

CROSSLAKE UTILITIES COMMISSION /JOINT CITY COUNCIL MEETING
TUESDAY, JULY 31, 2001
CROSSLAKE COMMUNICATIONS

Regular Meeting, July 31, 2001

The Regular Meeting of the Crosslake Utilities Commission was called to order by Chairperson Gilroy Arvig at 7:30 a.m. Members present: Gilroy Arvig, Armond Gease, Bill Smith, Judy Cotten, Ted Silva, and Gerry Brine. Members absent: Del Gilsrud. Also present were General Manager Dennis Leaser, Office Manager Debby Floerchinger, Operations Manager Jared Johnson, Liaison Darrell Swanson and City Administrator Tom Swenson.

Actions Taken:

- 1) **The Utilities Commission recommends to the City Council extending the cable plan from a four year plan to a seven year plan.**
- 2) **The Utilities Commission recommends to the City Council approval of the tiered pricing packages.**
- 3) **The Utilities Commission recommends to the City Council approval that the Operations and Maintenance Reserve be reallocated to \$300,000 to the Central Office Reserve and the balance of \$186,231 be put into the Cable TV cash fund to finance the shortfalls.**

The Minutes of the June 26, 2001 Joint Utilities Commission/City Council Meeting were reviewed. Judy Cotten moved to approve the Minutes as presented. Second by Armond Gease. All in favor. Motion carried.

The June, 2001, Financial and Statistical Reports were reviewed. Debby pointed out that the Revenues showed a decline and would check into it prior to the next meeting. Armond Gease moved to accept the June, 2001 Financial and Statistical Reports. Second by Judy Cotten. All in favor. Motion carried.

- 1) **Building Expansion.** Dennis reported that the roof is now on and the brick is currently being installed on the exterior of the building. The addition is still on schedule.
- 2) **Martin Server.** Debby reported that the Martin server was installed at Consolidated over the weekend. There are still some problems connecting to Brainerd but when we are connected the program is considerably faster.
- 3) **Onvoy Update.** Dennis reported that Onvoy's report to shareholders and Board was released July 11th. The report was to inform us about the committee's findings and conclusions with their four fiber lease agreements between Plymouth and Moorhead and Moorhead and East Grand Forks. Onvoy wants to renegotiate its leases with the Transport groups that were formed to build this fiber ring for Onvoy. Onvoy sent out demand letters to them with unreasonable terms and was going after the Transport Groups hard. Onvoy feels these leases are costing them five million dollars per year and in their condition consider it a threat to their cash flow and survival. The transport groups will renegotiate the leases but not entirely on Onvoy's terms.

CATV

Reserve be reallocated to \$300,000 to the Central Office Reserve and the balance of \$186,231 be put into the Cable TV cash fund. Second by Judy Cotten. All in favor.
Motion carried.

PERSONNEL

- 1) Operations Manager Search. Dennis introduced Jared Johnson as the selection of the interview committee to fill the Operations Manager position. Over 35 resumes had been received for that position.

OTHER BUSINESS

- 1) Strategic Planning Session – Dennis recommended that a strategic planning session be conducted to review a five year plan for the telephone and the cable upgrade. Pat Powers has agreed to facilitate this session for us. We will look at scheduling this meeting in either October or November of this year.
- 2) Commission Opening. Dennis reported that Del Gilsrud has informed us that he will be resigning for the Commission due to being unavailable to attend commission meetings. He is currently out of town and will provide a letter of resignation upon his return. Del suggested that the Commission move forward in publishing the opening and interviewing to fill the opening. It was agreed that the previous committee of Gerry Brine, Ted Silva and Armond Gease would conduct this search. An ad will be placed in the Echo.

Mayor Swanson called the Special Session of the City Council to order at 9:08 a.m. with Council Members Sandy Eliason, Chuck Miller, and Irene Schultz joining Mayor Swanson. Also present was City Administrator Tom Swenson. Dean Swanson was absent.

- 1) Revise the Schedule for the Cable TV Plant Upgrade. Dennis reviewed the additional budget shortfall with the City Council. It was pointed out that in addition to the shortages realized last month on the head end there were also shortages on the plant side consisting of engineering costs exceeding \$100,000 this year which had not been budgeted for and modifications to the plant plan for this year. It was pointed out that we have met with CC&I regarding the invoicing and they are currently researching it. One of the biggest cost factors was with the on-site inspector we thought was included in the estimate. The bid from Rice Cable was actually \$27,000 under projections so cable was placed on Northgate Lane. We understood this cable placement would be only \$34,000 but actually cost over \$60,000. After realizing these problems, we decided to stop the on-site inspector and the construction was scaled back. Dennis reported that Pat Powers from Olsen Thielen was brought in to review the project, pricing and to take a look at our budget and what we could do going forward without breaking the Company. The Utilities Commission recommended to the City Council that the cable plan be extended from a 4 year to a 7 year plan. **MOTION 07S3-01-01 WAS MADE BY COUNCILMEMBER SANDY ELIASON AND SECONDED BY COUNCILMEMBER CHUCK MILLER TO EXTEND THE PLAN FROM FOUR YEARS TO SEVEN YEARS BASED ON THE RECOMMENDATION OF THE UTILITIES COMMISSION. MOTION CARRIED WITH ALL AYES.**
- 2) Reallocation of Designated Reserves. The recommendation from the Utilities Commission to reallocate \$486,231 of the Operations and Maintenance Reserve was reviewed. **MOTION 07S3-02-01 WAS MADE BY COUNCILMEMBER CHUCK MILLER AND SECONDED BY COUNCILMEMBER SANDY ELIASON TO MOVE \$300,000 FROM THE OPERATIONS AND MAINTENANCE RESERVE INTO THE CENTRAL OFFICE RESERVE ACCOUNT AND THE BALANCE OF \$186,231 TO THE CABLE TV CASH FUND TO FUND THE SHORTFALLS BASED ON THE RECOMMEND OF THE UTILITIES COMMISSION. MOTION CARRIED WITH ALL AYES.**

- 3) Adoption of Cable TV Package Pricing. The proposed pricing was reviewed for the program packages. MOTION 07S3-03-01 WAS MADE BY COUNCILMEMBER CHUCK MILLER AND SECONDED BY COUNCILMEMBER SANDY ELIASON TO ACCEPT THE PROGRAM PRICING AND CHANNEL LINE UP BASED ON THE RECOMMENDATION OF THE UTILITIES COMMISSION AS FOLLOWS:

Basic Cable	\$14.95	12 channels
Expanded Basic	\$28.95	36 channels
Digital	\$38.95	84 channels
HBO Package	\$15.00	6 channels
Showtime Package	\$15.00	6 channels
Encore/Starz Pkg	\$10.00	8 channels

MOTION CARRIED WITH ALL AYES.

The next regular meeting of the Utilities Commission is scheduled for August 28, 2001 at 7:30 a.m. at Crosslake Communications.

MOTION 07S3-04-01 WAS MADE BY COUNCILMEMBER CHUCK MILLER AND SECONDED BY COUNCILMEMBER IRENE SCHULTZ TO ADJOURN THIS SPECIAL JOINT UTILITIES/COUNCIL MEETING AT 9:45 A.M. MOTION CARRIED WITH ALL AYES.

A motion was made at 9:45 a.m. to adjourn the Utilities Commission by Armond Gease. Second by Bill Smith. All in favor. Motion carried.

CC: Del Gilsrud
Judy Cotten
Armond Gease
Gilroy Arvig
William Smith
Ted Silva
Gerry Brine
Darrell Swanson, Mayor
Charles O. Miller
Irene Schultz
Dean Swanson
Sandy Eliason
Tom Swenson
Paul Sandelin


Armond Gease

Recorded and transcribed by,


Debby Floerchinger
Office Manager

The Cable Financial and Statistical Reports for June, 2001 were reviewed. A motion was made by Gerry Brine and second by Bill Smith to accept the June, 2001 Financial and Statistical Reports. All in favor. Motion carried.

1) Construction Update – Budget Shortfall. Dennis reported that after the June Commission meeting, we took a hard look at our construction costs. They were higher than we projected. Last month we talked about costs relating to the head end. After review, we discovered that our CC&I costs alone were approaching \$100,000 and more for 2001. There were no dollars budgeted for this. Second, due to our bid from Rice Cable coming in at \$94,000 which was under projections by \$27,000, a decision was made to upgrade the Northgate area figuring it would cost \$34,000. It actually exceeded \$60,000. This decision was made due to the amount of trouble calls we had received on that area. Third, no money was put into the budget for inspection of the project, staking, and other work. Inspection alone was costing us \$3,800 weekly to CC&I. Kevin thought that this cost was built into the construction costs but it wasn't. Eric Engler from CC&I was called in to review these costs and the project's progress. At that time, a decision was made to bring the cable upgrade to an end for 2001 and stop the cash flow into it. This meant that the Big Pine Lake area would not be done and the \$138,000 budgeted was already spent on Manhattan Drive, Northgate Lane, Rushmoor and CC&I. Dennis met with Bob Reff and Jason Dale from CC&I to review the costs. They are currently reviewing their billings. Dennis has established a policy and will be sending a letter to CC&I stating that any future work will be done only by authorization of a Purchase Order signed by the General Manager with a statement "Not to Exceed" on the purchase order. With these additional costs, our shortfall is now at \$260,000. We had Pat Powers from Olsen Thielen here last week to review the project and assist with revenue projections and a review of our budget based on these new findings. After looking at the construction, headend costs and budget projections, we have decided to only perform cut overs in 2002 and not place any coax cable, go slowly in 2003 and ad years 2004, 2005 and 2006 to the plant rebuild making this a seven year project. This would assist in our cash flows. Ted Silva moved to recommend to the City Council to extend the cable plan from a four year plan to a seven year plan. Second by Armond Gease. All in favor. Motion carried.

2) Programming – Pricing Approval. The programming tiers with recommended pricing were reviewed with the Commission. It was recommended that based on the pricing of other cable systems and the satellite dishes the following pricing be established:

Basic Cable	\$14.95	12 channels
Expanded Basic	\$28.95	36 channels
Digital	\$38.95	84 channels
HBO Package	\$15.00	6 channels
Showtime Package	\$15.00	6 channels
Encore/Starz Pkg	\$10.00	8 channels

A motion was made by Armond Gease and second by Gerry Brine to recommend to the City Council approval of the tiered pricing as above. All in favor, motion carried.

3) Funding Option – Dennis stated that when Pat Powers was here we also looked at funding the project. It was suggested that to fund the shortfalls, we look at the Telephone's Restricted Reserves. The Operations and Maintenance Reserves only have to be at 6% to meet our loan covenants. We presently have 12% set aside. (\$486,231 extra). Pat recommended putting an additional \$300,000 into our central office switch fund to raise it to \$600,000 because our cost to replace the switch in approximately 3 years will approach \$1,000,000. It was also recommended that the remaining balance of \$186,231 be put into our 2001 CATV cash fund to cover these shortages. Armond Gease moved to recommend to the City Council that the Operations and Maintenance