

Council President Mike Klaus called the special meeting of September 26, 2012 to order at 6:00 p.m. at the Panhandle Banking Center in Sandpoint. Present for the meeting were Council President Mike Klaus, Council Members Connie Wells and Tom Mayo, Economic Development Coordinator David Sims, Clerk Kris Larson, and Mike Sloan. Also present for the meeting were Scott Crawley from US Metronets, Dave Shaw, David Robertson, Nancy Strickland, Shannon Sythe, Mike Listman, Scott and Susan Campbell, Mary Luzmoor, Brad Patterson, Gretchen Heller, Karl Dye, Ernie Bray, Councils from Sandpoint, Kootenai and Dover were also present as well as Bonner Economic Development Group, Sandpoint Chamber of Commerce, and representatives from Blackfoot Communications.

The purpose of the meeting was to discuss the fiber to the home project.

Karl Dye gave a history of the fiber to the home project. He said the goal is to provide ultra-broadband fiber connectivity to all residential, commercial and government entities. The estimated cost of the project is \$20 million. Karl said municipal leases will help provide the funding for such a project. He said Blackfoot will provide and guarantee the leases. Karl said there will also be bonds sold to finance the project.

Ernie Bray from US Metronets spoke about the process to find the anchor service provider for the project. This turned out to be Blackfoot Telecommunications Group due to their operating history and strength as well as their financial strength, customer service level, management, service area, and corporate values and community orientation.

Joel Block from Blackfoot Communications gave a presentation about their company. Blackfoot was formed in 1954 as a telephone cooperative. He said Blackfoot is considered to be a technology leader in Montana. They also have a software business called Telesphere Software, Inc. and another company called Modwest. Joel said Blackfoot is a value driven company. They service Missoula and Great Falls, Montana. Customer satisfaction rates 80 percent for Blackfoot. Blackfoot intends to hire local support technicians.

Chris Kersten from Blackfoot spoke to the group. He said Blackfoot was western Montana's largest and first IP network, first to roll out broadband in western Montana, and first to rollout digital mobile services. They have over 1,000 miles of fiber. Residential and business services are offered. Voice, broadband and television are offered as a bundle. They have a 20 person IT team that can go into businesses and offer support and guidance.

David Robertson spoke regarding financing. He said Idaho Housing and Finance Association would be the issuer of taxable bonds and the proceeds would be loaned to Panhandle Area Council (PAC). He said PAC would be the owner and builder of the network. PAC would enter into a lease agreement for their allocation of the bonds to build out their network. The cities would enter into a lease agreement with PAC and an anchor service provider agreement. The anchor service provider fee would pay the operating costs and bond payments and any revenue in excess of the costs and bond payments would be returned to the communities. A third party

trustee (Wells Fargo) will be designated by PAC who will hold and control the funds including capitalized interest and debt service reserve fund, make sure the payments are made to build the network, process payments with bond purchaser, administer security interest in assets on behalf of bond purchasers. Nancy Strickland clarified about the bonds and lease payments. The cities' lease payments to PAC will help pay for the bonds. Nancy clarified that cities' pay the lease for their portion of the network and PAC can use those funds to pay on the bonds. Nancy said cities cannot be liable for the bonds. David said for the first two years there will not be a lease payment due. There will be an exclusive network with Blackfoot for the first 10 years. David said if the project went belly up we could liquidate the assets and pay off the bonds. Whatever revenues are generated in a particular city, they will be maintained in that city for economic development. Nancy asked if Blackfoot defaulted, whose responsibility it would be to make the payment. Scott Crawley spoke of the debt service fund and liquidation of the assets if necessary. The first two years bond payments are covered by capitalized interest. Scott said the balance between a business and the governments is unusual and cities do not enter into leases without careful review. He said the window of exposure is narrow if any. David Sims asked about the modeling. Nancy spoke about the draft lease and access to the debt service fund. Scott said it is not in the draft lease but it will be. Nancy said governmental fees need to be based on what the cost of the service is plus some reserve. Gretchen said basically the only way cities will get revenue back from the system is through grants from PAC. Ernie and Scott Crawley agreed. Karl Dye said a percentage goes to cities to pay off the debt. Once a breakeven is reached, the excess is split between Blackfoot and city economic development. The excess money can help businesses grow.

The fiber project will add about 200 miles of fiber. Chris from Blackfoot said in this project area there would be 12,500 customer base and they now serve a population of 150,000. Joel said pace of content is a problem for some folks. Ernie said a direct fiber line would be run to each home but the speed depends on what package the customer purchases. Joel said Blackfoot values customer research so they can fix problems.

David Shaw, PAC attorney, said Brad Patterson has developed the bond documents. Idaho Housing and Finance Association will issue the bonds and loan the money to PAC. PAC will lease systems to cities under a master lease and there will be an anchor service provider agreement between the cities and Blackfoot as well as PAC. PAC is involved with the anchor service provider in case the cities leave the project. Also there is an agreement between PAC and Blackfoot for operations and maintenance. There is also a purchase option agreement between PAC and Blackfoot for a limited window of time. Cities are third party beneficiaries in the purchase option security agreement. David Shaw said cities have to vote whether or not to continue on an annual basis. The lease obligation could be reduced by limiting service area according to Ernie Bray. Ernie thinks most build out could be done in a two year period so that is the reason for the capitalized interest.

Scot from US Metronets spoke and gave a cash flow illustration. Karl Dye said the project is based on density. Blackfoot guarantees bond payments for ten years with the total bonding to be approximately \$20,000,000. The estimated network cost is \$15,731,563. The estimated obligation for Bonners Ferry would be \$416,708. There must be a penetration level of 27.8 percent to break even.

There being no further business, the meeting adjourned at 8:55 p.m.

Mike Klaus, Council President

Attest:

Kris Larson, City Clerk