

BLUE RIBBON COMMITTEE ON BURLINGTON TELECOM

JANUARY 21, 2010

PRESENT: David Provost, Karen Paul, Joan Shannon, David Parker, Clarence Davis, Bill Shuttleworth (via phone)

OTHERS PRESENT: CAO Jonathan Leopold (via phone), Council President Keogh, City Attorney Schatz, Chris Burns, Lisa Geisweit

This meeting was called specifically to talk about the revised version of the business plan of Burlington Telecom. Competitive information and trade secrets were not included in the document the Committee was reviewing. The document is a five year business strategy ensuring that BT is viable in the future.

Councilor Paul asked whether BT is comfortable providing the information on Page 6. Burns said he was, to which both Councilor Paul and Chair Provost respond positively.

Prior to the presentation, Chair Provost opened up public comment. No one came forward.

Chris Burns then outlined the document, stating it demonstrates BT's current position and how they plan to move forward. Their strategy is to leverage the network and the asset that has already been built. This is a superior fiber network with a high fiber count design and one with which they can hook up virtually everyone passed with high quality fiber cable. Chris then outlined what BT had achieved since the end of 2007 when he was assigned as Interim General Manager. He read from the report which outlined the various percentage increases achieved.

Karen Paul suggested that BT have a page of definitions that the average person rather than acronyms such as ARPU and CHURN.

Chris Burns then reviewed what BT considered to be strengths of the company. BT has a well designed robust fiber network. The video content, negotiated through BT, provides a lot of flexibility for the local content channels. BT could generate significant revenues from wireless opportunities. Folks with smart phones and blackberries can get only band width through the wireless device. Current vendors don't have a lot of access to fiber. Wireless shouldn't just be considered a threat to BT. It's also an opportunity.

As far as weaknesses, Chris noted that the development of a sales and marketing team began later than it should have. A new customer service/marketing manager was only hired this September. Bob Valentine, responsible for commercial marketing, has been at BT for a year and a half but it takes time to foster relationships. He then highlighted current initiatives being developed for sales: door to door, referral programs, working with realtors and property owners.

Another weakness noted was the current financial situation. BT/the City are in litigation, attempting to get the State to allow BT to restructure the finances. The assumptions that BT used for this report as the conceptual term of a lease/arrangement was based on the Piper Jaffray letter of intent. It is important to understand the debt service/interest and principal is reflected in the letter

of intent, but it is purely conceptual. BT believes the revenue targets noted in the report are achievable. The residential forecast within these assumptions is relatively small/conservative. (20 net adds a month) where BT currently fluctuates between 15 to 85 installs a week.

Mr. Burns noted that their projections show that by Fiscal Year 2014 the net cash generation is \$2.7 million.

Regarding potential expansion opportunities, Chris explained that if BT is successful through the litigation with the State, BT could expand. Expansion revenues are not factored in this report, but they anticipate \$5 million in additional revenue if BT were allowed to expand. (Expansion would be with other towns. The proposal would be that BT not be the debtor, not incur the capital costs, but provide the services.) Commercial opportunities involve providing services to other commercial carriers.

Councilor Paul suggested explaining the expansion costs in the report so the public would become aware of the options.

Chris Burns explained that the spreadsheets in the report demonstrate that BT would not be growing the business by expending the capital expenditure/dollars. This model assumes that BT is deferring the remainder of the buildout of the City until they are in the position to use capital dollars.

David Parker noted that \$10 million in capital expenditures was reflected in the spreadsheet and asked if that was all buildout.

Chris Burns replied that \$6 million would be the estimated cost for buildout. It could be done for less (\$2 million) if the build out were all done aerially.

David Parker asked if it was assumed that by the end of FY 13, BT would have hooked up all those who planned to hook up for the foreseeable future, therefore, leaving the capital expenditures relatively flat.

Chris Burns stated that was the assumption. The capital expenditure is reflected as \$250,000 in FY 2014 because BT would have made the investment of passing all the homes, thereby requiring no new demand for capital.

David Parker stated from the report it appeared that if BT didn't grow at all, it would generate \$27 million in cash. However, it's probable that BT would grow.

Chris Burns agreed, stating that at that point BT could finance in another way. He believes BT can actually meet that target within Burlington with the current structure.

David Provost noted that once Piper Jaffray (or another lender) financing is in place, the annual debt service obligation for that entire period would be 4.5 million. The Committee needed to see a pro forma that said BT could support that kind of debt service. Pat Robin had previously been concerned with BT being able to cover it at a 2 to 1 ratio.

CAO Jonathan Leopold arrives via telephone at 4:35 p.m.

Chris Burns stated that BT was demonstrating in this report that with a Burlington-only plan BT could still meet the commitment to pay the interest and principal out of cash flows within this period of time. BT has been able to grow the business at 100% and keep the operating expenditures in check. The management of BT believes they can continue to do that in the Burlington-only model.

David Provost noted this model assumes some residential growth which allows the generation of more revenues with the operating costs flat. Chris Burns stated that mid-mile and long haul networks have reduced the costs.

Chris Burns discussed the cable operators vs. studios. BT is a member of American Cable Association and the National Cable Television Cooperative. Both groups lobby on behalf of the small and medium cable operators. The average costs per content subscription is just over \$25 per subscriber. With 50% of the current content coming through NCTC, it allows for a better bargaining position.

He continued by discussing the organizational structure. For BT to operate well it must retain and employ knowledgeable people. BT flattened out the organization in 2008 and saved \$400,000 annually in salary and benefits. However, there continues to be work that needs to be done through HR on the organizational chart.

At this time, the CAO reported that today was the deadline for the RFP's. Six excellent proposals were received from: BMO (Bank of Montreal), Merrill Lynch, Piper Jaffray, Roosevelt & Cross, Wells Fargo/Wachovia, and Stearn Brothers. David Provost, Ty Danco and JPAL will meet on Monday, January 25th, to review the materials.

Chris Burns then continued with his report, outlining the threats and opportunities. The greatest opportunity for BT was to leverage the existing network. They now have a demonstrated ability to control expenses and improve sales efforts. Voice services continues to be a good margin business. According to a report done by Verizon, 83% of those who have a landline will retain it. Wireless isn't totally offsetting landline. BT doesn't need to worry about eroding voice service.

Moving to the next section, Chris Burns spoke about asset utilization. BT is working very hard to retrieve the assets (cable boxes, DVR's) of customers who discontinue service, thus rotating the equipment quickly. They have been working with Six Sigma on lean management. BT's commitment is to keeping the quality of service high. Further, they are shortening the time to replace and recondition the inventory, saving \$385,000 annually.

Councilor Davis reminded Chris that this section (Assets) has a lot of acronyms which should be explained.

Chris Burns then discussed the green initiatives: BT began providing services to the City of Burlington in 2002. The School District was first and then the greater City government in 2003. BT continues to promote the improved use of the data services, improved efficiencies within the City, along with the potential to generate revenue. They are looking forward to working with BED and selling them fiber capacity to roll out the Smart Grid concept.

Mr. Burns noted that in 2010, the discussion is the band width bottleneck. A lot of commercial accounts don't have fiber capacity. This is not the case with BT or Burlington. The long haul and

the mid-mile is sufficient. Most commercial businesses have problems with the last mile (copper or coax networks) and both of those options are constrained in their ability to handle large amounts of data. Wireless backhaul is a good opportunity for BT. In order for wireless carriers to supply smart phones they need to place more cell sites.

Regarding Managed services: Chris spoke about the virtual PBX and the ability of BT to manage wireless networks for wholesale accounts or commercial entities.

Growth by Partnerships or Expansion: BT sees that as an opportunity. Chris stated there is still another round of broadband stimulus money becoming available soon. Unfortunately, BT is restrained by the requirements within that because we're in a city and are not rural. However, BT is "shovel ready" which is a big advantage.

Chris outlined the threats to BT as being the carriers who are currently in the market. Fair Point recently hired two marketing firms in Maine to improve their brand. Level 3 in an option and other local carriers are in the market as well. With changes in staff at the FCC and the new administration it's also hard to tell what will happen with regulations.

Chris then reminded the Committee that this written plan represents a Burlington City plan. It's not the only plan. There are opportunities to expand and it really speaks to leveraging the current asset.

Councilor Davis stated he wished the Council and the public had this report a few months ago because it addressed a lot of questions that were raised over the past months. He requested that the assumptions used on Page 6 be reconciled the detail.

David Provost agreed that BT appropriately identified finances as a weakness. The report states that BT lost sales opportunities due to poor management in early years and the financial market crisis. However, David asked if that really was the weakness? Was the weakness the financial meltdown or that early on BT spent more than the average market would have paid to put the system in? To this end, the Committee continued to request benchmarks against peers.

Chris Burns explained that BT didn't really address the sales and marketing effort that would be needed. He believed it wasn't developed properly. They hung their hats on the pre-sale – a sale that BT didn't have to go and make. The pre-sale bucket was almost dried up before marketing kicked in.

David Provost explained that the weakness was LACK of focus on sales and marketing in earlier years. However, there's a shift now that will turn to become a strength.

Chris Burns continued, stating that fiber to the home has come a long way. Every year the cost to construct comes down. Because of the CPG requirement, BT had 36 months to do as much build out as possible and everything had to be done quickly. They made a decision to build a very robust fiber network. Some companies will only build 30% of their capacity, thereby reducing the initial costs. Those companies will only continue to build out as customers come on board. However, again, due to the CPG requirement, BT's strategy was to build it all at once. The money spent on the fiber in the future will be to BT's advantage. Other entities will have trouble keeping up with BT because they rely on coax or copper.

Councilor Shannon noted the weakness in the marketing effort. There were long periods of time when there were backlogs of people wanting to get on to the cable. She then noted that BT received the Shanahan report from 2007 which BT is still using. She would have thought it would have put BT on track from that point on. Why was the marketing plan not implemented more quickly?

Chris Burns explained the Shanahan Report wasn't a directive. BT deviated from some suggestions, but the report did set a course on pricing and strategies. The plan involved reorganization. It took time to ramp up to commercial sales person (spring of 2008), to write the required job descriptions and a reorganization had to be done (this reorganization still hasn't been completed). He stated that it takes time - 6 months to a year - to work effectively in sales. Incentives to residential sales representatives were suggested in the report as well (bonuses, monetary awards for meeting targets), which hasn't been done but should be considered.

Councilor Shannon replied that BT never took ownership of the implementation of the Shanahan report: She believed there never has been a marketing plan or business plan developed.

David Provost asked if it would be appropriate to state that there was a lack of strategic planning by BT.

Chris Burns countered that BT did take the plan and used a lot of it as an Operational Plan.

Councilor Shannon asked again if there had been a marketing plan between 2007-2008.

Chris Burns stated BT did have an internal plan which included strategies to market more locally. BT doubled their revenue due to that. BT implemented a lot, not all, of the plan. He reminded the Councilor that BT didn't have the autonomy to make all of the changes that were recommended.

Councilor Shannon then asked who within BT was able to see the plan in order to implement it?

Chris Burns replied that it was available to him. The management of BT met every Wednesday and they implemented the plan across the organization. He believed that in reviewing the benchmarks, it was clear that BT achieved really good numbers.

CAO Leopold then informed the Committee that the Finance Board was given copies of the plan. They discussed various aspects of it. Unfortunately they all retired from the City Council.

Councilor Shannon responded stating the document wasn't available to the City Councilors. She feels the Council didn't know where they were in relation to BT and then summarized, saying she saw lack of planning as one of the weaknesses that should be noted in the report.

Councilor Paul spoke, saying the councilors were not allowed to leave the Treasurer's office with the report. Three other city councilors were at some point allowed to take the report home and that didn't make a lot of sense to her. She asked why other councilors were told months later they couldn't take the report home.

The CAO replied that between when the Board of Finance saw the material and the City Council was given access to it, it became known that one of the three councilors on the Board of Finance was working as an attorney for a telecom competitor. It made the Administration and BT much more concerned about handing out copies of the information.

David Provost noted that this discussion was independent of the Committee's charge. He asked if this new BT document should include some note about not having a formal marketing plan as a weakness. He wondered if it was necessary to make a statement.

Chris Burns stated that the plan is talking about BT currently moving forward. It isn't a historical document.

Councilor Shannon stated that the City was now in the midst of suffering due to the lack of planning in the past.

Chris Burns reminded the Councilor that the BT team went to the Council and made a presentation outlining the current marketing plan. However, he has no problem referencing lack on planning in the past.

Chair Provost replied that some statement relative to the planning of overall financial and marketing efforts would be good and that planning for marketing strategy to date has been a weakness for BT. Councilor Shannon stated additionally that pro formas backed up by a business plan backed up by the assumptions that go into that were needed.

CAO Leopold interrupted by praising the job that Chris and the management team has done. Chris was appointed in 2007 and had to quickly try to right the ship. Now in hindsight, people are upset that he didn't get everything done. In 2007 the report showed the venture was upside down and in serious trouble. The staff righted the ship to a point where the City can now talk about a future plan. The CAO believed the criticism is way off the mark at this point and he strongly defended the work they did. The management staff of BT took on a terrible task. Further, he believed the time to pull the plug on BT was in November or December of 2007 when the Council was notified the fundamental business plan was a failure.

Councilor Shannon stated that was her point. In December of 07, the Council was told the business was a failure. However, it wasn't until January 2010 that the Council actually had a plan to discuss.

The CAO stated the plan was the Shanahan report which BT moved forward with the implementation of.

David Provost replied that he would characterize what the CAO as a strength - that since 2007 a change in management and investment of staff is a strength. However, a business without marketing plans, strategic plans, financial pro formas and plans in place was a weakness. The strength is stronger managers; the weakness is lack of plans. He then asked if there was a document that suggested in the fall of 2007 that it was estimated that by December 2009 the City would be faced with \$51 million in obligations.

The CAO replied that in the fall of 2007, no. They did realize additional financing was needed and in January of 2008 the Finance Board approved seeking additional financing.

The CAO then left the meeting at 5:40 p.m.

Bill Shuttleworth stated his belief that Chris has done a great job putting together the plan, noting it was what the Committee was looking for. He will be doing a deeper dive into the numbers. His

questions will be focused around revenue growths and the assumptions supporting that. He also had questions about staffing: what staffing is required to realize significant growth? He will send his questions to Chris and he was sure the consultants will as well.

Councilor Paul, speaking to Chris, said it was great that the CAO spoke in his defense. However, three weeks before the first business plan was provided to the Committee, she asked if there was a business plan. Chris stated at that time he did not. Three weeks later, one appeared. She noted BT may have had an operational plan but no one was able to see it. She thought it was unfair to ask to borrow \$60 million without offering up business plans.

Councilor Shannon then referred to the section on homes passed by fiber. In Bristol, Virginia 65% or 75% on fiber pass are hooked up. She didn't think this information was confidential and should be included in the report. She wanted to see how many businesses are hooked up and how many were remaining. She remarked on the fact that the fiber doesn't pass downtown businesses is a weakness.

Chris Burns replied that it did pass a lot of them.

Councilor Shannon then asked could BT get 5,000 more customers where the fiber passes?

David Provost suggested there should be bullet points relating to residential customers, outlining the potential number of customers that BT could gain.

Chris Burns stated there was currently a low penetration in the commercial spaces of a few hundred out of 3,000 commercial businesses. There is a large upside to the commercial sales and as time goes on they will lean more toward the fiber that is available.

Councilor Paul asked if BT was working on a written strategic marketing plan.

Lisa Geisweit replied there is one in progress. With the Burlington-only model, the plan has to be adjusted to focus on commercial rather than residential.

Chair Provost then asked if there were comments from the advisory committee representatives in the room. Jan Schultz from BTAC and CAC stepped forward and asked what the capital expense and payback period for connecting a customer was? For Chris to say it's a conservative plan implies if we try to go faster it might cost too much money.

Chair Provost explained that if BT assumes it expands into other communities, those capital costs would have to be incurred by the partner towns. BT may ultimately incur them but the business formula would have to be worked out. This plan estimates the operational costs.

Councilor Paul explained that they discussed this issue in a previous Committee meeting and at the time it was deemed that conversation needed to be in executive session.

Chris Burns stated it was confidential due to litigation over the build out. Further, he explained that the vast majority of Burlington has been built. Currently there are 3,200 businesses and residences that aren't built and BT is in litigation with the state over that schedule. Those dollar amounts have been submitted to the State by street. It was submitted as part of the first series of questions to the state.

Councilor Shannon stated that some of the things that Chris called a weakness she considered to be strengths and she suggested reviewing the documents and changing some of the items to reflect that. The Burlington community desiring to buy local should be noted as a strength as well. Also, it's worth mentioning the climate for bringing on more customers has been affected by the CPG.

David Parker asked if it should be noted as a threat that we don't know if we'll receive a waiver from the CPG.

Chris Burns stated it was mentioned at the bottom of page 6 that BT needs to get relief from the two current conditions.

Jan Schultz said that BT had to negotiate all the contracts itself so it's a great strength that they are now part of the Co-op.

Councilor Paul asked what was now going to happen with the plan? Councilor Shannon noted it wasn't the Committee's plan. It's BT's plan and now BT has the Committee's comments.

Chair Provost stated to Chris Burns that he should do as he pleased with the comments. The Committee thought developing and providing this document to the community provided more transparency. He thought it would work to BT's benefit for the public to see this.

Councilor Shannon added that she believed it was more under the purview of the Technical Advisory Committee and that nothing more is needed from this Committee. Councilor Paul agrees.

David Parker then made a motion, seconded by Chair Provost, to adjourn the meeting at 6:00 p.m.