

The Linking Letter

A City Briefing by Anne Scheck *to neighbors in Independence, Oregon*
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Preface: The auditing firm for Independence has requested that the City Council declare portions of the debt for MINET as unlikely to be repaid, despite MINET's relative turnaround & peak performance under changes by recent management.

(*Note: A brief editorial from me appears at the end of this report).

Question: Amid probably uncollectable debt, how is MINET improving?

In spite of making real gains under the relatively new leadership of MINET, Independence continues to grapple with its \$12 million share of MINET bond debt and another \$1.4 million to cover shortages incurred the past fiscal year. Since the city is expected to continue making contributions to the debt -- with no substantial repayment near in sight -- the debt has become a "doubtful account," according to a new report by Merina & Co. LLP, the auditing firm for the city.

By calling this debt a "doubtful account," the city acknowledges that there's no reliable estimate of *when* or *if* MINET will be in a position to pay all its debt. Why is this important? By identifying debt that's unlikely to be repaid any time soon, the city avoids being labeled with a "qualified opinion" on its audit report – a financial term that reflects problems that can range from possible inaccuracies to bad debt.

Such a move makes sense for the city, particularly as it goes forward with the riverfront development. But it has thrown shade on MINET's recovery from a money-losing business to one that is emerging into break-even status or, perhaps, as one that may be profitable after all.

Currently, the penetration rate for MINET is approaching 80%, although this uptick, in part, also includes a reduction in the number of possible subscribers, which was mistakenly over-estimated in the past by including vacant lots and other unbuildable property. The actual number of households in Monmouth and Independence is almost 7,000 and the number of subscribers is nearly 5,000. The relatively small gap between the two is nationally remarkable. The need for some fiberoptic options are down across almost all regions of the country: Many people are "cutting the

cord” on their landlines; Many are relying solely on cell phones. Some are also deciding they don’t need cable-television, either, since so much programming now can be accessed by the internet. This trend is predicted to continue.

In Monmouth and Independence, the remainder of non-subscribers also includes people entrenched with another internet provider, and others who don’t want internet at all. Now that MINET seems able to pay its own way in terms of operation – but not what’s owed – it may have hit a stubborn plateau. Recognition of a “doubtful account” by the city doesn’t relieve MINET or the cities from debt. But is it too much to expect MINET to pay a cumulative \$26 million price tag?

The dividing line between successful and failing municipal broadband systems is well documented in publications such as the *Journal of Urban Technology*. Two factors seem most influential: the ability of upper management to steer a municipal fiberoptic with solid business skill, coupled with the opportunity for growth in cities that were early adopters of the new connectivity – opportunities afforded by manufacturing or industry, which support the technology beyond the need of residential communities. This past year, Seattle’s planning department decided that city’s long hoped-for municipal broadband could not be supported without business partnerships -- and nixed it.

Over the years, officials from both Independence and Monmouth have referred to MINET as one of the few municipal fiberoptic services of its kind -- but that fact may be because so many others like it have gone out of business or been absorbed by tele-communications companies. In Utah, scores of cities are struggling to maintain their municipal broadband, *Utopia*, which has become a cautionary tale about the need to ensure good management from the outset -- and to establish, at inception, extremely realistic expectations. In Vermont, the failure of *Burlington Telecom* is used as a case study by the non-profit *Institute for Local Self Reliance* to show how far into debt a city can sink before intervention takes place (see *below the editorial for a link to this study*)

MINET appears to have gotten a general manager with the expertise for leading its staff into good market penetration, as recent data from the company show. But his arrival followed years in which MINET seemed adversely affected by administrations that vacillated on goals and

strategies, veering from one management style to another, according to past reports by the local media and by personnel there.

Meanwhile, debt ticked onward. And the city's expected expansion & relocation by multiple larger-scale businesses that would have helped shore up costs for this high-tech fiberoptic simply never materialized.

(*see editorial below, if so inclined).

Commentary: IT'S TOUGH TO TURN THAT CORNER

To get to the Independence Civic Center from where I live, I have two driving choices. Both seem to tug at whatever heartstring is linked to a sense of place. I can drive through a downtown dominated by empty storefronts or I can travel by the bare frame of "Independence Station," across from our former city hall, which now is a second-hand mercantile under foreclosure by the very city it once housed. Why should anyone be surprised that millions of dollars poured into MINET might be considered *un-repay-able*? It seems obvious that, like our beautiful brick Civic Center, the town itself is being re-designed for a far grander version of itself than the current population can sustain.

Where do we (who dwell here) fit in the scheme of things? Over the past 18 months, as I've attended City Council meetings, I've hardly heard our current neighborhoods discussed at all. There's talk about the residential zone change to a mixed-use, pedestrian-friendly commercial area -- and it sure looks great on paper. There's anticipation about condominiums by the river, near a hotel that so far exists only in an artistic rendering. But for those of us who reside here, our life isn't lived in an architectural drawing ... but in an actual home or apartment. And we could use some support for preserving our own little part of Independence. We deserve a lot more mention down at that majestic Civic Center, which should be a place where we're always kept in mind by city officials. It's something I can't help but think about when I drive to council meetings, passing the vacant downtown buildings or the looming skeleton of Independence Station.

(Note: full report from reference to *Case Study of Burlington Telecom*: <http://www.muninetworks.org/sites/www.muninetworks.org/files/bt-lessons-learned.pdf>).