

County Council Work Session March 12, 2013

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Los Alamos County *where discoveries are made...*

Presentation

❖ Project overview, general approach

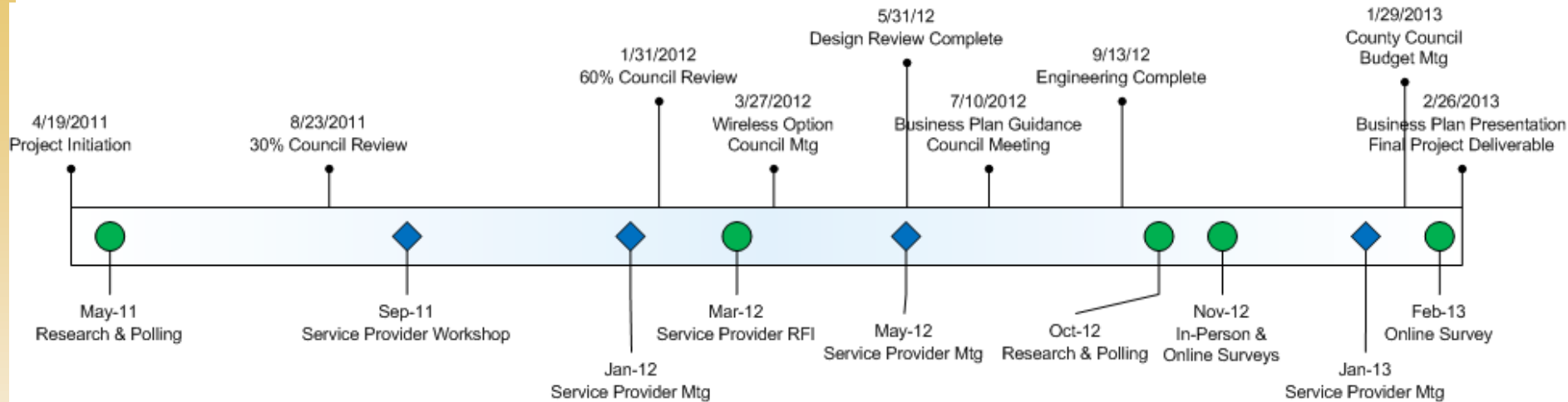


❖ Business plan presentation



❖ Remaining project deliverable

Project Overview



Key Milestones

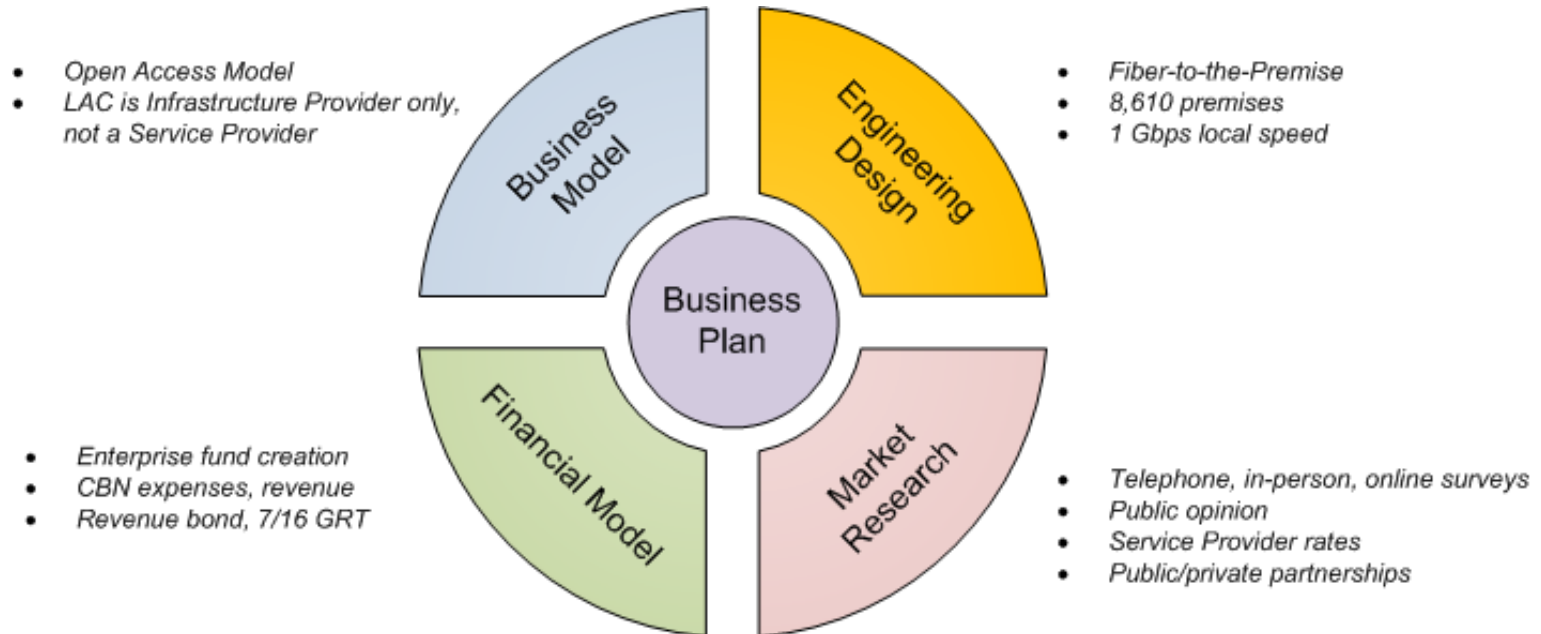
Market Research (telephone, in-person, online)

Service Provider Meeting

Implementation Steps

STEPS	ACTIONS	
Conditional approval to move forward – “laying the foundation”	<ul style="list-style-type: none"> County Council 	
Stakeholder Meetings	<ul style="list-style-type: none"> Citizens Businesses Utilities 	<ul style="list-style-type: none"> LAPS UNM-LA LANL
Marketing	<ul style="list-style-type: none"> Market research to re-verify community opinion – function of time 	<ul style="list-style-type: none"> Develop service provider marketing campaign Develop customer marketing campaign
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General Approach



- ❖ Comprehensive development process, melding business model, network design, market research & financial analysis



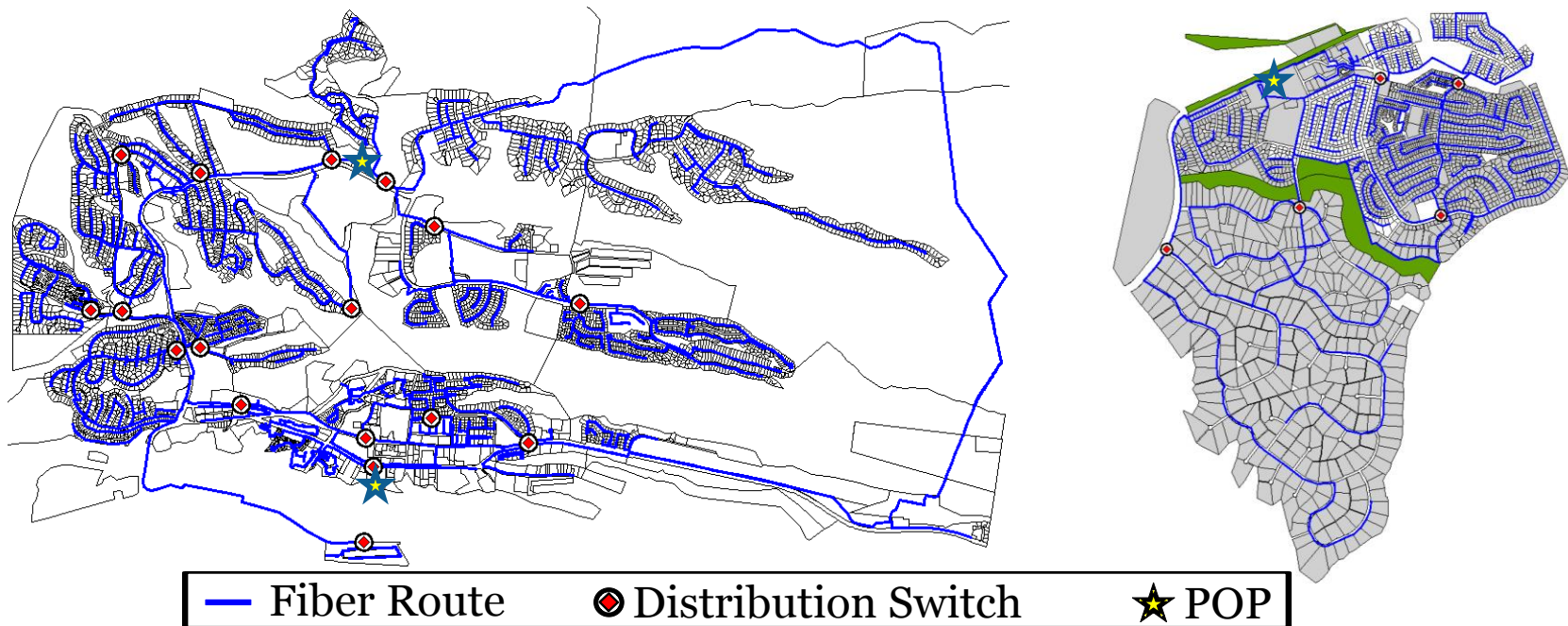
BUSINESS PLAN PRESENTATION

CBN Business Model

- ❖ CBN based on “Open Access” principles
- ❖ Los Alamos County would serve as wholesale network operator, not retail service provider
- ❖ Retail service providers would purchase wholesale network services from CBN
- ❖ Any qualifying service provider would have equal and fair access to CBN services
- ❖ Avoids competing with private sector ISPs

CBN Design

- ❖ CBN would implement a 1 Gigabit per second fiber optic network to all premises within LAC



CBN Market Research

- ❖ Various instruments used for assessing interest in broadband services within LAC
 - Private sector research firms
 - Online surveys
 - In-person interviews
- ❖ Cross referenced with broader national trends
- ❖ Public/private partnership opportunities also researched

CBN Financial Analysis

- ❖ Enterprise Fund style of accounting
- ❖ 10 year pro-forma financial projections
 - Including Cash Flow analysis
- ❖ Cost to build, operate, and reinvest
 - Implementation timeline
- ❖ Funding requirements and payback model
- ❖ Revenue expectations

Assumptions - Cost to Build & Operate

- ❖ 100% build-out, Gigabit Ethernet
 - 8,610 premises connected
- ❖ ~\$47.2m initial cost to build, years 1-3
- ❖ ~\$7.6m equipment refresh years 7-9
- ❖ ~\$2.3m annual cost to operate

Assumptions – Funding Model

- ❖ Construction capital expenditures funded by ~\$47.2m revenue bond package
 - 20yr term, 3.5% borrowing cost
- ❖ Debt service on revenue bonds covered by 7/16th GRT levy and network revenues
 - GRT proceeds estimated at ~\$5.6m per annum
- ❖ Equipment refresh funded through separate \$7.6m revenue bond package in Years 7 – 9
 - Repayment covered by accumulated cash flow

Assumptions – Pro-forma Projections

- ❖ Annual revenues estimated at ~\$6m to \$7m
 - Wholesale network revenues & GRT proceeds
- ❖ Operating expenses of ~\$2.3m per year
- ❖ Positive annual cash flow, with accumulated reserves ranging from ~\$4m to \$8m
- ❖ Positive Internal Rate of Return on investments of ~3%

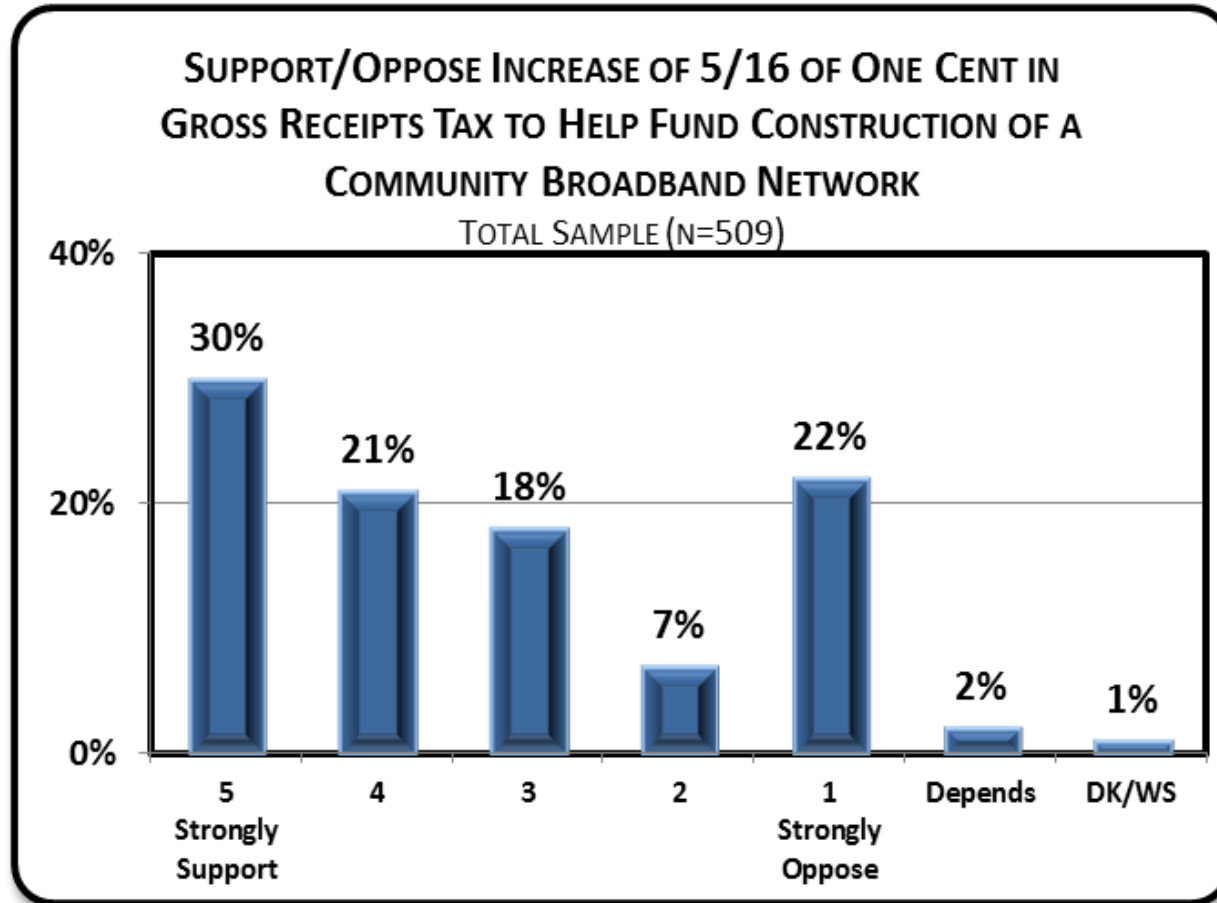
Assumptions – Market Take Rate

- ❖ Estimates for wholesale network services
- ❖ Minimum initial take rate projected at 30%
 - By Project Year 5
- ❖ Target take rate estimated at 40%
 - By Project Year 7
- ❖ Based on quantitative analysis of local market research, cross referenced with national data

Assumptions – Market Research

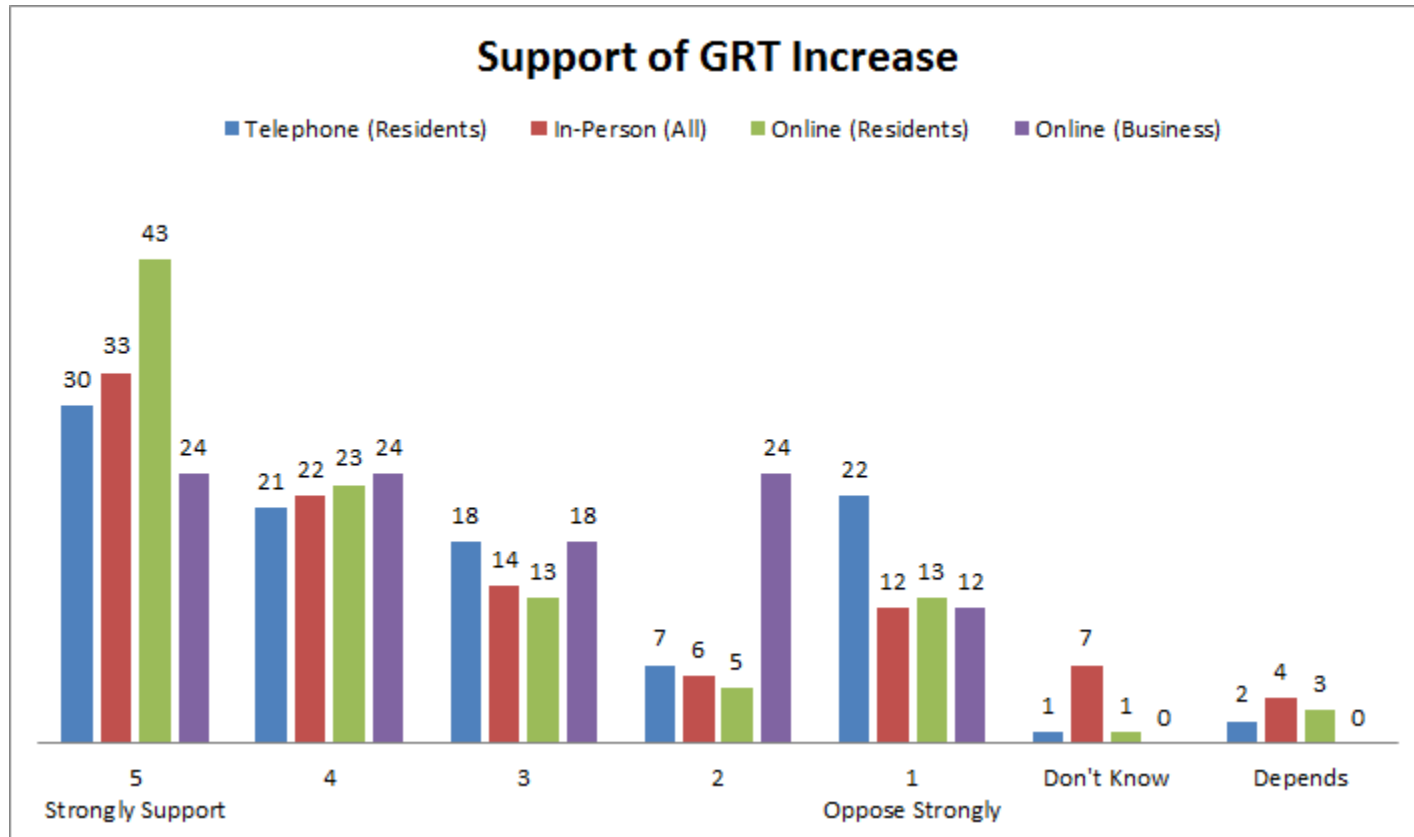
- ❖ Quantitative analysis in the business plan was based on the Research & Polling telephone surveys
 - Contains demographic data
 - More conservative
- ❖ Online and in-person surveys
 - No demographic data
 - “Gut-check”

Support for GRT Increase

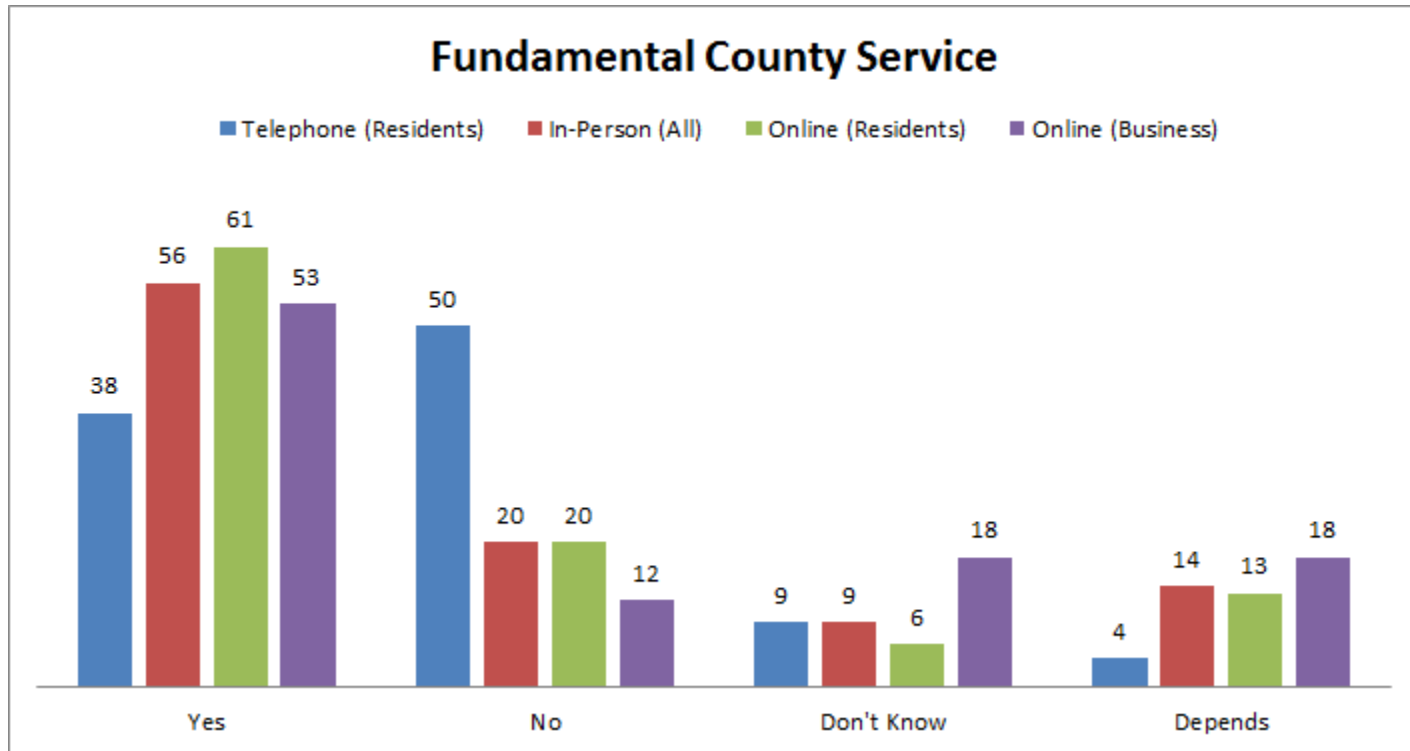


❖ Reduction in GRT valuation would require 7/16th

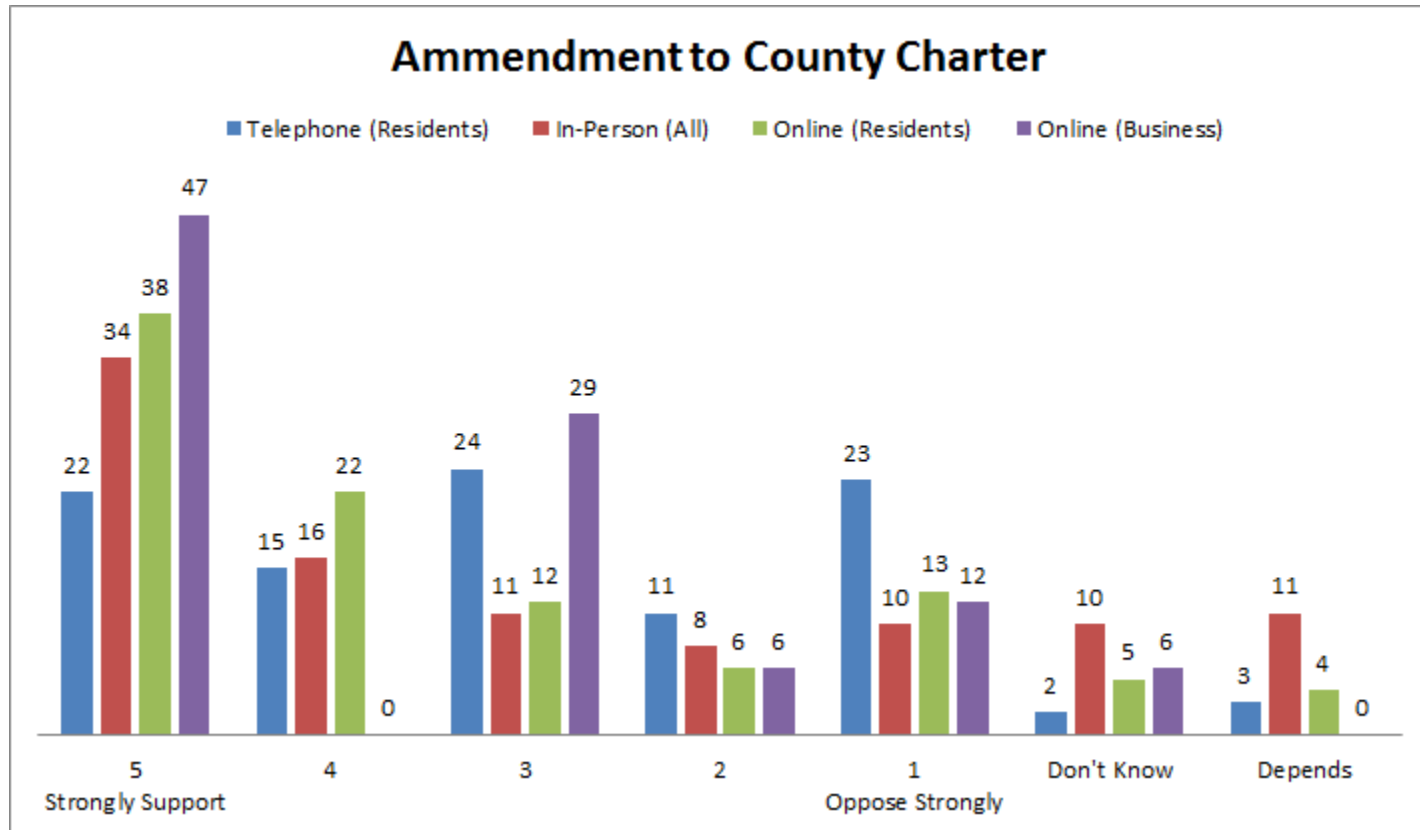
Research Findings



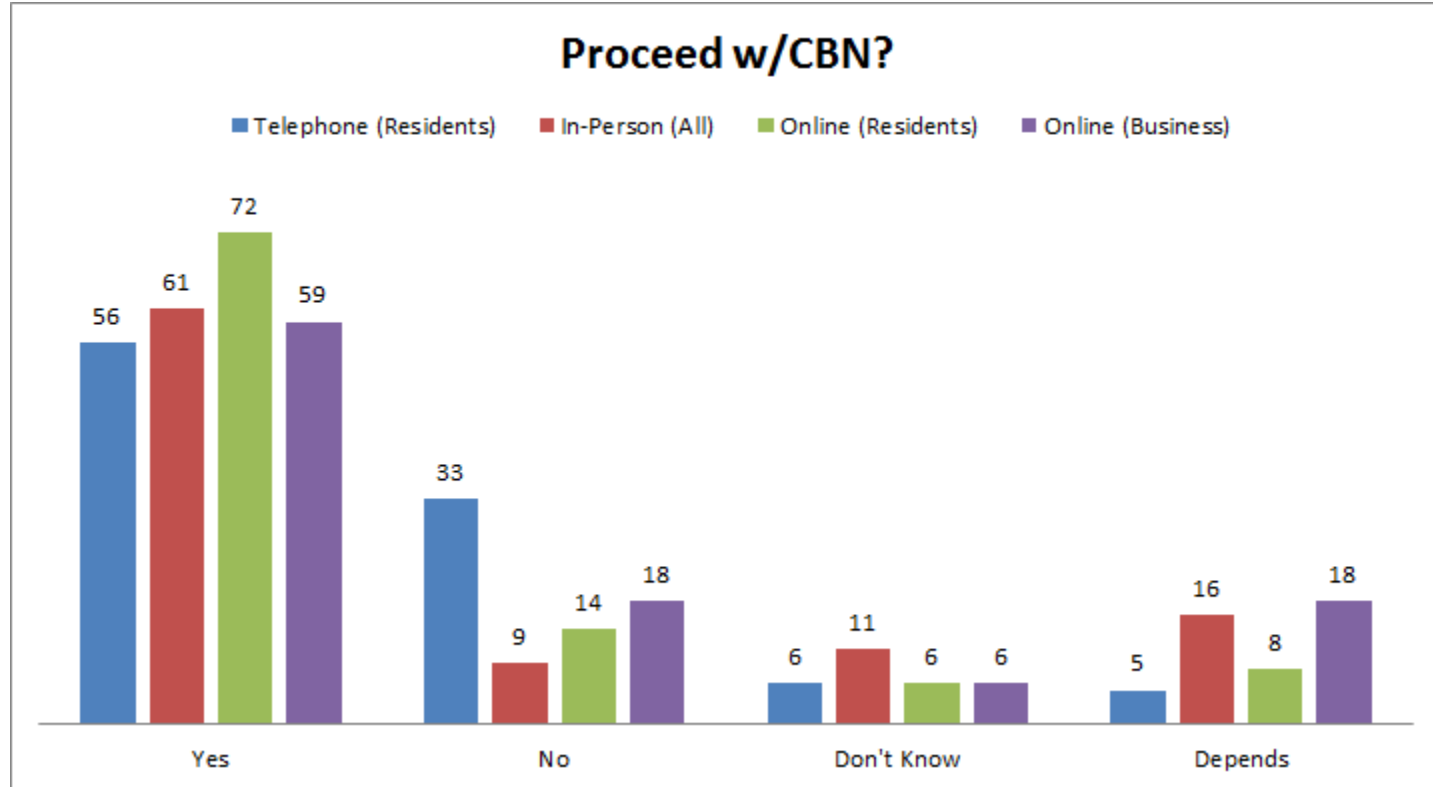
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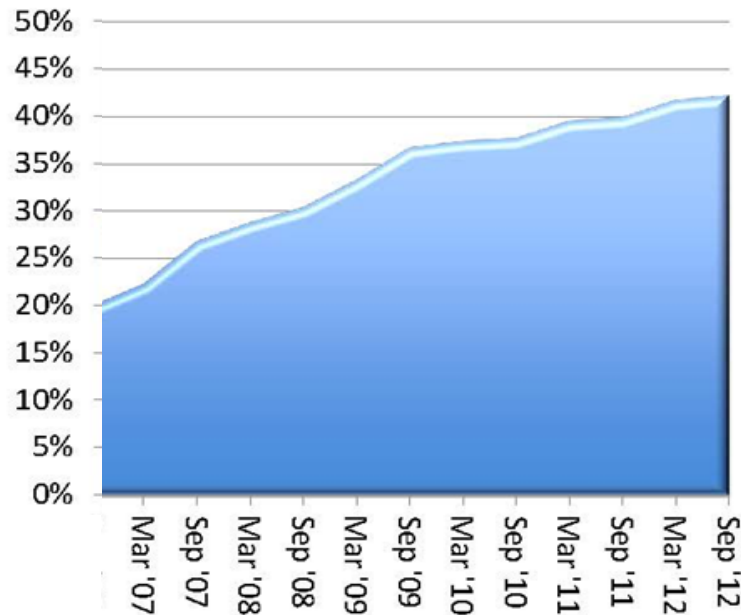
Research Findings



National Take Rates

Overall FTTH Take-Rates Hit New Record

North American Take-Rates Reach 42.2%



**2012 FTTH
CONFERENCE & EXPO**

THE FUTURE IS NOW



Best Industry Practices

- ❖ Symmetrical bandwidth, 75% of municipalities
 - Production model vs. consumption
- ❖ Economic development vehicle
 - 58% of communities experiencing an increase
- ❖ Time shift workplace and telecommuting
 - 67% work from home, 11% home based business
- ❖ Increasing home valuations ~\$6,500
- ❖ Lowering community operating costs ~2%
 - Reducing roadway congestion and associated costs
- ❖ Generating revenues for the community
 - Home based business could add \$47m per year in revenue
 - Potential for 215 new jobs based on industry averages

Risks

- ❖ Market risks and take-rate expectations
 - Mitigation measures
 - Downward factoring of research data
 - Marketing campaign, inline with best industry practices
 - Competitive pricing maintenance
- ❖ Financial risk, securing capital, & cost overruns
 - Mitigation measures
 - Community support for bond measure and GRT levy
 - 3rd party review conducted to verify cost assumptions
- ❖ Legal risks, potential challenges
 - Mitigated by “open access” model, non-compete
- ❖ Middle-mile

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Conclusions

- ❖ CBN Business Plan demonstrates sound case for implementation and sustainability
- ❖ Market research identified majority support for CBN and demand for broadband services
- ❖ 7/16th GRT levy would require public election
- ❖ Further community meetings suggested
- ❖ Follow FCC public policy for “gigabit communities”

Questions?

