

BLUE RIBBON COMMITTEE
ON BURLINGTON TELECOM

December 29, 2009
8:20 a.m.

PRESENT: David Provost, David Parker, Pat Robins, Bill Shuttleworth (at 8:45), Joan Shannon, Karen Paul (via phone),

OTHERS IN ATTENDANCE: Jonathan Leopold, Ken Schatz, Chris Burns, Mike Flora, Amber Thibault, Bill Keogh, Lisa Geisweit, John Van Vught, Joe McNeil, Sue Trainor

CAO Leopold began the meeting by outlining the history from the 1980's through the 1990's of the City's efforts to provide financial alternatives and better cable services for its residents. In 2000, residents voted 62% to 38% to move forward on a telecommunications service for city residents. This reflected dissatisfaction with Adelphia as well as the fact that no other private carriers were planning to build a high quality network.

Chris Burns reviewed the phase-in history of the network. In 2002 City departments were the users of the network for a savings of \$150,000 annually. Phase II began in 2004 which then moved into Phase III. Milestones were met before moving to the next phase. Chris explained the differences between the higher quality transmission ability of fiber and IP Video Transmission vs. the radio frequencies being used by Comcast.

He stated that due to the requirement that BT operate like a private enterprise, all efforts were more costly and required extra time. Additionally, delays from the Comcast challenge to the business caused an 8-10 month delay, putting them in the hole. BT was installing and dealing with 3 utilities (phone, cable and internet) when they started, with 200 poles per application. Approval from competing companies to use the poles held up the process.

Chris then noted the high retention rates of those who sign up and the fact that this year BT will come in at \$1.9 million below budget.

CAO Leopold outlined the history of the borrowing from Koch Financing as an initial \$2.6 million, then \$10 million in 2005 and another \$10 million in 2006. He outlined the requirement that this money be borrowed through the lease/purchase financing option. It is, however, the lease desirable form of borrowing because of the higher interest rates involved and the lower amortization.

He then explained that Tim Nulty, then General Manager of BT, came to the Board of Finance in October of 2006 stating that he should have enough money to last a year. However, by January of 2007 BT had run through the money that was available. In January of 2007 an analysis was done of the company and the question went to the Board of Finance and the City Council:

Option #1. Complete all aerial and then stop at a cost of \$7 million

Option #2. Complete all aerial and easy undergrounding at a cost of \$8.6 million

Option #3. Complete all at a cost of \$9.7 million.

The Board of Finance voted for Option #1. The Council voted for Option #2.

Councilor Shannon noted that the CPG condition required the build-out and the Council wanted to be in compliance.

CAO Leopold continued that in June of 2007 an RFP for financing was issued with one proposal. Municipal Leasing came forward with a \$32.5 million refinancing, with a debt reserve of \$1 million. This closed in August. In September of 2007 CAO Leopold then informed everyone that BT was in serious trouble and that each month they were falling behind. However, over the last 24 months, as reflected in the budgets, Burlington Telecom is following the projections presented by outside consultants and is, in fact, coming in under budget. This reflects the skill and hard work of the current staff of Burlington Telecom.

Bill Shuttleworth noted in reviewing the financials that the cost of fiber seemed appropriate but that other expenses were higher than average and asked for clarification. CAO Leopold stated that Comcast at that time was rolling out HDTV which Telecom needed to provide, along with DVR.

Councilor Shannon asked when we began missing the budget targets. CAO Leopold stated from September through December of 2007. In October of 2007 Tim Nulty resigned and Chris Burns took over the management of the company. In November of 2007 asked an outside consultant (Rob Shanahan) to come in and provide an analysis of financials and business plan. The CAO provided a report in December of 2007 to the Board of Finance and the City Council on the Shanahan Report. He explained that at that time procedures were put in place that began overhauling the company.

CAO Leopold explained four areas of the business that were apparent:

1. Residential customers can't be the only customers.
2. Commercial sales focus
3. Terminate build out to stabilize Burlington's basis.
4. Focus on serious marketing to enhance margins

In January of 2008 new financing was authorized, however, CitiCapital informed the City that there were out of the business of lease purchase financing. The markets at that time also crumbled, which limited the pool of funds available to finance from.

David Provost stated at this point that his main concern was whether BT was now burdened with so much debt that they wouldn't be able to overcome it. He also asked when BT was no longer considered a start up. He then asked why we were in a lease purchase agreement.

Attorney Joe McNeil explained revenue bonds and general obligation bonds and how they are used by municipalities. He explained that the second time the City went to the Legislature regarding Burlington Telecom, the State required that no General Obligation Bonds could be used because they wouldn't be available to the competition.

Mr. Provost asked if that could be changed.

Attorney McNeil noted it would require a charter change voted on by the voters which would then go to the Legislature.

The Administration in October wanted to challenge the Legislature on this point in order to be able to use revenue backed general obligations bonds. It would save almost \$750,000 a year which would make a huge difference to Telecom.

At this time Mr. Provost makes a motion to go into Executive Session to discuss matters involving trade secrets and items relative to contracts and litigation the disclosure of which could place the City and Burlington Telecom at a substantial disadvantage. Mr. Robins seconded the motion and the Committee went into Executive Session at 10:06 a.m.

The Committee came out of Executive Session at 12:15.

1. The Committee then requested a five year forecast to seven year.
2. They agreed to contact Stratum, North Point Consulting, and Hiawatha.
3. Look at debt load analysis and business analysis.
 - a. Review and validate a business plan (expansion) and the proposed financing.
 - b. Is there a model for if BT can't expand?
 - c. Could the business succeed without expanding?

The meeting adjourned at 1:10 p.m.