted to see a plan building that in. He provided reasons for his preference of in-house versus outsourced service but also addressed challenges. This could help address equity issues.

Council Member Tanaka remarked this could not be compared to our power, water, etc., because those were monopolies. Presenting this service to be used as a patriotic duty could not be relied on for business. He discussed Palo Alto having better rates than PG&E but the capital that went in needed

SUMMARY MINUTES

to be considered and not just the rates people would be paying. The service proposed was not compelling, and may be less compelling in future years and indicated more than a gigabit would be needed. Reliability would be a hard sell. We should encourage start-ups to provide service and provide incentives for competitors. Being an ISP was customer service, and the City did not excel in customer service. He addressed power outages and did not think Palo Alto had the brand of being reliable. We should come up with a compelling and less expensive service offering or encourage massive competition, which would yield better results.

Council Member Kou requested that when Magellan returned to include some modeling of municipalities' take rates, their implementation, and challenges they had.

President Honker indicated he should be able to do that.

Council Member DuBois asked if over five years they recommended offering a 10 gigabit service and what would be the ability to offer compelling services. He wanted the ability over time to upgrade.

President Honker replied 2, 5 and/or 10 gigabit services could be offered from day one.

Council Member Filseth questioned if we could make money at 2.5 gigs at \$40 a month and if fixed cost per resident would be significantly lower than competitors because we would be starting from scratch. Aggressive pricing may be needed to gain customers. A clear understanding was needed of who the customers would be, why would they buy it, the customer acquisition cost, what would they pay, and why pick us instead of a competitor, and how far could we lower prices and not go broke.

President Honker stated there would be limits and cost of increasing speeds would be marginal. The goal would be to provide as much speed as possible with the limits of the network at the lowest cost possible. To some degree, fixed cost per resident could be lower. He explained leaving cushion for potential price reductions. Pricing should be set competitively to achieve take rates slightly lower than competition but not going too low. That cash may be needed for future business issues. He agreed that aggressive pricing may be needed to gain customers. Minimal fixed cost per customer to pay back the debt service and cover costs was always needed.

Council Member Tanaka was concerned we would be chasing something that would be hard to beat. Internet service also included branding. We needed to figure out our competitive advantage, which he suggested could be

SUMMARY MINUTES

latency. If we could not get a clear win, we should not do this because there would be too much risk.

Mayor Burt summarized additional information was needed regarding a better sense of the construction costs for microtrenching, which seemed significant; the potential of combining the fiber laying with other utilities we would be putting down rather than vice versa; an estimation of additional revenue opportunities from the backbone expansion from the dark fiber; a better understanding of the general fund transfers; and projections of the impact of AT&T's expansion at their current rate based on five years from now and how competitive they would be to us at that time versus if we rolled out today on the current take-up and how it would affect us if they chose to accelerate their rollout.

Council Member Dubois asked if a lit fiber services to businesses was in the business plan.

President Honker voiced that lit fiber transport services and anything the business community would need in terms of telecommunications was in the business plan.

Mayor Burt inquired what the next steps would be in returning to Council with a significant portion of their questions, whether it would be an action item or a study session leading to an action item.

Director Batchelor commented they plan to compile a new report to include all the Council's questions and concerns and bring it back as an action item on November 26.

ACTON: No action taken, direction provided

Council Member Questions, Comments and Announcements

Council Member Cormack furnished an update on water supply from the BAWSCA meeting last week. She provided slides in reference to the Fire Department wildfire training and the Community Services Department Art Center.

Adjournment: The meeting was adjourned at 10:30 P.M.