

ILLINOIS CENTURY NETWORK

**NETWORK UTILIZATION:
SERVICES**

Submitted for: Information

Summary: This item provides an update of two services recently made available to ICN constituents, filtering and IP video. A summary of activity to-date and an analysis of the costs associated with each service.

Action Requested: None.

ILLINOIS CENTURY NETWORK

NETWORK UTILIZATION: SERVICES

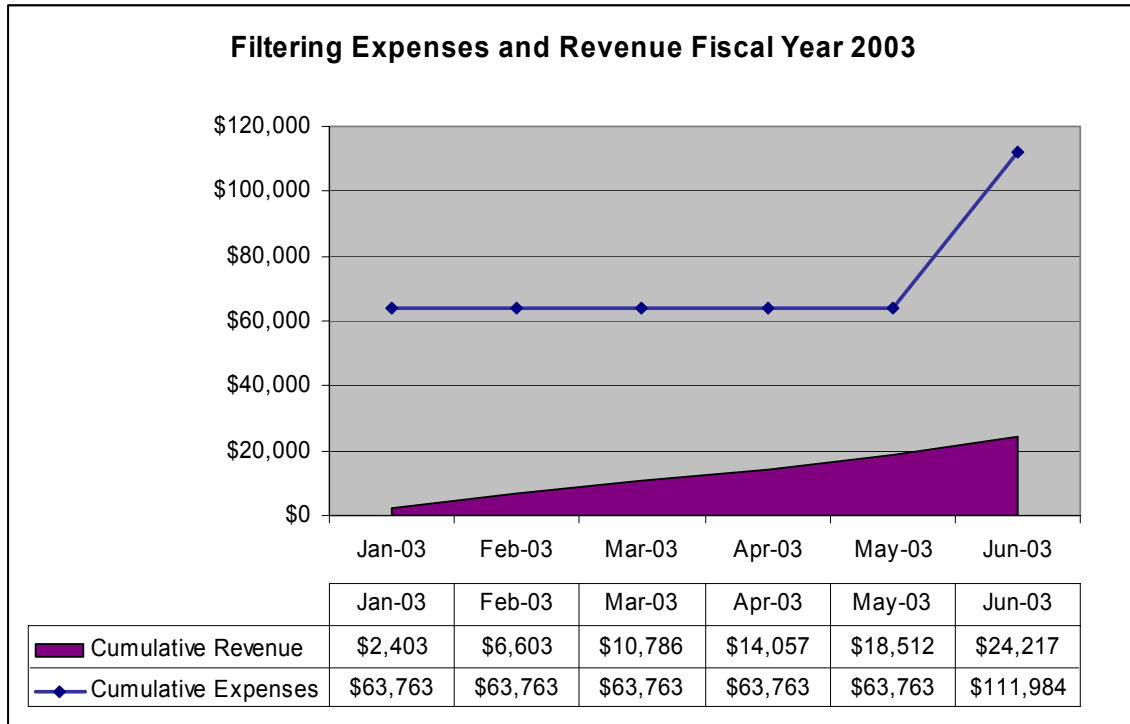
Based on constituent requests and information collected at the last round of regional information sessions, the ICN staff developed a process for evaluating the costs and benefits of offering network services to ICN constituents. The process involves evaluating the service using several different criteria: the need / demand for the service; the cost to implement the service; the training required to install and support the service; the time required to make the service available; the availability of similar services, at similar costs, from the private sector; and the application of the cost recovery model to insure that the both the ICN and the constituents are paying less than they would if they purchased the service on their own. Once all of the criteria have been addressed, the service proposal is brought to the management team for final approval. Each service is assigned a project leader who coordinates all aspects of rolling out the service. Information regarding the availability of the service is communicated to the constituents and posted to the ICN web site.

Filtering

ICN launched filtering services in January 2003. Based upon volume discounts offered from the vendor, and needs expressed by a number of constituents, an initial quantity of 11,500 filtering licenses was purchased. By June 2003, the licenses were one-hundred percent (100%) utilized and requests for the service were continuing. Currently, the cumulative number of licenses in use is 17,349, representing 73 sites. This number is expected to grow as constituents switch to the ICN filtering option when their current contracts with other vendors expire and as ICN begins to market the service.

Financial results:

Figure 1: Filtering Expenses and Revenue for Fiscal Year 2003

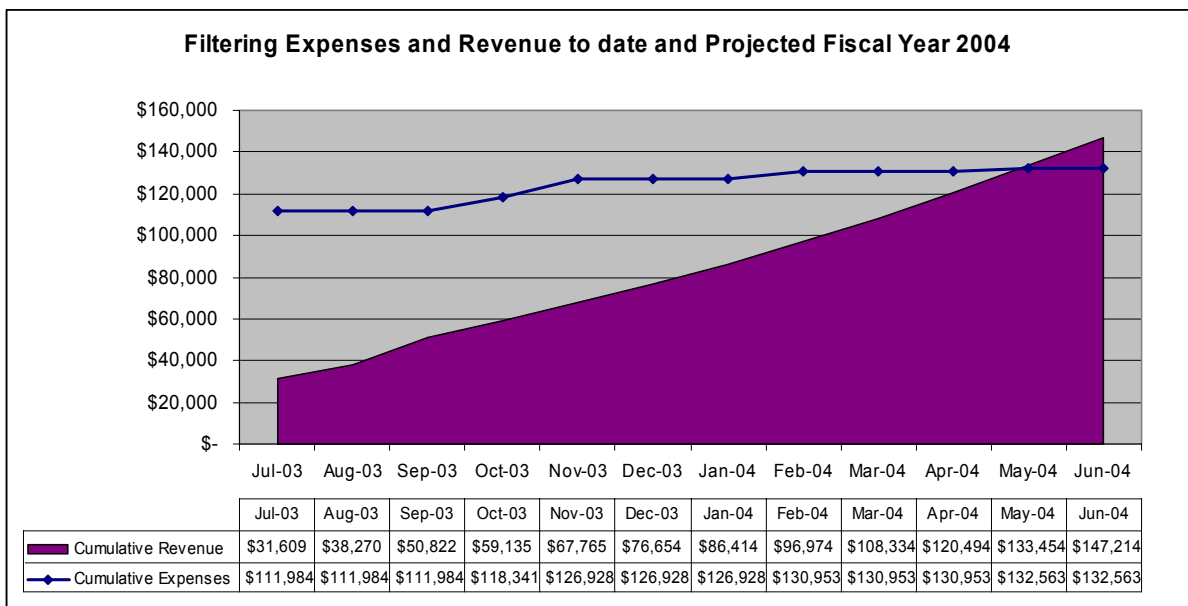


Deploying a centralized filtering solution across a large enterprise such as the ICN required the purchase of sufficient equipment to make the service available everywhere in the state. In addition, it was necessary to build in adequate redundancy so as to provide uninterrupted service to constituents in the event of a hardware failure. As a result, expenses exceeded revenues during the first fiscal year. Expenses during fiscal year 2003 totaled \$430,799; revenue from filtering totaled \$76,578.

Projections for fiscal year 2004:

Conservative estimates for fiscal year 2004 indicate that ICN filtering will reach the break-even point in May 2004. Expenses will again exceed revenue in July when it is necessary to renew the purchase of filtering licenses. Filtering licenses are purchased at the start of each fiscal year based on the number of hosts (constituent computers) using the service. As the service grows throughout the year, additional licenses are purchased on a pro-rated basis so that all licenses extend only to the end of the current fiscal year. The service should reach the break-even point again in October 2004.

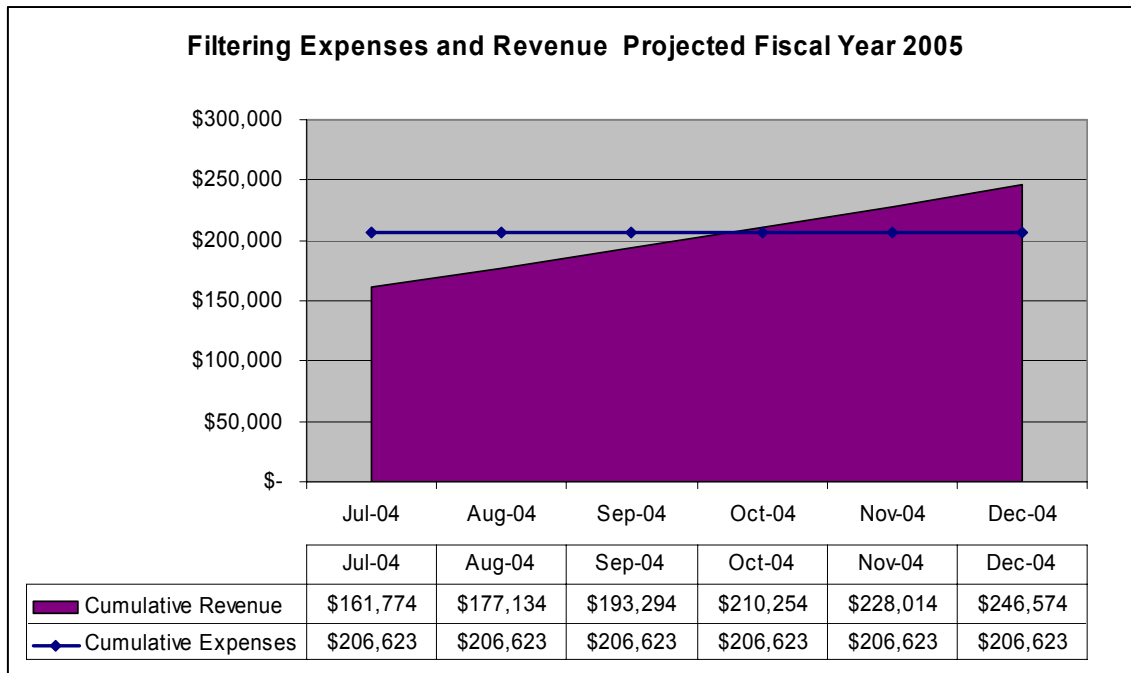
Figure 2: Filtering Expenses and Revenue for Fiscal Year 2004



Ongoing projections:

Existing hardware will continue to scale such that the service will be able to grow much larger before additional hardware will be required. Hardware is projected to remain in use for approximately three years from the original purchase date. The revenue exceeding expenses starting in November 2004 will eventually be used to replace existing hardware and prepare for future growth. The largest ongoing expense is for filtering licenses. If ICN filtering continues to be popular with constituents, there is the potential for much greater efficiencies of scale with higher numbers of computers being filtered.

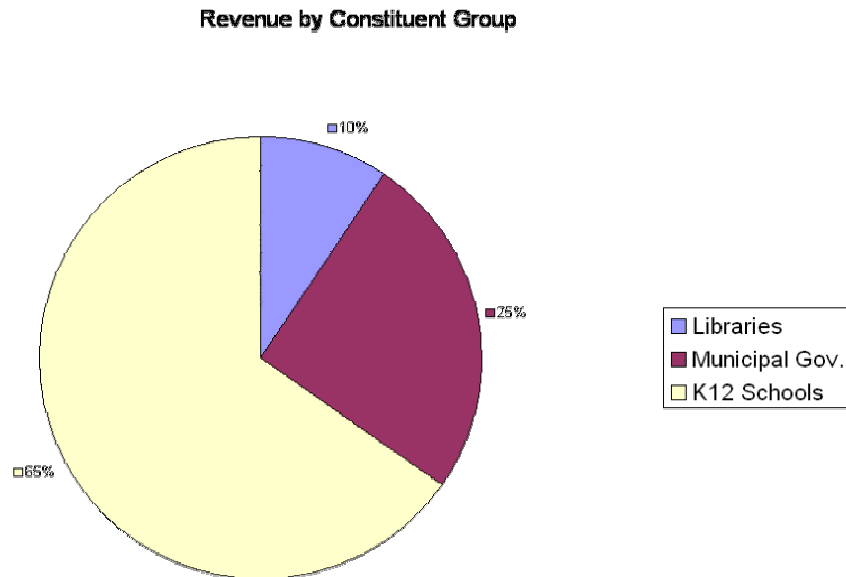
Figure 4: Filtering Expenses and Revenue Projected for Fiscal Year 2005



Filtering revenue by constituent group:

Clearly, K-12 schools are by far the largest users of ICN filtering. This was anticipated since K-12 schools are the largest constituent group on the network and are required by the Children’s Internet Protection Act (CIPA) to filter Web content if they wish to receive Federal monies for their Internet connectivity. Libraries, which were previously exempt from this requirement, will be under the same restrictions beginning July 2004. In anticipation, many have signed up for ICN filtering.

Figure 5: Revenue by Constituent Group



Benefit:

ICN filtering was not deployed in an effort to generate money to be used for other endeavors. It was implemented as a service to constituents that would pay for itself over time. With this in mind, ICN filtering is certainly a success. It provides an economical solution for constituents who wish to prevent objectionable and often illegal content from reaching the users on their networks. It is also a cost effective solution for schools and libraries that are required to filter in order to receive Federal monies to support technology at their institutions.

Satisfied constituents are the primary return on investment.

As you know, we now rely on your N2H2 Internet Filter service and have found it to be a good choice that has very nicely met our needs at this school. Previously we had two other products that proved to be more costly and time intensive. ICN staff handling the technical support has really helped CHA and many other schools to use a very solid product without the intense support/maintenance...thanks.

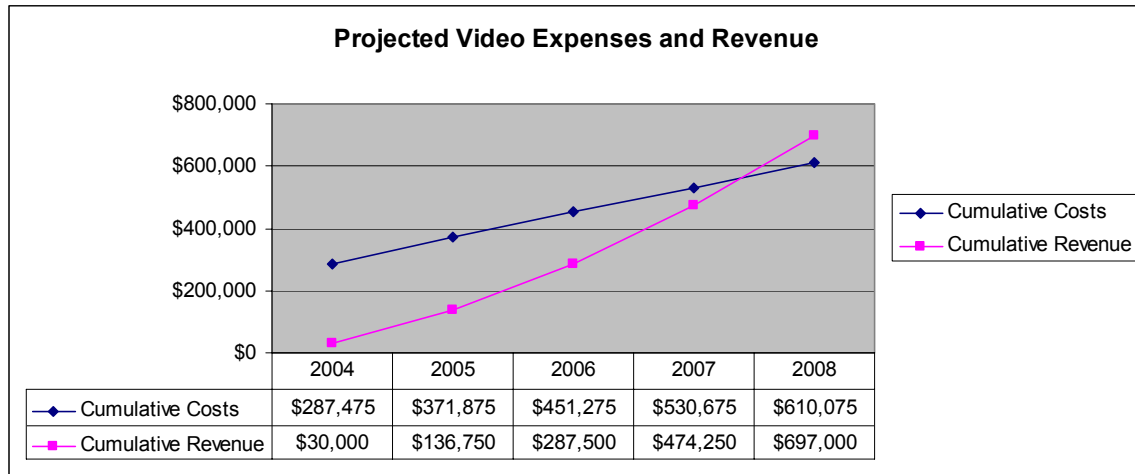
*George Schroepfer, Director of Technology
Christian Heritage Academy*

IP Video

In April 2003, ICN launched the IP (H.323) video service. Since that time, 83 video endpoints have registered to use this service. As constituents migrate from older technology to the new IP-based technology, they will look for cost effective ways to use their ICN connection for video traffic in addition to data traffic. The newly executed contract that the Department of Central Management Services has in place for cost-effective IP video equipment will serve to foster the migration to H.323 and the ICN expects to see significant growth in the number of video endpoints registered to use the service. Additionally, the ICN and CMS video networks will be integrated to realize further costs savings and enhanced service for all constituents.

Costs and Projections

Figure 6: Projected Video Expenses and Revenue



IP Video service was developed based on a return on investment (ROI) period of three to five years. To date, video expenses are \$287,475 while anticipated revenues for fiscal year 2004 are \$30,000. Conservative projections for video endpoints were used to project the ROI period. Potential endpoint figures include current H.320 (ISDN) endpoints upgrading to H.323 (IP) as well as the addition of new endpoints.