



RESOLUTION 2011-081

A RESOLUTION ADOPTING THE SHERWOOD BROADBAND BUSINESS PLAN

WHEREAS, the City of Sherwood provides telecommunications services under the registered name of Sherwood Broadband,

WHEREAS, these services began with the formation of the telecommunications fund by Resolution 2004-039,

WHEREAS, Sherwood Broadband continues to provide telecommunication services to both public and private entities in and around the City of Sherwood,

WHEREAS, Sherwood Broadband has operated under a draft business plan for the past two and a half years.

WHEREAS, an adopted business plan will formally define the mission, goals, and expectations for Sherwood Broadband

NOW, THEREFORE, THE CITY OF SHERWOOD RESOLVES AS FOLLOWS:

Section 1. The City adopts the Sherwood Broadband Business plan attached as Exhibit A.

Section 2. This Resolution shall be effective upon its approval and adoption.

Duly passed by the City Council this 20th day of September 2011.


Keith S. Mays, Mayor

Attest:


Sylvia Murphy, CMC, City Recorder



Business Plan

July - 2011

Contributors:

Brad Crawford: IT Director

Jim Patterson: City Manager

Tom Nelson: Economic Development Director

1. Executive Summary

Sherwood Broadband (SBB), the City of Sherwood's telecommunications utility, has seen steady growth in the six years since its formation. This growth has given SBB a network footprint that serves 60 locations which include both public and private entities. Of these 60 locations 45 are within the Sherwood city limits and 33 of those serve the City of Sherwood and Sherwood School District. At a few of these public locations Sherwood Broadband also provides free wireless access to the community. So while the utility provides a great service to its commercial customers it provides an even greater benefit to its community as a whole.

While Sherwood Broadband has contributed many benefits to the community it has come at a financial cost. In the 08/09 budget staff transferred \$950k from the general fund to the telecom fund to cover its prior investment. The goal of this business plan is to outline a strategy to provide return on this investment and provide sustainability through positive revenue source in the coming years. This plan takes a conservative approach to growth which projects annual return on investment and protects the utility from incurring debt. With a conservative approach to growth it's expected that revenue will stay flat in the short term (2-3 years) unless the business and economic conditions improve within Sherwood. However, as competition in the area broadband services increase it could jeopardize revenue from customer renewals and therefore long-term revenue could decrease.

As Sherwood Broadband maintains a limited growth business model it must keep expenses in check if sustainability is to occur. This business plan also outlines a few strategies to minimize future expenses and risks while increasing revenue. While it is difficult to know how future conditions will affect the utility, it is safe to assume that if expenses are kept low and current customers are maintained long term that sustainability will be achieved.

1.1 Objectives

- Operate in a limited growth mode, growth focused in Sherwood only
- Stimulate economic development through partnerships with other service providers and business retention and recruitment strategies.
- Maintain a balanced budget that projects repayment of all existing debt by fiscal year 2015/2016
- Pursue risk and expense minimization strategies

1.2 Mission

Promote broadband utilization within Sherwood, and stimulate Economic Development through the use of broadband services.

1.3 Keys to Success

- Maintain current customer relationships
- Promote the utility to other service providers
- Develop services that encourage economic development within Sherwood.
- Look for and capitalize on new service opportunities
- Provide the capital to bring redundancies into the network
- Build reserves for future expansion and incentive opportunities
- Keep expenses flat unless revenue increases
- Limit liabilities and risks within the utility

1.4 Threats to Success

- **Loss of current customers** – Since the majority of revenue is generated from a few large customers attrition would be detrimental to revenue forecasts
- **Competition from other providers** –While SBB supports competition from other broadband providers this competition could cause SBB to lose customers and/or reduce rates to stay competitive.

2. Organizational History

In early 2001 staff proposed a project called the Sherwood Community Access Network System (SCANS). The scope of this project was to build a fiber optic network that would provide high speed internet connectivity for every home in Sherwood. The planned cost of this project was \$10 million.

Full funding for the project was not available, but a pilot project was funded by the Urban Renewal Agency. This project purchased a fiber optic communications line connecting downtown Sherwood to a major data center in Portland. This gave the City of Sherwood the ability to purchase internet bandwidth and network connectivity at discounted rates. That led to the establishment and initial City investment in Sherwood Broadband, in the FY05/06 budget.

Since that time SBB has undertaken many fiber optic construction projects that have brought connectivity to both public and private facilities. To date, the City of Sherwood and Sherwood School District are the largest users of Sherwood Broadband infrastructure. Additionally, Sherwood Broadband began installing wireless access points at various points around Sherwood to offer free wireless internet access to the surrounding residents and visitors.

2.1 Legal Entity

The City authorized the creation of Sherwood Broadband in 2005, by ordinance 05-007, which is now Chapter 4.04 of the Sherwood Municipal Code. SBB is an assumed business name registered by the City of Sherwood with the Secretary of State.

3.0 Past Accomplishments/current status

Sherwood Broadband has accomplished a lot in the past six years. The utility has built a community network that nearly encompasses the entire town (Exhibit 1) and established a revenue stream that exceeds operating expenses. The network serves some 60 locations of which 45 of them are in Sherwood alone (Exhibit 2). While there are some portions of the Sherwood Broadband network that extend beyond the Sherwood city limits the primary focus has been on serving local customers. This was emphasized by council in January '09 and something the utility has been committed too.

Currently, the utility is focusing on just maintaining current customer relationships and only pursuing new revenue opportunities which have little to no expense. This has caused the utility to lose out on some local opportunities as the expense to provide service has been too great for the utility and/or customer to bear. These initial upfront costs have continued to be one of the biggest hurdles for the utility's growth in Sherwood. The other item that Sherwood Broadband has been working to establish is network redundancy. Currently the SBB is pursuing two options for network redundancy and once complete it will eliminate a significant risk to the utility.

4. Strategy and Implementation

There are several key strategies that Sherwood Broadband will continue to focus on. The strategies include services, partnerships and economic development. These areas of focus are seen as key drivers to maintain sustainability of the utility.

Services— Sherwood Broadband currently offers both Internet and dedicated point to point services. The utility will continue providing both of these services, however it will evaluate whether Internet services are better provided by a third party. Since Internet services are a small portion of the utility's business and have a significant cost (\$12,000 annually) there might be a SBB partner that is better suited to take on this service. An additional benefit to sourcing this service to another provider/s is that we enable more partnerships to occur and become a more open network. This open network concept allows service providers to compete with each other on the SBB network thereby benefiting the local businesses with possibly cheaper rates and innovative services.

The utility will also begin looking at providing new services that can be operated in a sustainable manner. One such service would be providing co-location space for other

service providers and businesses. As more and more IT service move into the “cloud” co-location facilities that are connected to high speed networks will become more and more in demand. This is a service that the utility will evaluate and determine its feasibility.

Another service strategy that Sherwood Broadband plans to evaluate will be if there is a business case for selling off the assets outside of Sherwood. With the utility now focusing on serving only those customers inside Sherwood city limits and the value of the assets outside of town there could be a compelling business case. If the utility were to pursue this it could result in a quicker return on investment of the \$950,000 general fund transfer that occurred in FY 08/09.

Services Definitions – “Point to Point services”

- **Network Transport**-This service utilizes the Sherwood Broadband equipment to create a communication link between two points. There is no content (Internet, Voice, and Video) on this communications link; it is only a dedicated connection between two points.
- **Dark Fiber** – Excess fiber that Sherwood Broadband owns. This can be used to provide a dedicated communications link that is outside of the Sherwood Broadband infrastructure.
- **Wavelength** – This is similar to dark fiber in that it allows for the creation of a dedicated communications link. Instead of using dedicated fibers this technology uses a dedicated color of light to create the communications link over a fiber optic connection.

Partnerships – Partnering with other Internet Service Providers has the greatest opportunity for Sherwood Broadband to both increase utilization of the network as well as revenue. With the sales force these ISPs offer they have a much greater opportunity to sell service in Sherwood than what SBB could do on its own. Furthermore, since these ISP’s have great insight into the needs of their current customers they can be used to help attract new businesses to Sherwood. Moving forward it will be key for SBB to support these partnerships and develop programs that help them succeed.

Economic Development – With Economic Development being one of the primary drivers for the formation of Sherwood Broadband this plan recommends the creation of programs to support Economic Development through the utility. One way this can be done is through a partnership with service providers and developing a program that incents them when they bring a new business into town. This could be done by offering the service provider free or discounted services to new business. Furthermore, this incentive can be offered, as well, through the city’s economic development department as a way to entice businesses to locate in Sherwood. These economic development

incentives can be offered via free or reduced extension of services providing access, as well as discounted services over a period of time to new business. To qualify for incentives, a business would be required to:

- a. Be a “traded sector” industry
- b. Provide “average county wage” employment
- c. Or provide over \$1 million in additional capital investment

**5. Financial Plan –
See Exhibit 3**

6. Return on Investment

Investment from several sources in Sherwood Broadband utility has incurred since its inception. The initial investment in FY05 was a \$300,000 grant from the Sherwood Urban Renewal Agency that was used to procure the high-speed tie in to a large data center in Portland. The second investment was an FY07 loan for \$300,000 from the General Fund. This investment funded the extension of the utility to Newberg and facilitated the securing of three major customers in the Newberg area. The most recent and largest investment occurred last year when Sherwood transferred \$950,000 from the General Fund to SBB. This funding was made available as part of the General Fund’s proceeds from the sale of the Cannery property to the Urban Renewal Agency..

The return on these investments has been and will be as follows:

- **Urban Renewal (\$300,000)** – Return on this investment will be seen by means of incentives the utility provides to businesses moving to Sherwood. The value of that incentive will be tracked and a return realized for the initial investment.
- **Newberg Fiber (\$300,000)** –Return on investment has been accomplished through service provision to the City of Sherwood. Over \$300,000 in services have been provided to the City in the last three fiscal years, and this loan was “paid in full” including interest by the end of FY11, through these in-kind services.
- **FY09 Loan from General Fund (\$950,000)**– Return on this investment will occur over time from revenue generated by the utility. Exhibit 3 shows the expected payback schedule for this loan.

5.1 Projected Performance

Exhibit 3 shows both the historical financial results for the utility and forecasts the future results.

Highlights

- Projected Interfund loan reimbursement totaling \$784k and ending fund balance of \$198k by FY 14/15
- Complete payoff of loan by FY15/16
- Capital investment for network redundancy is included
- No additional revenue is projected
- No capital investment for new fiber projects is projected

Summary

Sherwood Broadband, as with most utilities, provides community services beyond its proforma and breakeven analysis that can be measured better in terms of “livability”. Considerable research has concluded that the presence of broadband services assists a community in attracting businesses, as well as making a community more attractive for its residents.

However, this business plan provides a quantitative analysis that will make Sherwood Broadband a successful enterprise beyond the overall community benefit. Not only does it provide a conservative plan for sustainability of the utility, but it also provides return on investment that provides financial strength for the utility in years to come.

Exhibit 1
Fiber Network

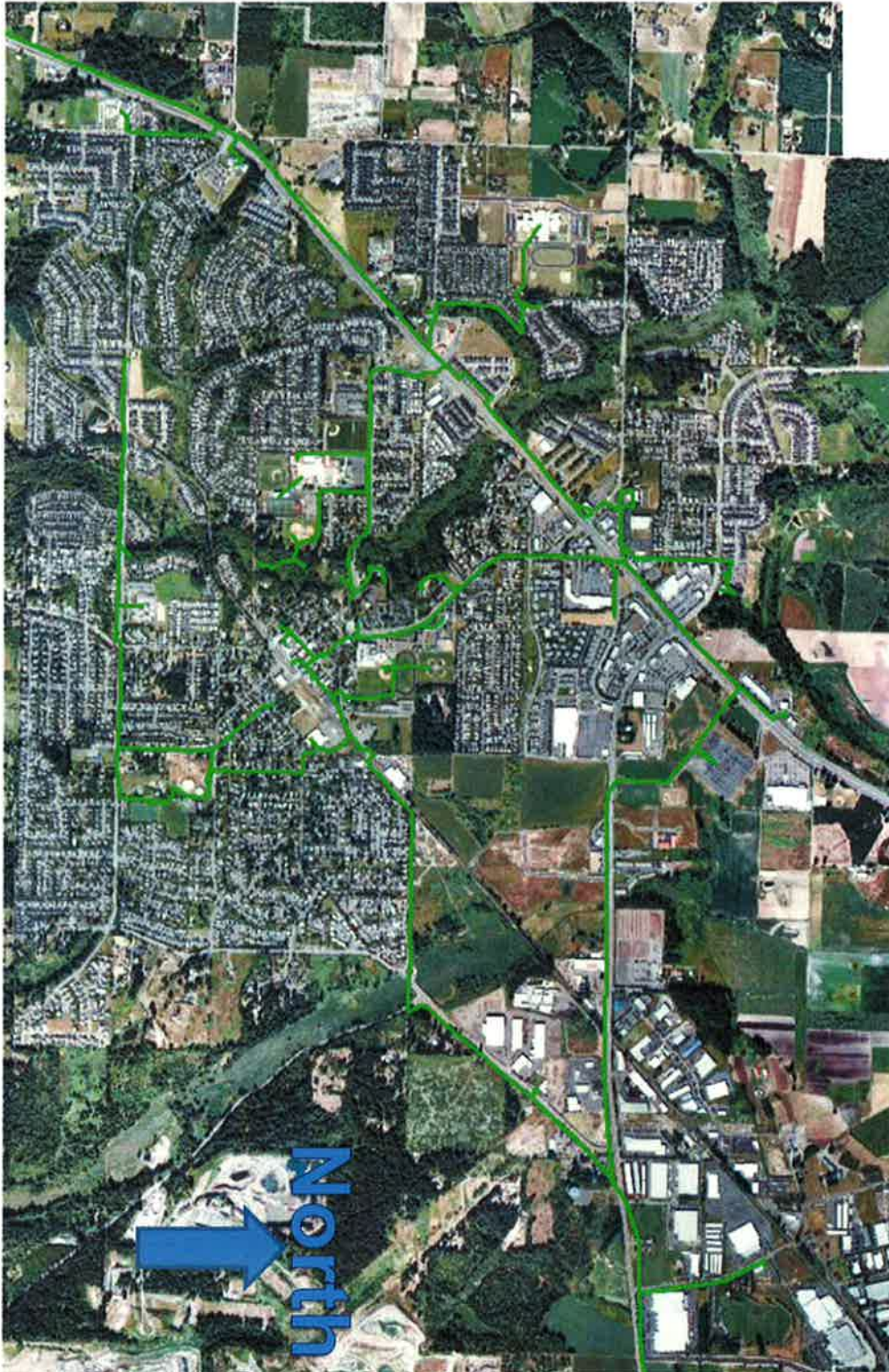


Exhibit 2
(Red = Public Sites, Blue = Private Sites)

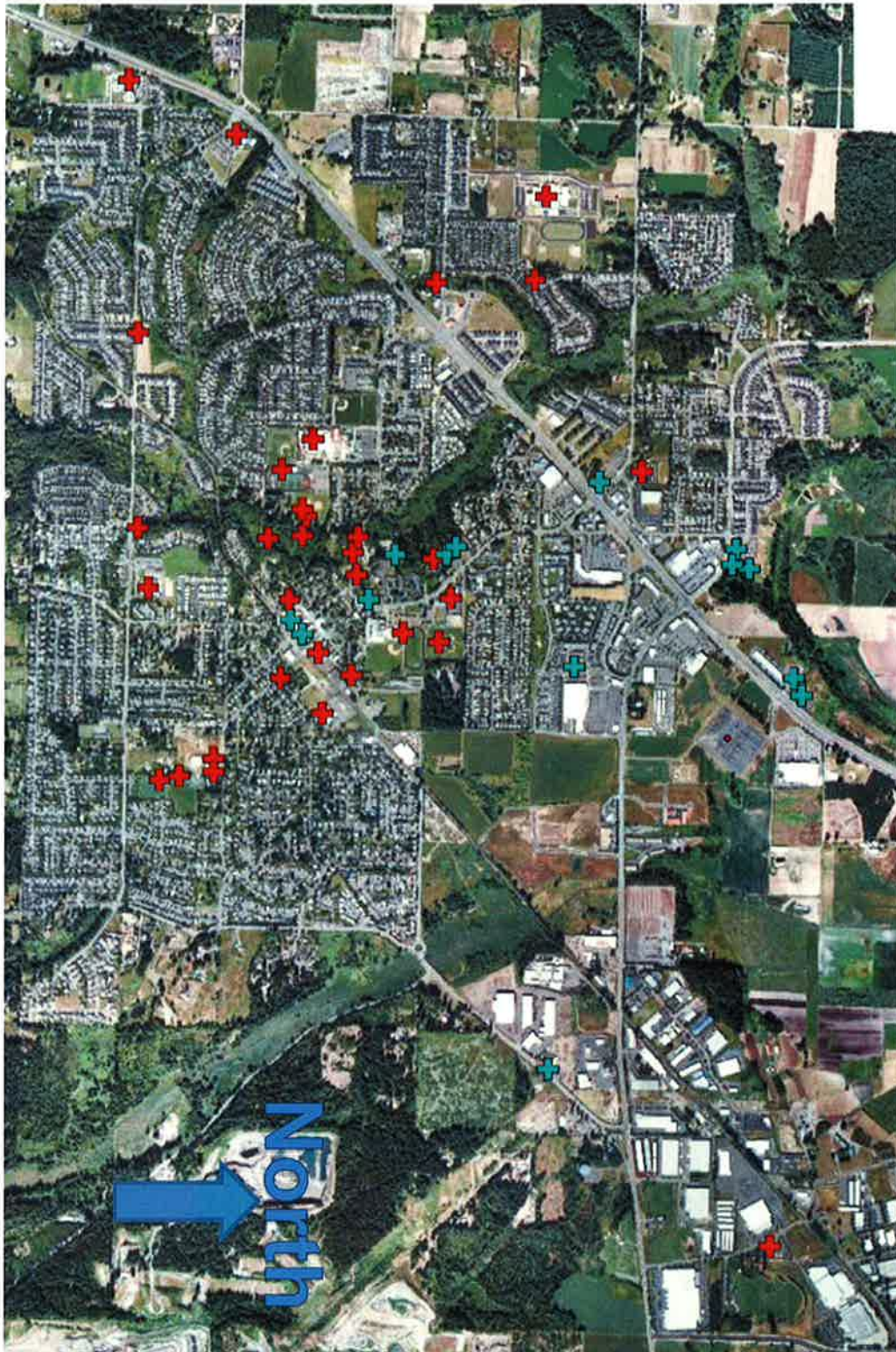


EXHIBIT 3

Sherwood Broadband Cash Flow

\$000

	FY05 Actual	FY06 Actual	FY07 Actual	FY08 Actual	FY09 Actual	FY10 Actual	FY11 Pre-audit	FY12 Budget	FY13 Forecast	FY14 Forecast	FY15 Forecast	FY16 Forecast	FY17 Forecast
Beginning Fund Balance	\$ -	\$ (15)	\$ (495)	\$ (455)	\$ (740)	\$ 52	\$ 71	\$ 198	\$ 110	\$ 160	\$ 181	\$ 198	\$ 265
REVENUE													
Initial URA Investment	300												
Charges for Services External Cust.	-	7	55	88	164	187	211	290	290	290	290	290	290
Charges for Services Internal Cust.	-	-	-	-	-	-	26	65	65	65	65	65	65
Total Operating Revenue	300	7	55	88	164	187	237	355	355	355	355	355	355
Interfund Loan Proceeds*	-	-	300	-	950	-	-	-	-	-	-	-	-
EXPENSES													
Personal Services	-	-	-	33	41	17	19	26	27	30	32	34	36
Materials & Services	52	228	270	306	197	129	91	117	119	121	124	127	130
Capital Outlay	263	259	45	34	84	22	-	40	-	-	-	-	-
Total Operating Expenses	315	487	315	373	322	168	110	183	146	151	156	161	166
Interfund Loan Reimbursements	-	-	-	-	-	-	-	260	159	183	182	127	181
Ending Fund Balance	\$ (15)	\$ (495)	\$ (455)	\$ (740)	\$ 52	\$ 71	\$ 198	\$ 110	\$ 160	\$ 181	\$ 198	\$ 265	\$ 273
Total P&I for debt:													1,092

* The \$300,000 loan (FY07) was repaid with interest during the FY08-FY11 period through recognition of in-kind services provided by SBB to the General Fund.

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Annual

Payments for services

Water Fund	10,000
General Fund	55,000