

**City of Ashland Budget Committee Meeting
Draft Minutes
May 3, 2007 6:00pm
Civic Center Council Chambers, 1175 East Main Street**

CALL TO ORDER

Chairman Thompson called the Citizen's Budget Committee Meeting to order at 6:03pm on May 3, 2007 in Council Chambers at 1175 East Main Street, Ashland, Oregon.

ROLL CALL

Councilors Chapman, Hardesty, Hartzell, Jackson, Navickas and Silbiger were present. Budget Committee members Bond, Heimann, Thompson, Stebbins, Everson, Levine, and Gregorio were present.

STAFF PRESENT: MARTHA BENNETT, CITY ADMINISTRATOR
LEE TUNEBERG, ADMINISTRATIVE SERVICES/FINANCE DIRECTOR
JOE FRANELL, INFORMATION TECHNOLOGY DIRECTOR
DICK WANDERSCHIED, ELECTRIC UTILITIES DIRECTOR
SCOTT JOHNSON, ELECTRIC OPERATIONS SUPERINTENDENT
BRYN MORRISON, ACCOUNT REPRESENTATIVE
MIRANDA IWAMOTO, ACCOUNT CLERK II

PUBLIC INPUT

Thomas G. Paterson submitted a letter to the committee. Please see attached.

INFORMATION TECHNOLOGY

Information Technology Director, Joe Franell, presented the Information Technology budget. Mr. Franell started with the structure of the department. The department is divided into Computer Services, Internet and High Speed/Data. He reported that last year, the department was separated into 5 divisions, the aforementioned ones and also Cable TV, and Promotions/Customer Relations. Mr. Franell also explained that Computer Services is supported internally, the Internet division is associated with coaxial cable (revenue and expense) and the High Speed/Data division is any product line (revenue and expense) delivered over direct fiber.

Mr. Franell continued with the major accomplishments of the last year (see attached handout). Mr. Franell talked about how the restructuring of the department also meant reassigning job duties. He said that Mr. Richard Holbo's primary responsibility is internal support and that Mr. Michael Ainsworth is managing AFN. Mr. Franell also

addressed his salary. Last year, 90% of his salary was expensed to AFN, this year it is split between the 3 divisions. It was reported that Mr. Franell's salary is expensed 40% to Internet, 10% High Speed, and 50% Computer Services. Committee member Levine asked about the experience and qualifications of Mr. Ainsworth. Mr. Franell explained that Mr. Ainsworth has years of cable experience from Hawaii. He also voiced his confidence in his staff and their work. Other accomplishments mentioned were the development and deployment of the Utility Billing system, completed transition from cable television to a private third party, launched wireless internet, launched digital telephone service and the formation of an Information Technology (IT) Steering Committee. Mr. Franell explained that the IT Steering Committee is developing a technology plan for the City.

Mr. Franell followed with the distribution of the IT budget (see attached graph). The budget is divided 36% for Computer Services, 49% for Internet and 15% for High Speed/Data. Mr. Franell also explained the budget over time (see attached graph). However, it was reported that it's hard to compare exactly what's happened since the divisions went from 5 to 3. Councilor Hartzell asked about how the customer base has changed over the last three years. Mr. Franell stated that he will provide the committee with that information. He also said that Cable TV has about 2800 customers which was higher than predicted and was pleased with the customer loyalty. Mr. Franell also reported that the cable television contract states that the City will receive 7% of revenue.

The 2008 proposed budget was broken down as 45% for Salaries & Benefits, 44% for Materials & Services and 11% for Capital Projects (see attached graph). Mr. Franell stated that the 11% for Capital Projects represents bringing network up to "full health" and for long term viability.

Mr. Franell continued with the major responsibilities of the Computer Services division (see attached handout). These responsibilities include support of all City computers, software, servers and telephone system. Mr. Franell also discussed how the Computer Services budget has increased. It was reported that this increase is due to a 10% increase in health benefits, the 50% portion of Mr. Franell's salary, Mr. Holbo's salary (80% in this division) and the remainder is for mandated salary increases.

Councilor Silbiger inquired about whether or not Computer Services is responsible for maintaining the City's website. The answer was no, and that it is managed by the Communications Manager.

Committee member Thompson inquired about an increase in Materials & Services on page 3-18. It was explained that was replacement of computer equipment. Committee member Levine asked about the additional \$45,000. Mr. Franell said he would bring the details back to the committee.

Committee member Heimann inquired as to why the number of employees stayed the same since the IT department is no longer managing cable television. Mr. Franell

explained that the IT department provides all of the support to Ashland Home Net (lessee) for cable services (installs, maintenance, etc.). It was reported that when the head end was leased, the Head End position was the only one that wasn't needed. Mr. Franell stated the same amount of support work is being performed and that it is a full workload. Ms. Thompson asked if the \$94,000 cable television revenue pays for the technicians. It was answered yes. Ms. Thompson also inquired about whether or not it is more expensive to hire own employees instead of contracting it out. Mr. Franell explained that contracted services don't always provide the same level of service and quality of work. It was also reported that the City would have to pay a premium price because contractors would have to travel from out of town. Ms. Thompson asked about putting the responsibility on the lessee to hire contractors or employees. Mr. Franell explained the importance of maintaining a closed cable system. He said that sloppy cable work can cause a lot more problems because the system may be infiltrated by radio frequency. Installing cable is very technical and if done incorrectly can create an unreliable system. Mr. Franell explained that a lack of customer service and trust could potentially cost more than the actual cost of maintaining the system.

Mr. Levine stated that he heard that an ISP could run the system more efficiently. Mr. Franell reported that nothing has prevented the ISP's from providing ancillary services but they haven't done that, nor have the ISP's marketed. Councilor Silbiger said that a few years ago, a group of local ISP's were brought together and asked to help find a solution for the system. It was reported that at that time the group was unable to propose a viable solution.

It was reported that the technicians cost approximately \$230k and are responsible for both cable and internet support. The technicians are responsible for installation, answering service calls and providing preventative cable maintenance. The committee asked how the technicians were weighted for salary expense. It was reported that the technicians' salaries are expensed to different divisions but weighted towards Internet.

Committee member Gregorio inquired about the revenue decrease in High Speed but a significant revenue increase for Internet. Mr. Franell answered that SOU has switched to statewide system and therefore, High Speed revenue has decreased.

Mr. Franell reported that the City might become a retailer and try to market more services. He also said that there is a consolidated list coming out that specifies which ISP is serving what address. Mr. Gregorio asked when IT will know if it's paying off. Mr. Franell said that it will be the 1st quarter of FY 08 (July, August, September).

Mr. Heimann asked why the City is dealing with ISP's. Mr. Franell replied that it's important to encourage high tech business in the Rogue Valley and that the open carrier network (wholesale) has provided business opportunities here. Mr. Franell explained that evaluation of the situation will continue and the City will have a better outlook after the 1st quarter of FY 2008.

Councilor Hartzell asked about a large increase to salaries across all three divisions. Mr. Franell explained that when the transition from 5 to 3 divisions happened, the salaries from the 2 cut divisions were transferred into the 3 current divisions.

Mr. Heimann inquired about fringe benefits accounting for 50% of salary. Administrative Services/Finance Director, Lee Tuneberg said that some employees do have a 50% benefit relationship and that ratio can be affected by the level of employee, benefit selection (full-family, single, etc), and length of service.

The committee inquired about digital telephone. Mr. Franell explained that it is a new service that will be available for both residential and business owners.

Ms. Thompson clarified that the revenues and expenses for Internet and High Speed are associated with the Telecommunications Fund, and that Computer Services is associated with the Central Services Fund. The answer was yes. Ms. Thompson continued and called attention to page 4-62, which shows a loss of \$400,000 for 2008. Mr. Franell answered that the department is operationally cash positive without the debt. He continued to explain that the department has to fix the system this year so that it's up to speed. Mr. Franell stated that approximately \$300,000 is being spent for capital projects this year but that will not be a constant for future years. A bulk of the \$300,000 is for a cable modem termination system. Mr. Franell also spoke about greater than expected revenues in the Telecommunications Fund this year which will enable the debt payments to be paid a year ahead of schedule.

Mr. Franell talked about the Information Technology Business Plan. Mr. Franell said the plan is available on the City of Ashland website under Information Technology, 5-year Plan.

Mr. Levine asked about the useful life of cable and the total build out cost for AFN. It was answered that the life of cable depends on the type of material used and that the longest life used was 20 years. Mr. Tuneberg answered that the cost of AFN was approximately 9 million.

Mr. Levine also asked about whether or not Mr. Franell would entertain the idea of someone else taking over AFN. Mr. Franell stated that he is open to discussion and any proposals would be considered.

Mr. Heimann inquired about the future projections showing investment going up and return going down. Mr. Tuneberg explained that the contribution to debt service increases in 2008. He said the goal is to maintain the asset and pay the costs associated with the asset and then still use the asset to pay towards debt service. Mr. Gregorio asked about how the projected ending fund balances stay the same since each year is showing a deficit. Mr. Tuneberg answered that it's dependent upon whether or not contingency is spent and that the model adds the contingency to the beginning fund balance for the following year.

It was reported that there are no job vacancies in the IT Department.

It was also reported that the IT Department was not subject to the 5% cut. City Administrator, Martha Bennett, explained that a 5% cut package wasn't asked for because AFN balances. Ms. Bennett stated that any department that balanced was not asked to cut 5%. It was reported that Computer Services was not subject to the 5% cut because Computer Services is not part of the General Fund and because the budget was balanced by holding revenues flat and streamlining expenses.

Mr. Franell presented the committee with department performance graphs (see attached handout). It was reported that 59% of work was completed the same day for AFN and for Computer Services.

The committee inquired about marketing the Utility Billing software. Mr. Franell said that some businesses have expressed interest and they are looking into options of marketing it. However, it will have to go through the Legal Department first.

Mr. Levine asked if there are retail partners involved anywhere in AFN. Mr. Franell answered no, not to begin with but yes, lately. Mr. Franell stated that if retail partners want to absorb some of the capital expenditure then the City is willing to work with them. However, if they just want to benefit and not invest then the City isn't as interested in a type of partnership.

Mr. Franell continued with the significant budget changes such as the transition of cable television, designating revenue/expenses into the new appropriate divisions and turning a temporary employee into a full-time employee. Mr. Franell reported on the challenges for FY 08 (see attached handout). Mr. Franell spoke about a lack of funding for 24/7 support and the problems it can cause for certain departments such as Fire and Police.

The proposed additions for FY 08 include moving a .5 FTE Police Computer Support position to full-time (1.0 FTE). That position (the .5 FTE) is currently paid for by DEA forfeiture money. It was reported that the workload is such that the position should be full-time instead of part-time. Mr. Franell reported that although the position (because it's a tech position) is under operational control of the IT Department, the monies will be paid from the Police budget. The other add is to pay on-call to provide 24/7 support to the various departments. The committee asked if the system can be accessed over the internet and the answer was that the City will still have to pay on-call.

**Everson/Navickas ms to accept the Information Technology budget as presented.
All Ayes.**

Councilor Jackson left at 7:57 pm.

ELECTRIC

Dick Wanderscheid, Director of Electric Utilities and Scott Johnson, Electric Operations Superintendent, presented the Electric Department budget. Mr. Wanderscheid explained that the electric utility service in Ashland was started in 1909. Mr. Wanderscheid stated that the utility brings in 1.1 million dollars in franchise revenue to the City and that the Electric Users Tax provides 2.6 million.

Mr. Wanderscheid started with the major responsibilities of the department (see attached handout). The responsibilities include maintaining the City's electric distribution system and hydro generator, managing the relationship with BPA and providing community energy programs. Mr. Wanderscheid continued with the structure of the department. The Electric Department has 2 divisions: Electric and Conservation. It was reported that the major accomplishments of FY 06-07 were completing a Supervisory Control and Data Acquisition feasibility study, applying for Clean Renewable Energy Bonds (CREB) for the community solar project, obtaining building designs for the storage building and upgrading the hydro generator controls.

Mr. Wanderscheid followed by discussing the budget over time (see attached graph). Mr. Wanderscheid explained that the variance of the budget relates to the weather. Mr. Wanderscheid also pointed out that there is a significant difference between what was budgeted for 2007 and the 2007 actual numbers. He explained that this is because neither the \$500,000 solar project nor the \$220,000 covered storage building will be finished this year. However, the projects will be worked on this upcoming year and so the converse is true for 2008.

Mr. Wanderscheid also provided a graph depicting the Electric Department's revenues (see page 3 of handout). It was reported that revenues are made up of both miscellaneous fees and the sale of electricity. Mr. Wanderscheid said that the 2008 projected increase is due to a 2% growth in KWh sales, and \$500,000 in CREB sales.

Mr. Wanderscheid explained the distribution of the FY 08 budget. He reported that the majority of the budget (48%) is for the purchase of wholesale power from BPA, 26% is for Materials & Services, 10% is designated for Capital Projects and 16% is for the Salaries & Benefits for the 21.1 FTE in Electric.

The significant budget changes from 2006-2007 include increased capital spending for the solar project and covered storage building, mandated salary increases per union contract, and reduced power costs. Mr. Wanderscheid explained that BPA reduced its wholesale rates and therefore, the Electric Department's expense will decrease by about \$520,000. Mr. Wanderscheid also spoke about the significant and unavoidable increases in material and gear costs. It was reported that materials have increased about 50% from a year ago and that the price has tripled from a few years ago. Mr. Wanderscheid also spoke about eliminating the BPA surcharge and then increasing rates by an equivalent amount. Mr. Wanderscheid said this would be revenue neutral to the Electric Fund but it will generate additional funds for the General Fund. It was

reported this was necessary because BPA is no longer working with a cost recovery adjustment clause and instead, have included those costs in the base rates. The elimination of the surcharge is expected to occur January 1, 2008.

Mr. Wanderscheid ended his presentation with the upcoming challenges (see attached handout). Some of the challenges addressed were the relationship changes with BPA (negotiating new contract), the continued increase in material costs, the installation of a new switch gear at the hydro generator, and completing the community solar project.

Mr. Wanderscheid summarized the overall Electric Department budget as being down and explained that the department tried to stay as flat line as possible. He also stated that they are able to increase costs by cutting into the ending fund balance instead of increasing electric rates. Committee member Everson asked about how the following year will look because of the money being drawn from the ending fund balance. It was answered that the BPA rates should be lower or the same and therefore, electric rates shouldn't have to be increased. However, the situation will have to be reassessed.

Committee member Stebbins inquired about the BPA surcharge elimination and its effect on the General Fund. Mr. Wanderscheid explained that the BPA surcharge is not subject to Electric Users Tax right now. However, if it's rolled into rates, then it's subject to the Electric Users Tax. The impact on the customer is 2% and that extra money will go into the General Fund.

Mr. Gregorio inquired about the CREB revenue. Mr. Wanderscheid said that the vision was to sell the output of the system to citizens (voluntary). The goal is that 80 -100% of the debt service cost of the bonds will be paid by those who take part of the system. The City needs 375 to 400 people to voluntary choose to increase their bill by \$8.50 per month and they will receive about a \$34 payment each year. The bonds need to be sold by December 31, 2007. City Council will be evaluating the project.

Councilor Hartzell inquired about long term projections. It was answered that it's hard to make projections because future BPA rates are unknown.

Heimann/Silbiger ms to accept the Electric budget. All Ayes.

ADJOURNMENT

The meeting was adjourned at 8:35 pm.

Respectively Submitted,
Miranda Iwamoto
Account Clerk II

63 Gresham Street
Ashland, OR 97520
May 2, 2007

Dear Members of the Citizens' Budget Committee:

For your May 17 meeting to discuss the library crisis should the levy vote fail, please consider the following. In the county and city, there **seems** to be a "take-it-or-leave it," "either-or," "all-or-nothing" attitude toward budgets and expenditures that citizens dislike and distrust. The "no" vote on a new firehouse is a recent example. There were no alternatives presented, no compromises considered—just take this overpriced, much too palatial building or leave it.

This time, in the library case, please present us with some alternatives short of the more than \$1 million apparently needed to run the **Ashland Library** and short of yet another burdensome levy that some of my neighbors and **friends** will protest because they can't afford more taxes, or fees attached to utility bills (particularly irksome). Keep the price down through real belt-tightening. Consider keeping the libraries open but with half the hours. Consider staggered days. Consider using and training more **volunteers** to **reshelf** books. Consider fund raisers like that the Southern Oregon **Historical Society** **successfully** conducted recently. Be **imaginative** **this** time. Keep the library open, but voters will respond favorably to a request for **funds** only if a plan of reduced hours and expenditures is presented to them. Otherwise our goal of supporting the library will fail.

More, you need to tell the voters whether the city will still use the levy (assuming it passes) if federal money emerges **from Washington**. That is, citizens will react negatively if you take both the levy and federal monies. Tell them **frankly** that if the federal **funds** are available, you will not put the levy taxes into place. Don't hedge on this question, or you will fail.

Thank you,



Thomas G. Paterson

Information Technology Department City Of Ashland

Proposed Budget for 2007-2008
May 3, 2007



Structure of Department



Information Technology has Three Divisions

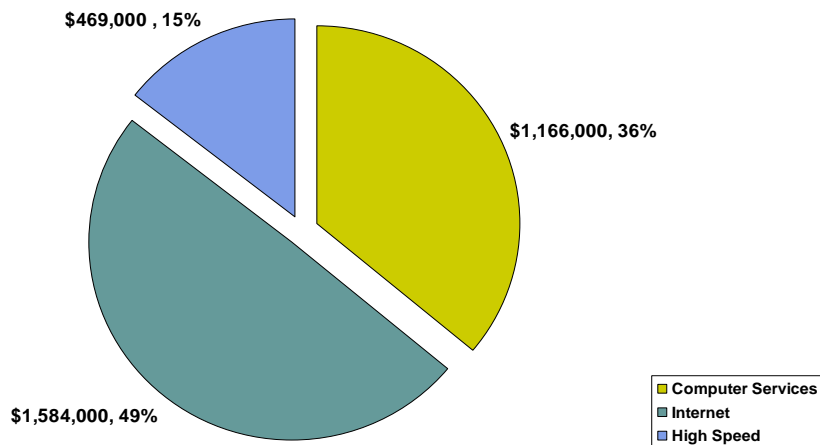
- Computer Services Division
- Internet Division
- High Speed/Data Division

Major Accomplishments in FY 2006-2007

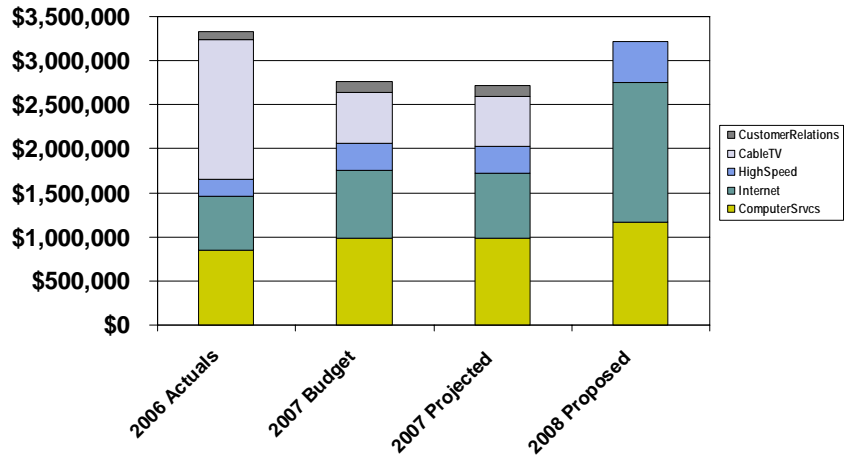


- Restructured the IT Department
- Deployed and Converted to a New, Internally Developed Utility Billing System
- Completed the Transition of the Cable Television Division to a Private Third Party
- Launched Wireless Internet (afnAnywhere)
- Launched Digital Telephone Service (VOIP)
- Formed an IT Steering Committee and Completed a First Draft of the Technology Plan for the City

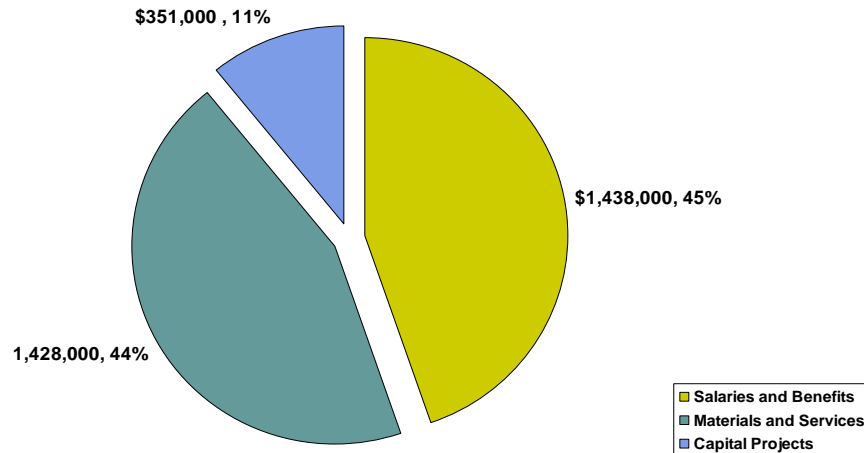
Distribution of Budget



IT Departmental Budget Over Time



Departmental 2008 Proposed Budget

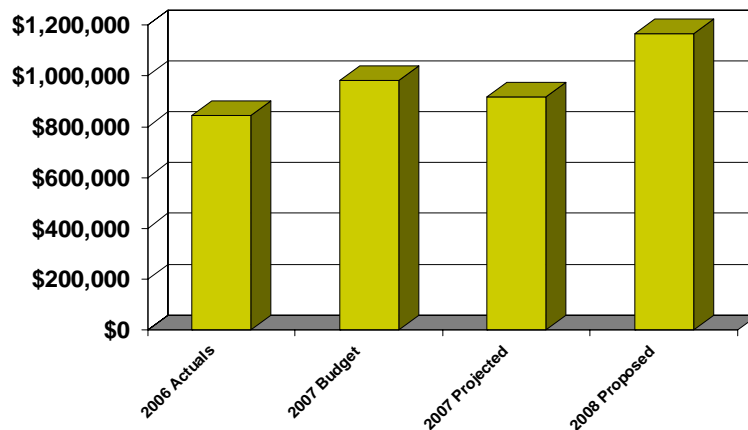


Major Responsibilities of Computer Services Division

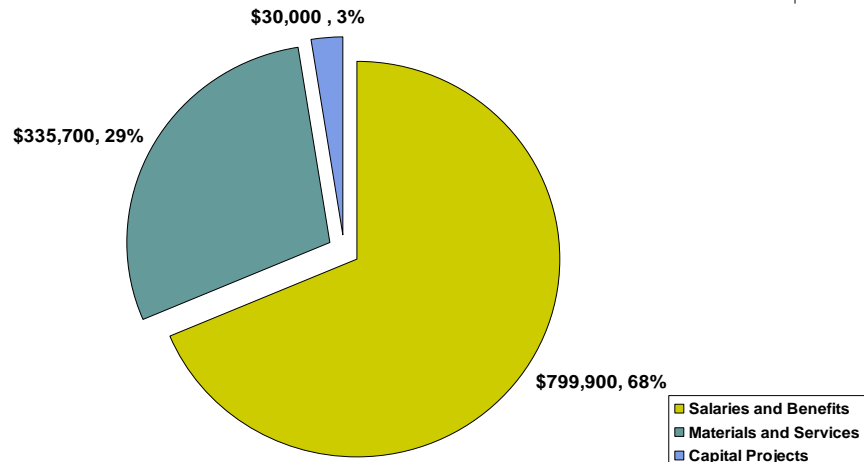


- Support of All City Desktop and Laptop Computers/Workstations (220)
- Support of All City Software Applications
- Support of All City Servers
- Support of City Telephone System

Computer Services Budget Over Time



Computer Services 2008 Proposed Budget

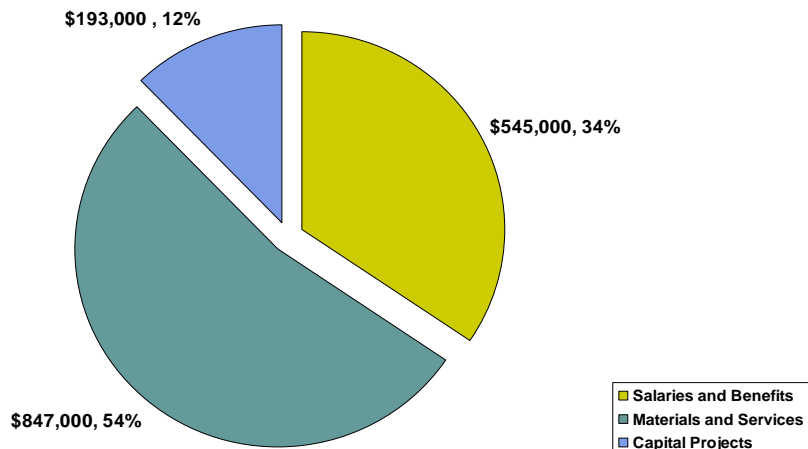


Major Responsibilities of Internet Division



- Installation of Coaxial Connections to Residences and Businesses
- Management of Relationship with Retail Partners
 - Internet Service Providers
 - Digital Phone Service Providers
 - Cable Television Service Provider
- Maintenance of Coaxial Network
- Management of Four Linux Servers

Internet 2008 Proposed Budget

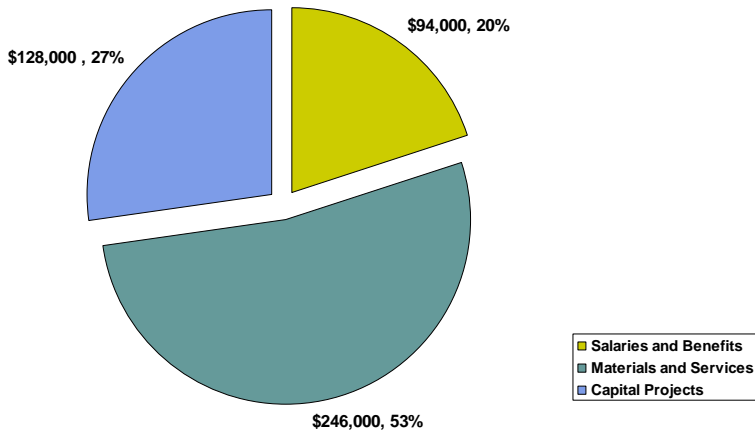


Major Responsibilities of High Speed/Data Division

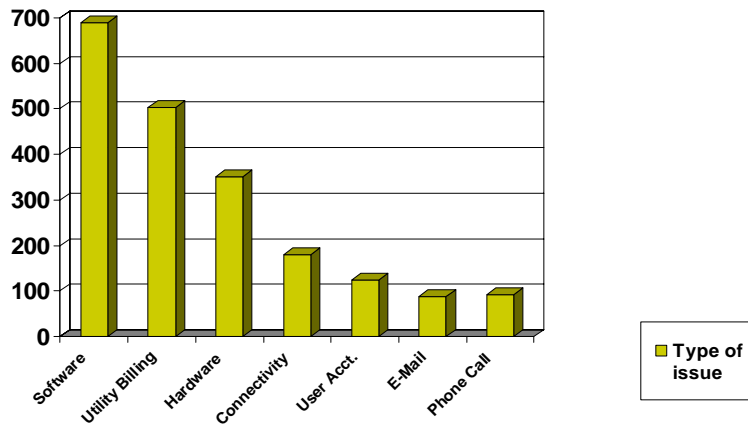


- Sales and Installation of Direct Fiber Connections to Businesses and Residences.
- Maintenance of Fiber Network
 - 17 Miles of Fiber Optic Cable in the City
 - 12 Miles of 48 Count Fiber to Medford (Jointly Owned)
 - 40 Optical Nodes (Each Serves Up to 300 Addresses)
- Management of Seven Linux Servers

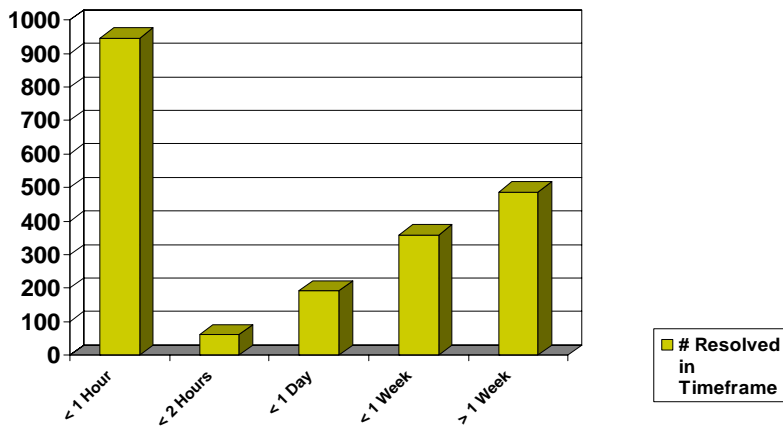
High Speed 2008 Proposed Budget



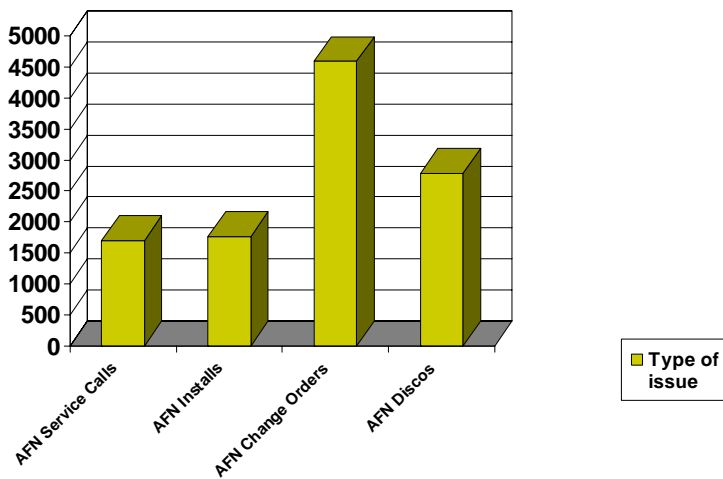
Computer Services Completed Work Past 12 Months



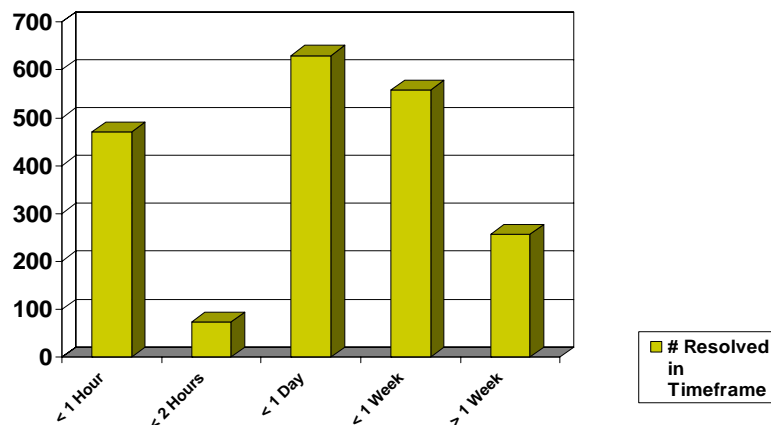
Computer Services Time to Resolution Past 12 Months



Ashland Fiber Network Completed Work Past 12 Months



Ashland Fiber Network Time to Resolution Past 12 Months



Significant Budget Changes From 2006-2007



- Completed Transition of Cable Television Services
- Cable Television Revenue and Expenses are Now Included as a Part of the Internet Category.
- Customer Relations/Promotions Expenses are No Longer Captured as a Separate Item but are Now Applied Appropriately as Part of the Internet and High Speed Categories
- Temporary Telecommunications Technician (AFN) Moved to Employee at a Cost of \$4568.

Challenges for FY 2008



- Major Challenges
 - Re-establishment of Network Health
 - Cable Modem Termination System (CMTS)
 - Switch/Router Replacements
 - Increased Demand for Support (Hardware and Software)
 - Increasing Demand for 24 X 7 Critical Systems Support
- Areas of Focus
 - Continued Integration of City Database Sources
 - Designing and Implementing an Integrated Public Safety Data Network
- Industry Trends
 - Gigabit Ethernet Service Drops
 - WiMax (Next Generation Wireless)
 - Mobile Applications
 - IP Video

Proposed Add for FY 2008



- Increase 0.5 FTE Police Department Computer Support Technician position to 1.0 FTE
 - Budget implication of \$39,786 from the General Fund
 - Remains in APD Budget but under operational control of IT Department
- Add on-call pay to provide 24X7 support for critical technology systems in the City.
 - The estimate of the budget implication is \$3000 - \$10,000 per year and will only be paid as used.

Electric Department City Of Ashland

Proposed Budget for 2007-2008
May 3, 2007



Major Responsibilities of Department/Division



- Maintain the City's Electric Distribution System.
- Manage our relationship with BPA for wholesale power.
- Maintain and operate the City's Hydro generator.
- Provide Electrical Contracting service for the City.
- Provide electric and water use efficiency programs for Ashland citizens and businesses.
- Provide renewable energy programs.
- Provide energy assistance and energy efficiency programs for low income households.

Structure of Department



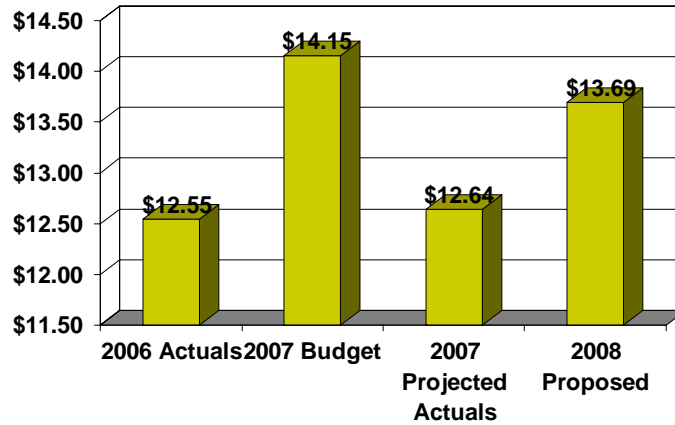
- Electric Division
 - *Supply
 - *Transmission
 - *Distribution
- Conservation
 - *Electric
 - *Water
 - *Air Quality

Major Accomplishments in FY 2006-2007

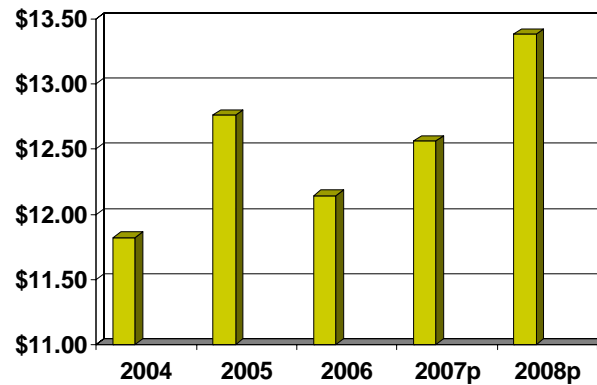


- Completed a Supervisory Control and Data Acquisition (SCADA) feasibility study.
- Successfully applied for Clean Renewable Energy Bonds (CREB's) for our Solar Project.
- Completed design documents for enclosing the Department's covered storage building.
- Began work to upgrade the controls at the City's hydro generator.

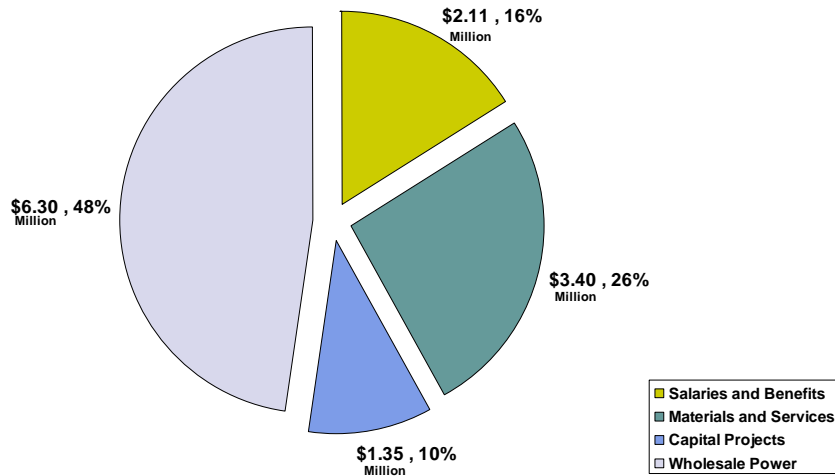
Budget Over Time (million \$)



Electric Revenues (Million \$)



2008 Proposed Budget



Significant Budget Changes From 2006-2007



- Increased capital spending for the enclosure of the covered storage building and Solar project. These were not completed last year so funds are carried over to this year.
- Increased salary and benefit costs.
- Increased electrical material and gear costs.
- Reduced wholesale power costs from BPA.
- FTE's are held constant.
- Elimination of BPA surcharge and increase rates as proposed but not implemented last year. This change is revenue neutral to the Electric Fund but generates additional funds for the General Fund.

Challenges for FY 2008



- Preparation for major changes in our relationship with BPA.
- A continuation of the significant cost escalation of electrical materials and gear.
- Continued work on moving load from the Pacific Power substation on Nevada St. to the BPA substation on Mountain Ave.
- Completion of the Community Solar project.
- Complete the installation of the new switch gear at the City's hydro generator.