

MINUTES FOR THE STUDY SESSION
ASHLAND CITY COUNCIL
Monday, October 6, 2014
Siskiyou Room, 51 Winburn Way

Mayor Stromberg called the meeting to order at 5:30 p.m. in the Siskiyou Room.

Councilor Marsh, Rosenthal, Voisin, Slattery, and Lemhouse were present. Councilor Morris arrived at 5:33 p.m.

Parks Superintendent Bruce Dickens explained the Parks and Recreation Department had encountered several issues related to construction for Ashland Creek Park and had exceeded the 25% limit on amendments to contracts.

1. Public Input

None

2. Look Ahead review

City Administrator Dave Kanner reviewed items on the Look Ahead.

3. AFN Business Plan Presentation and Discussion

Director of IT/Electric Mark Holden emphasized the strategic business plan was not a tactical plan. Staff would develop tactical plans after Council decided direction. There were three potential actions and two courses. Option 1 AFN would move forward with new services to bring in new revenue streams, and provide migration from existing technologies to future technologies, specifically fiber optic. The plan would bring fiber optic to the premise and ultimately extend to residential. Option 2 would maintain the system as is until it was supplanted by a competitor's fiber optic system.

Option 1 fiber to the premise would entail a onetime investment of \$250,000 along with ongoing monthly cost for AFN to go direct and lower the \$14 per mega byte to \$2. Charter paid less than a dollar per mega byte. In addition, AFN would invest in fiber technology.

Option 2 would maintain the system at current levels and still require the investment in the internet in order to do more than break even. Both options required operational costs. Option 1 would require a cost reduction of \$200,000 annually for 3 years. Option 2 required \$150,000 reduction in cost for three years. Staff would also reduce the capital budget and use those funds to purchase new technology. AFN Operations Manager Michael Ainsworth clarified capital budget reductions would allow AFN to maintain cable without upgrading.

Another shift was moving away from marketing segmentation to a solutions value added model. ISP's (Internet Service Providers) served as a distribution channel for AFN and represented a large revenue amount.

Disadvantages for AFN were high fixed cost, the product cost structure, and the distribution channels confusing the customer base regarding service provider. Another disadvantage was how government transparency affected competition.

Mr. Holden went on to explain AFN had a 2-2.5 year window to gain momentum regarding competition. What helped AFN be competitive was being local and AFN's ability to provide local service and support. The investment in internet was good for 10-12 years. The fiber optic equipment was capable of supporting 1,024 customers.

The revenue projection of 5% for the five-year plan was realistic given AFN's position in the current market and the momentum it needed to turn customer loss into growth during that period. It also built in a 5% increase each year. He did not predict a savings in internet costs. AFN would most likely experience a dip then rise back to the current level.

Council comment expressed concern that AFN projections were not realistic since they had not been in the past and thought the focus should be more on quantitative values and reasons to stay instead. Examples included what people would pay for service if AFN did not exist, impacts to local economy if the jobs AFN created ended, the ripple effect of buying local, and the enhancement of the economic development plan.

City Administrator Dave Kanner did not agree on reducing central service charges to fund fiber optic.

Staff did not see the advantage at this time in creating a quasi-public entity to run AFN with the Council serving as a governing body.

City Attorney Dave Lohman would look into the possibility of separating the business of AFN from the City in order to make confidential decisions and still maintain the transparency requirement for government expenditures.

Council thought they should make the decision instead of the Budget Committee, as well as provide opportunity for public input.

Council majority supported staff moving forward with Option 1 and at least Option 2 until more information and discussion occurred regarding fiber.

Meeting adjourned at 7:06 p.m.

Respectfully submitted,
Dana Smith
Assistant to the City Recorder