



CITY OF  
**PALO  
ALTO**

## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Utilities**

**Meeting Date: May 1, 2023**

Staff Report: 2303-1215

### **TITLE**

Approval of Amendment Number 4 to Contract Number C20176363 with Magellan for; 1) Program Management, Network Operations, and Technical Support for Fiber-to-the-Premises to; 2) Increase Compensation by \$2,770,960 for a New Total Not to Exceed Amount of \$5,685,291; 3) Extend the Contract Term by 31 months through December 31, 2025; and 4) Approval of a Budget Amendment in the Fiber Optics Fund

### **RECOMMENDATION**

Staff recommends that Council:

1. Approve and authorize the City Manager or their designee to execute Amendment No. 4 to Contract C20176363 (Attachment A) with Magellan Advisors, LLC (Magellan), for the continued provision of consulting services for a multi-phased fiber optic network expansion plan, which includes program management of construction of the fiber backbone and phase 1 of Fiber-to-the-Premises (FTTP), network operations and technical support, and electrical make ready engineering in an amount not to exceed \$2,473,600;
2. Authorize the City Manager or their designee to negotiate and execute one or more task orders for additional services under the contract with Magellan for related additional, but unforeseen work which may develop during the project, the total of which shall not exceed \$247,360, or 10% for a total not to exceed amount of \$2,770,960 for all contract phases, including \$50,000 in reimbursable travel expenses.
3. Amend the Fiscal Year 2023 Budget Appropriation for the Fiber Optic System Fund (requires 2/3 approval) by:
  - a. Increasing the budget appropriation for Fiber-to-the-Premises CIP (FO-24000) by \$2,770,960; and
  - b. Decreasing the Fiber Optic Fund Rate Reserve Balance by \$2,770,960.

## EXECUTIVE SUMMARY

On December 19, 2022, City Council considered three courses of action for a City-owned FTTP service and directed staff to proceed with the phased build approach. Under this approach, FTTP would be built out in selected areas of the city using \$34 million from the Fiber Fund and \$13 million from the Electric Fund, and expanded gradually to eliminate the need for debt financing([Staff Report ID # 14800](#))<sup>1</sup>. Building the fiber backbone and last mile infrastructure to provide FTTP broadband internet to the community will be a significant undertaking for the City. While it is economically prudent to utilize available resources, the City must also strategically invest in external resources for a strong roll-out.

Although the phased build approach to FTTP will decrease the City's financial risk and increase Council's control over the velocity of the buildout, the City does not have the in-house staffing to fully deploy the fiber backbone project and first phase of FTTP. These projects will require significant staffing and specialized skill sets over the next several years. Fiber backbone construction includes an estimated 28 miles of underground construction and 10 miles of aerial construction. Phase 1 for FTTP includes an estimated 18 miles of underground construction and 63 miles of aerial construction. In addition to construction, the City will be starting up a new internet service provider (ISP) business. Staff is recommending Magellan's contract be amended to include professional services for program management, organizational change management, network operations and technical support, and utility pole electric make-ready engineering.

## BACKGROUND

On June 1, 2020, Council approved a contract in the amount of \$212,511 with Magellan to develop a fiber network design to support Advanced Metering Infrastructure (AMI), Supervisory Control and Data Acquisition (SCADA), and wireless communication for City field staff and other City services ([Council Report #11368](#))<sup>2</sup>.

On October 5, 2020, Council approved contract amendment No. 1 in the additional amount of \$285,065 for a total not to exceed amount of \$497,576 with Magellan, for combining the fiber backbone and fiber-to-the-premises of the fiber network expansion plan ([Council Report #11580](#))<sup>3</sup>.

On June 21, 2021, Council approved contract amendment No. 2 in the amount of \$2,416,755 for a total not to exceed amount of \$2,914,331 with Magellan for detailed engineering design,

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<sup>1</sup> City Council Staff Report 14800 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20221219/20221219pccsm-amendedtime.pdf>

<sup>2</sup> Council Staff Report 11368 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020/id-11368-mini-packet.pdf?t=64318.92>

<sup>3</sup> Council Staff Report 11580 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020-2/id-11580.pdf?t=59010.48>

community engagement, and FTTP business plan and pro forma financial statements ([Council Report #12305](#))<sup>4</sup>.

On December 19, 2022, Council approved a phased construction approach of FTTP without debt financing. Under the phased approach, the City will evaluate the feasibility of integrating FTTP expansion into future capital improvement projects such as electric grid modernization, electrification and undergrounding. Staff will report key financial information (e.g., number of subscribers, revenues and expenses) on a regular basis to inform Council of the new FTTP business to evaluate whether the City should continue the phased approach; seek revenue bond financing to accelerate the buildout or pause FTTP expansion ([Council Report #14800](#))<sup>5</sup>.

## **ANALYSIS**

The City retained Magellan in 2020, through a competitive Request for Proposals (RFP) process. Since the original contract was awarded, including three previous contract amendments, Magellan has provided the following professional services:

1. Business case and organizational structure for FTTP
2. Engineering design of the fiber backbone and citywide FTTP
3. Citywide utility pole survey to determine conditions of pole and estimate number of pole replacements
4. Financial models: Take rate sensitivity analysis, financing options, pro forma financial statements, and debt service
5. Community outreach, including Internet survey and findings, deposit program

Staff recommends amending the contract with Magellan to provide professional consulting and technical services for construction of the fiber backbone build, construction of phase 1 of FTTP, and provisioning of City-owned ISP business. It should be noted the scope of services provided by Magellan and the associated compensation may decrease when the City hires internal Full Time Equivalent (FTE) positions (see Resource Impact section of this report) and/or outsources specific activities. The following is a summary of the fourteen (14) tasks Magellan proposes to perform in the attached Exhibit “A” Scope of Services in the new amendment:

### Task 1 – Program Management

Assign a Project Manager to oversee the overall project plan and coordinate day-to-day activities fiber of phase 1 FTTP deployment.,

### Task2 - Environmental Analysis

Work with City staff to determine environmental impacts to the project, including a preliminary CEQA review.

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<sup>4</sup> Council Staff Report 12305 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2021/id-12305.pdf>

<sup>5</sup> Council Staff Report 14800 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20221219/20221219pccsm-amendedtime.pdf>

### Task 3 – Bid Ready Construction Drawings

Prepare bid ready construction drawings and bid packages for the fiber backbone and FTTP.

### Task 4 - Construction Bid Evaluation

Assist City staff with bid evaluations for the fiber backbone and FTTP.

### Task 5 - Permitting

Prepare and manage permit submissions required by the agencies impacted by phase 1 including the City of Palo Alto, Santa Clara County, Caltrans and other agencies.

### Task 6 – Engineering Design Updates

Through permitting process and construction, incorporate field changes into the aerial and underground fiber network design.

### Task 7 – Final As-Built Documentation

Provide final construction documentation for phase 1 including redlines for equipment, splice and termination records from the City's construction manager.

### Task 8 – Equipment Specifications and Procurement

Develop specifications for network equipment for the competitive bid process.

### Task 9 – Testing and Certification Oversight

Manage, test and integrate with outside plant and electronics to ensure that the network meets the speed, reliability and resiliency goals laid out in the plans and specifications.

### Task 10 – Operational Processes and Systems

Complete integration of cross-functional network elements including inventory staging, install scheduling, pre-install site survey, actual drop and install, services provisioning, testing, client acceptance and billing.

### Task 11 – Organizational Support

Develop a broadband organization, including new hire processes, insource/outsource decisions, management of operational standards, procurement evaluation, and financial and regulatory reporting.

### Task 12 – Fiber Drop Installations and Activation Management

Manage and schedule fiber drop and customer activations, including home equipment installations and related components to activate customers.

### Task 13 – Network Operations and Technical Support

Assist with major outages, develop and conduct maintenance window activities, network planning and upstream provider support. Provide 24/7/365 monitoring and issue management services.

### Task 14 – Electrical Make-Ready Engineering

Provide engineering pole make-ready analysis includes field work, pole modeling, and creation of construction prints. Some of the make-ready engineering and pole replacements costs may be assigned directly to the Electric utility depending on the condition of the pole.

### **TIMELINE AND COMPENSATION**

Schedule of Performance (Exhibit “B”) in Magellan’s Scope of Services estimates that contingent on Council approval of contract amendment No. 4, work could start in June of 2023 and end in December of 2025, for both the backbone build and phase 1 of FTTP.

Compensation (Exhibit “C”) in Magellan’s Scope of Services provides the following amendment provision and compensation schedule for each above-noted task:

*CONSULTANT shall perform the tasks and categories of work as outlined and budgeted below. The CITY’s Project Manager may approve in writing the transfer of budget amounts between any of the tasks or categories listed below provided the total compensation for Basic Services, including reimbursable expenses, does not exceed \$2,523,600 and the total compensation for Additional Services does not exceed \$247,360.*

The following is a table summarizing Magellan’s proposed Timeline and Compensation:

<b>Task</b>	<b>Start</b>	<b>End</b>	<b>Total Budget</b>
Task 1: Program Management	6/1/2023	12/31/2025	\$ 628,000
Task 2: Environmental Analysis	6/1/2023	9/30/2025	\$ 130,000
Task 3: Bid Ready Construction Drawings and Bid Package for the Fiber Backbone and FTTP	6/1/2023	7/31/2023	\$ 20,300
Task 4: Assist City Staff with Construction Bid Evaluation for Fiber Backbone and FTTP	8/1/2023	9/30/2023	\$ 30,300
Task 5: Permitting	6/1/2023	6/1/2024	\$ 125,000
Task 6: Engineering Design Updates	6/1/2023	3/31/2025	\$ 110,000
Task 7: Final As-Built Documentation	10/1/2024	3/31/2025	\$ 75,000
Task 8: Equipment Specifications and Procurement	6/1/2023	9/15/2023	\$ 60,000
Task 9: Testing and Certification Oversight	1/1/2024	8/1/2025	\$ 150,000

Task 10: Operational Processes and Systems	6/1/2023	3/31/2025	\$ 110,000
Task 11: Organizational Support	6/1/2023	10/1/2023	\$ 165,000
Task 12: Fiber Drop Installations & Customer Activation Management	10/1/2024	3/31/2025	\$ 150,000
Task 13: Network Operations & Tech Support	10/1/2024	3/31/2025	\$ 495,000
Task 14: Electrical Make Ready Engineering (300 poles @ \$750.00 per pole)	6/1/2023	3/31/2025	\$ 225,000
Subtotal			\$ 2,473,600
Contingency (10% of Subtotal Budget)			\$ 247,360
Reimbursable Travel Expenses			\$ 50,000
Total			\$ 2,770,960

## STAFFING

As the City solidifies staffing plans in parallel with contracted services, the Director of Information Technology will take on the responsibilities of an Assistant Director for Palo Alto Fiber on an interim basis. As part of the development of the FY 2024 budget, staff will be bringing forward a recommendation to add four (4) new FTE positions for the dark fiber expansion and implementation of FTTP. These positions are Assistant Director, Outside Plant Manager, Marketing and Sales Manager and Network Architect/Senior Engineer. These positions will be recruited and filled as needed during the various stages of the project.

## FISCAL/RESOURCE IMPACT

Approval of this contract amendment with Magellan requires a FY 2023 budget amendment in the Fiber Fund to increase expenses in the Fiber-to-the-Premise project (FO-24000) by \$2,770,960 offset with a commensurate decrease of \$2,770,960 to Fiber Fund reserves. Funding for this amendment was initially included in the development of the FY 2024 Capital budget for the 2024-28 CIP. If Council approves this FY 2023 budget amendment, the FY 2024 budget will be updated accordingly.

## STAKEHOLDER ENGAGEMENT

The table below provides a snapshot of the public information efforts and community engagement seen between October 2021 to August 3, 2022:

Communications Tool	Metrics
<a href="#">Palo Alto Fiber Hub</a>	- Visits: 12,221 - Neighborhood Pins: 2743

<a href="#">Palo Alto FIBERLink Digital Newsletter</a>	- Subscribers: 949 - Average Open Rate: 75.2%
<a href="#">Palo Alto Fiber Blog Series</a>	- Views: 2,448
Information Session and recording views	- 80 attendees, 105 views
Fiber videos	- 535 Views
Market Survey	- 3,561 surveys completed - 738 deposits received

#### **ENVIRONMENTAL REVIEW**

Council action on this item is exempt from CEQA review because it can be seen with certainty that there is no possibility that the additional scope of work covered by this contract amendment may have a significant effect on the environment. CEQA Guidelines section 15061(b)(3).

#### **ATTACHMENTS:**

Attachment A: C20176262 Amendment 4

#### **APPROVED BY:**

Dean Batchelor, Director Utilities

Dave Yuan, Strategic Business Manager