

NEK Community Broadband

Executive Committee Meeting Minutes

November 20, 2020 - 3pm - 4:30pm

Attendees: Jami Jones (clerk), Michael Strait, Christine Hallquist, Kristen Fountain, Elissa Tracey (Tilson), Brett Nichols (Tilson) , Evan Carlson, Chris Campbell (Tilson), Noah Armstrong, Frederick Feit (Tilson), Drew Frem (Tilson), Bill Piper, Nic Anazole, Katherine Sims, Jonathan Baker

Agenda Review - 2 Min

Updates - 30 Min

Make a motion to make the change to allow Tilson to provide the feasibility results and move all agenda items to December meeting, Motioned: Kristen, Seconded: Katherine, Carried: (7-0)

- Tilson Feasibility Study Revealed:
 - High Level Network Design
 - Targeting: grouped up into 4 areas. NEK, VELCO, and network addresses.
 - VT Cares Addresses, Fiber project awarded to Tilson
 - Assumption: that the CARES will be extended, and can extend E.Concord
 - Lyndon/St. Johnsbury & Newport: taking advantage of opportunity zones for investors.
 - Have to avoid the protected areas. Tilson is selecting addresses that have not been served. To be funded by (USDA)
 - Looking at the strategic start to get you into areas that are not already served, a skeleton: Irasburg to Sheffield, Sutton to Brighton, Barnet & Peacham/Ryegate. Assumed: a 50/50 grant application.
 - A mixture of higher levels and lower levels of service, focused grant and CUD on unserved areas.
 - Funding Opportunities (Opportunity Zones)
 - Public private partnership. ISP (private partner) in VT Cares.
 - Assuming the CUD grant/ borrower/ and infrastructure owner, will provide to ISP/ISPs use and funding of the infrastructure.

- After 10 years, the model assumes that the CUD is buying out the ISP provider, infrastructure and business.
- For the first 11 months Owned by partner & CUD, after month 121 all CUD owned
- 570 fiber miles 12,000 premises passed, 21 density premises per mile.
- \$35 mil estimate, Opportunity Zones: \$15 mil, Reconnect: \$7 mil, VT Cares: \$6 mil. Some areas need grant subsidy in order to work.
- 98% arial, 34 miles in make ready (imprecise).
 - Assumption: 50% of make ready costs will be given by pole owning utilities.
 - The majority of the cost is getting the fiber on the poles.
- Operating Expense based on year 5.
 - Has employees
 - Independent operation
 - Fixed cost (salaries and benefits)
 - 12 person operation
- Customer classes: Enterprise/Institutional (3%), Residential (83%), Commercial (14%)
- Data and phone services offered, no video.
- Assumed a Churn rate of 78%?
- Aggressive construction schedule 12-24 months. Would get areas built quickly to be cash flow positive in 3 years.
- Assuming that by 10 years, take rate: 50% and 48.5%
- Getting paid for
 - CARES ACT funded areas, private equity
 - Opportunity zone (\$2.33 mil zone investor)
 - Reconnect (50/50 loan and grant)
 - \$7mil in CUD debt, \$5.5mil in CUD grants (\$8.9 mil in private investment)
- Grant loan programs: Reconnect (USDA)
 - Allows non-contiguous areas to be considered a single application for funding.
 - Lack 10/1 service
 - Outside of a protected broadband borrower service area
 - Intended for Rural areas, NEK would score well.
- Other Key Connectors
- Financial Analysis
 - First 10 years, private partners perspective (ISP)
 - Net operating is positive, margin is "decent"

- Free cash flow positive after 3 years, not debt free until year 4
 - Value of the network for an acquisition can CUD acquire business at year 11?
 - Overall the owner (ISP) of the network, their return would not be good. With a sale of the network, they can achieve a higher rate of return. (Tilson optimistic)
 - The cash flows support a purchase price that is in range that produces an IRR that may attract an equity investor.
 - 2nd 10 years (CUD perspective)
 - Same net operating margins
 - Cashflow
 - Leverage cash flow
 - Prior owners get paid a sale price
 - Debt service is rolled up
 - Money is available for the CUD to invest in new areas
 - \$54 mil take rate and average revenue per customer are the same as baseline assumptions (can have variance).
 - The impact of make ready vs baseline assumption
 - Recommendations
 - \$35 mil initial cost
 - Mixed project that includes higher and lower density areas are important to get ot operating scale and financial sustainability
 - Financially feasible, a mix of capital sources, achieve positive cash flow in 3 years
 - \$7 mil in CUD debt
 - Gives framework for much of a reason for future building through grants, revenues and reinvestment.
- Questions:
 - What are the results based on? Profit over a 3 year period, positive free cash flow. Focus on building quickly. Concern: could leave certain areas of the CUD underserved.
 - \$35 mil looks at just the first 24 months to complete construction: Opportunity areas for 12 months, doesn't take into consideration other funding sources or additional building. In lower density funding would be reinvested via grant funding or revenue. With a skeleton areas that are left become more feasible.
 - Multiplier assumes built up network areas in opportunity zones not original growth to underserved addresses. Focusing on an efficient operating scale. If the NEK got more grant funding and were willing to apply the multiplier, operating costs would not grow at the same rate as customer growth. Balanced by rural areas do not generate a lot of revenue. Some erosion of

IRR as the rural projects were added. Stuck with 8x EBITDA (based on market, not overall performance of the project). There could be room to add additional project parts.

- Mixed grant and investments
- Total debt service could be \$15 mil? Assumed \$8mil across all investments was private equity (capital investment), and \$7mil would be CUD assumed. The CUD may be able to assume more debt, but may be borrowing above asset value. Second would be timing, larger negative cash flow, could be more expensive up front than equity.
- Tilson CAREs were included in the presentation and CUD would purchase 10 years.
- CAREs extended? Yes, it is an assumption and would be able to serve the E. Concord area. Tilson believes that there will be an extension, but behaving as if there is no extension. Tilson is not counting on an extension of the CARES funding. Extension does not affect the overall model.
- Tilson is advising to focus on opportunity zones and serve people who may already have cable? Tilson does not assume any cost to the CUD in the opportunity zones. It is more likely that the opportunity zone will happen if the CUD is willing to buy the network, but is not dependent on the CUD putting money in it.
- If the CUD did not want to heavily rely on an investor, at what size can the CUD be okay financially? Tilson believes that in order to get to that scale, the CUD would need to assume a higher level of capital costs than projected in the feasibility study.
- Do we really have to go to Newport, seems like expending a lot of resources, how important? The CUD may need to express an interest, but the CUD does not need to expend any energy in Newport. Involvement would buy us 30% of the share that includes Newport in the future. The 30% would give us access to work outside the region that we may not be able to get access to otherwise.
- Rural zones between Lyndonville and Newport? This plan would run a line through the middle of that. Places in Sutton would be transformed into lateral extensions instead of million dollar projects, reinvestment projects, or state broadband grants.
- Serving a third of the addresses in the CUD but would be able to have cash flow and revenue. We would be providing better service to areas that would be served. The map reviews strategic routes to get out and into the areas. Tilson believes this would create an infrastructure that the CUD could build off of and be ready for expansion.

- Not using preexisting NEK fiber network? The business case means we could provide rings, and it would not be hard to take the preexisting network to serve addresses along the way.
- What is the strategy for pushing into the underserved areas in less than 10 years? Tilson suggests applying for additional grant funding for those areas in more manageable chunks. making progress in \$100K-200K increments. If the take rates are higher, then the CUD would be in a much better position to go to the other underserved addresses. Another option given is loans.

Questions can be given to Brett Nichols (located on the last slide).

New Business - 40-70Min

3:35 - Tilson Updates

- \$460K awarded, Tilson let us know they would not be able to complete the project by the end of the year. 6 weeks for materials, GMP not able to complete the make ready work. Dept asked to wait until after thanksgiving, hoping for extension. If it gets extended then we have the ability to apply for something else. Which means the CUD may look into other projects. If we had more time, we may be able to do it ourselves
- What is going to change between now and thanksgiving? We have nothing to lose by waiting on the project.
- Tilson's strategy is not a mission driven strategy, but assumes selling to investors.
- Evan will be double checking with Tilson on some points, analysis and data.
- Tilson presented a feasible model that we can learn from
- When will we get the Tilson Report (all the files)? Was supposed to be last week. Evan can send an email requesting a hard date. Shape files, assumptions, spreadsheets.

Motion to adjourn: Motioned: Kristen, Seconded: Jonathan

- Next meeting December 4th, prepping for governing board meeting
- Finance committee meeting (TBD) 3rd/4th of December

(3:45 - Christine's Priorities & Time Allocation

4:00 - Public Materials(Zoom Recording, Meeting packet materials, YouTube postings of meeting recordings, etc.)

4:15 - Northern Enterprise MOU)

These agenda items have been moved to the next Executive Committee Meeting.

Other Business

Information on how to access the remote meeting:

- By telephone: Dial 1-929 205 6099. When prompted enter the meeting ID: 988 4359 3106.
- By computer: Join the meeting by clicking here: <https://zoom.us/j/98843593106>. You may be prompted to enter a meeting ID: 988 4359 3106.
- By smartphone, tablet, or other device: Join meeting by clicking here: <https://zoom.us/j/98843593106>.

To ensure smooth access, we recommend that you test your remote meeting software in advance of the meeting. **If you have difficulty accessing the meeting, please call 617-909-3408 or email execs@nekbroadband.org.**