

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

FINAL

September 16, 2010

To ensure the most efficient use of State resources, the September 16, 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, Interim Executive Director
Kevin Heinzeroth, Chief Financial Officer
Deb Evans, Telecommunications Administrator
Phil Groner, Interim Service Delivery Administrator
David Marley, Telecomm Administrator
Tami Fujinaka, Government Relations Manager
Lori Larsen, Public Relations Manager
Alexis Slade, Administrative Assistant (Recorder)
Jontell Harris, Intern

Guests:

Marcia Tannian, LSA
Roger Adams, QWEST

Call to Order

Chairperson Brandsgard called the meeting to order at 10:12 am. It was noted that a quorum of members was present for the meeting.

Approval of 9/2/2010 Meeting Minutes

Commissioner Hardman moved for approval of the September 2, 2010, meeting minutes; Commissioner Lapointe 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

ICN is partnering with two grant sub-recipients of the federal grant which is funding the “Bridging the Digital Divide for Iowa Communities” application. ICN is responsible for making sure all the same grant and reporting

rules are followed by sub-recipients. Sub-recipient projects include; 1) the Sac & Fox tribe project which involves extending fiber to the home within their settlement; and 2) the city of Decorah project, which entails placing a metro fiber network within their city. The ICN is working with the city of Decorah to establish connectivity. ICN is also conducting a third outside plant build in southern Iowa. The grant start date was June 30, 2010, and runs for 36 months.

An ICN team has been identified for the initial phase which is focusing on a project plan and the Environment Assessment (EA). Weekly meetings have been established to keep members informed and aligned with the objectives. Joseph Cassis is the Executive Sponsor. A federal contact has also been established. Cassis took it upon himself to establish a forum of Round 2 BTOP grant recipients similar to the ICN to discuss various questions and concerns they may have, and this is already working.

An agreement with Fiberutilities Group (FG) has been consummated with two deliverables; 1) a comprehensive implementation plan that will define the essential tasks for the project including identifying resources, timelines, and dependencies and 2) completion of the EA before the deadline of December 31, 2010. This must be done prior to drawing any funds for the project.

The preliminary EA 'package' has been completed and was submitted by the deadline. The three sites requiring EAs are Sac and Fox, City of Decorah and Lamoni. Two sub-recipients must conduct their portion of the project but again, the ICN is held responsible for the completion of the EAs as well as the sub-projects. The National Telecommunications and Information Administration (NTIA) team is evaluating the 'preliminary package' to determine if the EA can proceed as stated. FG is pursuing the objectives by working with local and state environmental specialists and the sub-recipients. Before any ground can be disturbed, a Finding of No Significant Impact (FONSI) must be obtained ensuring no significant environmental impact or endangered species would be harmed.

A draft RFP to replace the current 40-gigabit Alcatel-Lucent Enhanced Optical Network (EON) system is under review.

Heinzeroth is responsible for the state and federal reporting requirements. There are several American Recovery and Reinvestment Act (ARRA) webinars scheduled that will review the award conditions and assist the ICN with understanding the multiple reporting methods that are needed to ensure accountability and transparency. The ICN BTOP team will be traveling to Washington D.C. in November to attend a mandatory meeting for the policy and reporting staff of the awardees.

New Business

Review FY 2010 and 2011 ICN Budget to Actual Financials – Kevin Heinzeroth

Following is the budget to actual report for the first month of fiscal year (FY) 2011:

VIDEO SERVICES: Billings for video services for July 2010 are below the billings for July 2009 by \$16,713 and are 51.42 percent behind the July budgeted amount. The ICN produced 10,187 hours for July 2010, which is down from the 10,397 hours produced for July 2009. Higher education and K-12 comprised the majority of the usage.

VOICE SERVICES: Voice Service revenues for July 2010 are below July 2009 revenues by \$62,938 and are 6.10 percent below the FY 2011 budget figures. The largest sources of revenue are toll free usage, local access, and inmate calling.

DATA SERVICES: Gross revenues from data services for July 2010 are ahead of July 2009 year-to-date revenues by \$16,475 and are in below the FY 2010 budgeted figures by 3.56 percent.

Overall results from operations for the month of July 2010 are typical of past years. The one major factor in keeping ICN losses in line with the previous year was that the salary expense was \$138,734 lower than July 2009. It should also be noted that the fees paid for the network maintenance are 15 percent higher under the contract with PATEC, which went into effect on January 1, 2010. Video usage was lower in July of this year, but with schools beginning classes earlier this year the ICN is hopeful that usage for August will increase.

Additional Information:

ICN's data expenses were down primarily due to changing the switch from frame relay to Ethernet, which is reducing costs on the data side while helping to reduce data revenues.

With the advent of IP video over traditional classroom, ICN is going to continue to see a discontinuance of the current video platform costs. In the meantime, there will be a continual transition of ICN's revenues going out of the video category and into the data category. The Department of Administrative Services (DAS) recently sent out an email requesting that Department Directors identify 50 percent of their staff on the Capitol Complex who have both a cellular and desk phone and have them utilize only their cellular phone, discontinuing the use of their desk phone. Those kinds of activities will continue to put a strain on ICN's voice revenues. The ICN is trying to determine if rates need to be increased for the remaining phones in order to recover the cost of that loss.

Q – In past meetings, the possibility of lowering the cost for video to get more usage has been discussed. Is that still a viable strategy or partial strategy going forward?

A – The ICN has researched that and found that the usage reduction is not due to the pricing structure, but caused by other factors such as the inconvenience of a room being dedicated to video sessions and the fact that the schools or agencies have not been responsible for the maintenance/replacement of controllers and equipment that may fail. They may not have the money to replace the equipment. ICN's real future is in getting the IP Video product out to customers and in turn providing cost affordable ways for customers to replace their own equipment. One of the pricing concepts ICN will have is a flat rate, which is part of the feedback the ICN has received from the educational community.

Q – What will happen to the big screen classrooms when this all gets phased out? Will it all go to desktop IP?

A – It'll be a mixture. Community Colleges will maintain classes that have the capability to conduct video sessions, but they will be blended face-to-face instruction with online sessions.

Approval of FY 2012 Budget– Kevin Heinzeroth

ICN has completed the preliminary budget proposal for FY 2012, and it will be reviewed again next spring then modified as needed before FY 2012 starts.

VOICE SERVICES: The anticipated decline of voice revenues, including the recently negotiated change in the prisoner voice rate, has been calculated into the FY 2012 budget. The ICN's prisoner voice rate is going from a per call charge to a flat rate charge of \$2 for 15 minutes. This change is forecasted to decrease prisoner revenues by \$400,000. In the budget line side of revenues, which is the money we charge for desktop units, it's forecasted to be steady to a little bit higher for FY 2012. That could change depending on DAS and their change to cell phone usage.

Q – When is DAS' cell phone directive supposed to be implemented?

A – Agency Directors are supposed to respond by the end of September 2010 with 50 percent of employees who have to choose one out of the two phone options. On November 15, 2010, DAS

will re-evaluate whether to move forward with the program and require that everyone who has both be made to choose which form of telephone method they will use.

Q – Is DAS concerned about the security of sensitive information in cell phones? Have they received any legal opinions?

A – The ICN has brought all of these points to DAS' attention. The ICN will be put in the position of possibly losing about \$1 million in revenue. As a result, the ICN will have to raise fees accordingly. ICN has communicated to the Department of Management (DOM) and the Governor's office that a study should be conducted internally within the ICN where a plan can be developed to save money yet keep the ICN whole as the provider.

There are additional forecasts of reduction in other areas of voice with interstate usage going down and the Board of Regents (BOR) institutions' business being gone.

DATA SERVICES: Data revenue continues to migrate from frame relay to Ethernet and with increased bandwidth the ICN continues to expect increases in data revenues. In FY 2012 there may be some BTOP revenue realized from IP video services increase of bandwidth requirements. Internally ICN is still trying to make the decision on whether the revenues from IP video should be classified as data or video revenue.

Q – Is that ICN's decision to make?

A – ICN is researching this with the Attorney General's office. This may become an issue because of the state code on the requirements for setting video rates.

The revenues may not necessarily increase greatly because of BTOP. Where it benefits the ICN is the expense under data circuit. ICN foresees as much as a \$2.5 million reduction in that expense. Instead of having to pay lease costs the ICN will have dark fiber that will be lit and the agency will be able to retain that revenue instead of passing it through.

VIDEO SERVICES: Video revenue will continue to decline, but it all depends in part on how IP video is classified. Video rates are forecasted to stay the same with regards to what is billed. ICN is forecasting 165,000 hours for video for FY 2012, which compares to an actual of 172,000 the ICN had for FY 2010.

INSTALLATION SERVICES: Installation revenues are forecast on prior history. Currently, for FY 2012, any major projects by customers are unknown. Installation is the area where ICN bills for customer installs. So for FY 2012 the ICN doesn't yet know of any major projects customers might have.

OTHER SERVICES: Other revenues are forecasted to continue to decline from what they have been in the past. As late as FY 2009 ICN was receiving about \$300,000 a year in interest income, but with the lowering of interest rates it has greatly declined for FY 2010 and 2012. If interest rates increase the ICN predicts that cash levels will probably be lower because ICN will be spending the income to fund their BTOP grant match money requirements.

MAINTENANCE SERVICES: There is a forecasted increase in maintenance expenses due in part to increased maintenance costs. A large part of ICN's maintenance cost is derived from the PAETEC contract for the network maintenance. FY 2012 contract costs are budgeted greater than in the past due to PAETEC's 15 percent increase in fees last January. There are other areas that may change as ICN gets into BTOP. Currently the ICN pays over \$1 million a year to Alcatel Lucent (A-L) in maintenance costs for EON equipment which is going to be replaced by the BTOP grant.

OUTSIDE PLANT: An increase is forecasted for outside plant expenses. The increases are internal costs related to moving and locating fiber. Those costs are in house, so again the ICN is forecasting a slight uptake in that which will depend on how much of the IRHTP fiber will be ICN's responsibility.

OPERATION: Operating expenses for FY 2012 within the ICN has made some reclassifications. One change is the new generators. The generator repair expenses are expected to decrease, but things like fuel costs may increase.

PERSONNEL SERVICES: The ICN currently has 80 full time employees (FTE) on staff and is looking to add up to 10 more in FY 2012, mostly in the Operations and Engineering area, to handle the additional workload of the BTOP grant and managing the IRHTP network. In addition the ICN is mandated to make wage increases every year, so that'll push personnel service expenses up to \$1million higher than they are currently.

TRAVEL: ICN is going into a cycle where vehicles are being replaced and travel expenses are what cover the costs for the vehicle replacements. The ICN has video technicians who have vans, account representatives who have cars and an outside plant that has three pickups. The vehicles are starting to have high mileage, so ICN is going to be replacing some of those vehicles. In FY 2011, ICN received two new vans and in FY 2012 ICN will be replacing two vans and a car.

DATA PROCESSING: Data processing and ITE expenses are expected to remain fairly level. These are mainly costs for parts the ICN pays to DAS and for services purchased through them related to computer support and hosting services.

ADMINISTRATIVE: Other administrative expenses are day-to-day operations expenses for items such as office supplies, etc. ICN is currently reevaluating disparate systems, and making some software purchases to try to get the systems to talk to each other. ICN is working on replacing some of these items, which is the reason for the uptake in administrative expenses.

PROFESSIONAL: The professional fees are for contract workers. The larger expenses are attributed to the Attorney General's office. The ICN has also budgeted for legal fees in the event there is need of consultation from the lawyers in Washington DC on FCC issues. The ICN budgeted a large amount in professional fees for FY 2012 for the hiring of FG to help manage the BTOP grant, which is a major portion of the professional fees. Auditing fees will increase due to the BTOP grant. In the past ICN has been included in and received appropriation funds to conduct financial audit reports. Appropriated funds for that were removed in this legislation session, so now the ICN will be charged for this expense.

EQUIPMENT: The remaining budgeted funding will go towards equipment purchases. ICN is requesting an investment of \$2,248,653 to replace and upgrade equipment that is reaching its end of functional life. This minimum investment will address two different funding issues affecting the ICN:

- Replacement of aging equipment or industry-compatible equipment on the Network to ensure connectivity.
- A state-appropriated investment requirement allows the state to receive Universal Service Fund (USF) reimbursements on behalf the ICNs K-12 School and library users.

Commissioner Hardman moved for approval of the proposed FY 2012 budget; Commissioner Lapointe seconded the motion. A roll call vote was taken; Motion approved for approval of FY 2012 budget.

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

Q – Why doesn't the outside plant cost fall under maintenance?

A – Outside plant costs can't be categorized as maintenance because they're projects to install or repair fiber that's been damaged by outside sources. It's more of an internal installation than actual maintenance of the network.

Adoption of Discussion of FY 2012 Video Rates - Dave Lingren, Executive Director/Phil Groner

Type of User	FY11 Rate	FY12
E-Rate Supported K-12, Public Library	\$15.80	\$15.80
Non E-Rate Supported K-12, Public Library	\$7.60	\$7.60
Post Secondary Community College	\$9.63	\$9.63
Post Secondary Regents/Private University	\$9.63	\$9.63
Other Training Use	\$13.77	\$13.77
Administrative Use	\$25.11	\$25.11
Federal and Telemedicine Use	\$60.16	\$60.16

The undiscounted video rate in FYs 2010 and 2011 is \$60.16 per hour, per site in a session.

Discussion:

Phil Groner and Dave Lingren met with the rate subcommittee to discuss full motion video conferencing rates. The Education Telecommunications Council (ETC) made a recommendation to the ITTC to keep rates at the current level and ICN believes that would be beneficial. Heinzeroth, in his review of the financials, projected a small decrease in revenue, but percentage wise it would be almost neutral as a result of keeping the rates the same for video. At the meeting there was also discussion about IP Video. ICN has an internal team looking at IP video conferencing and has come up with good preliminary information, products and services to review. IP video does not render itself to metering like full motion video does on an hourly basis, which is why ICN is looking to have a flat rate model for IP video. However, having a flat rate does bring up some issues; one of those issues being ICNs current Administrative Rules and how the use of the classroom is treated. Sometimes the use and not the actual physical facility dictate the price under the current Administrative Rules. The question is whether IP video is a data product or a video product. That is something ICN will need to discuss with the legal team. Based on those circumstances it is recommended that the ITTC Committee delay any action on IP video until the next ITTC meeting in November.

Note: The rate subcommittee made two separate motions.

Commissioner Lapointe moved for approval of keeping the same Full Motion Video rates for FY 2012 as it was set in FY 2011; Commissioner Duffy seconded the motion. A roll call vote was taken; Motion approved for FY 2012 Full Motion Video rates.

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

Commissioner Duffy move to delay action on the IP Video rates until the November ITTC meeting; 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

Certified User Waiver Requests - Phil Groner

ICN has one waiver request for internet service.

1. Area Education Agency (AEA) 267

ICN has three waiver requests for long distance service.

1. Morningside College
2. Board of Regents State of Iowa
3. St. Ambrose University

Discussion:

AEA 267 is requesting a waiver for redundant internet connection through Cedar Falls Utilities. This is a connection that AEA 267 has had for a number of years and is valid. ICN would recommend approval.

For long distance services the BOR has submitted a request to be exempt from long distance services. Their rates and usage are the same as last year. The BOR has a blended rate.

Morningside College and St. Ambrose University have sent supporting information for their waiver requests, however the ICN is trying to get a better analysis of their blended rate. Based on what Morningside College and St. Ambrose University have submitted, the ICN would like to work with them a little closer to fully determine if ICN can reduce their long distance service costs.

Duffy made a motion to postpone a decision for St. Ambrose University and Morningside College until the November ITTC meeting; Lapointe seconded the motion. A roll call vote was taken; Motion approved.

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

Commissioner Hardman moved for approval of ICN's waiver request submitted by AEA 267 and the BOR; Commissioner Duffy seconded the motion. A roll call vote was taken; Motion approved.

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

Q – Can you explain the history of the blended rates and the better pricing for the BOR?

A – Six years ago, ICN's internet rates were one of the highest in the state because there was limited traffic buying internet. In working with the BOR, ICN was able to combine usage and reverse the role where ICN became the consumer from BOR. Today, the cost advantage is becoming marginal for the ICN. The increased usage from the additional traffic realized from additional BTOP and Iowa Health Systems (IHS) connections may create a better cost benefit for ICN and the BOR. For the mean time ICN will continue buying internet from BOR at a lower rate. In exchange for that benefit BOR has the long distance waiver where they are able to buy at a per-minute rate.

Administrative Rules – Tami Fujinaka

On July 21, 2010, ICN held a hearing on the Administrative Rule changes and there were no attendees. ICN has not received any suggestions for the changes to these rules and legislature has not called for a meeting to discuss the rules.

Duffy moved to adopt the Administrative Rules; Lapointe seconded the motion. A roll call vote was taken; Motion approved.

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

Rural Health Initiative Update - Dave Lingren, Executive Director

The project has had delays due to difficulties with the vendor selected by the Iowa Health Association (IHA). The core network has been declared as up and running which now allows ICN, there are 28 orders, to connect hospitals. Three were already connected which allowed ICN to swing the network to IRHTP. The IRHTP steering committee's goal was to have this completed by October 1, 2010.

Q – How many hospitals were mentioned in the original grant submission?

A – Originally 85, but it has grown to 90 because other hospitals are willing to pay, at their own expense, to get on board with the IHA network because of the health information exchange for Iowa.

When this project is complete Iowa will be only the fourth state to have this health information exchange. It will create revenue for the ICN, good publicity that ICN is a viable public asset and benefits citizens, and this will strengthen partnerships with the private sector.

Executive Director Appointment – Chairperson/Dave Lingren, Executive Director

During the search for an Executive Director many stakeholders were engaged in the process. A professional search firm conducted a nationwide search and found many qualified applicants to be interviewed. The ITTC convened with stakeholders who included the community, colleges, the state of Iowa library and ITTC members. ITTC interviewed four candidates and narrowed the field to two candidates to come back for a final interview. As a result the ITTC Commissioners were happy to extend the offer to Dave Lingren in which he accepted.

Lapointe made motion to approve Dave Lingren as the Executive Director; Hardman seconded the motion. A roll call vote was taken and passed, as follows:

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

Action on Revision of Executive Director Appointment (Closed) - Chairperson

Commissioner Hardman moved that the ITTC go into closed session for the purpose of discussing personnel issues. The ICN and ITTC consider perspective personnel issues to be trade secrets. Under Iowa Code 22.7(3), trade secrets are confidential records. Iowa Code 21.5(1)(a) permits a government body to go into closed session to review or discuss confidential records; Commissioner Lapointe seconded the motion. A roll call vote was taken and passed, as follows:

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

Commissioner Duffy moved to adjourn the open session; Commissioner Lapointe seconded the motion. A roll call vote was taken and passed, as follows:

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

NOTE: Two guests and all ICN staff present left the open meeting.

The open meeting adjourned at 11:26 am.

Commissioner Brandsgard called the meeting to order at 11:30 am. It was noted that a quorum of members were present for the meeting.

Commissioner Lapointe moved to approve the pay scale for the new Executive Director as discussed during the closed meeting; Commissioner Hardman seconded the motion. A roll call vote was taken; Motion approved unanimously.

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

NOTE: No guests re-entered the open meeting and 5 ICN employees re-entered.

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 11:34 am.

ATTESTED TO:



Betsy Brandsgard, Chair, Iowa Telecommunications and Technology Commission