

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

FINAL

November 18, 2010

To ensure the most efficient use of State resources, the November 18, 2010, ITTC meeting was held via a video conference pursuant to Iowa Code section 21.8. A video 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
Pamela Duffy, Member
Robert R. Hardman, Member
Timothy L. Lapointe, Member
David A. Vautd, Ex-Officio Member

Absent:

Michael W. Mahaffey, Member

Iowa Communications Network Staff Present:

Dave Lingren, Executive Director
Kevin Heinzeroth, Chief Financial Officer
Deb Evans, Telecommunications Administrator
Phil Groner, Service Delivery Manager
David Marley, Engineering & Operations Manager
Tami Fujinaka, Government Relations Manager
Alexis Slade, Administrative Assistant (Recorder)

Guests:

Aaron Beckerman, Iowa Network Services
Meghan Gavin, Assistant Attorney General
Joe Hrdlicka, Iowa Telecommunications Association
Mark Johnson, Department of Administrative Services
Marcia Tannian, Legislative Services Agency

Call to Order

Chairperson Brandsgard called the meeting to order at 8:00 am. It was noted that a quorum of members was present for the meeting.

Approval of 9/2/2010 Meeting Minutes

Commissioner Duffy moved for approval of the September 16, 2010, meeting minutes; Commissioner Hardman seconded the motion. A roll call vote was taken; Minutes approved.

Commissioner Duffy – Yes
Commissioner Hardman – Yes
Commissioner Lapointe – Yes
Commissioner Brandsgard – Yes

Old Business

BTOP Grant Update – David Marley

The Environmental Assessment (EA) has one last piece that needs to be completed by the ICN. There are no concerns with our sub-recipient Decorah. The ICN has completed the two reports that were due at the end of the quarter, October 2010. ICN is two percent complete within the overall project. During a review with ICN associates at Fiberutilities Group (FG) we estimate being at about 40 percent complete with the comprehensive plan which will identify milestones that need to be completed over the life of the project. There is one technical RFP that is due to be issued on December 4, 2010, which is on track and the final draft is circulating. At this time the project appears to be going well and ICN doesn't foresee any major issues.

The EA is important because it has to be completed before the ICN can utilize any of the federal funds from the BTOP grant. The requirement is that the EA be completed by Dec 31, 2010. ICN is on track with meeting that deadline and no problems are foreseen. At this time there is an RFP for replacement of the core equipment that's in the final review and is set to be issued. ICN has to include federal contract reporting language within this RFP and within contracts which requires adding stipulations such as the Davis Bacon Act and Buy American requirements. For the Dense Wavelength Division Multiplexing (DWDM) contract all participants of BTOP received a waiver, for buying core network equipment, from having to comply with the Buy American requirement because it's impossible to find the type of equipment that's in networks solely manufactured within the US. Any other contracts the ICN has in place will have to be amended to include these requirements. If vendors aren't open to having the contracts amended to include the Federal language then the RFPs will have to be re-issued and the contracts re-bid. Last week Joe Cassis, Kevin Heinzeroth and Mike Cruise traveled to Washington, DC to meet with BTOP grant representatives. The conference was organized by the National Telecommunications and Information Administration (NTIA) and it included other federal groups involved in BTOP from agencies like the National Oceanic and Atmosphere Administration (NOAA) to the Department of Commerce.

Q –Is there anything the commission needs to be aware of from a policy standpoint as far as the BTOP grant?

A – Currently legislation limits the ICN from entering into any one contract that is over \$2 million. The core equipment purchase will be over \$2 million alone, so ICN will need to obtain legislative authority to make those purchases.

Q – How far along is the ICN in working with legislative committees on this approval or with those at our State Capitol for that legislative change request?

A - There is no action on this right now. Due to the re-election campaign there was no time to address these issues. The ICN tried to reaching out legislators but they were either distracted or there was no guarantee that the ICN would be dealing with the same group after the election. The ICN will be issuing the RFP but there will be no award until ICN receives legislative approval.

New Business

Review 2011 ICN Budget to Actual Financials – Dave Lingren

When looking at the ICN's net cash in the month of October 2010, and the previous month, it shows that our deficits doubled. A year to year (October 2009 to October 2010) analysis shows that ICN's net cash diminished. ICN had a positive net cash of \$200,000 which diminished to \$70,000 net cash. For October 2010 ICN's net cash for equipment was \$598,000. ICN is at negative \$660,000 for this period ending October 31, 2010. This was an anticipated event. An area that should be analyzed is the revenue. ICN's video revenues historically have been declining steadily in the traditional MPEG video. It is well known that IP video, video conferencing and similar services are being used more and more by education. Over the past two to three years voice revenues have been steadily declining as well. Some of the decline was caused by the state of Iowa's early retirement program. The early retirements reduced the number of telephones sitting at desks, so ICN had disconnects associated with that. The Department of Administrative Services (DAS) did move forward with their cell phone plan in a limited manner, so there's been disconnect requests as a result of that. Just this last month alone there's been \$16,000 worth of disconnects issued. There's also a policy the current Administration has in place that allows state agencies to buy services independently. All these events have impacted ICN

revenue in the voice categories in a negative manner. The ICN is losing about \$110,000 a month in voice revenue. Reinstall revenues are down because of budget cuts that took place nationally over the past couple of months. ICN's maintenance contract with PAETEC increased by 15 percent as scheduled. ICN is starting to see some of the BTOP expenses. ICN teamed up with FG and some of those expenses have started to occur. One of the things ICN will be exploring and potentially bringing to the Commission in January 2011 is a proposal to raise the rates for the line side voice services for the Capitol Complex.

Regarding the Iowa Rural Health Telecommunications Project (IRHTP), the hospitals are starting to come online at the rate of about two per week. ICN will begin to gain revenues from this starting up as early as the December 2010 billing period. At the Iowa Health Systems (IHS) contracted locations, one of the data centers has been turned up. That will be new revenue for the ICN, which will come in the form of pre-payment. The ICN will get five years of prepaid monies up front for every location that's turned up. Some of the funds will need to be deferred for maintenance. ICN also has the 470 Universal Service bid activities with the schools that are now being processed and will result in potential data growth.

Q – It was mentioned that expenses were beginning to be recognized from BTOP. Can you explain the revenues from BTOP and how it will affect ICN's budget?

A – ICN's model shows that within five years of the build out funded by the BTOP grant, ICN will break even and will earn revenue by the time the project is complete. ICN is responsible for 30 percent of the expense, so a lot of that money is being paid to the telephone companies of those IRU's, so ICN has that up front expense. It'll probably be a good year into the project before ICN has revenue coming in.

Current operations are not expected to support the BTOP upgrade. ICN has cash on hand from previous years that have been accumulating because of the need for network upgrade. That money is going to be used for ICN's share of the equipment purchases on the BTOP, so our actual operations going forward will not be used to support the BTOP upgrade.

Q – When you first discussed the loss of the land lines on the Capitol Complex and the transition of cell phones there was a host of problems outlined with regards to customer service, responsiveness, etc. Is there any way to gauge if that's actually happening as DAS goes forward and is there any way of recuperating any of that or restoring some landlines? Is that money the ICN will ever see again?

A – Yes, there is a definite potential to recuperate some of those land lines. DAS will require everyone to go to cell phones and there's the allure of having something that's not connected to a wire, which is the future. But in today's environment, because there is no unified communications approach being taken, what will be found by the user is they'll enjoy having the phone on their hip and mobile, but citizens will find it more and more difficult to communicate with those people and coverage issues will take place. ICN is working with the private sector on the concept of bringing unified communications to the Capitol Complex that will allow a wireless phone to work within the land line concept in an integrated call functioning environment. Once that's been accomplished there won't be a need to return to a land line phone.

Approval of Maintenance Contract– Kevin Heinzeroth

Each year, pursuant to the code of Iowa, Chapter 8D33G, the Iowa Telecommunications and Technology Commission (ITTC) is required to review existing and prior maintenance contracts to determine the vendor capabilities to perform the obligations under such contracts and report recommendations to the general assembly concerning continued funding of such contracts. The major contract under review is the Part I and Part II maintenance contract between the ICN and PAETEC (formerly McLeod USA) for maintenance and operational support of the state owned portion of the network. This contract is reviewed monthly by ICN's Operations staff, and there are metrics written into the contract PAETEC must meet in order to receive full payment. PAETEC has been meeting those metric requirements, so their review is favorable. ICN also has major contracts for Part III services, which are the leases for Part III connections for the schools and

libraries. ICN has been following the set procedures of bidding these contracts out competitively as they come up for renewal. ICN has no contracts that we find to be problematic and there are other maintenance contracts that the ICN reviews on a consistent basis and rebid yearly when necessary.

Q – In terms of the BTOP grant, does ICN anticipate any changes going forward or need for other maintenance contracts or services from these vendors?

A – The BTOP grant will require that we amend contracts to meet federal regulations. The vendors must meet the product requirements that they be made in America. For the construction projects vendors must meet the Davis Bacon Act requirements of offering appropriate wages. There are also internal requirements the ICN must follow when issuing new contracts. Anyone who reviews an RFP must sign a document stating they have no financial interest in the companies that are being reviewed. BTOP will cause some changes in existing contracts and new ones going forward.

Q – A year or two ago it was mentioned that maintenance could be done in house if major changes were made. Is doing this type of work in house no longer an option or is it being considered a valid option at this time?

A – The expense part of it is that once you start hiring your own employees you do so under state contractual arrangements. You'd have to include step increases and benefit packages. Revenue stays pretty flat but you have an upward incline in expense portfolios which becomes problematic. There are also liability issues, with items such as trucks, vehicles, maintenance, tools, etc. From an expense standpoint the ICN could never get it to work out on a bottom line.

Q – Has there been any recent financial changes with PAETEC in terms of part 1 and 2 maintenance contracts?

A – ICN is currently in negotiations with PAETEC for the upcoming four year renewal. The terms of agreement in the original contract stated that over the life of the entire contract PAETEC is allowed a maximum 15 percent maximum increase. PAETEC chose to take that 15 percent at the beginning of this last renewal which occurred on January 1, 2010. ICN anticipates, with the additional work required of the BTOP grant, there will be some negotiations for some additional fees to be paid for installation but as for the major contract itself they took the entire 15 percent so by agreement of the contract PAETEC doesn't have the option to ask for an increase over the next four years.

Commissioner Duffy moved approval of the maintenance contracts; Commissioner Lapointe seconded the motion. A roll call vote was taken; Motion approved.

Commissioner Duffy – Yes
Commissioner Hardman – Yes
Commissioner Lapointe – Yes
Commissioner Brandsgard – Yes

Legislative Update - Dave Lingren, Executive Director

ICN will be requesting the authority to go above the \$ 2 million purchasing limit as well as to continue the Capitol Complex phone system upgrade. ICN will also request funds for equipment appropriation, which is something requested yearly. On the ICN website individuals can find a booklet that contains a snapshot of the ICN. ICN wants to distribute this handbook to every legislator. It explains the value proposition and story of the ICN. ICN has met with some of the representatives from LSA and some legislative staff in August 2010, and gave them a preliminary draft copy of the ICN booklet. These booklets are being distributed to the House members, the Senate members and to the Governor-elect's staff.

Public/Private Partnership – Dave Lingren

Lingren has met with most leaders of the private sector telecommunications industry in Iowa. There were several common themes amongst the telecommunication companies including a belief that the ICN poses a threat to their companies. Most of it has to do with ICN's governing structure. ICN is an independent agency ran by a commission, as such we could operate as a private corporate entity. ICN's actions cause these companies some concern at times due to events such as winning the BTOP grant. The telecommunication companies do fundamentally believe that government has the right to serve government and that education in some ways does function as an entity of government. Lingren's vision of a public/private partnership is not to turn the ICN over to the private sector, because ICN represents a value. The ICN can serve the government in a secure and closed manner. However, there are technologies that are knocking on the door where we cannot financially invest in them all. ICN's consumer base will soon be asking for those technologies to be delivered. The only way ICN can bring those technologies to the forefront is through a public/private partnership where the ICN would become more of a broker of services. Lingren is requesting that the Commissioners give authority to ICN management staff to continue down this path and explore these opportunities.

Note: The commissioners expressed their approval of this approach.

Rural Health Initiative – Dave Lingren

The core backbone is up and work is being zoned by the rural healthcare group AHA Advantage. Two backbones per week are being added to bring those hospitals up. The target is to turn up 31 hospitals by the end of March 2011.

Q – When these hospitals are brought on there's a revenue uptake at the same time; is it significant and is it set by a specific site, or is there a standard revenue amount?

A – Revenue is generated by specific site. Each hospital being connected will have the availability for one Gigabyte. Depending on how much bandwidth is ordered will determine how much revenue is generated. Connectivity will be strictly data enter connectivity at this time. It isn't ICN's network, but the hospitals network and they're using ICN's backbone. When the project has been completed ICN anticipates just under \$2 million a year of revenue.

Certified User Waiver Requests - Phil Groner

ICN has one waiver request for internet service.

1. Northwestern College

ICN has three waiver requests for long distance service.

1. Buena Vista University
2. Morningside College
3. St. Ambrose University

Discussion:

Northwestern College currently receives 30 megabytes of internet from a local provider on a month to month basis at a rate that is better than the ICN's rate. In addition to that our network has a capacity issue at their location; we can only provide 10 megabytes of internet. Based on those two factors ICN recommends approval.

Buena Vista University is requesting a waiver because the ICN is unable to provide caller identification for outbound and inbound long distance calls. Morningside College and St. Ambrose University are both waivers that were put on hold during the September 16, 2010, ITTC meeting because ICN's rates were competitive with what they were providing. Over the course of the last 45 days ICN worked with both entities and what was discovered is that their rates are based on direct connection, meaning they have T1 lines leading from their facility to the vendor providing their long distance services. In order to provide that

service ICN would have to provide the same facility originating in Des Moines, Iowa, which would incur a cost. Based on those aspects the ICN is recommending approval of these waivers.

Q – Are some of these waivers resubmissions from the one that Iowa Association of Independent Colleges and University's (IAICU) submitted and now are being looked at individually?

A – That's correct. Both Morningside College and St. Ambrose University were on the original list submitted by IAICU. The submittals by IAICU could not be accepted because they are not an authorized user, so therefore could not make such requests.

Commissioner Duffy moved approval of all waivers as presented by ICN staff; Commissioner Hardman seconded the motion. A roll call vote was taken; Motion approved.

Commissioner Duffy – Yes
Commissioner Hardman – Yes
Commissioner Lapointe – Yes
Commissioner Brandsgard – Yes

Video Services – Phil

ICN's Video Service project team was put together to review strategies, concepts and potential services to move the network IP based video content services. During the month of November 2010, the Video Service team presented a service plan proposal to ICN management which included some basic concepts, network overviews and options for some potential services. It also included a return on investment analysis. Lingren has asked the team to re evaluate the ROI analysis in a different format which will be the basis for any potential services and costs for services. The Video Service team has worked with Belle Plaine community school district (CSD) on a trial location for this service. This location is not on the ICN network so they are black connected for purposes of IP video.

Proposed Meetings

The following are the proposed dates and times for future ITTC meetings for the year 2011:

January 20, 2011, Grimes State Office Building, 9:00 a.m.
February 16, 2011, Telephonic, 10:30 a.m.
March 17, 2011, Grimes State Office Building, 9:00 a.m.
April 20, 2011, Telephonic, 10:30 a.m.
May 19, 2011, Grimes State Office Building, 9:00 a.m.
June 15, 2011, Telephonic, 10:30 a.m.
July 21, 2011, Grimes State Office Building 9:00 a.m.
August 17, 2011, Telephonic, 10:30 a.m.
September 15, 2011, Grimes State Office Building, 9:00 a.m.
October 19, 2011, Telephonic, 10:30 a.m.
November 17, 2011, Grimes State Office Building, 9:00 a.m.
December 21, 2011, Telephonic, 10:30 a.m.

Role of Commissioner Mahaffey

Commissioner Mahaffey will be completing his service on the commission by the end of 2010. Mahaffey will be working in a role that will not allow him to be in an IPERS served position, which the commission is, so the ITTC will be losing Mahaffey as a colleague. The Commissioners requested that ICN staff compile a letter the ITTC and ICN to stress our sincere appreciation of Commissioner Mahaffey's service. In the past a luncheon

has been held for outgoing members of the Commission which might be appropriate for Commissioner Mahaffey. A luncheon could be held with conjunction of the January 20, 2011, ITTC meeting.

Q – Do the Commissioners ever propose candidates to they feel fit the requirements to fill vacancies?

A – That has been done in the past. If any Commissioners want to recommend an individual for the position send their names to Chairperson Brandsgard who will compile a list to send over for consideration. Most board and commission appointments happen in the March-April timeframe.

Adjournment

Lapointe moved that the meeting be adjourned; Duffy seconded the motion. Motion approved unanimously. There being no further business, the ITTC Commission meeting adjourned at 10:18 am.

ATTESTED TO:



Betsy Brandsgard, Chair, Iowa Telecommunications and Technology Commission