



ashland fiber network

CITY OF
ASHLAND

Advisory Committee FINAL REPORT

November 2001

Introduction

At the 2001 Budget Committee presentation, it became clear that AFN was not achieving the goals identified in the Business Plan. Revenues were not meeting projections and capital exceeded the plan as originally financed. In addition, the build out also was taking longer than anticipated and there were some management problems. At the request of the Mayor and City Council, staff selected an advisory committee to help review and revise the business plan for AFN, develop a reporting format to help keep the Council updated on AFN's status, and to evaluate possible ways to improve the performance of AFN. The committee consisted of Budget/Audit Committee member Marty Levine, Budget/Programming Committee member Russ Silbiger, Audit Committee member Emile Amarotico, AFN Strategic Planning Committee member Jim Teece, Mayor Alan DeBoer, and City Staff Greg Scoles, Lee Tuneberg, Dick Wanderscheid, Mike Ainsworth and Richard Holbo.

Background

Based on the advisory committee discussions and recommendations, staff revised the Business Plan, taking into account all of those items. The advisory committee believes the revised plan is a more realistic view of the financial projections for AFN. While this plan does show AFN's internal debt load increasing substantially over the next few years, it also shows that AFN can provide a positive cash flow, and ultimately, net revenues. While it will take longer than originally anticipated to complete, AFN can meet its goal to be self-sufficient. The advisory committee does note that AFN is providing many positive benefits to the community that go far beyond what was anticipated in the Business Plan. Local businesses, Ashland School District, SOU, and residents are benefiting from advanced telecommunication services the community would not have if it were not for AFN. In addition, by providing a competitive environment, Ashland benefits from lower Cable TV and Internet rates.

Staff and the advisory committee have identified and discussed a number of potential additional revenue sources. It is anticipated the fiber line to Medford will quickly open up new revenue opportunities and we have included reasonable projections of bulk data sales in the plan. Other potential revenue sources, such as telephony, were not included in the plan. These sources could significantly enhance AFN's revenues and financial picture. The committee is also very aware of the competitive nature of the industry and the need to react quickly to changes in the market and the technology in order to remain competitive.



The revised plan is more detailed in its sources of revenue. Residential and business cable modem service has been separated out. One category - high-speed data – was broken out into three categories - governmental, commercial, and bulk services (outside the city.) By doing so, staff will be able to better identify where AFN is or is not meeting the goals.

The committee has met on seven occasions since it was formed. The process has been a positive experience and the collective wisdom of everyone on the committee has helped to develop a thorough understanding of the hurdles and opportunities that AFN provides.

Committee Accomplishments:

- Revised the April 2001 Business Plan by developing a Base Plan. Attached is a comparison between key points of the plan developed in April as part of the budget process for fiscal year 2001-2002 and the new Base Plan.

The Base Plan Incorporates:

1. Information garnered from three years of construction, operations and competition
2. More conservative estimates for revenues and expenses
3. Longer period for ultimate build out
4. An additional five years of projections
5. Increased Capital Outlay to match anticipated requirements for technical and software improvements
6. Smaller cable TV rate increases after construction is substantially complete
7. More conservative estimates for cable and data market shares

The Base Plan Projects:

1. Positive net income to not occur until the ninth plan year
2. A gain of \$1.13 million after 15 years instead of \$3.8 million in 10 years
3. Cable TV advertising revenue of \$734,000 over 15 years
4. No Telephony revenue (\$508,000 reduction from the previous plan)
5. Internal (between funds) borrowing capping out at \$8.9 million the ninth year

- Developed an easy-to-read reporting format that will be provided to the Mayor and Council on a quarterly basis to keep them apprised of current trends based on approved benchmarks. A copy of the first quarterly report using this format has been included with this report.

Recommendations for Improvements:

Ideas for enhancing or improving existing AFN services

- Accelerate the build out of the system.
- Refine and enhance the TV products and tiers to provide a competitive advantage.
- Improve marketing efforts by: increasing the marketing budget, increasing direct sales efforts, increasing the installation staff, and improving customer data analysis to help marketing efforts.
- Implement a 'Direct Sales' team approach for marketing AFN Data within the city.
- Promote high-speed data product to potential new businesses that are considering locating to Ashland.
- Educate Ashland businesses as to how best to utilize AFN Business Cable Modem service to enhance their business opportunities.



- Revise pricing structure, product offerings, and acceptable use policy for data services and business cable modem service.
- Improve ISP Partnerships by: setting requirements and high standards for operation and service by ISPs, charging for AFN Support of ISPs, and helping the ISPs become better /more active marketing partners with AFN.
- Develop targeted marketing to existing customers to ensure that they are taking advantage of the highest tier CATV product possible.
- Require ISPs to provide better branding of AFN Internet on their web site and in their promotions.
- Leverage and market the ‘locally owned by the citizens of Ashland’ concept.
- Promote and leverage the bundling of CATV and Cable modems products together.
- Market the significant benefits of public ownership of AFN.

New Product and Services for AFN

- Work with the Ashland School District to utilize AFN to link their phone systems together thus saving them money and providing an additional revenue source for AFN.
- Provide managed network services to other government agencies in Jackson County.
- Strengthen and develop partnerships to sell wholesale services outside of Ashland.
- Utilize AFN in partnership with the private sector to provide choice for local telephone services.
- Utilize AFN to enhance city utility operations (Electric, Water and Wastewater).
- Develop and implement true cost of service fees for city departments, which utilize AFN.
- Work on ways to implement a real ‘Video on Demand’ pay per view product for AFN.
- Develop a business analysis and cost benefit test for any new products or services launched on AFN.
- Purchase ad insertion equipment for cross promotion of AFN and local commercial advertising.
- Consider creating an AFN local TV channel, possibly in partnership with the Ashland Coalition that could air events of local interest.
- Work with the ISPs to provide an easier interface between AFN Internet customers that want to continue to use AOL.
- Ask the programming committee to consider adding channels that would pay AFN to carry them (e.g. Home Shopping Network, Horse Racing Channel etc.).
- Provide more education to Ashland businesses on how AFN Data or Business Cable Modem products can benefit and/or expand their business operations. This could be done via seminars or a direct sales approach.
- Position AFN as a provider of telecommunication advice for Ashland businesses.

Side Benefits:

The committee spent a considerable amount of time discussing the side benefits that AFN brings to the community. Some of these are hard to measure and others, while measurable, are not reflected in the Business Plan. Some of the items discussed are as follows:

- Support of Local Businesses - Because of advanced telecommunication services, many local businesses will be able to provide enhanced services, thus enabling them to compete better in our global economy. Also, because the City has partnered with local ISPs, we have ensured that more money stays in the Rogue Valley to support our local businesses and economy.



- Educational Benefits - Ashland School District has taken advantage of AFN and thus has telecommunication services that are second to none. AFN is the only entity that submitted a bid to provide these services and without AFN, the School District would not have this level of service. Also, the cost to the District is far less than for comparable service available in other parts of Oregon. In addition, SOU is using AFN to provide two high-speed Internet connections in each dorm room. This helps SOU in its efforts to attract students.
- Competition for Telecommunication - By providing competition for both cable TV and cable modem Internet service, AFN's existence has resulted in lower TV and Internet rates for all Ashland citizens and businesses. The incumbent cable provider has cut its rates by at least 20%. Its cable modem service is priced at \$29.95/month in Ashland and \$39.95 everywhere else in the Rogue Valley. This equates to a total annual savings to the community of over \$500,000/year, for TV service alone.

Future Role of the Committee:

While all committee members believed that the process used for developing this report was to be of short duration and not an ongoing responsibility, they have all indicated a willingness to continue to be a resource to staff on AFN related issues. This role could be especially helpful in evaluating and marketing new ventures or products that could be made available to AFN. Also, periodic meetings to review progress on meeting Business Plan goals would be beneficial. Staff intends to work with this committee on an as needed basis in the future.

Attachments:

AFN Quarterly Report (1st Quarter)

