

Frequently Asked Questions on Burlington Telecom January 2011

BT'S CREATION

1. When was BT created as a City project?

There are several key dates involved in the creation of BT:

- March 2000: Burlington voters approve a charter change confirming the City's authority to engage in a telecommunications enterprise and expanding that authority to include public/private partnerships for the delivery of telecommunications services.
- 2003: BT procures \$2.6 million in financing from Koch Financial to commence Phase I buildout, providing voice and data services to the City and School District offices/buildings. In 2003, BT also received a Certificate of Public Good to offer telecommunications services.
- 2004: BT procures an additional \$10 million in financing for Phases II and III of the buildout. Phase II was the connection of businesses and non-profit organizations along the Phase I route. Phase III is the buildout of the entire city.
- September 2005: BT receives its Certificate of Public Good (CPG) to offer cable services to the City of Burlington from the Vermont Public Service Board (PSB).
- February 2006: BT commences Phase III buildout in the Downtown/South End of Burlington.

2. Why was BT created?

The notion of a municipally-owned, high-quality network was a goal of City government for several years prior to BT's inception. Its purpose was and is to provide high-quality services to residents and businesses in the City, provide local competition for existing national service providers, and attract and grow businesses through a combination of cutting edge technology and good value.

3. Were BT's City charter restrictions voted on by residents?

No. BT has two notable City Charter restrictions. (1) BT's losses are not to be borne by taxpayers; and (2) BT must maintain "competitive neutrality" with respect to its relationship with the City, meaning BT must operate consistent with the same rules applicable to the incumbent cable operator. These restrictions were not contained in the charter change approved by voters in March of 2000. The restrictions were added by the Vermont Legislature, at the urging of BT competitor Adelphia (now Comcast).

4. Can BT expand outside of Burlington?

With respect to cable services, BT can go outside Burlington if it receives an amended or new CPG from the Vermont Public Service Board. BT currently has the legal authority

to expand its phone and internet services beyond Burlington. The City Charter allows the City to provide telecommunications services outside the City limits so long as it is in connection with a joint venture or other business relationship with a third party (§ 449).

5. What does BT's September 2005 CPG cover?

The September 2005 CPG, which contains 65 conditions, is only applicable to cable services. BT has a separate CPG for phone services and does not need a CPG for internet services.

6. Is BT a City department?

No. While BT functions in many respects like a City department, it is an enterprise that legally is under the authority of the City's Clerk-Treasurer's Office.

7. What is unique about BT's technology?

BT is a "fiber-to-the-home" system. Fiber is resilient and less prone to weather disruptions. Fiber has the capability and scalability to support any downstream and upstream applications of today and well into the future.

POOLED CASH

8. What is pooled cash?

The term "pooled cash" refers to the City's primary bank checking account used for depositing revenues, paying expenses and investing cash. The term also refers to the accounting system by which the City accounts for the revenues, expenditures and cash balances of the discrete accounting "Funds" of the City. The City's pooled cash system was implemented in 1983. Similar pooled cash systems are utilized by most public entities of a similar or larger scale than the City.

9. What are the benefits of a pooled cash system?

The purpose of the pooled cash system is to manage the City's cash flow in the most efficient manner. By "pooling" the cash of the various Funds, the City minimizes borrowing from outside entities and thereby avoids unnecessary borrowing and related interest expense.

It is important to note that the cash balance or deficit of the City's Funds typically varies over the course of the fiscal year. Many Funds will also maintain cash balances and/or deficits for extended periods of time. Large debit balances may occur for a Fund for an extended period of time in anticipation of a debt financing.

10. Which departments participate in the City’s pooled cash account?

With some exceptions, payments for expenditures of all Departments and Funds of the City are paid from the City’s pooled cash account. The revenues of Departments and Funds are deposited into this account or alternatively were deposited into clearing accounts which were swept into the general checking account. The term “pooled cash” refers literally to the pooling of cash into this single account. Last year, the City created separate bank accounts for the Airport and BT to receive and hold cash balances.

The Burlington Electric and School Departments are also Funds of the City that maintain their own individual checking accounts. The expenditures of these Departments/Funds are generally paid directly from these accounts. The revenues of both Departments/Funds are usually deposited into their own separate checking account. The cash balances of these two departments are typically invested through these accounts. Significant balances of the School Department account will be swept and deposited into the pooled cash account for investment.

11. Is BT the only department or fund to use pooled cash in anticipation of future financing?

BT is not the only department or fund to use pooled cash in anticipation of future financing. In fact, every department and fund that is not in the General Fund has utilized pooled cash in the past five years. One of the most useful functions of pooled cash is to allow the City to move ahead with projects in anticipation of financing or grant reimbursement. This saves money for departments and benefits the general fund.

For example, in 2008 BED utilized nearly \$15 million in pooled cash for installation of a nitrous oxide reduction unit at the McNeil station and investment in VELCO transmission lines, in anticipation of revenue from a bond sale. This saved BED more than \$150,000 in interest expense and benefited the General Fund by an equivalent amount. Construction at the Airport on a new parking facility is currently underway through advances from pooled cash in anticipation of a revenue bond sale.

12. How does BT participate in the pooled cash account currently?

In October 2009, Burlington Telecom established a separate cash account in order to segregate its funds. The cash account holds excess operating monies not pooled with other City cash, such as revenues from customers. Burlington Telecom continues to pay expenses from the cash pool but reimbursements are made within 60 days from the funds that reside in Burlington Telecom’s separate cash account.

13. How are debits and credits to the pooled cash account handled?

At the outset of a given accounting period, each Fund participating in the pooled cash account has an identified cash balance or deficit. As revenues of the Fund are deposited

into the account, the cash balance of the Fund increases. If there is a deficit for the particular Fund, the amount of the deficit decreases as revenues are deposited.

Conversely, as expenses of the Fund are paid out of the pooled cash account, the cash balance of the Fund is reduced. Concomitantly, if there is a deficit for the particular Fund, the amount of the deficit increases as expenses are paid from the pooled cash account.

14. Do departments pay or receive interest on funds transferred or debited from pooled cash?

The City credits interest to those Funds with a positive cash balance. Conversely, the City charges interest to those Funds with cash deficits. Typically the interest rate credited is the rate the City's bank pays on deposits while the interest charged is the rate the bank charges the City for short term borrowing.

15. Who administers the pooled cash account?

The administration of the pooled cash system is a responsibility of the City Clerk/Treasurer's Office. It is a typical treasury function in most governmental entities. Expenses paid from pooled cash must be in accordance with the approved budget. Currently, the administration makes a quarterly report to the Board of Finance regarding the use of pooled cash.

16. What was BT's pooled cash debit of \$16.9 million used for?

This funding was used solely for BT purposes. The City's auditors, Sullivan Powers & Company and the Larkin Report have confirmed that BT's expenditures and revenues were utilized solely for the enterprise.

17. How can the City carry such a large debit without impacting the budget or City services?

As indicated above, it is possible for City departments and funds to carry large debits against pooled cash for an extended period of time, typically in anticipation of financing or a grant with federal or state reimbursement. These debits do not adversely impact the general fund budget because a department or fund with such a debit pays the interest expense associated with the debit.

The pooled cash account is beneficial to the City precisely because it allows Departments to borrow funds for a period of time in anticipation of revenues or financing. This allows the City to use funds on hand for projects and other expenses in a more timely, efficient, and effective way.

BT'S LEASE PURCHASE AGREEMENT WITH CITICAPITAL

18. What is lease purchase financing?

Typical municipal lease-purchase agreements allow a municipality (as the lessee) to acquire equipment using funds provided by a financing entity (as the lessor) and to repay the funds as rental payments over a set period of time. At the end of the contemplated lease period, the municipality obtains full ownership of the equipment.

19. Was BT's lease purchase financing a debt of the City or did it pledge taxpayer funds?

The Lease states that the rental payments are to be a current expense and shall not constitute a debt of the City or a pledge of the general tax revenues of the City. This is typical in municipal lease financing, where, as with BT's lease, the annual payments are subject to annual appropriation by the City Council.

20. What equipment is covered under the Lease?

The Equipment that is subject to the Lease is described as the City-wide fiber optic network and vehicles. The Equipment description in the Lease did not include accounts, customer lists, customer records, franchise rights or similar permits nor did it specify any real estate interests.

21. What is the status of BT's lease-purchase agreement with CitiCapital?

The City and CitiCapital have acknowledged that the Lease Agreement has terminated as a result of the non-appropriation of funds for the current fiscal year. The City is currently in discussions with CitiCapital about satisfying its obligations under the Lease, as terminated. The City is pursuing a plan to finance replacement equipment so that BT's equipment covered under the Lease can be returned to CitiCapital or substitute equipment can be provided to CitiCapital. The City is in discussions, through its advisors Dorman & Fawcett, with potential financial and strategic partners concerning the procurement of replacement equipment and the operation and management of BT.

22. Have all payments been made under the Lease?

Yes. All payments for Fiscal Year 2010 were made to CitiCapital. Although BT missed its February and May 2010 payments, those payments were covered by an escrow account established with the financing. With respect to payments due in Fiscal Year 2011, because the Lease was terminated beginning in FY11, no further payments were or are due.

23. Has BT or the City defaulted on the Lease?

No. As explained above the City and CitiCapital have acknowledged that the Lease is terminated.

BT'S CERTIFICATE OF PUBLIC GOOD (CPG)

24. What is Condition 60 of the CPG?

Condition 60 governs BT's use of the City's pooled cash account. It requires that BT have accounts receivable or other anticipated funding which meets or exceeds any debit to pooled cash. It also requires that BT repay any debit from pooled cash within two (2) months of the date of the debit.

25. What is Condition 17 of the CPG?

Condition 17 requires that BT build out 100 percent of the City of Burlington by September 13, 2008.

26. What is the status of proceedings before the Vermont Public Service Board (PSB)?

In September of 2008 the City filed a petition to amend Condition 17 of the CPG. In September of 2009 the City filed a request for relief from Condition 60 of the CPG. In both of these filings the City acknowledged its non-compliance with Conditions 17 and 60 of the CPG.

On October 8, 2010, the PSB issued a decision finding that BT violated the following CPG conditions: Condition 2 (a catch-all provision); Condition 17 (build-out), Condition 56 (taxpayer funds) and Condition 60 (pooled cash) of the CPG. Under the law, BT has an opportunity to cure these violations. As explained above, the City is in discussions with potential partners and pursuing a plan to preserve BT and recover the debit to pooled cash.

BT'S CURRENT STATUS

27. Is BT going to shutdown unexpectedly or precipitously?

No. BT's CPG and state law require BT to obtain approval of the Vermont Public Service Board prior to curtailing or abandoning service to its customers. Customers would receive advance notice in the event BT is ever required to curtail or abandon services.

28. What is happening at BT now?

BT has more than 4000 residential and business customers and continues to sign up new customers, offering high quality cable, voice, and internet services. BT's revenues are on track to exceed those in FY10.

29. How are the City's and BT's legal and related costs being paid?

Legal costs related to regulatory proceedings before the PSB, as well as all costs related to the operation and management of BT are being paid out of BT revenues. Dorman & Fawcett costs related to negotiations with CitiCapital and potential new financial and strategic partners are being paid by the General Fund. It is anticipated that some or all of the costs expended on the negotiations with CitiCapital, will be reimbursed as part of any new financing transaction.

30. What is the City's plan to enable BT to repay its \$16.9 million debit to pooled cash?

An essential element of Dorman & Fawcett's discussions with potential financial and strategic partners is the opportunity to recover the \$16.9 million obligation to the City.

31. What options is the City considering for the future ownership and management structure of BT?

With Dorman & Fawcett, the City is reviewing all potential options for ownership and management of BT. This could take a variety of forms, whether through continued control by the City, a public-private partnership, or transfer of BT to an ownership and management structure exclusive of the City. Currently, it is premature to say what any new partnership or structure will look like.

32. Where can I get more information?

Go to www.ci.burlington.vt.us/mayor/BT/ for more information on documents including the City's response to the Larkin Report. Also visit www.burlingtontelecom.net for information related to Burlington Telecom's services and rates.