

Christine Hatch | hatch@masstech.org  
Tuesday, Dec 16 03:40 PM

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reply-  
to hatch@masstech.org  
to "jlboudreau3@verizon.net" jlboudreau3@verizon.net  
cc "rose.charley@gmail.com" <rose.charley@gmail.com>, Elizabeth  
Copeland <copeland@masstech.org>  
Town of Worthington Follow Up Questions

Hi Joe:  
Your answers are in red below.  
Please let me know if you have further questions.  
Thanks- Chris

**From:** [jlboudreau3@verizon.net](mailto:jlboudreau3@verizon.net) [<mailto:jlboudreau3@verizon.net>]  
**Sent:** Friday, December 12, 2014 5:01 PM  
**To:** Christine Hatch  
**Cc:** [rose.charley@gmail.com](mailto:rose.charley@gmail.com)  
**Subject:** Re: Town of Worthington Follow Up Questions

Hi Christine:

Not sure if you are the person I should be sending this to but I would like to follow-up on the questions I asked at the end of Thursday's afternoon session.

My questions were in regard to the accounting for the capital project/projects and if there was a positive operating result in any year how would that be apportioned back to the member towns. **We have not as yet brought an accounting firm in to refine the position on how each town might formally account on its financial statements for its MLP, or for the interest that MLP owns in the co-op known as WiredWest – so we cannot as yet address formal accounting practices, though we will follow up with WiredWest to see what they have done on this. The answers below address the practical questions you raise, as opposed the formal accounting.**

My first question asked if there would be capital projects specific to each town or one combined for all towns. I think the answer was that there would be just one combined for all towns. **The design and engineering work we plan to procure will produce town-by-town specific costs for deploying the fiber network in that town. The network would be operated as one network.** My reason for the question is that currently the cost for the construction for each town is an estimate with a high and low amount that has a gap for

some towns large enough to drive a truck through. While I do not have a problem in using the upper bond amount for the debt authorization I do have a problem of using that amount when it comes to the town actually borrowing whether it is for BANs or bonds. **By the time any debt is issued by any town, we do expect to have a single cost estimate for that town, subject as you say to change orders and unforeseen circumstances. Since we expect the upfront authorization amounts to have been on the high side, and it may be efficient to plan for ramp up of the BANs in 2 or 3 “new money” rounds, we expect that the last round of “new money” BANs will be the one that ties to the final , actual costs**

Normally when a town does a capital project it is based on the procurement of the cost of the project along with the awarding a bid and the signing of a contract for the exact cost subject to change orders etc. The town would then commence the project and the treasurer would usually borrow temporary BANs until the project is completed and all changes accounted for. At that point the town would payoff the BANs with the proceeds of the permanent bonds. This town-specific capital project insures that the town borrows the exact amount needed and is not based on an estimate which may have been what was authorized. **That is the plan – except that the construction period here may be a bit longer than normal projects, and it is possible that the two year limit on rollover of BANs will force some principal pay down before the final Bond size can be determined.**

I understand that this is still a work in progress and while everyone involved has done a great job in getting information out and making estimates and projections can I assume that there is still more details to be fleshed out? Will there be a procurement that is town-specific that will refine the upper and lower bond amounts that would be reflected in a signed contract subject to change orders? **We expect to procure a single team to do the work for all towns, but the town by town costs will be used to set forth in the contract price, and changes will be corded town by town as they occur.** If so then I would suggest that the amount of the contract would be the amount the town would BAN during construction and also be the amount that MBI would ask for in a drawdown and not what was authorized. While the upper bond amount could be used for the debt authorization the contract amount would need to be known before the town would do any borrowing or disburse any drawdowns to MBI. **See comments above.**

My second question turned on how would an operating surplus be apportioned back to the towns? Again if the operation is accounted for town-specific the answer to my question is easy but if the accounting is not town-specific then I would think there should be some agreed upon apportionment that treats all towns fairly. I believe the answer to the first part of my question was that it was not town-specific. **The plan calls for the network to be operated on a regional basis. It is believed that this will allow realization of economies of scale in operations.** I am not sure what the answer was to the second part of the question. I think I heard that there has been some discussion about it and that it was suggested that there should be some agreed upon method and maybe it should be based on the original contribution.

If the original contribution is the amount of the capital investment by each town I don't see how that compares to the results of current operations. I think that some

apportionment method should be developed that takes into account each town's income/expense contribution to the total results of operations. Could you further explain the current MBI/WiredWest thinking on this? This is a fluid area where MBI and WiredWest are still in discussion, and WW itself may have to go back to its Board. For now, MBI has assumed that each town's up front capital contribution (no matter how funded by the town) will be considered as the basis for pro rata distribution back to the towns of the first dollars "earned" by the co-op after it has paid its operating expenses. This would allow each town to recover its upfront contributions, with interest at an agreed rate, as a priority after operating expenses. WW agrees with this and currently seems to favor using the same formula for all distributions of excess revenues.

However, some of the folks working on this for MBI have observed that the co-op could decide on another formula to use to distribute any further available funds – one equitable method could be net revenues generated within each town, which would require an agreed methodology for allocating central costs back to each town for this purpose – another method could be to credit back to the system's retail customers their share of any surplus off their bills – as is done in some traditional co-operatives where the customers are the owners. But there could also be consideration given to funding improvements and enlargements of the network, and to subsidy programs for special types of consumer groups, all in the discretion of the co-op's Board. Maybe this would end up being an area of ongoing discretion for the co-op Board.

I thank you in advance for your response and as I mentioned at the meeting these and I am sure other questions will need to be answered before we go to town meeting.

Joe Boudreau, Chair  
Worthington Finance Committee  
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