

1. Prior to last night's discussion, we were under the impression that the Commonwealth was to cover 40% of the project cost, the town 60%. But based on the conservative "not to exceed" estimates we heard last night (total cost \$2,940,000; MA grant \$1,070,000 (36%); Egremont share \$1,870,000 (64%)), the proportions are slightly different.
2. The proportions were approximate and will vary town by town
 - a. Could you please remind me the main factors why the total project cost is likely to be less than the conservative \$2.94M.
 - b. The estimates were done by a consulting company that does these kind of estimates for the incumbents, Comcast, Verizon, AT&T, etc. They were asked to estimate the cost to build the fiber network in each of our towns as if that town was not part of a network. So no economies of scale were included in the estimate. The cost of electronics for instance when buying one unit versus buying 20,000 units will see a 40-50% reduction in cost. This applies to the cost of the fiber and most of the other items that will have to be purchased. Because each town was estimated as a standalone, there is a need to provide a second path into the town so that if one connection to the MBI backbone goes down the whole town is not down. So the estimate includes the cost of running a fiber to an adjoining town along a different path than the one the MBI backbone comes into town. If the town is part of a network this cost will go away if the neighboring towns are part of the network. And lastly, the estimate included the cost of installing the drops and electronics at 100% of the premises in the town. This is about 21% of the total cost of construction. If only 50% of the premises take service then only half of this money would be spent resulting in about a 10% savings of the total estimated cost.
 - c. Is the MA grant fixed at \$1,070,000, or will the MA amount vary according to actual project cost? And/or could it vary based on other factors?
 - d. The MA grant is fixed at \$40 million to be divided across the 45 unserved towns. \$18 million of the \$40 million will be divided among just those towns that have passed their borrowing authorization by June 30, 2016 and choose to participate in the regional network. \$22 million will be divided among all 45 unserved towns that pass a borrowing authorization to build a last mile network by Jun 30, 2018. So the amount of the state grant that was quoted for each town will change depending on how many towns participate in a last mile build. The quoted amount is based on all 45 towns participating in the regional network. We know that this will not be the case. If only 32 town choose to participate in the regional network then the \$18 will be divided among 32 towns instead of 45 towns and each participating town will receive more state grant money. We also don't believe that all 45 towns will chose to build a last mile solution within the 3 year time frame so some of the \$22 million will be reallocated to just those towns that are building a last mile solution which will also increase the amount of state grant money that each participating town will receive. The state grant money for each town is calculated based on that towns percentage of fiber miles and premises of the total fiber miles and premises of all of the towns that are participating. So there will be some minor adjustment up or down based on the counts of premises that each town is supplying to MBI.

c. As far as you know, will we need to ask voters at Town Meeting to authorize borrowing up to the full \$2,940,000 or just up to the Egremont share of \$1,870,000? (I'm not familiar with how this works!)

We will be asking the towns to authorize just their portion of the total cost, so the towns portion is the total cost minus the state grant. In Egremont's case this would be the \$1,870,000.

3. You estimated that in the 40% subscriber scenario, WW would begin to return excess revenue back to the town in 5 years. In your colleague Joe's presentation, he estimated start of payback would be 6-8 years out.
4. I only finished with the model about 4 days ago so Joe was unfamiliar with the results of the model which shows that WW should be able to start reimbursing the towns in year 5. But it is better to be conservative and use Joe's estimate of year 6.
 - a. Your assumptions seemed reasonable enough, but I don't want to paint an unrealistic rosy picture. Can you explain why Joe's time horizon is longer than yours?
 - b. Not sure which time horizon you are referring to. The timeline for construction is currently estimated to be 4 years but this will vary depending on the number of towns that are participating. I envision that the first year activities will be mainly OPM and engineering design and pole surveys. The second year will mainly be make ready work with construction starting sometime in late year two and perhaps the first cluster of towns being lit by the end of year two. From a financing point of view, since the first year will mainly be professional services the cost of these services should be covered by the MBI grant money. The draw schedule for the grant money should be approximately \$10 million immediately, \$15 million in July of this year and \$15 in July of next year. So the \$25 that MBI will have available to spend on the project this year should more than cover the first years expenses and there will be no need to ask the towns to borrow any money in the first year. The MBI's money should also cover a portion of the second years expenses, so the first ask for money from the towns will come sometime in year two. Joe's presentation had the towns drawing 25% of their portion in year 1, 50% in year two and 100% in year three. These are percentages were for demonstration purposes only so that people could see the order of magnitude of the impacts on the tax rates.
 - c. What are the mechanics of the payback of excess revenues? I was confused by the "CAPEX" terminology. Is it simply the case that at some point WW begins paying excess revenues to the town and that we can then use those funds to pay down the debt?
 - d. During the first 4 years of construction WW will not pay any debt service, the towns will pay the debt service on the Bond Anticipation Notes. Any excess revenue that is generated by the towns that are lit in late year two, year 3 and year 4 will be contributed to the cost of building the network. This will reduce the amount that each town will have to borrow. CAPEX stands for capital expenditure. WW excess revenue during construction is any money that is left over after paying cost of goods sold and operating expenses. After year 4 when the network is turned over to WW, the revenue that WW receives from subscription will go first to cover cost of goods sold, then to cover operating expenses, then to set aside money for the depreciation reserve required by law,

then to reimburse the towns for their debt service for that year. The debt service reimbursement will be transferred to the town which will be put into the towns general fund. That money will not be able to be spent by the town until the following year when their free cash has been certified by DOR.

3. Risks. A few years back people in Egremont were sold a bill of goods concerning a municipal water project that supposedly would pay for itself out of customer revenues, but this did not turn out well. As a result, people are skeptical about town projects in general and are likely to ask pointed questions about the WW initiative.

The primary risk for WW is the same risk that all businesses face, that is that the revenues generated are less than the costs to operate. The reason that we are setting a 40% subscription rate has a threshold for construction is that we want to be sure that we will generate more revenue than our expenses at least at the start of the operation. If at some future time the expenses increase substantially and exceed revenue then the board will have a couple of choices, either cut expenses, get more customers or raise rates. It sounds like your water district is unable to raise rates for some reason and is therefore in the position that it is in. WW will have no restrictions on its ability to raise rates if that should become necessary. Additionally WW will have the flexibility to seek other sources of revenue that that of residential subscribers, such as leasing dark fiber to other networks and offering other services such as home security and cloud based computing and storage.

- a. Please help me identify risks associated with the WW initiative and what the impacts might be if the risks materialized. For example, WW could fail, or costs could exceed projections, or subscriber services could be problematic, etc.
 - b. As I said above the primary risk is that expenses could exceed revenue. I don't see that this will occur suddenly. We will be tracking these parameters on a daily or weekly basis and we will take appropriate actions based on the trend lines. WW will not fall off a cliff. Other possible risks will all be covered by some form of insurance. For example if the entire management team died in a plane crash we will have Key Person insurance to cover that eventuality and hire replacements as quickly as possible. If large sections of the network are taken down by an ice storm, we will have business interruption insurance that will cover lost revenue and the cost of repairing the fiber lines.
 - c. While we understand there are no guarantees that WW will succeed, you listed several factors that would tend to mitigate many of the risks. Could you recap what these mitigating factors are?
 - d. See above
5. Of the original 40+ WW towns, some of which were founding members, only 32 are participating. People will want to know why some towns decided against the project, especially neighboring towns such as Great Barrington, Sheffield, Alford, etc.
 6. Some of the WW towns are partially cabled towns serviced by ComCast, including Great Barrington and Sheffield. MBI has reserve \$5 million of the \$50 million to incentivize ComCast to extend their network to include all of the resident in the town. There are six partially cabled towns that are members of WW. Alford has not yet decided if they want

to join the WW network or build their own. Some towns such as Royalston and Princeton have decided to go in a different direction. Royalston want to build a hybrid fiber/wireless system and Princeton has decided to work with a private company to build their network. Other towns such as Savoy, Florida, and Monroe have not indicated any interest in participating in the project. Some such as Mount Washington, and New Braintree have not passed the MLP legislation in their towns and are therefore not eligible to participate.

5. On the map of the 32 participating towns, Egremont is clearly a geographical outlier. Are we at any kind of disadvantage (or advantage) because of this?

The town of Egremont is at a slight disadvantage because we will not have the ability to provide a second connection from the MBI network to the town from a neighboring town that is part of the network. We will have to run a fiber into Alford or one of the other neighboring towns to get the second connection as the primary feed to Egremont comes from Great Barrington.

7. Impact of project on Egremont tax rates.

8. During the construction period of 4 years the town will pay the debt service. The first two years will be interest only at about 0.45% which will be on the order of a couple thousand dollars for the town which the town could choose to pay out of free cash or stabilization funds. In the third and fourth years the size of the payment of the notes will increase substantially because the town will have to pay some principal on the notes. The tax impact on an average valued home for most towns will be in the \$5 to \$10 per month range. After year six when the town has to convert the notes to a bond at 4% the average valued home in most towns will see a tax increase between \$13 and \$18 per month provided that the revenues from WW are insufficient to reimburse the towns for their portion of the debt service.

a. I understood from Joe's presentation that in the worst case (no payback from WW), debt service on Egremont borrowing would add an estimated \$0.38 to the tax rate in later years (beginning in year 6 per his spreadsheet, less impact in earlier years). Does this jibe with your analysis?

I don't currently have Joe's numbers for Egremont so I can't comment as I have not done a town by town tax impact analysis yet. To be worked on soon.

b. I never did get what the impact on tax rates would be (if any) if estimates pan out per the 40% subscriber scenario. Do you know the answer to this?

c. If the income projections from the model are accurate or reasonably accurate then at a 40% subscription rate WW should be able to reimburse the town's for their debt service and there would then be no impact on the tax rate as there would be no need for the town to raise money for the debt service.