

Thursday, June 28th, 2007 (1:30pm – 3:45pm)
Palo Alto meeting notes
Prepared by Tim Scott

Location: 7th Floor Conf Room, Palo Alto City Hall

Attendees:

Joe Saccio (Administrative Service, Palo Alto)
Melissa Cavallo (Administrative Service, Palo Alto)
Grant Kolling (Legal Department, Palo Alto)
Bob Harrington (Advisor)
Ron Ivie (180 Connect)
Tim Scott (PacketFront)
Jeff Mazer (NorthStar Capital).

Areas discussed:

First discussions were around the four questions provided by Joe Saccio in his June 26th email (available for attachment).

Question 1) – Ron Ivie agreed to provide a one-page background document on Thomas Jones (180 Connect).

Question 2) - Jeff Mazer provided his detailed resume to Staff for review.

Question 3) – Ron Ivie to clarify U.S. locations where 180 Connect are involved in broadband operations, provide customer names, contact numbers, etc. A distinction will be made between wireless and ultra-high-speed broadband.

Question 4) – EEOC complaint – group discussed this issue at length, some clarifications were made around the fact that it is an EEOC complaint. Ron Ivie to provide some written information on the status of the EOC complaint as soon as possible and certainly before Council meeting July 9th.

Ron Ivie also distributed copies of 180 Connect's written response to Council provided in March after details of the EEOC complaint were first raised. There was some confusion if Staff had seen this written response

before; Grant Kolling had not, and was provided a copy for possible comment. Also, an offer was made to Grant to have a direct conversation with 180 Connect legal representative prior to July 9, if Grant deems it advisable on this issue.

The next conversations were around the required business plan. The Consortium members confirmed that they have each dropped any request for \$30,000 to cover costs of producing the business plan.

It was agreed that the term “credit enhancement” should be replaced by pledges and/or contributions of City (and/or third party) “assets” moving forward as there had been some confusion. It was confirmed, that the Consortium is not expecting any cash contributions from the City nor that the City issue bonds as part of financing this project.

It was agreed that the completion of the business plan is estimated to take about six months. The business plan development process was discussed extensively. It was agreed that all parties would work collaboratively to complete the business plan.

180 Connect and PacketFront would lead the development of the business plan, supported by City staff where applicable. Staff would endeavor to be creative and pro-active in suggesting content and improvements to the plan. During the business plan development stage, Jeff Mazer will routinely be in touch with prospective investors to gauge the strengths and weakness of various features and/or terms proposed and/or included in the developing plan. The financial section of the plan, which will be primarily the responsibility of NorthStar, will be the final portion of the business plan. As the finance plan is coming together, NorthStar will interface with Royal Bank Capital Markets and other interested parties. It was confirmed that contract negotiations would begin after completion of the business plan and its approval, as modified, by Council. It was agreed that Council would be updated at various stages along this process and would review, as an action item, a completed business plan which will contain the finance plan.

Attendees agreed to have a weekly conference call (day/time to be confirmed) for review of progress of the business plan and overall initiative.

Staff confirmed their desire to engage 3 consultant groups to advise on the following areas:

- 1) review and valuation of public assets
- 2) business plan review
- 3) 180 Connect due diligence

Jeff Mazer spent some time proposing how the financing would work and the various steps that would likely be taken. It was agreed that the business and finance plan needs to be completed for specific progress in this area to happen. The City would review the financing options and structures that are proposed.

Reference was made by Staff to Bond Council (Washington, DC) and how they could potentially offer assistance.

Communication roles were clarified, Ron and Tim are appropriate points of contact for Staff; Joe, Melissa, and Grant (as soon as Council votes “go ahead” on July 9) for Staff. Email communication to go directly to these individuals and to be forwarded to others as appropriate.

Staff made reference to the importance of disclosure and that continued timely disclosures would be appreciated. Ron Ivie agreed to have staff copied via email on future financial press releases relating to 180 Connect. (All consortium members may wish to voluntarily arrange similar notification procedures for financial and contract award matters.)

Ron Ivie to advise Staff when the AVP acquisition will be complete. It was agreed that Staff might have further questions regarding 180 Connect’s financial position.

It was discussed that an LLC (or SPE) would likely be formed, with the City perhaps becoming a shareholder and the investors owning the majority interest. This new governing entity would then contract with 180 Connect, PacketFront, NorthStar and others for services rendered and to be rendered to design, build, manage, provide services using, and support the proposed citywide open-access fiber network. It is unlikely the City will contract directly with consortium members; rather, consortium members will be parties to agreements with the network owner LLC, of which the City may initially be a minority owner.

To assist Staff with producing a report back to Council for the July 9th meeting, it was agreed that Ron Ivie will supply a package of all appropriate documents and answers to Staff's questions. A simple cover letter was to be included which would cover at least:

- 1) confirmation that the \$30,000 request is no longer applicable
- 2) no cash contributions are expected from City, nor bonded indebtedness to finance this initiative
- 3) an update on the EEOC complaint
- 4) an update on 180 Connect's financial position

Other points:

The Consortium reviewed some agenda items with Staff, these included:

- 1) Consortium's roles and responsibilities – discussions clarified these roles and responsibilities.
- 2) RFP vs Current Approach – discussions confirmed that the current approach reflects what was documented in the RFP, although it was acknowledged that some language in the RFP response was interpreted differently by different people.
- 3) Credit enhancements or City Assets vs. Project Financing – discussions confirmed that going forward, the words “city assets” should be used instead of “credit enhancement” as there appeared to be some previous confusion over this area. It was confirmed that the Consortium is not expecting any “city assets” that may be made, to be cash contributions or bonded indebtedness.
- 4) City Asset value, 30% discussion, this asset value would be only finally determined on completion of the business and finance plan.
- 5) 180 Connect Inc. Company status – Ron Ivie gave Staff a brief update
- 6) RBC Investment vs. NorthStar – Jeff Mazer gave an explanation of RBC's possible role in the project and NorthStar's role
- 7) RBC Investment and other investment companies – Jeff Mazer gave an overview of how financing will occur.

Ron Ivie provided copies of what appears to be all documents and communications provided to date during the Consortium's engagement with Staff. This included answers to email questions from Joe Saccio (6/27/07) and various documents that have been shared dating back from October 30th, 2006 up to and including June 28th, 2007.

Additional documents provided included

- 1) a letter from CFO Steven Westberg, 180 Connect, to Joe Saccio, June 25th, 2007.
- 2) An email from VP Thomas Jones, 180 Connect, to Honorable Mayor Kishimoto, June 20, 2007.

Written agenda produced by Staff