MEMORANDUM

TO: JOHN DAY CITY COUNCIL
FROM: NICHOLAS GREEN, JOHN DAY CITY MANAGER
SUBJECT: GRANT COUNTY DIGITAL NETWORK COALITION
DATE: AUGUST 15, 2017
CC:

EXECUTIVE SUMMARY

Governor Brown signed House Bill 5006 into law on August 15, 2017. Section 85 of the bill includes a $2.256M public stimulus package for the City of John Day: $1.836M for fiber optic broadband and $420,000 for 9-1-1 service. This memo provides details on how the broadband network will be governed, designed, built and operated.

GRANT COUNTY DIGITAL NETWORK COALITION

The City Attorney has drafted an ORS 190 intergovernmental agency agreement (IGA) and proposed bylaws to receive and implement the broadband funding. This agreement will allow local tax jurisdictions to share revenue and expenses on the broadband network and creates a new intergovernmental agency, the Grant County Digital Network Coalition, to oversee the network deployment. Adopting the IGA is necessary before the Oregon Department of Administrative Services can distribute state funds. The City of John Day will be the fiduciary agent for the IGA and will administer the stimulus funding in accordance with the proposed bylaws.

Intergovernmental Agreement for Joint Management of Broadband Network. The IGA enclosed includes the following elements:

- Creates the Grant County Digital Network Coalition (“Agency”)
- Lists the cities and tax jurisdictions that may participate in the agency (“Parties”)
- Describes general authority of the Agency, including bylaws (enclosed)
- Designates John Day as the lead agency
- Describes member obligations and cost sharing formula
- Outlines general management responsibilities including Parties responsibilities, process for removal, resignation, and dissolution of assets, filling vacancies, etc.

The bylaws are intended to, among other things, provide clarity as to the manner and method in which the board may take actions on behalf of the agency.

Organization and Governance. The Grant County Digital Network Coalition will effectively operate as an asset holding company. It will own the digital network assets and will be responsible for its financing. The Coalition will set policy and issue contracts for the design, build, operations and maintenance (DBOM) of the broadband network, but it will not directly employ any staff. Its primary function will be to finance and oversee the construction of the network and ensure it is operating in accordance with its policy objectives.

The digital network coalition will be responsible for making the final determination on the type of broadband network to build, network design parameters including the service area; data rates and pricing; network financing; network operating model; and schedule for deployment.

Agreement Adoption. Four steps must be completed to create the Coalition.

(1) Under ORS 190.085, prior to the effective date of the intergovernmental agreement creating the entity, each party must enact an ordinance ratifying the creation of the intergovernmental entity. <u>The City Attorney will prepare a template ordinance for each governing body to adopt based on feedback from the respective parties.</u>

(2) Within 30 days after the effective date of the intergovernmental agreement, the parties must file copies of the ordinances with the Oregon Secretary of State. The ordinances must be accompanied by a written statement containing the following information: (a) name of the intergovernmental entity created; (b) parties to the agreement; (c) purposes of the agreement; and (d) effective date of the agreement. <u>The City Attorney will prepare a template transmittal letter for each governing body to utilize.</u>

(3) With respect to the contents of the intergovernmental agreement, ORS 190.020 requires that the agreement specify the functions or activities to be performed and by what means they will be performed. Where applicable, the agreement must provide, among other things, the following: (a) the term or duration, which may be perpetual; (b) apportionment among the parties of the responsibility for providing funds to pay for expenses; (c) apportionment of fees and revenue derived from the functions or activities and manner in which the revenue will be accounted; (d) transfer of possession or title to real or personal property; and (e) rights of the parties to terminate the agreement. <u>At some point after obtaining preliminary feedback from the stakeholders, the agreement will need to be revised to include (b) and (c).</u>

(4) ORS 190.080 requires that upon dissolution of the entity, title to all assets will vest in the parties to the agreement. The agreement must provide procedures for (a) disposition, division, and distribution of any assets acquired by the entity, and (b) assumption of any outstanding indebtedness or other liabilities of the entity by the parties. <u>At some point after obtaining preliminary feedback from the stakeholders, the agreement will need to be revised to include the information required under (a) and (b).</u>

Proposed Cost-Sharing Formula. The cost sharing is proposed to be on a pro-rata basis. The equity of each party to the agreement will be based on their share of the County's total population. We will use the most recent certified population estimates by Portland State University (PSU) for Oregon cities and counties from the calendar year prior to the fiscal year we budget for. For example, the FY17-18 budget will be based on the county's certified 2016 population estimates provided by PSU.

Grant County's certified population for 2016 was 7,410 residents. Using this estimate, the initial cost sharing will be:

- John Day *(pop. 1,735)* = 23.4%
- Prairie City *(pop. 910)* = 12.3%
- Canyon City *(pop. 705)* = 9.5%
- Seneca *(pop. 215)* = 2.9%
- Grant County *(residual pop. 3,845)* = 51.9%

Any new party added to the coalition will result in an adjustment to the cost sharing agreement based on the population of the city joining the coalition and will reduce the County's share. For example, Mt. Vernon *(pop. 525)* would account for 7.1% and, if added, would reduce the County's share to 44.8%. The other cities' equity would only change if their population increased or decreased disproportionately from the others.

From a revenue standpoint, all of the revenue will accrue to the Coalition as a whole and will be reinvested in expanding the network coverage area and for operating expenditures. Any profit will accrue to operating contingency or will be reinvested. The venture will only pay out revenue to the cities and county after the network has reached its intended coverage area and the Coalition feels it has sufficient reserves, or upon dissolution of the Coalition if any assets remain.

NETWORK DESIGN, BUILD, OPERATIONS & MAINTENANCE

The network will be deployed in multiple phases: Phase 0 will be the network design and financing; Phase 1 will construct the fiber optic connection to the main internet; Phase 2 will build-out the network to the main urban areas of the county and to residents within the initial service area; and Phase 3 will expand coverage to outlying communities.

Phase 0 – Network Design, Financing Strategy and Operating Model. The Coalition will award contracts for the network design and to an advisory firm who will help determine the most cost-effective network to achieve our policy goals. Multiple federal financing vehicles are also available to rural communities for broadband infrastructure, including services-based grants for telemedicine and distance learning. Phase 0 includes applying for these funding sources to accelerate expansion of the network. The Coalition will also need to make a final determination in Phase 0 on its operating model – whether to provide services as a public utility (direct-to-consumer) or to operate as a wholesale (dark fiber) provider to existing internet service providers who will operate the network and will be responsible for delivering services to the customer.

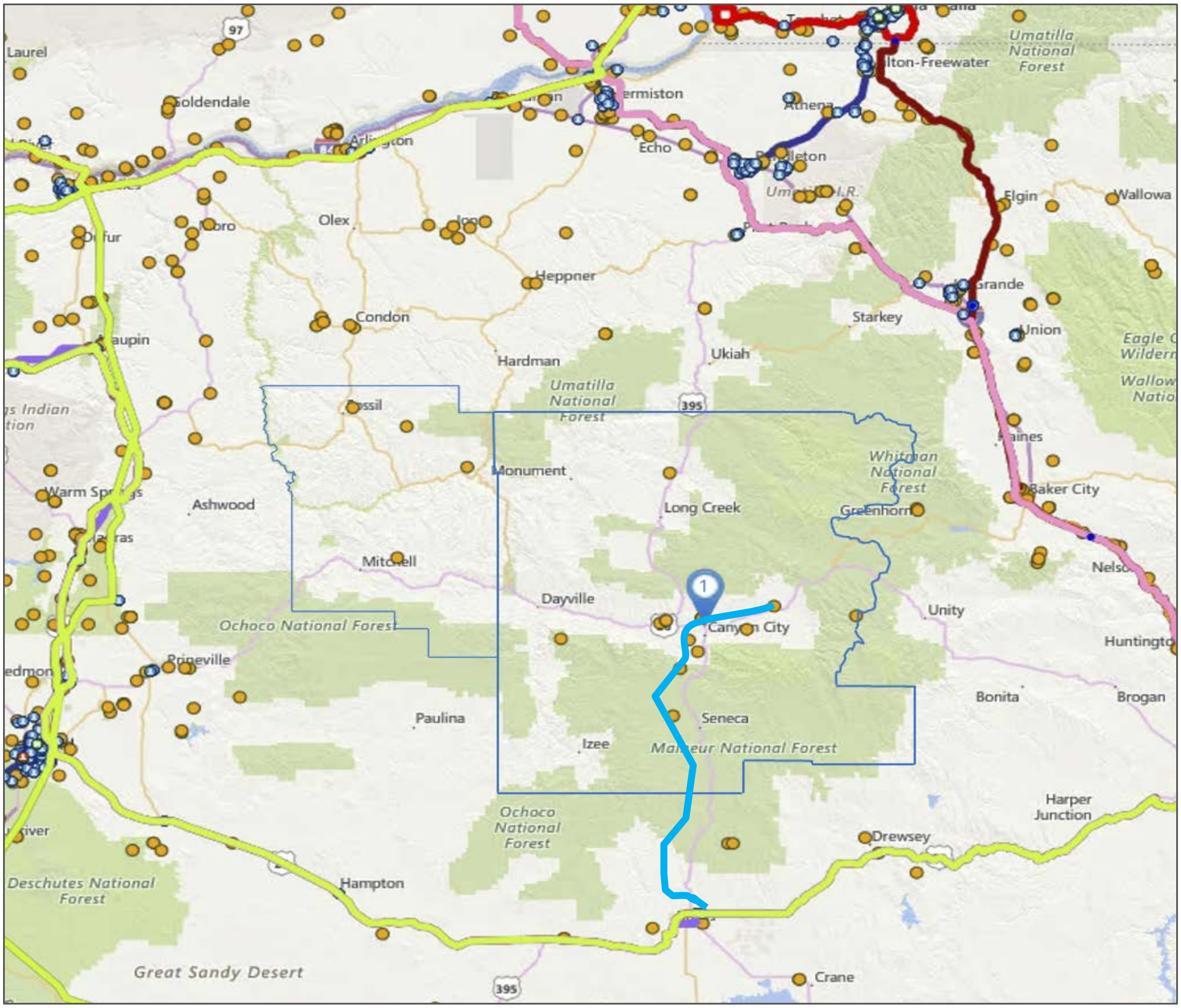

Figure 1. Map of Long-haul Broadband Carriers (colored lines) and Cell Towers (orange circles) in eastern Oregon. Blue line extending north from Burns to John Day is the proposed route of the middle mile and does not currently exist.

Phase 1 – Backhaul and Community Facilities. Initial construction of the backhaul will take place in Phase 1. This middle mile fiber optic route of approximately 85 miles will connect the cities in the Coalition to the main internet. The $1.8M state appropriation is sufficient to fund the backhaul extension and will connect the critical community facilities (i.e. city halls, police department, county court, hospital and schools). I have negotiated with the Oregon Trail Electric Consumers Cooperative (OTECC) to allow us to install aerial fiber optic cable suspended on their long-haul transmission lines. The proposed route will extend from Highway 20 in Burns north to John Day, then east to Prairie City.

Phase 2 – Municipal/Residential Deployment. Once the network is operational, the cities in the Coalition will be connected to the network. Local networks will be a combination of fiber-to-the-home (wireline) and fiber-to-the-neighborhood with a last mile delivery system (wireless). The local network extensions could be managed as a public utility (Grant County Digital) or could be leased to private sector firms to build and operate.

If established as a public utility, the Coalition will contract for services to operate and maintain the network and provide the utility billing. This model is similar to those employed by the City of Sandy (SandyNet) and by Eugene, both of which operate broadband services as a public utility for their residents. In this scenario, the Coalition will likely contract with the City of John Day to house the IT department, maintain the outside plant and equipment, provide utility billing services and manage the utility's personnel. John Day will then be responsible for the operations and maintenance of the network and will operate as Grant County Digital.

Alternatively, if operating as a wholesale internet provider to the private sector, the Coalition will contract with a private firm (or firms) who will be responsible for these services. I will discuss the pros and cons of each approach with the Council. In either scenario, the goal of the Coalition is to maximize broadband coverage at the highest speeds possible at a cost-competitive and affordable monthly rate.

Phase 3 – Expansion. Phase 3 will extend the network to the northern and western areas of the county. These communities have lower population densities and are farther from the middle mile, which will likely necessitate a wireless solution, as the cost per mile to build fiber to these areas cannot be recovered from user-generated revenue. The rate of Phase 3 expansion will be driven in part by the adoption rate (take rate) of subscribers in Phase 2 and the success of this phase.

NEXT STEPS

The Grant County Internet Task Force will meet in August and September and make recommendations to clarify the board's authority vis-à-vis the lead agency, review and refine the bylaws, and socialize the draft agreement with their respective councils. The task force continues to solicit informal proposals from various private sector providers who may work with the Coalition. Once the Coalition is legally approved, the ORS 190 can begin to award contracts for network design and construction.

A notional timeline for the next steps in 2017-18 are as follows:

August – October: IGA and bylaws revision, local approval and filing with the State.
November: First meeting of the Grant County Digital Network Coalition.
December – February: Complete network design and preliminary engineering.
March: Contract award for network construction.
May – September: Construction of digital network and line extensions.
October: Begin operational deployment to local residences.