

Fletcher Broadband Loan Questions and Answers

(Revised 1/11/2021 – see [Addendum](#) at bottom of this document for updates to the original Q&A and some new Q&A topics. As of this writing, the Town is finalizing the legal agreements necessary to receive the Notice to Proceed from Northern Border Regional Commission (the grant funder) – see timeline on page 3)

What is the Fletcher Select Board's Broadband proposal?

The SB [proposed](#) that the Town take out a revenue bond of \$510K to finance 50% of the buildout of fiber optic cable to every address in Fletcher, by Mansfield Community Fiber (MCF). The Town would also apply for an additional \$510K grant to finance the remaining 50% of the buildout. If approved, this would provide the option for every resident to have the ability to access 25 Mb/sec and faster broadband Internet, by the summer of 2022 (by comparison, most residents currently have access to DSL or satellite-based Internet with speeds around 1.5 Mb/sec). Our intention is for the entire Town of Fletcher to be wired for reliable and consistent high-speed Internet, with a locally owned company. [\(the revenue bond was approved\)](#)

When is the Bond Vote on this proposal and where will it be?

The Bond Vote [was](#) held on Monday, June 22 from 8am to 7pm at the Town Office. In order to protect Town Office staff and to reduce Town Office traffic on the date of the vote, registered voters are encouraged to call the Town Office (802-849-6616) to request an absentee ballot a few weeks prior to the vote. The Warning for the Bond Vote can be found online here: <https://bit.ly/broadbandbondvote>

When is the Informational Meeting on this proposal and where will it be?

An Informational Meeting [was](#) held on June 15 at 7pm using Zoom online meeting. Residents can attend by phone or Internet. Details for how to join can be found online here: <https://bit.ly/broadbandinfomeeting>

Why is the SB proposing this now?

We, the Select Board, believe that having fiber-based broadband Internet service available for all residents will create new economic opportunities for the Town in the form of telecommuting and work-from-home jobs, enable families to more easily access online schooling and telemedicine appointments, and increase property values, as Fletcher becomes more desirable for those who rely on high-speed Internet in their daily life. Fiber-based broadband is currently the fastest and most reliable Internet option available anywhere in the world.

The process of developing this proposal began when MCF began providing fiber-based broadband Internet and VoIP phone service to the Binghamville area of Fletcher last year. On Front Porch Forum and on Facebook, several of our residents who have been able to benefit from MCF's service shared very positive experiences. Currently, MCF has installed 13 miles of fiber in Fletcher out of 44 miles of town roads. While this provides service for the most densely populated part of Fletcher, the vast majority of residents still do not have access. Both MCF and their [only](#) competitor in Fletcher, Consolidated Communications, have expressed a willingness to

wire the rest of Town with fiber, starting this year, if the Town is willing to help secure the funding for that expansion.

We are at an unusual point in time. Both State and federal governments are interested in supporting rural broadband initiatives, and many of our neighboring towns are exploring similar proposals to ours. The Vermont Economic Development Authority (VEDA) was recently empowered by the State to offer revenue bonds to towns for building broadband Internet infrastructure. Also, Northern Border Regional Commission (NBRC) is currently offering grants of up to 50% of the total project cost to towns for the same purpose. Three years ago, MCF was not interested in providing broadband in Fletcher, nor was VEDA able to or interested in providing loans for broadband expansion, nor was the NBRC ready to provide grants. It is possible that all of these things will continue to be available going forward, but it is not a certainty. We felt that we should put it to the voters to decide whether or not to take advantage of this current opportunity.

How did the SB decide to work with Mansfield Community Fiber over Consolidated Communications?

MCF quoted a cost of \$30,000 per mile and the SB estimated that a total of 34 miles of public and private roads still need to be built out for every resident to have access to their service, bringing MCF's total quote for the project to \$1,020,000. By comparison, Consolidated Communications quoted a much higher figure of \$1,600,500. MCF is a local Jericho-based company, while Consolidated is an out-of-state conglomerate. MCF's services have flat rates and guaranteed speeds, while Consolidated's services have variable and changing rates (depending on available promotions and whether or not a customer signs a two-year contract) and no guarantee on the speeds. We also considered that most residents already have access to Consolidated's DSL-based Internet service, and working with MCF would create a more diverse field of service providers to choose from. Based on all these considerations, the SB voted unanimously to work with MCF rather than Consolidated, though two SB members did express reservations about MCF's slightly higher monthly charge for their service and MCF being a newer company.

How does this benefit the Town?

Having universal, reliable, and high-speed broadband Internet service offers our Town new avenues to grow economically at a time when some of the Town's long-standing economic pillars (i.e. dairy farming) are in decline. Most importantly, these new avenues for economic growth would allow us to continue to preserve the rich, rural character of Fletcher, and avoid the more conventional economic development path of turning our rural landscape into a suburban bedroom community.

We know that some home buyers simply ignore towns like Fletcher because they demand reliable, high-speed broadband Internet service, and we cannot provide that except in a few areas of town. The recent experience of "sheltering-in-place" has highlighted for many people around the country, particularly families, that this service is no longer optional, but a requirement for education, work, and participation in society. If adjoining towns have Town-wide access to broadband service, home buyers may buy there rather than in Fletcher. There is some competition going on. Even if you personally have no use for it, should you want to sell your

home, having reliable, high-speed broadband service available could make the difference between a sale and no sale.

What are the steps in the process?

- 1) Fletcher applies to the Northern Border Regional Commission (NBRC) for a \$510K grant (50% of the estimated project cost of \$1,020,000); *6/1/2020 - Grant Applied For*
- 2) NRBC approves the \$510K grant, contingent on Fletcher voters approving the revenue bond for the remaining 50% (\$510K); *8/14/2020 - Grant Awarded*
- 3) Fletcher voters approve a revenue bond for \$510K; *6/22/2020 - Bond passed*
- 4) Fletcher applies to the Vermont Economic Development Agency (VEDA) for a revenue bond for the remaining \$510K; *10/9/2020 - Applied to VEDA for revenue bond*
- 5) VEDA approves the revenue bond; *11/5/2020 - Received a commitment letter from VEDA for the revenue bond*
- 6) Fletcher starts to fund MCF's expansion into the currently unwired areas of Fletcher;
- 7) After approximately 2 years, all Fletcher residents should have the option to purchase broadband Internet and phone service from MCF;
- 8) After about 18 years, the bond will be paid off, using MCF revenues only. At that point, the infrastructure that MCF has paid for will be transferred to MCF; up until then, it will be held as collateral for the loan.

The approvals in steps 2, 3, and 5 could fail, at which point the entire process would fail. *(all were approved)*

How long will it take to provide broadband service to all of Fletcher, if all is approved?

According to MCF, everyone should have service available within 2 years of our starting to fund MCF. If we can fund MCF this summer, then everyone should have service available by the summer of 2022. *1/11/21: Construction updates can be found on MCFiber's website at: <https://mcfibervt.com/updates/>*

Will this broadband service really be accessible for every resident?

Yes. However, for those residents whose houses are over 300 feet from the pole, there will be some additional cost for running the cable from the pole to the premises (see cost question below).

How much will MCF's broadband service cost me, if I sign up?

It depends on what speed you want, and how far your residence is from the nearest pole. Speed-wise, MCF charges \$90/month for 25Mbps, \$110/month for 50Mbps, and \$130/month for 100Mbps (for comparison, 25 Mbps is about 16 times faster than the Internet speed that most residents currently have access to, and is fast enough to be used for your phone, TV, *and* Internet service). These rates do not include taxes, and industry-standard surcharges and fees. Running the wire from the pole to your residence is free if your residence is 300 feet or less from the pole. Beyond 300 feet, the cost is \$1/foot for either aerial cable or drop cable using an existing conduit.

10/27/20: MCF now offers \$90/month for 35Mbps, \$110/month for 75Mbps, and \$130/month for 150Mbps. Also, MCF now covers the first \$400 of drop costs (wire from pole to residence) instead of the first 300 feet. Beyond the first \$400, the cost is now estimated at \$1.60/foot.

Will my taxes go up, now or in the future, if I vote for this proposal?

Not now, and not in the future. Broadband infrastructure legally cannot be funded through taxes, even if Fletcher wanted to do so. In addition, Fletcher cannot use tax money to build out broadband for this purpose; it would be illegal to do so.

From Paul Giuliani, our attorney at Primmer, Piper, Eggleston, & Cramer, and one of Vermont's leading experts on municipal finance in Vermont:

In Vermont, according to statute (24 VSA 1913), communications plant support is restricted to the revenues of the system. The only exception is the use of tax revenues in the general fund to pay for telecom services furnished directly to Town and other public buildings. Telecom services furnished to the general public can never be funded by taxes. So, by law, the general broadband infrastructure cannot be funded through taxes, even if Fletcher wanted to do so, nor can anyone force Fletcher to use tax money for this purpose; it would be illegal for us to do so.

What is a "revenue bond"? How does the money get paid back, if not through taxes?

When Fletcher usually borrows money (i.e. for a truck), a bank loans us some of the money to buy the truck, and we pay the bank back over time, including interest. Should we default on the loan, the bank could take back the truck, the collateral. In fact, since we use taxes to pay the bank back, default is very unlikely: we would raise the tax rate, if necessary, to pay back the loan. This is not what would be happening with the broadband loan.

Now consider building a parking garage. One option is to take out a loan, but pay it back not from tax revenue, but from the revenue that the parking garage takes in from customers. This is called a "revenue bond".

We are proposing to create a revenue bond, funded by the Vermont Economic Development Agency (VEDA), where the money received from Fletcher broadband customers is used to repay the loan that was used to create the new broadband infrastructure. Such a loan can **only** be paid back from the project revenue; by law, it can never be paid back using tax revenue.

How does the lender protect itself against default?

Again, from Paul Giuliani, our attorney at Primmer, Piper, Eggleston, & Cramer, and one of Vermont's leading experts on municipal finance in Vermont:

In underwriting a loan to the Town, the lender wants to know that there is security for the Town's promise to pay the loan fully and in a timely manner. Accordingly, the bank will require the Town to pledge the net revenues of the telecom system, and probably will want a security interest (mortgage) in the hard assets of the system (fiber on the poles).

In looking after its own interests (understandably), the lender probably will wear two hats – it will purchase the Town’s revenue bond and hold it as security for the loan, and it will also constitute itself as a bond trustee. Typically, the loan proceeds and all telecom system revenues will be deposited with the trustee. The Town periodically will requisition from the trustee such amounts as are necessary to pay construction costs as they are incurred. System revenue (from MCF) is paid directly to the trustee. As revenues are received by the trustee, they are allocated for payment against requisition for operating costs, for payment of scheduled debt service on the Town’s revenue bonds, and to fund or replenish one or more reserve funds.

It wouldn’t be unusual for the lender to require the creation and maintenance of a debt service reserve fund and/or a contingency reserve fund as additional security for the bonds. Customarily, a debt service reserve fund is in an amount equal to ten percent of the bond issue, and is funded out of loan proceeds. The contingency reserve fund essentially is a cushion against cash flow necessary and available to pay operating costs. The contingency reserve fund can be built up over two or three years. If either or both funds are drawn upon, system revenues are used to restore them to their required levels.

A key element of the Town’s communications plant initiative is proper management, administration and operation of the system. That’s why the contractual arrangement between the Town and the system operator (MCF) is critical. Any management agreement has to comply with federal tax law in order for it to avoid being characterized as “private use”, thereby risking the Town’s ability to use tax exempt revenue bonds to finance the system. The Internal Revenue Service and the Department of Treasury have published guidance in this field, establishing certain compensation “safe harbors” that don’t trigger “private use”.

Why can’t VEDA loan the money directly to MCF? Why does Fletcher have to get in the middle?

VEDA’s broadband lending program has a \$4 million max exposure to a borrower cap, and they are already lending \$4 million to MCF directly for priority projects (i.e. building fiber through high density areas of other towns). For MCF to access additional funds to build out Fletcher starting this year, VEDA has to loan the money to an intermediary, in this case, the Town.

What would the terms for the revenue loan be (interest rate, duration)?

VEDA responded: “The loan would likely be a 10 year term (with a balloon payment). No payments for first two years, interest only for the third year and followed by a fifteen year amortization. In this example when the loan matured there would be 7 years if amortization left if it was extended. The rate would likely be variable at around 6% to start.”

To paraphrase, we would get a \$510K loan to be used to fund MCF’s build-out of fiber throughout Fletcher. MCF would request money as they incurred expenses; we would deliver money either from the VEDA loan or from the NBRC grant. Interest on the VEDA loan starts when the money is drawn from the loan, not when the loan is first awarded. For the first 2 years, interest accrues on the loan, but no payments are required, because MCF cannot be expected to have revenue while they are building up their customer base. The 3rd year, interest continues to accrue, but now interest on the loan now must be paid. For years 4 through 10, we will have to make a payment to VEDA of approximately \$53K, a rate that should pay off the loan in 15 years or so; we expect that

we will be able to pay this out of MCF revenues. At the end of 10 years, the remainder of the loan will “balloon” and become due. At that point we could apply to re-finance the remaining 8 years with VEDA or with another lender, such as a bank. With the loan partly paid off, banks might be more willing to take the reduced risk. Once the loan is paid off, in about 18 years, Fletcher would own the broadband infrastructure, but MCF would have paid us back for it. At that point we could transfer ownership of the infrastructure to MCF for their continued operation. At any point, MCF could pay off the remainder of the loan and take ownership of the infrastructure.

If for some reason the Town defaults on the loan, does VEDA have any means to attempt to acquire the money directly from the tax payers of Fletcher?

No. From VEDA: *“If the Town executes loan documents with VEDA that expressly prohibits going to the tax payers of the town in the event of default, which is how the documents would be written, then we won’t be able to go to the taxpayers of the town in the event of default.”*

From Paul Giuliani: *“The Town’s exposure is limited to what it has pledged as security for the borrowing. In Fletcher’s case, that pledged will be the Town’s entitlement to system net revenues, as well as a security interest in all operating assets in which it holds title or an interest in title. No Town accounts (other than system reserve funds and other accounts specifically attached to the telecom system) are exposed.”*

From MCF, with Paul concurring: *“MCF’s understanding is that, in the event that MCF does not generate enough money from the assets financed by the VEDA’s loan to Fletcher to service that loan, VEDA could foreclose on, and take possession of, the associated network assets. We suspect that VEDA would want its contract with Fletcher and Fletcher’s contract with MCF to affirm this and put legal mechanisms in place to assure that VEDA could execute such a remedy. In the meantime, be assured that MCF is amenable to such an arrangement.”*

Paul Giuliani has stated that a default might affect the Town’s creditworthiness, although the Town’s ability to repay normal loans (which are backed by the tax base) would not change. Again from Paul Giuliani: *“The Town of Fletcher (as is the case with virtually all Vermont municipal corporations) does not have its own credit rating because the Town doesn’t issue bonds on the national credit market. What you are looking for from Union Bank is a simple statement to the effect that the Bank has a long-standing relationship with the Town and foresees no erosion or impairment of that relationship from the Town financing the telecom initiative with a revenue bond.”*

Rhonda Bennett, from Union Bank, said *“You asked regarding the Town of Fletcher’s ability to borrow should there be a default on the broadband financing. If the town was to default on any obligation it would negatively effect the ability of the municipality to borrow additional funds from Union Bank in the future.”*

How will MCF pay off the bond? Will some or all of the new/additional revenue that MCF gets for new Fletcher customers be used?

MCF responded with *“We contemplate creating a separate entity for the infrastructure financed by Fletcher. This could be an actual legal entity/subsidiary or an “accounting” entity with books kept separately according to a contract and overseen by our auditors. Our billing system can identify*

customers and their payments and we can, therefore clearly separate the revenue from the infrastructure financed by Fletcher from the rest of MCF's revenue. Payments to service the Fletcher debt would come solely from the revenue from the Town financed portion of the total network. We would of course, build a financial model to assure you, the bank and ourselves that there would be a prudent level of debt coverage."

6/2/2020 Addendum – Updates and Additional Q&A

What's changed since the Q&A was first written, and why?

On June 1st, Fletcher applied for a grant from the Northern Borders Regional Commission (NBRC) – as described in the original Q&A above. The process of developing the grant application helped to further clarify details of the overall broadband project, including some beneficial changes, which alter some of the answers in the original Q&A. Below is a summary of the changes:

Reduction in loan amount:

The total cost of the project increased slightly from \$1,020,000 to \$1,023,490, but both the grant and loan numbers have decreased from our initial estimates because Mansfield Community Fiber (MCF) has offered to fund \$109,570 of the project themselves. Therefore, we applied for a grant of \$439,443, down from \$510,000, and we propose to apply for a VEDA loan of \$474,477, down from \$510,000. For legal reasons, the text of the warned vote for June 22nd will remain \$510,000, but in actual fact, if the vote were to pass, the Town would apply for a \$474,477 revenue loan, not a \$510,000 revenue loan.

Dividend “Return”:

MCF will return an annual percentage of their revenue from Fletcher subscribers back to the Town. This offer came from MCF because the grant, if approved, significantly subsidizes MCF's cost for building the network and Tim Nulty, their CEO, felt it “was only fair” that the Town receive a dividend from what he felt amounted to a financial “investment” in the project. MCF will provide an estimate of the dollar amount of those dividends before the Informational Meeting on June 15th. How those dividends would be used would be up to the Select Board or perhaps a citizen's committee that gets formed. One idea is that money could be put into an “Access Fund” that could help subsidize the individual costs of wiring from the pole to the residence for people who live more than 300 feet from the road. Another idea is for those dividends to be distributed annually among all Fletcher residents who are subscribed to MCF's service, which would effectively reduce the monthly cost of that service for those residents.

Timeline shift:

If the voters approve this project, we intend to apply to VEDA for the loan in July. If the grant is approved, then start of construction would likely be in October. That means that the overall timeline would be pushed forward about 4 months, so service would be available to all residents by around September 2022 . *Update 1/11/2021: We have all the necessary approvals now and are completing the final legal agreements necessary to begin construction. Our timeline remains the same as above. Construction start date TBD. Construction updates can be found on MCFiber's website at: <https://mcfibervt.com/updates/>*

How many residents currently subscribe to MCF's service and what "take" rate does MCF need to be profitable?

MCF has about 14 miles of fiber installed in Fletcher, and other 10 in Cambridge, passing about 280 homes. Over the 8 months after the fiber was installed, MCF added 47 subscribers, and expect to be at 70-80 by September, right on track for a normal take rate of about 25% in the first year. The ECFiber take rate in Barnard, which was wired up about 9 years ago, is now about 70%. MCF needs a take rate of about 6 paying customers per mile after 4 or 5 years. MCF said, "*Our business goal is to make "reasonable" profits and provide universal service. We do not need nor wish to maximize profits at the expense of any other goal.*"

Are the runs from the poles to the house copper or fiber?

4 or 6 count fiber, for reliability.

How many individual fibers are in MCF's main lines?

96 count. MCF notes that, "*We can serve over 2,000 customers on a single cable run along a single road/route.*"

What are MCF's phone and TV services and how much do they cost?

MCF phone (VOIP) comes from Ooma (\$5/month plus \$100 for their box) or MCF can sell you a better version for \$15/month with a free box and installation. MCF video comes from Stowe Cable and is similar to Hulu, etc and costs \$45/month. A "triple play" of broadband, phone, and video costs \$140 or \$150/month, depending on what phone package you choose.

Will MCF's service become outdated, given the rapid change in technology and the potential for faster broadband standards in the future?

Regarding "future proofing", MCF says, "*we have already future proofed the design of our network... Our network is equipped to handle symmetrical 1-gigabit service right now... we expect to upgrade to 10 gigabit service when the cost of that equipment becomes reasonable and there is local demand for higher bit rates*".

I heard MCF won't use my existing conduit for wiring, without proof that I own it – is that true?

No, that's not true. MCF says, "*In most cases where conduit is present, MCFiber is able to use the existing conduit to achieve a connection from the nearest utility pole to the home. In some rare cases, the phone company will own a pedestal or vault between our fiber and the customer's home. These installations are owned by the phone company outright and we cannot run our fiber through them. Just because a pedestal exists does not mean we cannot serve that customer.*

If a conduit is found to be unusable for any reason, MCFiber will determine the best alternatives on a case by case basis and help each customer make an informed decision. Other solutions include new conduit installation, a line directly buried underground, or an aerial installation." (updated 10/27/20)