

Memo

DATE: November 29, 2005
TO: Mayor and City Council
FROM: Lee Tuneberg, Administrative Services & Finance Director

RE: **AFN Staffing Recommendation**

At the end of the budget process last Spring the City reworked the proposed budget to segregate all of Information Technology services into a separate department reporting directly to the City Administrator. Part of that change was to recognize the importance of technology and the leadership of that department. To balance that change there were several essential steps identified as the budget process was completed in approving the Telecommunications Fund resources and requirements.

Since that time many of the essential changes have lagged or been deferred causing further problems in operating our telecommunications system, and just as important, progress with the City's own computer system. Much of this has been caused by too many processes going simultaneously, conflict on what decisions can and should be made before others, confusion on who should make those decisions and concern about the timing and longevity of decisions made when the long-term (even short-term) future is uncertain.

In the coming weeks Council will be considering action of many issues relating to AFN and technology. The more significant issues are:

1. AFN operations alternatives
2. Technology leadership
3. AFN history and future regarding contracting
4. Rates, fees, surcharges and subsidies to meet AFN obligations:
 - Debt service
 - Overhead
 - Improvements
 - Needed repairs

As important as the above operations or disposition of AFN are, another significant issue has stood outside the lime-light. The City's own network and operation has not received much attention in the recent past. This is understandable given the magnitude of the issues above but item #2 will have a significant impact on internal operations since all departments rely on the management and leadership of technology for the City. Remember that the internal network, its data and systems support also operates on the fiber optic network that is AFN.

The delays we are experiencing in deciding what to do with AFN has delayed our hiring a technology director that could and should be helping Council in decision making and the rest of us in managing operations. We do not have



that. Whether you believe it when staff says more people are needed, the Navigant study that said AFN was understaffed or members of the Option Committee who say that a different structure of employees could accomplish what is needed, all have agreed that a strong manager with technical and business sense is essential.

In 1998 the City conducted a needs assessment on technology. The report called for many steps including a development of standards and a plan for improvements. In 1999 the consultant returned to help create the standards but no plan was developed. The City does not have a documented and approved CIP for AFN or its own internal technology.

The reason for this is pretty clear. The director in 1998 managed the electric system, internal technology and embarked on building AFN. In the last six years AFN 's requirements have come first and the other needs have suffered. This year we separated management of the electric system from AFN but the internal network management is still under the IT Director, whose position has gone unfilled as we decide what to do with AFN.

As in the other City departments, AFN and Computer Services have dedicated staff. Leadership with a sufficient balance of skills in technology, business and management has been lacking. Along with that balance is the need for processes that allow for timely decision making and implementation of initiatives that work for technology and with other City initiatives and operational needs.

Regardless of what happens with AFN, the city will need a director of technology who can:

1. Manage internal technology operations
2. Develop a technology plan that addresses all city needs
3. Advise departments as new technologies become more integrated in operations
4. Track and manage telecommunications in the community regardless of the path AFN goes down.

It seems as though the ongoing city needs in the above areas would be sufficient justification for any other agency to have an IT Director even without AFN as a city operation or a direct report to this position. A key question in everyone's mind as we worked through interview process a few months ago surrounded the outcome of the Options review process and what decisions might be made changing the career decision of the applicant.

It also seems potentially viable that any candidate for the Telecommunications Director position could be provided a contract that safeguards their career employment as they help the City with any path chosen. And, if AFN left the direct control of the City, the candidate would manage the City's interests in telecommunication technology through the transition and the City's own internal development as long as needed and beneficial to employee and employer. The candidate could even be given the choice of going with AFN in a spin-off scenario or staying with the City if the alternative path did work well for them.

Even with the Options Committee completion of the initial assignment there could still be hesitation about hiring a technology director. It is important that a new manager, dedicated to moving the City's technology program forward, be recruited. Moving ahead with current applicants may be difficult due to a potential change in the focus of the job announcement but existing applicants may welcome a change in conditions of employment that makes Ashland a more viable career opportunity regardless of alternatives the City faces with telecommunication services.

Staff recommends that the City Administrator be directed to reactivate and complete the interview process for a new Telecommunications Director, negotiating and bringing to Council a contract for employment that provides sufficient continuity for employer and candidate. If such a contract can not be developed with an existing candidate then the City Administrator will start a new recruitment process.



Open Service Provider Networks: Taking America's Communities Into the Digital Age

An answer to our broadband decline and to the need for fair telecom in a free-market economy

By Ben Gould ■ *Vice President and Chief Marketing Officer, DynamicCity, Inc.*

From the telegraph to the telephone to the cell phone; from commercial radio to the television set; from the personal computer to the Internet, America has paved the way toward bringing new forms of communication, entertainment, and education to the home and workplace. But America's current telecommunications business models are sending the nation into broadband decline relative to the rest of the world. While U.S. consumers and businesses are struggling with decisions about DSL, T1, or other slow, limiting, and expensive broadband mechanisms, our global competitors are leaving us by the wayside as they deploy affordable, very high capacity broadband service.

U.S. communities need to take notice and consider a new model for providing real, value-added broadband. I call it the Open Service Provider Networks™ model. These community-owned OSPNs can bring complete availability of true broadband connections, service provider independence, economic infusion, and life-enhancing services to residents and businesses.

Despite being the electronic communications pioneer, the United States has fallen woefully behind in global broadband competitiveness. By some measures, America has dropped as low as 20th in the world in proportion of premises served by broadband, down from as high as 4th a few years ago.

The oft-cited ITU WW Telecommunications Indicators Database lists the United States as 13th but Charles Ferguson of the Brookings Institute suggests a lower ranking.

What Is Broadband?

While a few communities get some level of "broadband service," there are misconceptions about what broadband really is. The Regional Bell Operating Companies as well as multi-service operators (cable companies) sell 256 Kbps to as high as 5 Mbps as broadband. Even as these speeds are touted, these are download speeds only and the top speed is rarely above 1.5 Mbps.

Newton's Telecom Dictionary, the de-facto standard in the telecom industry, defines "broadband" as a minimum of 45 Mbps. The FCC says it is 200 Kbps. Many of our international competitors understand what real broadband is, and they are finding ways to make it available to their businesses and citizens. For example, Japanese residents have access to Internet connections of 47 Mbps for only \$26 per month. That speed is not generally available in the United States for less than tens of thousands of dollars a month. On a monthly price per megabit, the United States averages around \$35 while Japan averages 90 cents.

But things are about to change for some communities in this country. Some innovative and dynamic communities, like those involved in Utah's UTOPIA project, have recognized the need for true broadband and are beginning to deliver connections of 100 Mbps of symmetrical (both download and upload capacity) bandwidth, to 1 Gbps and even more. On a price per megabit, UTOPIA citizens are receiving this capacity at prices as low as 89 cents per Mbps per month – comparable to Japan!

The U.S. failure to keep pace is due in large part to our upsetting the laws of

supply and demand – violating a basic tenant of a free market economy. Regional telecommunications operators are an offshoot of the original Bell System in America, an organization that was funded through a set of captive rate payers, captive rights of way, and guaranteed rates of return on capital. This system was necessary for us to become competitive on a global scale.

In 1984, Federal courts broke up the monopoly for the long distance market, but local "baby bells" were formed for local services and the monopolies continued on a regional level.

The resulting local communications services have suffered since due to stifled competition.

Impact on Local Communities

The effects of the broadband deficit on local communities are immense. Monopolistic service delivery is negatively impacting economic development opportunities by creating barriers to the attractiveness of communities.

What's more, many communities have limited or no access to broadband services, with cable and phone companies bypassing small towns because of expensive installments and maintenance costs.

This digital divide between Americans that have access to broadband services and those who don't is becoming increasingly important.

Forward-looking municipalities are seriously looking at alternatives that bring true broadband networks to their communities to improve the local tax base, retain and attract residents and business owners, and deliver cutting-edge services at significantly reduced cost.

Pitfalls of Private, Retail Service-Provider Infrastructure

Of course the threat of open, competitive, high-capacity network infrastructures has led regional Bell operating companies (RBOCs) and multiple service operators (MSOs) to vehemently oppose municipal fiber projects. The real problem is one of motivations. An incumbent provider is (and should be) motivated by returning shareholder value. When it comes to building infrastructure, the return for a shareholder is often low and long in coming. As a result, private industry rarely (if ever) funds infrastructure without some form of government involvement. That was exactly the situation when the legacy infrastructure we currently have was funded. The original Bell system was given, among other things, guaranteed rates of return and captive rate payers. It is unreasonable for us to think that baby Bells would be motivated by the public good when their shareholders are holding them to a different standard.

In other words, as a society we shouldn't expect private industry to fund an advanced communications network, because it is really infrastructure. We don't expect private industry to own and operate roads and highways, airports, water systems and other forms of infrastructure (although they occasionally do), so why should we expect it of the new information superhighway? These infrastructures have generally been left to local governments with subsidization from state and federal governments when it makes sense.

So what role should local government play in the broadband debate? The Bell companies argue that communities have no business being in the service delivery industry, as it is a conflict of interest. They argue that municipalities that own fiber deployments are not only their regulators but are their competitors as well.

"With so much money being invested for better services and more bandwidth into homes, cable and the Bells consider government efforts unfair to private businesses. 'The issue is (that the mu-

THE OSPN PRINCIPLES

Principle 1: Open and wholesale

The key ingredient is that the network ownership is separated from the private enterprises that provide content and retail services.

Principle 2: Carrier-class Quality of Service

There is the need to assure the highest levels of reliability and redundancy.

Principle 3: High, scalable bandwidth

Provides true broadband service.

Principle 4: Open and independent architecture

Standards-based solution to accommodate a broad range of service providers and the lowest possible cost per megabit.

nicipalities) control rights of way, and to regulate us at same time they're competing with us is a recipe for trouble,' said Dave Pacholczyk, an SBC spokesman," according to a recent CNET article (at http://news.zdnet.com/2100-1035_22-5471897.html).

It is no surprise that the incumbents are actively influencing state legislatures to outright ban the practice. Pennsylvania has perhaps the most odious anti-municipal law in this regard. It started when the Borough of Kutztown, with a population of 5,200, began a municipally led broadband project and Philadelphia soon followed. Verizon initiated action against the projects in the legislature.

"I cannot see justification for the legislation," said Frank P. Caruso, director of IT for the Borough of Kutztown. "This legislation delays advanced technology from reaching rural Pennsylvanians. Verizon has essentially bought time, again, and it accomplished its primary objective to thwart competition by stopping further municipal deployments."

The Open Provider Network

That brings us to OSPN. The OSPN model has been developed and implemented by DynamicCity, an Open Access Architect company expert in designing, financing, building and operating transformational fiber-to-the-home projects.

The OSPN starts with a principle-

based business model that places ownership of networks in the hands of cities while provisioning wholesale broadband service from competitive service carriers. Based on a clear set of principles, the OSPN business model avoids the problem of government competing with private enterprise; it fosters robust competition and innovation and introduces the laws of supply and demand into the delivery of advanced communications services. The principles are basic – and they work (see box above).

The OSPN overcomes the monopolistic forces of incumbent carriers by allowing a community to make its network infrastructure available to as many competing third-party service and content providers as possible. The outcome is not only greater consumer choice, but also breakthrough telecommunications services and true broadband capacity to consumers at significantly reduced cost. Superior video, voice, and data services, distance education, telemedicine, and video conferencing all become commonplace in the dynamic cities that provide an OSPN. These types of services are actively sought in communities across the country; their proliferation is inevitable.

From existing and prospective business and residential consumers to community governments, to service carriers and content providers and even real estate developers, OSPN offers tremendous

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MUNI DEBATE: OPEN ACCESS

advantages. The open and wholesale approach, combined with carrier class reliability, extremely high capacity, and an open architecture, deliver a municipal infrastructure model that is unparalleled (see box below).

The OSPN model is being evaluated in dozens of municipalities throughout the nation and is already at work in the largest municipal fiber network project in the country, UTOPIA, including 14 founding cities and 160,000 potential

subscribers throughout Utah.

Open access works! ♦

About the Author

Ben Gould can be reached at bgould@dynamiccity.com. Before joining Dynamic City, which aims to be the catalyst for the digital revitalization of metro markets across America, Gould was chief executive officer at Apollo Health, Inc., a manufacturer of medical devices.

What OSPN Stakeholders Get

Business & Residential Consumers

- True broadband –100Mbps to 1Gbps connections and beyond.
- Symmetrical service – faster data downloads and uploads.
- Competition – better service, lower cost, more choice.
- Higher quality video experience.
- New breakthrough services and content.
- Converged voice, video, and data services.

Communities

- More satisfied businesses and residents.
- A better infrastructure for economic growth and development (higher home values, better business environment).
- More empowered community involvement.
- Globally competitive community.
- New revenue source.
- Promotes competition.
- Ubiquitous coverage.
- A community at the cutting edge – a Dynamic City.

Carriers, Partners, Content Providers

- An economically compelling, open and level playing field in which to compete for share of consumer wallet
- A willing network partner with best possible infrastructure
- A network owner that won't compete
- New, untapped networks and regions that might otherwise be uneconomical to reach
- Minimized capital entry costs
- Critical mass of subscribers
- Success-based pricing model

Real Estate Developers

- Value-added broadband services to attract home-buyers
- Progressive new model to promote development in communities
- Boost land/home values
- Bundling/co-marketing opportunities for new fiber-ready homes
- Introduce concept of dynamic home
- Promote enhanced lifestyle and improved interaction with family/friends
- Differentiation for developers

Citizen Speaker Request Form

Please complete this form and return to the City Recorder.

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Meeting Date: 7/20/02

SUBJECT: AFM

AGENDA NUMBER (if on tonight's agenda): _____

LAND USE HEARING (Please check one): FOR: _____ AGAINST: _____

NAME <u>CARMAN M. AUBLE</u> (Please print)
ADDRESS (no P.O. box): <u>542 SISKIYOU BLVD.</u>
PHONE NUMBER: <u>(541) 488-8308</u> EMAIL: <u>cauble@innverite.com</u>

WRITTEN COMMENTS: See ATTACHED

IF YOU WISH TO ADDRESS THE CITY COUNCIL:

1. Please complete this form and return it to the City Recorder.
2. Address the City Council from the table podium microphone.
3. State your name and street address for the official record.
4. Please limit your comments to 5 minutes, unless otherwise instructed by Mayor.
5. If written documentation is presented, please furnish one copy to the City Recorder for the official record.

IF YOU WISH TO SUBMIT WRITTEN COMMENTS TO THE CITY COUNCIL:

1. Please complete this form and return to the City Recorder.
2. Written comments will be part of the official record.

To: The Ashland City Council

Nov. 18, 2005

From: C. M. Ahle
542 Siskiyou Blvd. (541)488-0308

Subject : Comments on the financial failure of the Ashland AFN system

The following are some thoughts on the AFN situation. I am sending this as a comment I would make in person, but I will not be in town for the next council meeting.

First and foremost, the City should not try to be in business competing with a private enterprise. A city run business can only work if the City has a monopoly, and can set fees as needed. I suggest the new city charter specify these conditions and require voter approval of any future forays into the commercial arena. All such proposals should be presented to the voters only if supported by a realistic business plan. Such a plan must consider a worst case as well as a most likely scenario. Consultants tend to base their analysis on assumptions most likely to give the result they know the customer wants. They tend to be optimistic.

When an enterprise gets into as much financial trouble as AFN , it is unproductive to keep throwing good money after bad. Trying to shore it up without a viable, believable business plan is simply delaying the inevitable. Any successful businessman will tell you to take your losses early and get out. The longer you delay, the more it is going to cost. Hundreds of dead dotcoms can bear witness to that fact.

There is only one way AFN could succeed, and that is to get Charter out of town and secure a virtual monopoly. Only then can rates be set at a viable level , and a sufficient customer base developed. It may be illegal for Charter to sell their service below cost. If so, a lawsuit may be productive. I don't like lawsuits, as outcomes are always uncertain. Also, since Ashland is also selling below cost, there may not be a case here at all. However, it is one possibility that should be considered before abandoning it.

No other way of coping with this problem is obvious to me. Tacking a surcharge on everyone's electric bill is a terrible idea, and doomed to failure. It's a slippery slope that only goes downhill. The only other option is to sell the system for as much as you can get, pay off the remaining bond service out of general fund cash flow, hopefully on re-negotiated terms, and make sure the City stays out of competitive businesses in the future.