

Council Business Meeting

December 21, 2021

Agenda Item	Explore Alternatives for Continuing Operation of Ashland Fiber Network	
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SUMMARY

The City needs to make an informed decision regarding the future of the Ashland Fiber Network, and core to that decision is the future financing of AFN and its ability to compete in a market that has changed since its inception 24 years ago.

POLICIES, PLANS & GOALS SUPPORTED

AFN currently provides important service for several “essential services” as defined by Council. The potential exists for AFN to be a valuable partner in enhancing “value services” defined by Council.

PREVIOUS COUNCIL ACTION

The City Council approved a plan to create a facility that would provide internet access to residents and businesses in 1997. The Electric Department was assigned the task to design, build, maintain and manage this new municipal service, which became known as the Ashland Fiber Network (AFN).

BACKGROUND AND ADDITIONAL INFORMATION

From its inception, the Ashland Fiber Network was a bold idea, developed by a community of visionary leaders. Ashland became one of Oregon’s pioneers in municipal broadband, developed partnerships with local businesses for construction, and spawned several local internet service providers to assist with sales and customer support. Indirectly, AFN was an economic driver for the community that brought many businesses into the area. Symbolically, AFN served as a beacon to forward thinking people who were attracted to Ashland as a location to create clean businesses and perform digital jobs; residents saw a city with vision, committed to its people, and willing to invest in their future.

Today, AFN continues to receive awards and recognition from state and regional organizations for leadership in delivering broadband internet to their local community. Most recently, on October 28th, at the Oregon Connections Telecommunications Conference – held in Ashland – AFN was recognized by other state telecom members with an Excellence in Telecommunications Award for 2021. Despite the introduction of legislation in many states to *prevent* competition by municipally owned networks, at least 177 other cities either own, or are in the process of constructing their own fiber networks. Over its history, Ashland has been both hailed as a pioneer on the path to the smart city of the future – and also studied as a cautionary tale by financial planners in other cities.

In 2020, the onset of the pandemic highlighted how even *residential* access to the internet had become critical for both schools and businesses. Because AFN’s mission is based on putting community first, they offered an unprecedented, free cable-modem installation and service plan – for over a year – so that no local students or faculty were excluded from at-home learning, during the 2020 peak of the pandemic. When the Alameda Fire temporarily left AFN as the only operational broadband provider in Ashland for a week, AFN demonstrated the value of having a local team dedicated to their community who – even in the event of a statewide or national emergency – has no higher priority than Ashland families, businesses, and government.

This highlights an aspect of AFN that is seldom recognized: From the beginning, the sole objective of municipal broadband has been *to serve the community*. All of AFN’s operational decisions are made in Ashland, for the benefit of the Ashland community. No competitor can make that claim.

This serve-the-community focus is reflected in every operational decision of AFN. While some providers look for opportunities to monetize customer information or online behaviors, AFN strives to provide customers with the fastest, most consistent, and most economical access to the Internet possible, while covering operational costs and paying down infrastructure build-out debt.

These are core values Ashland the community should keep in mind, while investigating new financial options and potential partnerships to carry AFN into the future.

Previously discussed options have included going directly to the market, to have the City choose among offers from commercial providers in a public/private partnership agreement. This proposal would begin one step back, by first soliciting deep expertise so the City can examine currently available financial options used by municipal networks, and ensure adequate protections are included in any financial agreement, prior to letting an RFP that would commit to such an agreement.

This process seeks to navigate in a business environment where internal expertise/experience has been lost through personnel attrition, yet the need for sound stewardship over public resource decisions remains important to the community.

FISCAL IMPACTS

Financing, not technology, has proved to be AFN’s ongoing challenge. AFN has restructured and refinanced several times but has yet to find a formula to rapidly retire debt. The City is still paying down (as of June 30) an estimated debt balance of \$4,790,000. That debt will finally be cleared in 2024.

However, as retirement of the existing debt approaches, infrastructure investment is again needed, if AFN is to remain competitive. This would require another round of capital investment (by one estimate \$8M to complete full, area-wide fiber-to-the-home coverage).

One revenue constraint is that AFN exists in a marketplace, where competition from commercial providers reduces AFN’s market share. Currently AFN services about 4,200 homes and businesses, or about 40% of the potential base. This impacts the amount of revenue available to support plant overhead and pay debt. At least one commercial internet provider has already begun to offer direct fiber in Medford, Phoenix, and Talent. So time is another constraint that cannot be ignored.

A broadband network is a long-term investment, with the bulk of the lifetime costs incurred up front, followed by a sustained operational period, during which revenues cover operating costs, pay down debt. However, digital technology evolves, so some of the infrastructure periodically needs to be upgraded. Currently, AFN is a hybrid

system; fiber optic trunks ring the community, but most residential customers are connected to that fiber backbone via coaxial cable, which has less overhead for future speed improvements and requires active electronics in the field. The next generation of high-speed access brings fiber all the way to the premises. Direct fiber allows much more headroom for future speed improvements over coax, eliminates the most failure-prone outdoor components, and therefore significantly reduces cost overhead in terms of customer service calls and plant maintenance.

Any evaluation of costs and potential ownership changes should also give at least passing consideration to some indirect impacts on the community.

- The City’s internal business network is built on the AFN fiber backbone which links approximately 25 sites and provides high-speed access to each. Most municipalities purchase this service and can pay on the order of \$1,000/month/site. AFN’s existence has allowed Ashland to include small-office or remote sites like the Police Contact Station, the Nature Center, the Water Treatment Plant, and the Senior Center to participate in leveraging common data center services like network applications and the city phone system. Over two decades of AFN service, this may represent a substantial amount of cost avoidance to the City.
- Even before recent staff reductions resulted in employees performing multiple roles, having the AFN Division within the City IT Department as part of a co-located, often cross-functional team that could back one another up, resulted in daily savings to the City in both costs and response time. Depending upon the staffing arrangements in public/private partnerships, external partnerships could potentially impact City IT services, overall.
- Ashland’s schools are interconnected via AFN and, as a result, they negotiate competitive rates that benefit the community, while also allowing some school equipment to be housed in the City data center for efficiency and offsite resiliency.
- As an ISP, AFN can lease commercial “colocation” rack space in the data center as an essentially no-cost revenue source.
- Security of Critical City Infrastructure: utility operations data and telemetry never have to leave the local span of control. This is another unique aspect of a municipal network.

STAFF RECOMMENDATION

Staff recommends that AFN seek professional analysis from an outside advisor in the field of planning, developing, operating, and reviewing municipal networks, with the goal of establishing a clear operational direction for the City to execute.

This concept is based on a similar services routinely contracted by electric utilities for long term financial planning and rate setting; it involves having an objective subject matter expert analyze assets, review revenue, expenses, externalities that impact the City, and develop a financial strategy for the future of AFN. Using case studies and actual experience in the financing, construction, and operation of other municipal fiber networks, such a roadmap would not only help navigate current funding models used by other cities, it might also help Ashland avoid pitfalls and surprises, when developing RFPs for potential public/private agreements.

In 2021, internet service is no longer the speculative technology it was in 1999, and AFN no longer needs to blaze their own trail, independently. Experienced advisory firms now exist who *specialize* in municipal broadband business models, benchmarking, analysis, and navigating the industry’s legal framework. Whether their findings point toward infrastructure grants, new funding models, public/private partnership, or even dissolution, the goal is to protect Ashland’s investments with informed stewardship and optimize AFN’s value to the community that built it.

ACTIONS, OPTIONS & POTENTIAL MOTIONS

“I move that the City engage the services of a professional, municipal broadband advisory service – using an RFP process– to analyze the existing AFN business, compare funding and organizational models, including public/private partnerships, and develop a clear financial and organizational direction for the future of this service.”

REFERENCES & ATTACHMENTS

- a. Ashland Fiber Network Organizational Models
- b. AFN Governance

Ashland Fiber Network Organizational Models

<u>Organizational Models</u>	<u>Strengths</u>	<u>Weaknesses</u>	<u>Who sets budget?</u>	<u>Who guides investments?</u>	<u>Who develops product?</u>	<u>Who markets?</u>	<u>Who sells?</u>	<u>Who profits?</u>
Status quo <i>AFN remains as is.</i>	Commitment to community service; generating current debt payment of \$409,000/year.	Vulnerable to political whim; operations subject to requirements of public agency (transparency, requirements of public process); inattentive leadership.	AFN staff City budget officers Council	AFN staff/Council	AFN staff	AFN and participating ISPs (Ashland Home Net)	AFN as a wholesaler and retailer; ISPs as retailer.	AFN retains system profits; ISPs retain retail profit.
Airport (Public) <i>Strong commission provides oversight; AFN continues as a city dept.</i>	Dedicated leadership; current debt payment maintained. Commitment to community service. Could provide more timely and less political decision-making.	Leadership predicated on council's willingness to delegate; operations subject to requirements of public agency.	Commission AFN staff City budget officers Council	Commission AFN staff City budget officers Council	Commission AFN staff	AFN and participating ISPs	AFN as a wholesaler and retailer; ISPs as retailer	AFN retains system profits; ISPs retain retail profit
Airport w/contractor <i>Strong commission; AFN central operations subcontracted. Role of ISPs TBD.</i>	Dedicated leadership; decision-making independent of public process; motivated contractor.	Community benefit to be defined in contract.	City determines contract terms; contractor determines project budget.	City and/or contractor.	Contractor.	Contractor	Contractor	City and contractor.
Franchise <i>Council subcontracts AFN central operations. AFN operated by franchisee. Role of ISPs TBD..</i>	Decision-making independent of public process and political whim; motivated franchisee.	Community benefit to be defined in contract.	City determines contract terms; franchisee determines project budget	City and/or franchisee.	Franchisee.	Franchisee.	Franchisee.	City and franchisee.
Utility <i>Council governs; utility payers fund cost of service. AFN continues as a city dept. Role of ISPs TBD.</i>	Commitment to community service; strong, predictable cash flow addresses debt and supports new investment.	Likely legal and political challenges; operations subject to requirements of public agency (transparency, requirements of public process); implementation challenges.	Commission? Council AFN staff City budget officers	Commission? Council AFN staff	AFN staff	AFN	AFN	City
Spin Off <i>City retains assets and becomes sole shareholder in new entity. AFN operated by new entity. Leadership initially appointed by mayor; later becomes self-appointed. Role of ISPs TBD.</i>	Dedicated leadership; operations independent of public process and political whim.	Community oversight diminishes over time leaving AFN debt and commitment to community service vulnerable; significant initial effort.	Spin off	Spin off	Spin off	Spin off	Spin off	City and spin off
Hybrid <i>AFN becomes wholesaler; ISPs responsible for all customer contact</i>	Motivated ISPs; possible increase in competition and customer choice; clear lines of responsibility between city and ISPs.	Loss of current AFN retail revenue .	AFN staff City budget officers Council	AFN staff Council ISPs?	ISPs?	ISPs	ISPs	City retains system profits; ISPs retain retail profit.
City monopoly <i>ISPs eliminated; AFN continues as a city dept. Could include a dedicated commission.</i>	Commitment to community service; possible increase in cash flow.	Vulnerable to political whim; operations subject to requirements of public agency (transparency, requirements of public process); inattentive leadership; implementation challenges.	Commission? AFN staff City budget officers Council	Commission? Council AFN staff	AFN staff	AFN	AFN	City
Sold	No political or leadership issues. Motivated owner.	Financial impact on debt and current operations unknown. Commitment to community service vulnerable.	Owner.	Owner.	Owner	Owner	Owner	Owner

Summary of Models

Criteria	Status Quo	Sold Entirely	Public w/advisory comm. and independent contractor	Public w/advisory comm. no contractor	Franchise	Utility	Spin Off	Hybrid	City Owned Only
1	2-4	?	?	2-4	?	?	?	?	?
2	1	?	3	2-3	4-5	1	4-5	3	3
3	1-2	5	4-5	3-5	3+	4	4-5	1	1-2
4	3	?	3+	3+	3+	4-5	3+	3+	3
5	1-2	?	3	3+	3+	1	3++	4	3+
6	1	5	3	3	4	1	4-5	1-2	1

Any option considered must:

- 1) Provide high-quality, reliable and customer-focused services.
- 2) Enable AFN to make timely adjustments in a competitive marketplace.
- 3) Be governed by stable, focused and knowledgeable leadership.
- 4) Be financially viable, with ability to pay off debts, and to justify new investment.
- 5) Provide competitive products committed to community connectivity, digital technology education and economic development.
- 6) Be resistant to political change.

Ad Hoc Ashland Fiber Network Governance Structure Committee Interim Report -- August 10, 2016

The AFN Governance Structure Committee was appointed by Mayor John Stromberg and confirmed by the Ashland City Council in May 2015. While we have completed the bulk of our assignment, we are not yet ready to issue final recommendations. This abbreviated report to the council is intended to bring you up to date on our work thus far. For much more detail, we encourage you to examine the full record of our agendas, minutes and working documents on the city's website.

Mission and membership

The Working Group is charged with identifying, analyzing and recommending potential changes to the AFN organizational structure to best ensure the entity's long-term viability. The group was comprised of councilors Pam Marsh (chair) and Rich Rosenthal, Bryan Almquist, Dennis Slattery, Matthew Beers, Susan Alderson, Vicki Griesinger and Jim Teece (ex officio).

Identification of criteria

After extensive discussion of current conditions, including a SWOT analysis of status quo operations, the committee articulated a mission statement to guide our work and a set of criteria to be used to evaluate potential organizational models:

Mission: *Ashland Fiber Network (AFN) enhances quality of life, economic opportunity and community vitality by enabling citizens and businesses to receive affordable, reliable telecommunications services.*

Criteria: We agreed that any option considered must:

- 1) Provide high-quality, reliable and customer-focused services.
- 2) Enable AFN to make timely adjustments in a competitive marketplace.
- 3) Be governed by stable, focused and knowledgeable leadership.
- 4) Be financially viable, with ability to pay off debts, and to justify new investment.
- 5) Provide competitive products committed to community connectivity, digital technology, education and economic development.
- 6) Be resistant to political change.

Models

With criteria in hand, the committee developed a long list of possible organizational configurations to be evaluated, including:

- Status quo – AFN remains as is.
- Airport model -- Status quo with addition of a strong commission to provide oversight
- Airport model with contractor – AFN central operations subcontracted; strong commission provides oversight
- Franchise – AFN subcontracted to franchisee.
- Utility – Council governs and utility payers fund costs of service
- Spin off – AFN retains assets and becomes sole shareholder in a new entity.
- Hybrid – AFN acts as wholesaler; retail sales through ISP(s)
- City monopoly – ISPs eliminated, with all sales directly from AFN
- Sold – AFN is sold to another entity.

Using a ranking of 1-5, we analyzed each of these alternatives against the evaluation criteria. Findings were summarized on the attached template (Ashland Fiber Network Organizational Models), with the addition of an abbreviated look at the conduct of business functions inherent in each model.

After extensive discussion, the group began to focus on what we view as the fundamental problem with the status quo: the AFN product is now being sold to consumers by AFN as a retailer, as well as by multiple, competing ISPs. Our contracts with the ISPs do not contain performance requirements; on the other hand, the ISPs have no hand in producing or pricing the products they are supposed to sell. The result is a confusing and splintered approach to the internet market; overall, we are failing to effectively compete with Charter.

Initial findings

Unfortunately, when we looked closely at the proposed models, we encountered significant barriers that prevent implementation to many of the more radical approaches. For example, the utility model, which has generated significant interest, is unlikely to pass legal challenge. Recent state law places severe restrictions on the ability of cities to subcontract services currently performed by municipal employees, effectively eliminating several models from consideration. The city's responsibility for the existing \$10 million AFN debt creates grave concerns regarding models (the spin off) that would minimize the city's authority for operations.

With City Attorney Dave Lohman's assistance, we contracted with an outside attorney to help us look at prospects for moving to a single ISP model. That analysis identified financial and legal obstacles that the working group views as insurmountable.

Current status

We continue to consider these fundamental issues:

- The value of creating an AFN Commission to advise the City Council on decisions regarding operations, marketing, investment, etc. and to provide more hands on leadership than the council can manage.
- The conflict created when AFN serves as both a wholesaler and a retailer, effectively competing with our partner ISPs.
- The challenges of marketing internet services to the community with an organizational structure that lacks cohesion and clarity.

Next steps

Several months ago we asked for the council's approval to extend our mandate to allow committee members to serve as a sounding board for Susan Unger, the marketing professional on contract to AFN. In turn, Susan's final report may provide guidance for the committee's final recommendations to the council.

We anticipate that our final report to the council should be complete by December 2016.

Submitted by:
Pam Marsh and Rich Rosenthal