Dear Select Board and Finance Committee members,

At Saturday's WW board meeting in Wendell, Tom Wyatt from Warwick mentioned that the question of ownership was raised at a WW by-laws committee (for the new WW Coop) meeting earlier in the week, and that he initially was very concerned about ownership but was no longer based on the responses he got at that meeting. I followed up with Tom and asked if he could provide me with the questions that were asked and the answers given that had satisfied him on the issue, which he did yesterday. We then agreed that I would offer counterpoints for him and his BB committee (Warwick) to consider and that my response was free to be circulated as he saw fit.

I think this is a very useful dialogue for towns to be aware of. I am sending this to all Select Board and Finance committees and other stake holders involved in the Last Mile project. Regardless of what a town ultimately decides to do about ownership, the decision should be made on readily understood and verifiable facts. It's my hope that this contributes to the towns' understanding of their options.

Please feel free to reach out to me directly with any follow up questions or concerns or to schedule a town-specific review of the ownership option based on the Leverett model.

Best regards,

Bill

Bill Stathis
Director of Sales
Crocker Communications

Email chain in chronological order below:

From: Bill Stathis
Sent: Monday, July 13, 2015 9:11 AM
To: Tom Wyatt
Subject: Your comment on Saturday

Good morning, Tom

I'm interested in your comment at Saturday's meeting about ownership questions. We think ownership is key, and can't think of a good reason for a town to give it up to an unproven entity. Could you recap for me the questions you had at the governance meeting and how they were answered to your satisfaction? I assume at least one question was around "what happens if WW fails..."

Best regards,

Bill

(to save space and for easier reading, below is a combined correspondence between Bill and Tom)

To / From: "Bill Stathis" - ***Bills' response in this font***
To / From: "Tom Wyatt" – Toms' email in this font
Cc: "David Greenberg"
Sent: Wednesday, July 15, 2015 1:11:31 PM
Subject: Fwd: Your comment on Saturday - re ownership issues

Hi Tom

Here's my response. Please feel free to share it as you see fit.

Bill and others,

Last Tuesday at the "New Coop" meeting I was about to raise the point that town SB, Fin Com and Legal counsels will be more comfortable with signing a Coop agreement, knowing that they own the physical assets within the towns borders. The person next to me jumped in ahead of me and the response was as follows, from Jim, Steve and others….edits and comments welcome.

Preamble: Towns considering what to do about the MBI Last Mile project, specifically, to own the assets installed or relinquish ownership to a Coop, are fortunate to have a model in Leverett against which to compare the two options. Leverett is nearly complete with its build, and we have almost 90% of homes completed and enjoying service. The Leverett MLP is nothing if not transparent and is willing to share its experience with other towns. We know exactly what costs Leverett has identified as needing to be recovered, and so far there have been no unanticipated issues. The Leverett cost recovery model has been translated into a simple, easy to understand spreadsheet. Since, at the end of the day, <u>the subscribers must bear all costs of operation</u> as well as services subscribed, there is no reason to hide behind complex financial spreadsheets. A town should insist of this new Coop that operational costs be broken down on a monthly per-subscriber basis. A Coop refusing to do this should be suspected of trying to hide something. Towns should realize that the Coop has no money other than what the towns themselves are contributing along with the MBI contribution. As such, they have every right to insist on a subscriber based cost structure from their Coop. The towns have the control and they should be loathe to give it up easily.

1. Town ownership will cost more. With WW owning the infrastructure, the liability insurance would be covered by the cooperative. With towns owning it, they would have to pay this. The assumption, I believe, is that the cooperative of many towns would get better rates than towns on their own. I believe there were other points regarding cost savings to do with the poles, licensing

This has yet to be proven. Towns should insist on proof of this statement, in readily understood terms. Is the cost 1% more? 5%? 10% Any town should leap at the opportunity

to own this valuable asset if it is only marginally more expensive to do so. As for liability insurance, the costs are based primarily on fiber route miles. In both approaches, this will be passed on to the subscribers. The only economy of scale here is in PURMA membership dues, which a very small amount per town ($1200/annually). Otherwise, the costs for insurance are essentially the same and borne by the subscriber. There is no economy of scale in pole licensing whatsoever. Its about $12.50 per pole per year, and the cost has to be borne by the subscriber either way.

2. More about cost: on page 4 of the business plan it says, some towns that think it desirable to: "directly own the network elements within their town borders. But such an ownership structure will require network design decisions as to the physical placement and redundancy of such elements which will negate the economies of scale and efficiencies of operation inherent in a regional network, and thereby increase construction costs and operating financial risk. Moreover, certain central elements of the network – such as the network operations center, customer service center, and IP video headend -- must be located according to the needs of the network as a whole, without regard for town boundaries established in the 18th century."

This assumes that MBI will allow its flagship middle mile network to be over-built. Highly doubtful. Again, its easy to suggest this as fact, but where's the cost analysis demonstrating significant savings? If the savings are minimal, the argument is negated. Towns should insist on a detailed cost comparison that is vetted by MBI before committing to this approach. Initial indications from MBI are that the cost difference is not necessarily significant.

3. The setup would be similar to regional school districts, with the districts owning the schools, even though schools are physically present in a town. The point here is that this is a normal arrangement for towns, the precedent has been already set.

The precedent has also been set for inter-town squabbles among towns participating in a regional school district. It happens all the time. And no one in Becket is the least bit concerned about a school being built in Colrain. Towns in close contact to one another only build a school together if there is absolutely no other option. With the Last Mile project, there are other options.

4. You get what you pay for. If you want to own the infrastructure, then you can do a stand-alone build out the way MBI, Crocker and Axia have proposed. But you will pay more and there is no plan to reimburse towns for the debt service. A regional network will cost less to construct, with the efficiency of towns sharing huts and buying internet service in much greater quantity. So the cost per consumer can be less.

Several points to contend with here. First, and again, it is by no means proven that a town will pay more to own the infrastructure, or if so, how much more. No town should decide to

relinquish ownership until its is proven in black and white that there is a significant difference. If the difference is slight, individual ownership should rule. Second, what town wouldn't want their own hut (POP)? Let's say for example, Town A is served from the hut in Town B. There is a fiber cut between town A and B. Town A loses service to all its subscribers while Town B is unaffected. Or conversely, there is a serious problem in Town B's hut. Now both towns lose service. It just makes good sense in the long run to build as much redundancy as possible into the network, and that means a hut in every town, even if it costs more. As for Internet service, most ISPs are already enjoying significant discounts on bandwidth, since they already have thousands of customers. There is little to no appreciable difference in the buying power of a new Coop and existing ISPs. This is a red herring. Another is the promise to pay the town's debt service. There is ample reason to believe this is impossible. Towns should insist on a subscriber-based revenue model as a means to prove whether or not this is even feasible. A Coop shouldn't hide behind a massive, complex financial spreadsheet that none but its creator can readily understand.

5. Were the cooperative to fail, the towns would have a share in the overall network, owned by the cooperative. That system would be much more valuable to an entity looking to purchase and operate the network, than the wires/equipment serving a single town. The potential of many more subscribers via a regional network is what makes it valuable. On page 5 of the business plan it says: " Should the Board of Directors at a future time determine that it is necessary or desirable to sell the network, member towns will be in a far better financial position to sell an operating network with 10,000 or more customers than to sell nonfunctional components in towns where only a few hundred customers reside. In the case of an individual town which later decides to withdraw from the Cooperative, either voluntarily or, in the case of nonperformance of its obligations, involuntarily, the Bylaws and the Cooperative Agreement will specify the terms and conditions under which it may do so."

The Coop should explain in no uncertain terms what its own debt obligations will be. In the event of a failure, it's the Coop's debtors that will get first crack at control of the asset in the towns. And please consider what a failure means: subscriber revenue is not covering costs. As such, how likely is it that anyone will pay full value for a losing proposition? The suggestion that an individual town will be in worse shape because of the smaller size of its assets is another red herring. A town that goes it alone or bands together with other towns retaining individual ownership will do so with a proven financial plan based on the Leverett experience. There will be no guess work about costs and they will be partnered with an experienced private sector partner which will have every incentive to have that town or towns succeed. The towns will have total control over that partner and can replace them is they fail to perform. Ask any Comcast or Charter town if they enjoy being subject to the pricing and operational whims of their franchise owner.

6. Clarity for bond purchasers (this is from me). Cooperatives have a long history and the most successful share ownership and foster working together. Having a clear, reasonable coop structure will provide incentive to purchasers of bonds issued by participating towns (or groups of towns). A cooperative set up where towns retain ownership of infrastructure is not only

more complicated (with long terms leases or IRUs between the town and coop) but also shows an approach/attitude that emphasizes towns looking out for its own interest versus those of the whole.

This is speculation. Any bond issuing firm will closely scrutinize the business plan behind the Coop. It will find an inexperienced enterprise with no track record. It will likely find a financial model with serious concerns regarding sustainability. You could argue that a town is better off going it alone. You can certainly argue that agreeing to the MBI design/build and retaining ownership will move that town's project along more quickly than otherwise. While the new Coop tries to craft a new set of bylaws that all towns agree to, all the while arguing with MBI about design considerations and suffering intense scrutiny of its business plan, other towns that retain ownership move along with the project. Once again, you can't use this as a reason to relinquish ownership of a valuable asset until its a proven fact, not speculation or assumption.

7. The suggestion was made to run the joint ownership of assets scenario by town legal counsels to get their opinions.

This is clearly a good idea! And a potential fine use of the $5000 MBI grant money.

8. The point about WiredWest being unproven is still a big hurdle. However, there is extensive related experience in WW's stable. And listening to Jim, it sure sounds like MBI subverted the intent of the federal money towards middle mile away from last mile. Had that not been done, the towns might would likely have to be paying far less than will be necessary now. That experience speaks to the importance of citizen advocacy for the residents of Western MA, whose interests may not be looked after very well at times by governmental agencies.

The new Coop has almost no relevant experience in building, operating and selling retail service on a fiber network. Once Kevin Cahill left, you could say they have none. Wired West has done an outstanding job of generating grass roots support for a regional fiber to the home network. That doesn't translate into knowing how to design, build, operate and sustain a fiber network. There have already been stumbles caused by inexperience: ask them about George Propane, and who bailed them out of that debacle.

Conclusion: The new Coop business plan identifies that it needs $84/month per subscriber to operate the network and pay off the debt service of the towns. Let's for the moment assume that they have accurately identified and covered all costs (a huge assumption!). For every $49/month Internet subscriber, they are $35/month in the hole. For every $49/month subscriber, they have to have another that generates $120/month. And that $120/month has to have significant margin in it to cover the lose in the $49/month subscriber as well as cover its own costs. The options for up sell are: 1) Phone service. There is very little margin in white labeled phone service, especially if the new Coop will be doing the billing, collections and customer service. Maybe $2-3 a month per line in margin, if that. 2) Television. Steve Nelson admitted on Saturday at the WW board meeting in Wendell that "Television is a low-margin business." Some with experience would argue that it is at best a break even

proposition, and will likely lose money most years (see Shrewsbury and Russell). So no margin to speak of there. That leaves up selling to the higher bandwidth services, and the hope that almost every subscriber jumps up to those options. The fact is that many will stay at $49/month and be happy with their 25mbps, which will seem like lightening as compared to DSL or dial up. Promising service at $49/month will likely prove to be a serious unforced error that threatens the viability of the entire new Coop plan.

At Crocker, our contract with Leverett requires 7x24x365 customer support for subscribers. That support includes working to resolve router, firewall and browser issues, and is most prevalent in the hours between 6:00PM and 1:00 AM. There is no such after-business-hours support in the new Coop business plan.

If we could suggest one things to towns considering the momentous step of relinquishing ownership of a valuable public asset, its to insist that the new Coop provide a bottoms up (per subscriber-based) financial view. This is the only way for a town to understand if the new Coop's business plan makes any sense. There should be a line item for each cost element: fiber replacement escrow, pole licenses, salaries, maintenance contracts, debt service, etc etc. It is then a fairly simple task to vet the numbers. If the new Coop can demonstrate in this fashion that they have all their costs covered and can still pay off a town's debt service, then you have the basis for an informed decision. Without that, you're shooting in the dark.

Matthew Crocker has been building and operating a successful network since 1994. As the CEO, CFO, CTO and top tier technical resource at Crocker Communications, he knows what he's talking about. For my part, as a Verizon Account Manager, I sold the third largest network sale in Verizon New England history to the Mass Lottery in 2005. I then spent the next 2 years managing the project to its successful completion: 8500 nodes converted to the next generation (at the time) Frame Relay -IP technology over 15 months. That's 26 a day statewide, every day, for 15 months. This is just the largest of several large networks I've built for customers. So I've been around the block a few times as well. Matt and I have serious concerns about the sustainability of the new Coop's proposed enterprise, let alone its ability to pay off town's debt service. Towns would be well advised to heed our advise and insist on a subscriber-based financial model from the new Coop. Its time for aggressive due diligence, folks!

Tom, thanks very much for the opportunity to respond. Please disseminate this as you see fit.

Bill Stathis
Crocker Communications

Tom Wyatt

Warwick Broadband Committee - Chair
http://www.town.warwick.ma.us/broadband/warwickBroadband.html
http://wiredwest.net/

Sign up here: https://register.wiredwest.net/