

Adam's Statement of Burlington Telecom

The sale of Burlington Telecom was an endlessly complex issue involving the sale of a large business enterprise in a highly political environment.

First, some critical facts and details (not opinions) about the situation:

- The City did not own Burlington Telecom. Through a 2014 settlement with Citibank and Bluewater Holdings (a local investor group), the City was able to “direct the sale.” Citibank was the lender for building out Burlington Telecom in its early days, and when things went sideways they sued the City. Bluewater provided a loan so Citibank would ease off and give time to put BT back together, allow it to grow, prepare for a sale, and everyone would get their piece of the pie.

- A lawsuit from Citibank was active throughout the process and will only be resolved at the completion of this sale, which occurs when the State Public Utility Commission (PUC) gives approval. Citibank made it clear if a bid was selected not close to what the business was worth (~30 million dollars) they would seek damages through litigation. If the City was found at fault taxpayer dollars would pay the damages.

- Taxpayers (individuals and groups) made it clear that they intended to sue if the City did not act in a way that resulted in the most valuable financial outcome for all taxpayers at the point of the sale. The issue here is that the City in the past mishandled and lost ~17 million dollars of taxpayer money and some members of the community wanted the City to get as much of those losses back in cash at the time of the sale.

-Bluewater Holdings, the local investor group, had the right to deny the sale if they deemed the buyer “unqualified.” Essentially, this meant that if the buyer was a first time telecom operator, Bluewater could veto the sale. This option was available to them through the CitiBank settlement agreement and because they were technically the owner of BT.

-The State of Vermont had the final say on the sale. The Public Utility Commission (PUC) is the group responsible for reviewing the sale and either approving or denying the City Council's decision. This is the next step of the process, and approval will result in a Certificate of Public Good (CPG) which allows operations to transition and move forward. This commission has many responsibilities, but in this case their role is to protect taxpayers by evaluating the financial strength of the bid and their operational experience. The PUC is a semi-judicial body so they are not allowed to provide guidance or suggestions, however there are past cases studies to learn from and there is precedent for the PUC to deny bids - it’s not an easy process to predict.

-The City was under a deadline to submit a selected bidder to the PUC - the deadline was the end of 2017. As part of the settlement agreement with Citibank and Bluewater, if the City missed this deadline then the City would lose a percentage of the eventual sale proceeds; the amount was about 2.3 million dollars.

These facts were only the dynamics surrounding the bids and the decision itself making for a challenging process that was never clear cut.

There was an organized effort to support a bid offered by Keep Burlington Telecom Local (KBTL). In response to questions about this

and to reinforce my consistency on this issue, I will point to a letter I sent to constituents during the months-long debate:

“Over the last few months, starting with attending the early interviews held by the Burlington Telecom Advisory Board (BTAB), my ranking of the bidders has shifted several times. One fact that has remained consistent, however, is my hope for the KBTL bid. Coming out of BTAB, which eliminated 4 of the 8 total bidders, it was obvious that KBTL had risks and issues. In fact, it was ranked last, 8th out of 8, and moved forward with the hope the bid could improve. The bid has since not significantly changed.

The potential long-term value of a co-op model is obvious. Local decision-making and patronage dividends that keep profits in the community are real benefits, and for these reasons and more, I have been and remain a supporter of co-ops. So while KBTL has the advantage of being organized as a co-op, we must also look at the specifics of the offer.

Some of my most significant concerns with the KBTL offer are as follows:

1. The offer price is less than half of the value of what is being purchased. While I've been clear that price is not my first or only priority in this decision, this issue cannot simply be looked over. The low price point makes lawsuits likely from Citibank and taxpayers, and residents may end up paying the price. Also, since the PUC has a goal of protecting taxpayers, they may also object to

the sale based on this point.

2. The deal is financed primarily with debt from Maine Fiber. This 10 million dollar loan also has a high interest rate, 14% over ten years. This interest rate is more than double the industry average of 6%. KBTL hopes to refinance once they take over control of BT. I have serious worry about this. We've all lived through the financial crisis born from taking bad loans with the hope to refinance sometime in the future. If KBTL defaults on their loan to Maine Fiber, we have no control over what they will do with it in the future.
3. There is less than one month's operating cash in reserves, where the industry average is at least 6. This means that if there are any hiccups, KBTL will not be able to keep their head above water for one full month. In a competitive industry like telecommunications, this is a big issue for me and gives me pause.
4. The deal requires that the City and School District agree to ten-year service contracts at current BT prices. While this is a benefit for financial planning, costs for telecom have been going down for some time now, and I expect them to continue to decrease. In a time where money is tight (especially with the schools) this is problematic at face value.
5. The PUC may not let the City carry forward any equity in the new entity. Again, since the PUC has a goal of protecting taxpayer returns, they may force the City to cash out. Part of the KBTL offer

is a requirement that the City carry forward the 1.5 million dollars of cash in return for a 12.5% stake in the entity. If this is not allowed, it creates real financial problems for KBTL moving forward.”

I will note that strong effort went into addressing these issues and by the end of the process progress was made on some of them, namely number 3 and 4. I was clear and consistent with KBTL leadership and the community that if they were able to improve their unreasonably high interest financing and mitigate the risks related to litigation I would vote in favor of their bid. These improvements, unfortunately, did not occur.

The final decision on BT was made on November 28th, 2017 after a long meeting - the final vote took place close to 2AM. Many in the public and several fellow Councilors took issue with how the final decision played out. I as well feel the process did not end as cleanly as it could have and wished that we had more time; we simply did not. While frustrating, there was no call for postponement by any Councilor, which I believe to be because everyone knew our time was up and we had to act. In the end, Schurz Communications, with ZRF Partners playing a limited role, was selected. At the time of the vote, I know exactly what I was voting on, what I was committing to, and was fully prepared to vote against the final sales agreement if there were significant deviations from my expectations.

The Council put in additional work to make sure the final agreement was as expected and as strong as possible. One main focus was the legally binding language related to Net Neutrality. The language was reviewed by national leaders on the issue and will serve as a perpetual guarantee

and assurance to subscribers of the BT. The language is found in Section 8.15, and is as follows:

“Buyer will continue the current Telecom System’s support for net neutrality, will treat all Internet traffic equally, and will maintain transparency with respect to its policies and practices, including, without limitation, refusing to block, throttle, slow down, or unreasonably interfere with or unreasonably disadvantage any lawful content, applications, services, or use of non-harmful devices by End Users, content providers or Edge Providers. Buyer will not engage in Paid Prioritization. Buyer will publicly disclose accurate information regarding its network management practices and the commercial terms of its Broadband Internet Access Services sufficient for consumers to make informed choices regarding use of such services and for content, application, service, and device providers to develop, market, and maintain Internet offerings. Buyer will not sell consumer data to third parties or use sensitive consumer data without consent for marketing. Buyer agrees to publish its commitment to Net Neutrality as set forth in this Agreement on its website and/or in its subscriber agreements.

The final Asset Purchase Agreement was approved on December 27, 2017 - four days before the year-end deadline.

If you or your neighbors have any questions about the process, the details of the final agreement, or what comes next I am always happy to discuss the dynamics and details.

My best,
Adam Roof