

**Iowa Telecommunications & Technology Commission
Telephonic Meeting
Grimes State Office Building, 1st Floor
400 E. 14th Street, Des Moines, IA 50319**

FINAL

June 17, 2009

To ensure the most efficient use of State resources, the June 17, 2009, ITTC meeting was held via conference call pursuant to Iowa Code section 21.8. A conference call also ensured more Commissioners were able to participate in the meeting and reduced the risk of delays caused by weather or other impediments to travel. The meeting was accessible to members of the public through attendance at the Grimes State Office Building.

Commissioners Present

Betsy Brandsgard, Chairperson
Robert R. Hardman, Member
Pamela A. Duffy, Member
Michael W. Mahaffey, Member (10:40 AM)
Timothy L. Lapointe, Member

Commissioners Absent

David A. Vaudt, Ex-Officio Member

Iowa Communications Network Staff Present

John Gillispie, Executive Director
Joseph Cassis, Deputy Director
Dave Lingren, Service Delivery Administrator
David Marley, Operations Administrator
Kevin Heinzeroth, Finance Director
Vicki Wallis, Engineering Administrator
Lori Larsen, Administrative Assistant (Recorder)

Guests

Adam Humes, Attorney General's Office

Call to Order

Commissioner Brandsgard called the meeting to order at 10:35 A.M. It was noted that a quorum of members was present for the meeting.

Approval of 5/21/09 Meeting Minutes

Approval of the May 21, 2009, meeting minutes was informally tabled until the July 16, 2009 meeting.

Old Business

OSS RFP Preparation and Status –Joseph Cassis/Vicki Wallis

The Operations Support System (OSS) RFPs have been distributed, and team scoring started June 15. It's a large task, and after reading the responses, everyone is a little excited to get to the demos. Participants that submitted RFPs are: Alcatel-Lucent, Aricent, Comarch, Persistent Systems, Pinnacle/ (PAETEC).

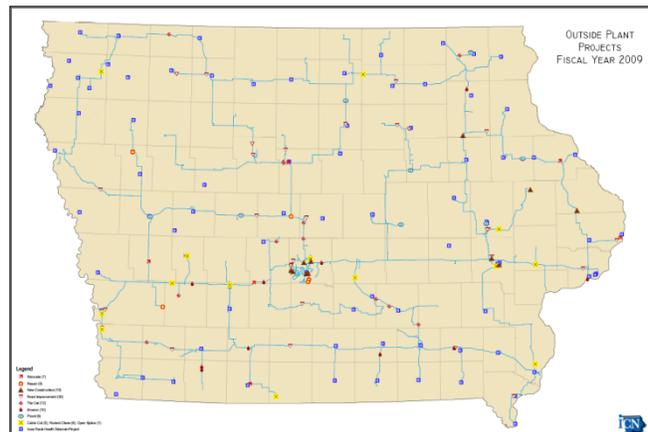
Outside Plant Activity – Dave Marley/Kevin Heinzeroth

The map shows that the ICN is truly all over the state, which can cause maintenance issues. The hospitals are listed for graphical showing for the IHA (Iowa Hospital Association) project. ICN has had a significant uptick in maintenance related and relocation activity in Outside Plant over the last year. The numbers below are through FY date 5/31/09 (leaving June 2009 remaining). Definition of terms:

- *Locates* – making a call to One Call. ICN is charged \$.90 a ticket for each One Call ticket. The ICN usually has just over 50,000 tickets per year.
- *Locates-ICN* – only ICN cable is present.
- *Locates-Joint* – is where the ICN gets a reduced rate where joint cable is present.
- *Relocates* – Department of Transportation requests that ICN moves the cable.
- *Fiber Repairs* – example: erosion, cable repairs around streams.
- *Other* – build outs, fiber connection needs to be made.
- *Easements* – limited right of use of property for state and county.
- *Materials and Consumables* – example: on hand hold / protecting a splice.

The ICN is already above FY 2008 spending levels. Concerning a relocation of the Part II site in Monticello, the ICN is able to obtain some reimbursement, but the net cost will be around \$54,000.

Non-Billable or Eligible for Reimbursement from FEMA or EC		
	FY09 through 5/31/09	FY08
Locates-ICN	455,868.00	567,769.50
Locates-Joint	167,958.00	212,688.00
Relocates	159,318.57	124,939.57
Fiber Repair	230,147.73	92,573.88
Other	22,295.00	1,452.80
Reimbursed from vendor	(7,632.87)	(40,870.18)
Iowa One Call	36,447.30	45,229.50
Easements	1,784.22	1,820.00
Materials & Consumables	4,519.49	21,650.34
	<u>1,070,705.44</u>	<u>1,027,253.41</u>
Billable to Customer		
	FY09 through 5/31/09	FY08
Other installs	1,493.96	-
Materials & Consumables	4,782.12	1,236.10
Fiber	164,116.92	100,921.36
	<u>170,393.00</u>	<u>102,157.46</u>



Financial Update – Kevin Heinzeroth

May Budget Information:

For the month of May, cash before equipment [cash generated after expenditures for operations, but before considering expenditures for equipment] was \$389,957. Approximately \$140,000 was a reimbursement from FEMA for flood damage last year (primarily to fiber). Equipment expenditures for May came to \$684,369 but \$611,000 is from appropriations. For the fiscal year, at this time last year, ICN’s expenditures are ahead of last year’s by about \$80,000. Data services are carrying the ICN through the year, and there are a fair amount of installation charges for this year. The other revenue areas were flat to down, with video being down for the year. Video usage hours for the ICN are about two percent lower with revenues down \$336,000 compared to last year. There may be some USAC reimbursements that has not been received to date, that could account for some video revenue variance. It is normal for video hours to decrease from May to April, due to the beginning of schools’ summer vacation. Last year the ICN had a 49 percent decrease of hours from April to May; this year there was a decrease of 55 percent from April to May.

Joseph Cassis added last year there were a couple huge video sessions, which encompassed some of the leveling out of video numbers towards the end of May.

Below is the budget to actual report for the operations of the ICN through the eleventh month of fiscal year 2009.

VIDEO SERVICES Billings for video services for May 2009 are below billings for May 2008 by \$336,900 and are 12.88% below the May budgeted amount. The ICN has produced 198,585 video hours through May 2009, down from the 202,564 hours produced through May 2008. Higher education and K-12 comprised the majority of the usage.

VOICE SERVICES FY 2009 year-to-date Voice Service revenues for May 2009 are below May 2008 revenues by \$432,590 and are 3.15% ahead of 2009 budget figures. Largest sources of revenue continue to be toll free usage, local access, and inmate calling.

The Budget to Actual report includes several voice production charts to monitor minute production for the last three fiscal years for: 1) Total toll minutes, 2) Regent minute production, 3) Other PBX toll minute production, 4) Feature Group B/D toll minute production and 5) Toll-Free minute production.

DATA SERVICES Gross revenues from data services for May 2009 are ahead of May 2008 year-to-date revenues by \$952,161 and are ahead of the current fiscal year budgeted figures by 0.52 percent.

INSTALLATION REVENUES Installation revenues for May 2009 are ahead of May 2008 by \$268,871 and are ahead of the May budget by 28.31 percent. Installation revenues fluctuate greatly depending upon current spending abilities of our customers. Budgeting is based upon prior year activity and can vary widely from actual.

INDIRECT and G & A EXPENSES Indirect expenses for May 2009 are below budget projections for May 2009 by 8.24percent and are \$173,644 above May 2008 expenditures. Increased indirect expenses are due to increased fiber relocate costs. General and Administrative expenses for May 2009 are above May 2008 by \$130,114 and 14.31% below May budget projections.

EQUIPMENT and EQUIPMENT APPROPRIATION For May the ICN paid \$669,738 for equipment on approved appropriation project expenditures: Blackbox at \$533,602; Hubill at \$68,612; Walker Group at \$26,175; and Graybar Electric at \$24,001 were the major vendors. In addition, \$14,631 was paid to various vendors for approved minor equipment purchases.

2010 Budget Information:

Department of Human Services (DHS)/Iowa Medicare Enterprise (IME) may move their telephone services. If that does occur, ICN has incorporated that in the FY 2010 budget. The revised budget is about \$272,000 lower on overall net for the year. ICN adjusted expenses and revenues in the telephone area; the budget has to balance to zero, therefore, the ICN decreased equipment by that same amount.

Commissioner Duffy asked when the ICN would have resolution about the DHS/IME outstanding issue.

Executive Director Gillispie is working the issue right now. ICN will be working with the Governor's office in the next 10 days concerning this issue.

As far as the Regents, they have pulled their waiver request, however it is expected to come back. Everyone is being pressured by dollars. Dave Lingren added the Regents' initial waiver had some inaccuracies. It didn't

portray the ICN's reduction of long distance rates correctly, and it did not take into account that the ICN provides the local telephone lines for dedicated services at no cost, which Qwest charges for access lines. ICN sent the waiver back to the Regents saying that they needed to recalculate the savings, showing the correct ICN rates, identify the cost for the 18 access lines, reduce their savings by the 18 access lines expense, and then resubmit (if applicable). ICN expects the waiver to be back in 10 days; estimated savings to be \$100,000/yr.

Commissioner Mahaffey asked is there a lot that can be done about this.

Executive Director Gillispie said for certified users, the options are limited based on the administrative rules. The administrative rules discuss a direct financial benefit. The Commission could look at the larger picture about what could happen to all customers of the ICN. For example, if the Commission concluded that loss of business would have a detrimental effect for the remaining customers. The Commission can take that into consideration from the broadest perspective, because that could eliminate any savings for an individual agency.

Commissioner Brandsgard said in the past the Commission has always dealt with waivers only on the facts that are presented to the Commission concerning the impact on the entity requesting the waiver. Executive Director Gillispie talked about trying to broaden the criteria to include other areas that the Commission may factor in, as long as it is under the Iowa code.

Dave Lingren added the Commission may also need to look at any future contractual arrangements that the ICN makes with the providers that would excludes the ICN's customers from being able to purchase at the ICN contract rates.

IOWA COMMUNICATIONS NETWORK FISCAL YEAR ENDING JUNE 30, 2010 OPERATING BUDGET PROPOSAL			
	FY 2009 Actual (Projected to 12 mo.)	Proposed Budget for FY 2010 October 2008	Proposed Budget for FY 2010 June 2009
REVENUES			
Voice Revenues	\$ 9,335,261	\$ 9,065,004	\$ 8,637,669
Data Revenues	18,069,319	18,551,420	18,439,546
Video Revenues	3,482,306	3,677,931	3,430,230
Installation Charges	902,604	1,202,250	835,660
Equipment Appropriation Request	2,190,123	2,211,000	2,211,863
Other Revenues	505,663	602,872	515,124
Gross Revenues	\$ 34,485,276	\$ 35,310,477	\$ 34,070,092
DIRECT EXPENSES			
Toll	439,312	263,751	349,924
Switched Access	1,367,031	1,351,915	1,351,039
Other Voice Direct Expenses	1,745,034	2,022,270	1,588,379
Data Circuit Expenses	6,978,393	7,129,002	6,835,233
Video Direct Expenses/Other expenses	465,538	495,068	467,552
Installation Expenses	631,936	703,750	557,750
Total Direct Expenses	\$ 11,627,264	\$ 11,965,756	\$ 11,149,877
Gross Margin	\$ 22,858,012	\$ 23,344,721	\$ 22,920,215
OPERATING EXPENSES			
System Maintenance and Technical Support	6,670,404	7,853,233	7,607,624
Outside Plant Expenses	1,161,002	1,231,930	1,358,347
Other Operating Expenses	798,684	1,026,279	983,982
Total Operating Expenses	\$ 8,630,090	\$ 10,111,442	\$ 9,949,953
Net Margin	\$ 14,227,922	\$ 13,233,279	\$ 12,970,262
GENERAL, SALES, AND ADMINISTRATIVE			
Personnel Services	8,424,024	9,348,958	8,563,985
Travel	94,103	172,250	200,750
Data Processing, ITE	114,633	96,529	96,529
Other Administrative Expenses	283,758	390,036	1,139,536
Professional Fees	251,807	290,940	440,940
Total G, S, and A Expenses	\$ 9,168,325	\$ 10,298,713	\$ 10,441,740
Net Cash (Deficit) from Operations	\$ 5,059,597	\$ 2,934,566	\$ 2,528,522
EQUIPMENT PURCHASES			
Network (net)	5,059,597	2,934,566	2,528,522
Net Equipment Purchases	\$ 5,059,597	\$ 2,934,566	\$ 2,528,522
Net Cash (Deficit)	\$ -	\$ -	\$ -

Iowa Communications Network Voice Budget FY 2010			
	FY09 Actual (Projected to 12 mo.)	FY10 Projection October 2008	FY10 Projection June 2009
Revenues:			
Interstate Usage	373,539	192,390	269,034
Intrastate Usage	1,050,839	784,696	593,200
Toll Free Revenue	1,289,553	1,288,396	1,083,295
Voice Conferencing	357,227	351,329	511,322
Credit Card Revenue	42,670	40,239	40,163
Directory Assistance	7,758	14,156	5,242
International Services	37,783	1,779	1,168
PIC line charges	177,960	171,570	171,570
Inmate Calling Services	1,783,562	1,662,077	1,855,681
USAC Fees	64,144	47,851	82,070
E911 Services	49,862	49,272	49,862
Line Side Services	4,071,143	4,437,130	3,942,407
Voice Pass Through	33,365	36,632	36,632
Credits	(1,168)	(2,976)	(1,000)
Negotiated Credits	(2,976)	(9,537)	(2,976)
Total Revenue	9,335,261	9,065,004	8,637,669
Direct Expense:			
Interstate Toll	116,435	45,166	78,207
Intrastate Toll	322,877	218,585	271,717
Switched Access	1,367,031	1,351,915	1,254,424
PIC Costs for Inmate Calling Services	513,600	513,600	513,600
Toll Free Service	230,312	530,403	184,293
Voice/Web Conferencing	263,493	209,606	289,602
Credit Card Services	30,817	31,944	30,241
Directory Assistance	15,662	12,214	17,721
PIC charges	19,881	22,344	19,152
International Services	21,364	1,938	1,398
Payments to Universal Service Fund	158,411	164,109	97,570
ICN Overhead and Extensions	216,182	221,299	221,540
Line Side Services	170,596	204,276	204,035
800 Per Call Compensation	20,284	25,126	20,430
E911	50,610	48,779	48,779
Voice Pass Through	33,822	36,632	36,632
Total Direct Expenses	3,551,377	3,637,936	3,289,342
Gross Margin	5,783,884	5,427,068	5,348,326
	62.0%	59.9%	61.9%

Capital Expenditures - Vicki Wallis

This is an update on the appropriated projects that ICN currently has. Information includes FY 2009 and FY 2010.

Projects related to USAC (Universal Service Administration Company) reimbursement:

FY09 Telephone upgrades – All equipment has been ordered, and the first location (ICN NOC [Network Operations Center] at JFHQ [Joint Forces Headquarters]) was upgraded without major issues. There are two other big installations with about 100 phones scattered throughout the Complex that are planned for this phase.

FY10 Telephone upgrades – The estimate and ordering process takes several months. The ICN has requested an estimate so that the remainder of the Capitol Complex can be completed with FY10 funding. ICN expects the equipment to arrive in the November timeframe. Essentially, the Lucas building is the only building that remains for the upgrades. The other locations with remote shelves will follow as funding permits.

FY09 Equipment Replacement/FY10 Equipment Replacement – Some core switches and routers were replaced with FY09 funding. The remainder of FY09 and FY10 is intended to focus on edge and aggregation device replacements – removing as many Terawaves that provide data with better edge switches, and replacing the Terawave transport functionality with the same switches where the ICN still needs them for video. This transition will get the ICN over the peak of ATM-IP traffic, as the balance will switch to IP with this conversion.

Additional Funding

Capitol Complex Redundancy – FY09 Focus is on the transport. This first phase provides for installation of a 10 G redundant Network on the Complex. Project initiated to find out how long it would take to restore services to the capital complete if an outage occurred at the Lucas Building. The edge devices are now under contract, and the core gear is being turned up now that the power has been installed. There remains one small section of fiber to be added. This project is expected to be complete in September 2009.

Capitol Complex Redundancy – FY10 – Voice – This phase moves the shelves of the voice switch to the buildings they serve – reducing the reliance upon the Lucas Building and connectivity to the Lucas Building to remain intact. This will be a huge undertaking, requiring a lot of wiring. A building-by-building analysis has just begun to determine the scope of work that needs to go out in an RFP to get the buildings wired to terminate phone service in the FOT (Fiber Optic Terminal) room (few of them have the terminations in the FOT room today). This work will be contracted out, similar to new building installations, and supervised by ICN personnel. It is the ICN's goal to have this RFP awarded by the end of the year.

Executive Director Gillispie asked as the ICN completes the Capitol Complex Redundancy work, what will happen with the copper cable in the tunnels.

Vicki Wallis added most of the copper cabling provides the telephone service, so the ICN can have that removed. That is one of the questions the ICN has as the RFP is written; does the ICN want the company moving the phone switches and completing the cabling to actually remove the cabling when it is moved. There are some circuits the ICN has that are not related to the phone service that are in that bundle, so the ICN will need to possibly run a smaller bundle, or find alternative means to provide the services. The goal is to remove the vast majority of the copper cabling that is located in the tunnels.

Generators – FY10 – This RFP is partially written. Currently, the focus is on determining the right order for the installations to occur, so that electrical work can be completed ahead of time. The generator replacement not only includes the generator, but also separation of power and signal cabling (per the code change), and any

work to insure the pad/tank are level, etc. The ICN is also working on how comprehensive the resulting contract is to be. A single contract is easier to manage, though will probably be more costly than working the electrical separately. The ICN expects these decisions to be made and this RFP to be released in late July.

Federal/State Economic Stimulus Package Update – John Gillispie

Neither the NTIA (National Telecommunications and Information Administration) nor the RUS (Rural Utilities Services) have issued their rules yet. The lobbyists in Washington D.C. say the most frequently occurring date that notice of funding availability will be released is more than likely is June 24 (still an estimate). The ICN did take a look at requests for projects from the Department of Energy. Unfortunately the way the funding availability was written, it had to be new technology. Department of Energy was looking for projects like fly-wheels, ultra-large capacitors, natural gas reformers; or technology that is not deployed commercially. The NOFA (Notice of Funding Availability) was written; the ICN does not qualify for any of the funding projects. The ICN wanted to replace end of life generators, replacement of back-up batteries, and power equipment (AC to DC). Unfortunately none of those projects appear to qualify under the guidelines from the Department of Energy. ICN continues to look at replacement of efficient cooling equipment; however the ICN will need to follow the Department of Energy regulations. At this point, the ICN does not see any projects on the energy side. The ICN is continuing to monitor the federal grants for telecom, and until those rules are written the ICN will not know if there are opportunities in those areas.

As far as the internal state group (funded under IJOBS), the committee/ICN sent out notifications to all of the groups' public representatives for representation on the committee. There is no name for the committee; ICN has proposed a name for the committee. Executive Director Gillispie received the first reply from the cable association on who they will nominate as their representative; however they need to submit their paperwork by June 30. The committee is currently working on building the draft administrative rules. The committee/ICN is formulating much of the proposed administrative rules; the committee would need to adopt them. The administrative rules are based loosely on the Power Fund rules. Until the rules are adopted they would not be in force, although it is believed that these administrative rules may qualify for emergency filing.

As far as the first committee meeting, the target meeting date is the week of July 26. The committee hopes to select the members in conjunction between IUB/IDED within the first 10 days of July, and notify applicants soon after that. The ICN is meeting with IUB/IDED to nominate the members, and the committee will be working closely with the Governor's Office. IUB/IDED will nominate their members within the next ten days.

Part III Review – John Gillispie

In FY 2009, the ICN had 101 sites up for renewal, 63 sites were bid on by private sector bidders. The number of sites with more than one bid was zero (ICN had no competition on all Part III sites). ICN sole source 35 sites, three sites ICN had a renewal available that was exercised. The change in the monthly cost was \$2,636 a month, due to a telephone company, Cascade, dropping their rates from \$3,331 to \$1,000 a month.

In FY 10, the number of sites up for renewal 53, number of sites actually bid on was 42. The number of sites with more than one bid was 30. There were only two vendors who bid. The number of sites that the ICN had to sole source was 11. The change in monthly cost was \$5,990, for an increase of \$71,880 dollars a year. In addition, Adesta has indicated to the ICN that they wish to aggregate all of their individual annual contracts into one co-term contract. Adesta also intends to increase the ICN rate by \$2,887 a month or \$34,000 a year. The ICN cost increase in FY 2010 exceeded \$100,000 for Part III.

For FY 2011, 25 sites need a bid. ICN completes the bidding process early since USAC estimates are needed by October for the Department of Education. Executive Director Gillispie believes that for Part III the Code currently requires the Commission to purchase DS3 or dark fiber. That does not give the Commission/ICN the opportunity to look at alternative technologies that may be more cost effective than the way the ICN currently is handling Part III. By dictating technology in the code, the ICN is not able to keep up with our end users. Executive Director Gillispie would like to pursue, with the Commission's approval, in the ICN's legislative package in FY 2011, is to change that language to say, for example: the Commission will pursue connectivity as appropriate for the end customer's need, but will not pay for more than 45 MB, as that is what the limitation has always been regardless of the technology. By changing the language the ICN would no longer be dependent on a specific technology, but take advantage of some of the newer services that private sector players have deployed.

Commissioner Hardman asked what objections are anticipated from the local telecoms if the Commission proposes the language?

Executive Director Gillispie said that he hoped that they find it much more agreeable. Today their primary concern is that they don't want the Commission to have the option of building more facilities. The ICN isn't proposing that the Commission have the option to build, but have the option for selecting alternative technology. Executive Director Gillispie is hopeful that there will be less resistance to the change.

Commissioner Duffy added that this is a great way of trying to plan for the future. This type of idea is supported.

Healthcare Network Update - Dave Lingren

Below are the three primary areas that the ICN is working on at this time.

FCC approval of the pricing: ICN pricing was submitted for charging the hospitals Ethernet and data services. The first time submitted, the FCC asked the ICN for a demonstration of the pricing to customers. ICN could not provide that information, ICN does not have wholesale customers, who provide their own fiber and equipment for the switching and electronics. It is a unique set of customers. The FCC then asked could other customers of the ICN get the rate? ICN response was yes, any authorized user of the ICN that is willing to make the investment of the fiber and provide their own electronics; the customer could get the wholesale rate. The information has been submitted for the USAC rule requirements for E-rate reimbursement.

Fiber contraction contracts: Four vendors were selected for contracts by the Iowa Hospital Association (IHA). There are 85 entities that will be served, and only 66 need to be built out at this point. IHA has awarded three of the four contracts. The three approved contracts have been submitted to the FCC to receive funding. It takes a while to get the funding approval back from the FCC. The remaining contract has an issue that IHA preferred buried fiber. There are 16 sites that involve aerial fiber. The IHA is not making the decision concerning aerial fiber, they are turning it over to the steering committee of the hospitals to make that decision.

Equipment contract: IHA awarded a contract to Alcatel-Lucent as the provider, for the equipment (electronics) that does the switching for the health care network. IHA is in the process of working on the final contract configuration (original designed for 92 locations). With only 85 hospitals participating, some of the information needs to be reconfigured (equipment designed through the Network). IHA can't execute the contract with a vendor until the reconfiguration is completed. IHA hopes to have the contract executed within the next 10 days.

New Business

None

Other Business

Commissioner Duffy asked if there has been any communication with Representative Doris Kelley since the November 2008 meeting.

Executive Director Gillispie said he recently attended a meeting in the Waterloo area to talk with the Cedar Valley Alliance along with Representative Kelley about the Federal Broadband Grant Program. ICN continues to have good relationship with Representative Kelley. She was one of the driving forces behind the portion of the IJOBS program for telecom.

Executive Director Gillispie said the ICN is as busy as it can get. Between the OSS RFP, end/beginning of fiscal year; there isn't an idle moment. Outside Plant has a number of projects. The ICN is starting to see the wave of retirements. Some of the individuals will be difficult to replace due to their institutional knowledge.

Commissioner Brandsgard added that she hoped the Commissioners found it helpful to have Executive Director Gillispie recap the major projects in a memo. There is so much going on, it is important to remember the top priorities.

On Site Meeting

Commissioner Brandsgard said the May meeting was valuable to Commissioners. It was a nice change to interact with staff and everyone face-to-face. It is encouraged for the Commission to have meetings in person at least twice a year. The September meeting would be beneficial since rate settings will be discussed, and it is the first get together after the fiscal year begins in July.

Executive Director Gillispie encouraged the Commission to meet in person during the rate setting meeting and Employee Recognition. It is very helpful for all of the team members here to meet the Commission and interact. The September meeting is important since it is also the time the budget is approved. Since the ICN is seeing increasing pressure with budget issues, it is important for the Commission to be as engaged as possible. Commissioners were asked to check their availability for an on-site September meeting.

The ICN website has been updated with a new video of the Commissioners. Also various photographs have been added to the ICN website.

Adjournment

Commissioners Mahaffey and Duffy made a motion to adjourn the meeting. There being no further business, the meeting adjourned at 11:26 AM.

ATTESTED TO:



Betsy Brandsgard, Chair, Iowa Telecommunications and Technology Commission