

Observations on the latest WiredWest, MBI and FRCOG Financial Presentation

On Saturday December 13th I received a packet of information entitled “Last Mile Broadband - Financial Forum - December 11, 2014”. This was the handout at the last informational meeting. It was 41 pages long and contained detailed financial projections for bonding and operating costs that I had not previously seen. Other elements of this package included the legal announcements that were previously made available.

Number of Customers:

The WiredWest revenue projections uses a Middlefield housing unit count of 279. In 2014 there were 43 second homes in Middlefield. At any time 15-20 homes are for sale, empty, foreclosed or abandoned. This would result in perhaps 210 potential year-round fiber customers in Middlefield. I believe this situation is representative of every other Western Massachusetts town. WiredWest has overestimated their potential customer base by 33%.

Operating Revenue:

The forum provides several graphs of 20 year projections for revenue and expenses. I was most interested in discovering what revenue number per household was being used. The document states that the total number of potential customers was 26,981 (page 34). The graph I picked (page 37) was for all 44 towns and a 53% subscription rate. This condition was declared adequate to reimburse the towns for their incurred principal and interest expenses.

The gross revenue per year was estimated from the graph at \$22M or approximately \$1.8M per month. \$1.8 M divided by 14,300 customers (53%) gives an average monthly cost of about \$125 per household. Analysis of the other graphed projections yielded a similar number.

Basic internet is tentatively priced at \$49 (25Mbps) and allows 2 High Definition TV downloads and 2 high speed internet connections simultaneously. I believe that an average bill of \$75 per month over 20 years would be realistic and possibly high. If true the projection is 50% or more over estimated.

WiredWest has collected expressions of interest over the last few years. Many indicated they were interested in all 3 offerings. I suspect when the reality of a \$150 per month bill hits, they will opt for less. We will not know until after a bonding decision is made.

CATV:

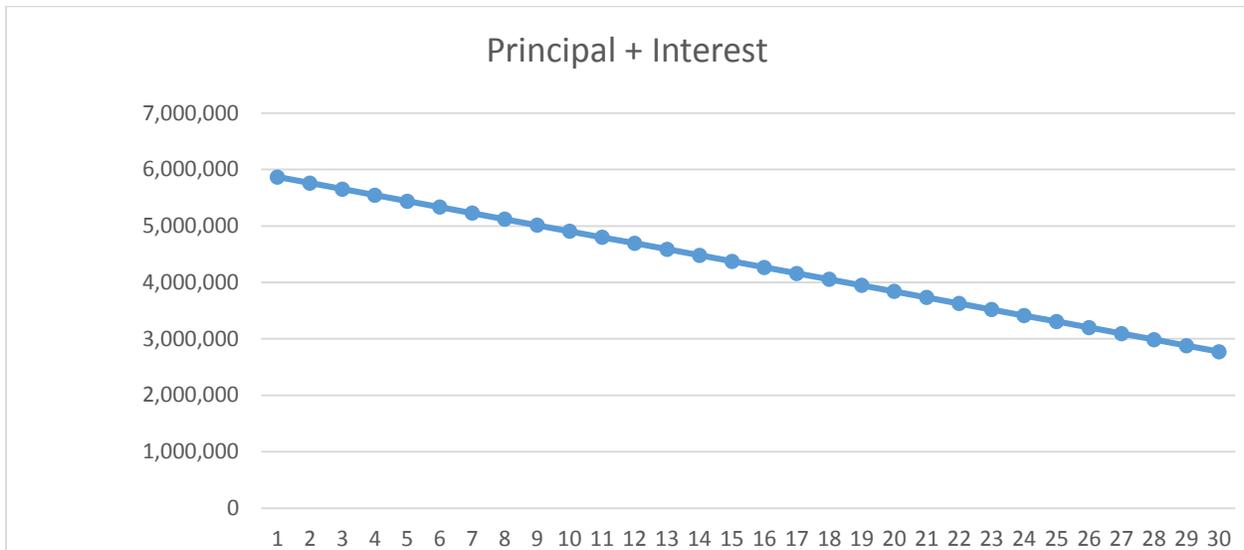
The projection predicts that 65% of the customers will purchase cable TV like services (page 35) from WiredWest and is entitled “Bundle Mix over Time”. Cable TV is near obsolete with rapidly declining membership. Internet Protocol TV is rapidly replacing cable. This bar chart describes basic internet being 28% of sales at year 1 with the remainder allocated to “Multi Play” packages. These deluxe elements linearly decline to 0% of sales at year 23.

This would indicate that average revenue would decline from \$125 per customer to \$49 per customer at year 23. This decline would amount to \$600k per year in each and every year yet the revenue graph is

nearly a straight line. The year 23 revenue would be \$8.4M versus \$21.5M at the start. I hope someone can explain where the missing \$280M went.

Principal and Interest:

The following graph illustrates principal plus interest payments for an \$80M bond for 30 years at 4%. Costs are near \$6M at year one and decline to \$2.8M at year 30. This illustrates the large front end expenses when the revenue stream has not matured. The towns are responsible for nearly \$130M of payback and not \$80M.



Demographic Impact:

The population of Middlefield is predicted by the State to fall by 12.8% from 2010 to 2030. The 30 year population collapse (bond term?) would then be 19% by extrapolation.

The school age population is the largest consumer of internet services. The school age population will fall from 83 to 48 in the 2010-30 window. This in percentage terms is 15.9% to 10.4% of the town. Both numbers are a very small part of the Middlefield population.

The over 60 senior population will explode from 115 to 254. This in percentage terms is 22.1% to 55% of the total town population over the 20 year period. Seniors on fixed incomes will not be big purchasers of high speed services.

I believe the WiredWest projection over estimates their future population base and revenue intake by 20% or more due to these demographic factors.

Potential Results:

If the impacts I've highlighted are only half as severe as my calculation, any town that takes on this indebtedness will likely consider or declare bankruptcy by year 5 or 6. WiredWest revenues will never cover their operational costs. The towns will have to cover the operational shortfall as well as accrued principal and interest – for 20 or 30 years lacking a bankruptcy cure or State bailout.

WiredWest has pushed the concept of never having an obsolete or by-passed technology at any cost. I wish their financial plans were as conservative. WiredWest consists of very enthusiastic volunteers. MBI is the adult in the room and they approved these projections and are part of the 'Sell Job' at the various informational meetings. I wonder how many other hidden inaccuracies would be found by an actuary or forensic accountant. Both MBI and FRCOG have put their organizational imprints on this document - and 44 fiscally unsophisticated towns are depending on its accuracy.

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