

VELOCITY BROADBAND FINANCIAL UPDATE

September 20, 2016

OVERVIEW

At the April 5th, 2016 Council meeting, staff gave a presentation on the business operations of Velocity Broadband with the understanding that we would give a financial update at a meeting in September.

It's important to note that as we progress further with the continuation of the capital infrastructure build and the ever-growing customer base, our increasing sample size will allow us to provide more accurate projections.

Staff prepared the following documents to review with City Council:

| <u>Page</u> | <u>Description</u> |
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| 1. | Broadband Installation Map – map detailing the current installation plan. |
| 2. | Velocity Broadband Network – map listing current customers and fiber. |
| 3. | Current Customer List – breakdown of customer list by type of service as of August 31, 2016. |
| 4. | Customer Forecast – forecast of customer type by Business Voice, Internet and Dedicated service through 2021. |
| 5. | Broadband Financial Forecast – forecast of Operating Revenue and Expense through 2021. Includes updated capital buildout cost and related debt service. |

INSTALLATION UPDATE

Construction in the Acme Plaza and Downtown First and Main area is complete, enabling any new signups in these areas to be connected within 30 days. The build out of the remaining portion of Downtown, Georgetown Road and Hudson Industrial Parkway continues, customers in the Georgetown area have already started to come online and we anticipate having everyone in that zone connected by year end. Construction efforts continue to grow as additional contractors are evaluated and brought onboard to help meet our growing customer demand and construction needs. Overall the Velocity Broadband team continues to evaluate system design, customer satisfaction, product mix, and price to ensure the Velocity network is meeting customer needs today and in the future.

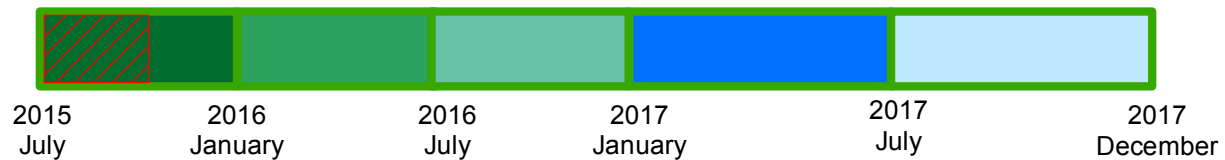
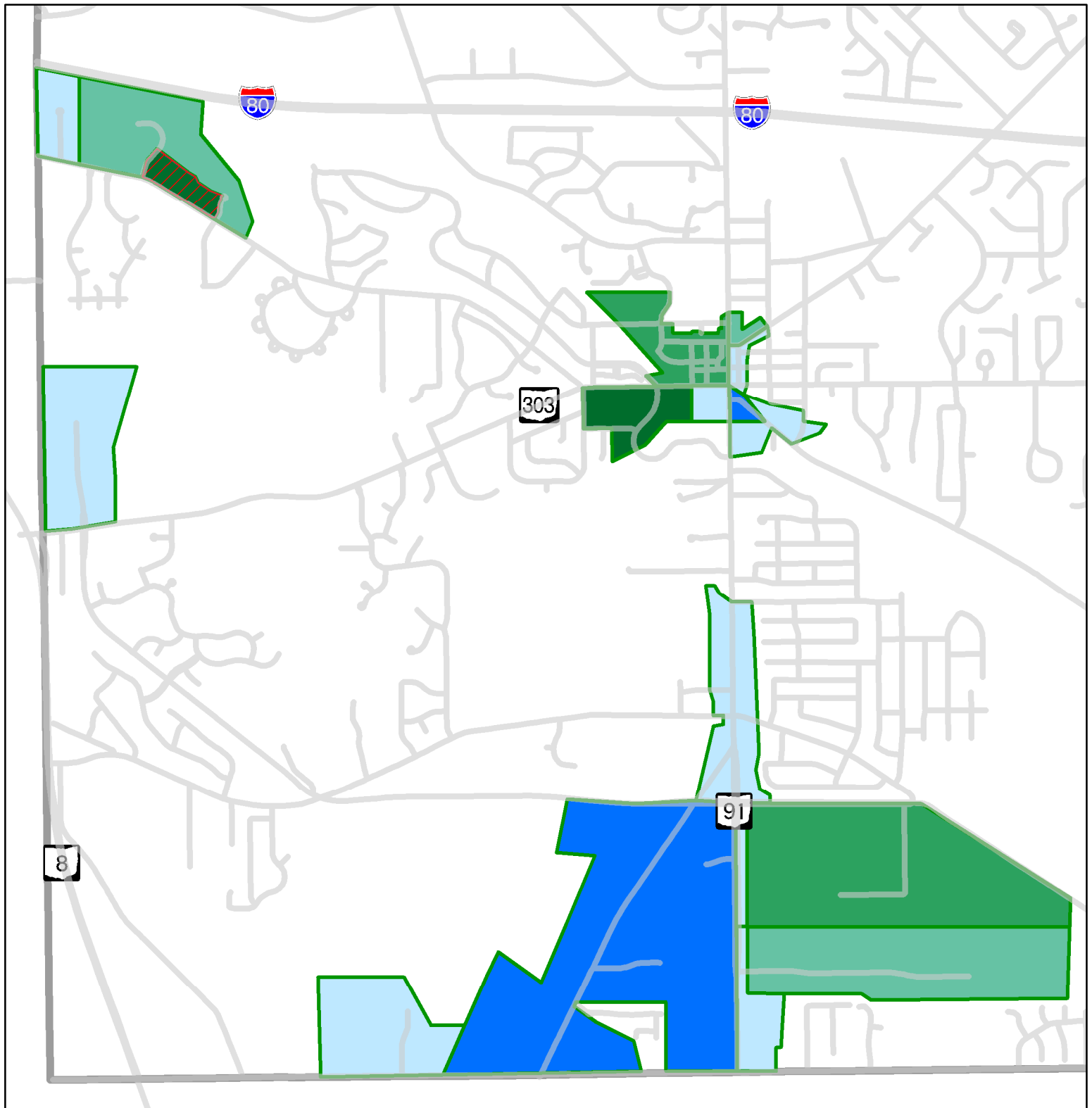
CONCLUSIONS

1. As shown in the map, the capital buildout is projected to be completed for all four phases by the end of 2017.
2. While customer projections are lower than those anticipated in the April update they still exceed those forecasted in the original proforma. In addition Velocity has businesses requesting service who will be customers once the network is built to their location. Velocity Broadband is currently examining potential solutions to get these businesses connected sooner.
3. The current financial forecast projects that we will have an operating gain beginning in 2018. Additionally, the revenues will also cover the anticipated debt service payment beginning in 2020. The current estimated buildout cost remained nearly the same as the April update, leading to lower debt service than anticipated in the original business plan.

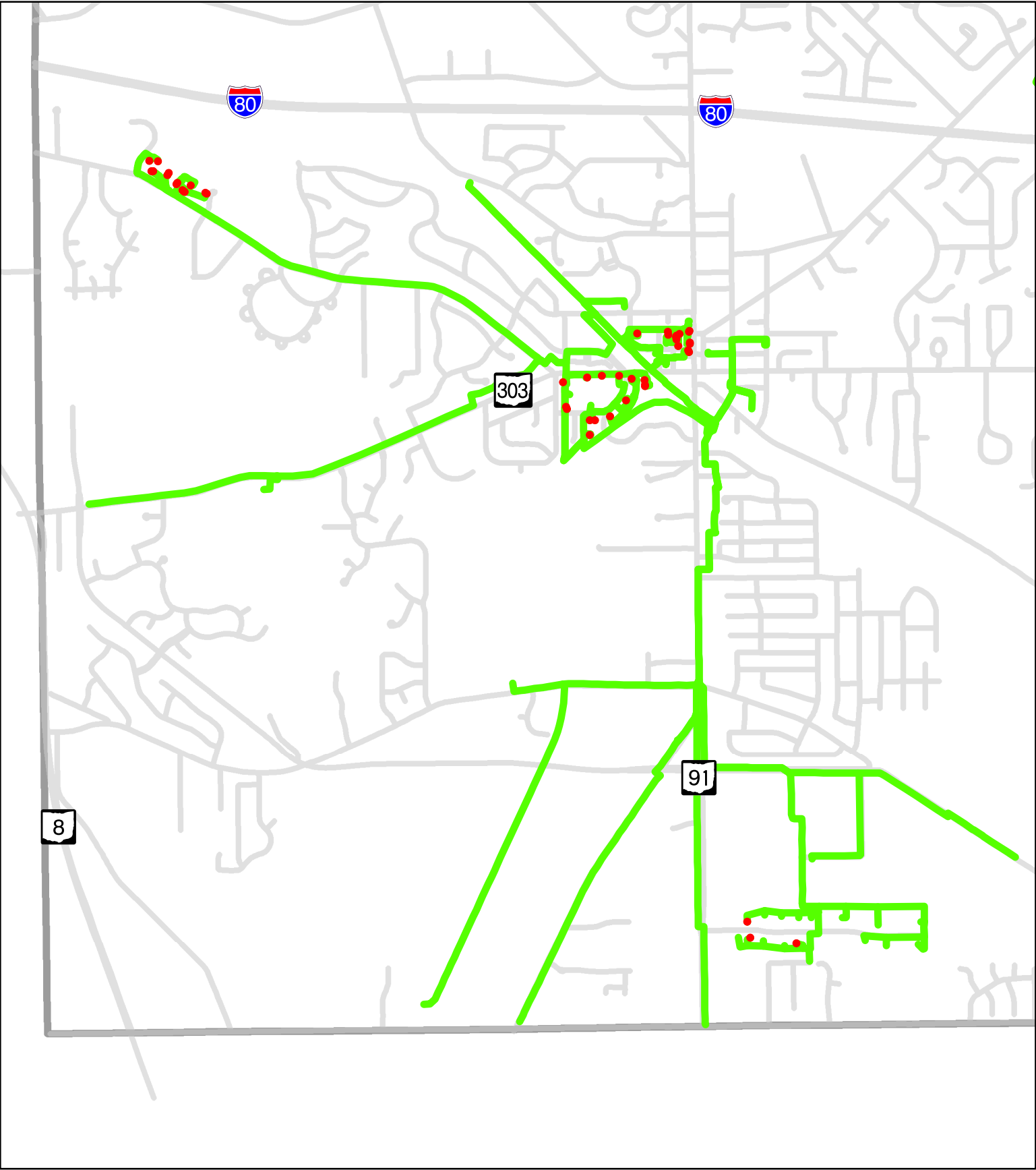
ITEMS CURRENTLY BEING ASSESSED

1. Analysis of continued *outsourcing* of boring/fiber installation as a cost effective means to increase customer base and improve cash flow.
2. Review of current staffing levels to ensure continuation of quality product and service.

Proposed Velocity Implementation thru December 2017



Velocity Broadband Network



Current Customers as of August 31, 2016

| <u>Current Customers</u> | |
|----------------------------------|-----------|
| Business Internet | |
| 25/25 | 42 |
| 50/50 | 7 |
| 100/100 | 2 |
| 500/100 | 0 |
| 1000/500 | 0 |
| 500/500 Custom Plan | 1 |
| Total | 52 |
| Dedicated Internet | |
| 50Mbps | 0 |
| 100Mbps | 2 |
| 500Mbps | 0 |
| 1000Mbps | 0 |
| 10000Mbps | 0 |
| Total | 2 |
| Total Broadband Customers | 54 |

Customer Forecast

| Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|------------|------------|------------|------------|------------|------------|
| Business Voice | | | | | | |
| Total Voice Lines | 47 | 122 | 198 | 290 | 383 | 430 |
| Business Internet | | | | | | |
| 25/25 | 55 | 88 | 121 | 163 | 193 | 227 |
| 50/50 | 15 | 30 | 45 | 64 | 78 | 94 |
| 100/100 | 4 | 10 | 16 | 24 | 29 | 35 |
| 500/100 | 1 | 4 | 7 | 11 | 14 | 17 |
| 1000/500 | 1 | 4 | 7 | 11 | 14 | 17 |
| Total | 76 | 136 | 196 | 273 | 328 | 390 |
| Total Business Internet Market | 750 | 758 | 765 | 773 | 781 | 788 |
| Percentage of Business Market | 10% | 18% | 26% | 35% | 42% | 49% |
| Dedicated Internet | | | | | | |
| 50Mbps | 0 | 1 | 2 | 3 | 3 | 3 |
| 100Mbps | 3 | 3 | 4 | 5 | 5 | 5 |
| 500Mbps | 0 | 0 | 0 | 0 | 0 | 0 |
| 1000Mbps | 0 | 0 | 0 | 0 | 0 | 0 |
| 10000Mbps | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dedicated Internet Customers | 3 | 4 | 6 | 8 | 8 | 8 |
| Total Dedicated Internet Market | 13 | 14 | 14 | 14 | 14 | 14 |
| Percentage of Dedicated Market | 23% | 29% | 43% | 57% | 57% | 57% |

Note 1: Velocity Broadband had 11 customers as of 12/31/15. 2016 customers were estimated by adding current customers and businesses who have signed a contract or have expressed high interest, and are able to be activated by year end. The increase in customers for 2017 through 2021 are based on a percentage of the total market. The percentages are as follows for Standard and Dedicated Internet.

| Year | Standard | Dedicated |
|------|----------|-----------|
| 2017 | 8% | 10% |
| 2018 | 8% | 15% |
| 2019 | 10% | 15% |
| 2020 | 7% | 2% |
| 2021 | 8% | 2% |

Note 2: A business must be a broadband internet customer to be eligible for voice service.

Broadband Financial Forecast

| | 2016 Projected | 2017 Forecast | 2018 Forecast | 2019 Forecast | 2020 Forecast | 2021 Forecast |
|--|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|
| Number of Customers | 79 | 140 | 202 | 281 | 336 | 398 |
| Operating Revenue | \$116,220 | \$354,507 | \$588,120 | \$862,275 | \$1,115,043 | \$1,322,340 |
| Operating Expense | | | | | | |
| Personnel | \$190,832 | \$195,627 | \$247,583 | \$250,059 | \$252,559 | \$255,085 |
| Operating | \$246,634 | \$257,101 | \$259,672 | \$262,269 | \$264,891 | \$267,540 |
| Capital | \$3,366 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Operating Expense | \$440,832 | \$452,728 | \$507,255 | \$512,328 | \$517,450 | \$522,625 |
| Operating Run Rate | (\$324,612) | (\$98,221) | \$80,865 | \$349,947 | \$597,593 | \$799,715 |
| Debt Service | \$2,800 | \$9,723 | \$278,000 | \$278,000 | \$278,000 | \$278,000 |
| Total Operating & Debt Service Run Rate | (\$327,412) | (\$107,944) | (\$197,135) | \$71,947 | \$319,593 | \$521,715 |

Estimated Cost to Build Broadband Business Network

| | |
|---|-------------|
| Total Business Broadband Network Build Out Cost | \$3,311,310 |
| Annual Debt Service Based on the Build Out Cost | \$278,000 |