

Metropolitan King County Council



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Cheryle A. Broom
King County Auditor

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MEMORANDUM

DATE: September 26, 2002

TO: Members of the Metropolitan King County Council

FROM: Cheryle A. Broom, ^{CB} County Auditor

SUBJECT: Study of the King County Institutional Network (I-Net)

A proviso in section 7 of the 2002 budget ordinance charged the Auditor's Office to conduct "... an evaluation of the viability of the I-Net project, subject to inclusion of this evaluation in the auditor's 2002 work program." The work program, approved by the council on March 25, indicated that the Auditor's Office and consultant would form a task force to develop performance measures, performance benchmarks, and a data collection plan for I-Net.

The consultant, Pacific Technologies Inc. (PTI), was also engaged to update a 2001 market assessment by interviewing key stakeholders and surveying potential customers, and to conduct a financial analysis of I-Net viability.

Comments by the Auditor's Office

While I-Net is satisfying its current customers, the PTI report raises some concerns about the financial viability of I-Net in the future. This is based on the responses from several potential customers who remain uncertain about contracting with I-Net in the future. Thus, it will be important for the council to continue to monitor I-Net's performance in the future. To facilitate that oversight, the PTI report contains a set of performance measures and a data reporting format that is intended to give a clear picture of I-Net's progress in meeting its goals. Accordingly, we make the following recommendation to implement the measures and report format.

Recommendation:

As a way of monitoring I-Net's future performance, the Auditor's Office recommends that Information and Telecommunications Services Division of the Department of Executive Services incorporate the performance measures and reporting format developed by PTI and the task force into the quarterly reports it prepares for the council.

Key Findings and Recommendations by PTI

PTI also made four recommendations that are aimed at I-Net improving its efforts to provide a clear plan of action and a stronger marketing effort that might result in more customers and hence additional positive outcomes for the program.

PTI found that I-Net currently operates with a high level of customer satisfaction but without benefit of a clear, well-developed strategic plan. Thus, there is a range of understandings about

what the program is and what it is intended to achieve. A perceived lack of mission and vision has a systemic effect. This impairs I-Net's ability to effectively communicate its accomplishments and hinders marketing efforts.

PTI recommends that I-Net:

1. Develop a strategic plan which includes a statement of mission and vision; and a business plan that establishes goals, objectives, and other success measures.
2. Engage in an tactical, well-organized marketing effort that is linked to the strategic plan.
3. Operate more like a private-sector enterprise.
4. Monitor financial performance closely.

Performance Measures

The Auditor's Office and PTI convened a task force to identify appropriate measures for I-Net. Representatives from the Office of Information Resource Management, the Division of Information and Telecommunications Services (ITS), the King County Library System, AT&T Broadband, the Budget Office, Council staff, and the Auditor's Office participated.

Performance measures developed for I-Net fall into four broad categories:

- Financial Performance
- Customer Satisfaction
- Technical Performance
- Market Performance

PTI also prepared a format for reporting these measures in a clear and consistent fashion.

Updated Market Assessment

PTI conducted a market assessment of potential I-Net customers, similar to the survey prepared for the council last year. Responses came from 42 potential customers.

While there appears to be more familiarity with I-Net than in the 2001 survey, still a large portion of the potential customers said that they were uncertain about contracting with I-Net within the next two years.

Financial Analysis Review

PTI analyzed I-Net's financial plan and model, and concluded that the existing financial plan is optimistic. Therefore, I-Net may have difficulty maintaining financial self-sufficiency. PTI bases these conclusions on its modeling of different financial performance assumptions, some of which reflect the high number of potential customers who are uncertain about contracting with I-Net in the future.

Executive Response

The executive has responded to the PTI report and the recommendations. The entire text of the reply is attached.

The executive notes that ITS has already begun to use some of the performance measures collaboratively developed through this study process. The response also acknowledges the importance of integrated and coherent, strategic, business, and marketing plans, and the need to monitor financial and operational performance.

CB:RP:yr
attachment



King County Executive
RON SIMS

RECEIVED

SEP 25 2002

KING COUNTY AUDITOR

September 20, 2002

Cheryle Broom, County Auditor
King County Courthouse
516 Third Avenue, Room 1025
Seattle, WA 98104

Dear Ms. Broom:

Thank you for the opportunity to comment on the draft report on performance metrics for King County's Institutional Network (I-Net). I understand that you and your staff, as well as your consulting team, went beyond regular hours last Friday to listen to the concerns and observations of our staff regarding the draft report. I also understand that your staff is working with the consulting team to make some adjustments to the final report. Thank you for your consideration and your dedication.

Enclosed you will find a memorandum from Kevin Kearns, Manager of the Information and Telecommunications Services Division that includes comments as well as concerns regarding the report. Most of the substantive issues covered by the memo were raised in last Friday's discussion with you and the project team. I trust that our major concerns are receiving consideration and hopefully are being addressed.

It is important to note that the last two independent assessments of I-Net have concluded that I-Net can be successful. In I-Net's first year, we achieved the goal of operating without CX subsidy, consistent with one of our goals, and somewhat contrary to other public sector institutional networks that lack our same aggressive vision for service and financial viability. I fully expect that we will continue to manage our financial performance consistent with our plan, without CX subsidy.

We live in one of the most technologically progressive areas of the country. Our vision for I-Net has always extended beyond County facilities. While remaining in the black without CX subsidy is one of my goals for I-Net, it is certainly not the only goal, nor even necessarily the highest. I will not be satisfied until high content sites such as the Seattle Art Museum, Benaroya Hall, and the Experience Music Project are on line. As a parent, I am thrilled by the prospect of children in classrooms being able to visit the Zoo or Aquarium without the need for a long bus ride. As the County Executive, I look forward to the day when I-Net will support video arraignment and video visitation to help us control skyrocketing detention costs.

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Cheryle Broom
September 20, 2002
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I have also attached a copy of a letter we received from the King County Library System (KCLS), one of the largest I-Net customers, which unequivocally demonstrates the fact that progress has been made. In their words, I-Net has been "an unqualified success."

We know we still have a great deal of work to do with I-Net. Until contracts are signed and service provisioned, there is a degree of uncertainty with enrollments. We will continue to monitor I-Net's performance through these uncertain times. I will not be content until I-Net is both a financial and programmatic success, but I am confident that we are on the right road and making good progress towards that goal.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ron Sims for".

Ron Sims
King County Executive

Enclosure

cc: Paul Tanaka, Chief Administrative Officer, Department of Executive Services (DES)
David Martinez, Chief Information Officer, Office of Information and Resource
Management
Kevin Kearns, Manager, Information and Telecommunications Division, DES



**Information and
Telecommunications
Services Division**

Department of Executive Services

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SEP 25 2002

KING COUNTY AUDITOR

September 20, 2002

TO: Ron Sims, King County Executive

VIA: Paul Tanaka, Director, Department of Executive Services

FM: Kevin Kearns, Manager, Information and Telecommunications Services Division

RE: I-Net Performance Measures - Draft Consultant Report

Cheryle Broom, the County Auditor, has asked for written comments on the above by September 20th in preparation for a discussion of this issue at the Council's September 26 Labor, Operations, and Technology Committee. We have provided the consultants and Auditor's Office with oral comments on the draft report and have set out the comments below to provide you with ITS' position.

While not without some challenges, King County has made good progress during I-Net's infancy. Unlike many start ups, I-Net is operating 'in the black' financially after our first full year of operations. Performance is greater than advertised. We are regularly delivering 99.99 percent or better network uptime. (Our service level commitment is that customers should receive 99.9 percent uptime.)

The major focus of the audit was on performance measures for I-Net. The previous Council audit recommended strongly that I-Net adopt meaningful performance measures and we wholeheartedly agreed. This audit work was done to develop a wide range of performance measures for I-Net. We appreciated and enjoyed working in the performance measures area with the consulting team and staff from the Auditor's Office. Ron Perry from the Auditor's staff was a great resource with whom to work.

We anticipated this work as a result of last summer's Council-initiated assessment of I-Net. The performance measures deliverable will be useful to us as we work to keep key stakeholders informed of our progress. We had already begun the process to gather data on some of the measures and will continue with that effort. The tools the consultants developed with the project team will be useful as we continue to develop and implement performance measures for other Information and Telecommunications Services Division business units.

During last Friday's discussion of the draft report, we stated our clear intent to post I-Net's performance measures on the Internet web site to allow customers to easily monitor I-Net's performance. The dashboard and color graphics the team developed are good, inviting tools for us to use.

Regarding the consultants' recommendations, the majority are consistent with last summer's consultant study recommendations. However, I am disappointed that I-Net's progress was not reflected in a positive manner, and am very concerned with the overall tone of the consultants' study. Set out below are some examples.

.....*there is no marketing plan*.....

This is not the case. A draft copy of the I-Net business plan recapping our marketing plan for the initial rollout was shared with the consultants several months ago. The consultants' own survey showed that ninety-five percent of those surveyed had been contacted by I-Net. Almost half of those contacts occurred within the last two months and more than seventy percent of survey respondents were "very familiar" with I-Net. The conclusion that there is no I-Net marketing plan is, therefore, puzzling to me.

Marketing efforts are a constant and additional potential service offerings that will be validated through a marketplace focus group are being explored. I-Net closely monitors financial and operational performance and is composed of well-qualified management and a marketing team with relevant private sector experience to complement existing ITS technical staff. Those resources help update business and operating plans for I-Net.

During the initial marketplace data collection effort, we gained insight as to customers' preferences and concerns. Initial marketing efforts were focused on those customers with the most compelling business case for I-Net services. Customers who expressed the greatest interest received more follow-up attention. Quarterly I-Net performance proviso responses include detailed reports on prospective customers in the pipeline and contain input from marketing staff as well as I-Net financial projections.

The marketing manager for I-Net has fifteen years experience in technology sales, marketing, and management assignments within the NCR Corporation; and fifteen years of telecommunications sales, marketing and management experience with GTE (Verizon) and United Technologies Communication Corporation. He was intensely involved in GTE's entrance into the deregulated Competitive Local Exchange Carrier (CLEC) market in the Northwest. The team at GTE was responsible for sales and marketing to the education, government, and high technology markets in the northwest. The combination of his professional experience and voluntary work on a wide variety of education, technology, and community-related boards gives him credibility and contacts that are extremely valuable to our current marketing campaign.

.....schools are difficult to market to.....

Another of the consultants' findings is that schools are difficult to market to because they have federal e-rate subsidies available to them. It is important to understand that I-Net is an e-rate-eligible service provider and can market to school districts and to the King County Library System. I-Net's e-rate eligibility enabled the Library to reduce their I-Net costs by over \$140,000 last year.

Clearly, school districts are interested in I-Net services. The Kent School District, fourth largest in the state, with 27 I-Net sites is already a customer. The Kent School District enjoys a strong reputation for progressive leadership on technology issues. Northshore, Shoreline, and Tahoma School Districts are also I-Net customers. And the County has just received a proposal from the Lake Washington School District to explore options for a 15-year partnership including a request that we work with them to get even more of their facilities connected to the I-Net to bring them to a total of 16 sites.

It is easiest for us to market to the districts where a very high percentage of their facilities are currently wired for I-Net service, but unfortunately that is not always the case as I-Net's fiber build out is driven by AT&T's business plan for cable TV upgrades not ours and their build out is not expected to wrap up until next year. Another challenge is that I-Net only covers sites in unincorporated King County and some of the school districts and other agencies with highly disbursed sites have facilities that are also in incorporated areas as well, or are otherwise not served.

But this challenge also presents us with a great opportunity. Kent School District relied on I-Net to help with a plan to address as many of their facilities as we can by brokering on their behalf where possible. We see a similar opportunity with the Lake Washington School District.

.....there are no financial, operational, marketing objectives..... lack of an overall vision and strategic plan hampers I-Net marketing efforts

While it is true that the ITS staff are working to update and complete I-Net's business plan, it is inaccurate to state that I-Net does not have financial, operational, and marketing objectives. Financial and marketing objectives are evident in the financial plan and key performance objectives encompassed in our service contracts. All of this information was included in last summer's Council-initiated consultant study. The implementation plan for I-Net presented to the Council in 1998 and updated in 1999 included mission and vision statements for I-Net as well.

It remains a priority to pull all of these together into one document. However, to leave the impression that none of this work has been done is a misleading negative characterization.

survey analysis

I am troubled by the consultants' superficial analysis and mischaracterization of the survey results. This was one of the primary reasons they were engaged and the County has not received good value for their work. We have spoken with Ron Perry about our concerns regarding the consultants' methodology and I hope that we will see some refinements in this portion of their work.

There is difficulty in matching their conclusions to the information obtained through their survey of potential I-Net customers. Last summer's consulting team spent a good deal of time reviewing I-Net's technology and operations as they worked to form their conclusions. For example, twenty-five percent of the survey respondents said that they were "somewhat likely" to sign up for I-Net service within the next two years and yet the consultants state that they are "unlikely" to sign up. This constitutes a misstatement of fact.

But their work is more deeply flawed than this. Had the consultants taken the time to examine the financial projections provided to them, they would have noticed that ten of the twenty-two respondents who said that they were not interested in enrolling in the next two years are excluded from our projections through at least 2005. Another of the school districts, Shoreline, is already covered through the City of Shoreline's contract. Further, when you compare projections of enrollments for the next two years' with the survey results, there are only three agencies with a total of three sites where current I-Net projections are more optimistic than the most recent survey findings. Of those agencies responding to the survey, this optimism can be quantified as approximately \$125,000 or about 1.7 percent of projected revenue through 2005. From an accounting perspective, this difference is not material.

A last point about the survey's tone is warranted. Virtually all of the same questions and rating scale used in last year's survey also were used this year. Last year, those who said they were somewhat likely or somewhat unlikely to sign up were characterized in the survey write up as "sitting on the fence" whereas this year they were simply and inaccurately described as "unlikely." And last year, the consultants attempted to quantify what was at risk whereas this report did not.

To emphasize the impact that the "tone" of a survey might have, approximately forty percent of the survey respondents expressed reservations about the County as a service provider. At a time when King County is working hard to establish I-Net's credibility in the marketplace, a report that is unnecessarily pessimistic could have a negative impact. While last year's consultant study raised many of the same questions and recommendations, where there were risks, they at least attempted to quantify them and the survey results were fairly characterized. I think the two reports could be compared as, "the glass is half full" and "the glass is half empty."

.....County relies on I-Net to support data communications.....

The consultants correctly observe that the County relies on I-Net to support the data communications needs of the County's wide area network (KC WAN). Leveraging I-Net internally has always been one of our goals because it affords us opportunities to reduce third party costs and to secure control of higher communications capabilities.

The discussions with the consultants and Council staff have been open and professional. The concerns mentioned above might give you an impression to the contrary. But, this is not the case. For instance, we have agreed during discussions that running additional financial scenarios with varying assumptions for revenues and expenses has value. The consultants identified the issue of equipment replacement as one that requires further study and we agree. We believe the equipment replacement assumptions for at least some of our equipment maybe overly pessimistic and this work provides the opportunity to validate or not. We know there is a great deal of work to do with I-Net. There is always some uncertainty about enrollments until contracts are finally signed and service provisioned. There will always be customers who change their mind prior to enrollment for a whole host of reasons many of which will be outside of our control. We agree that continued monitoring must exist to ensure I-Net's performance through these uncertain times and to ensure its operation within revenues. The County is committed to doing this and maintaining I-Net in such a fashion.

But, the County also knows that I-Net has great benefit, to its customers and to the County (as a customer and as a service provider). The KCLS and user-school districts are very clear examples. It would be a tragedy to hamper or deny the full "fruits" of I-Net because of the "tone" or "style" of the audit, coloring the realities of I-Net's benefits.

We will continue to work I-Net, I-Net issues/concerns with the Council and Council staff. The goal remains the same – to operate a highly reliable data network that meets our customers' needs on a self-sustaining business model.

