Notes for BC Meeting, June 26, 2018, 5:00 p.m.

-Open meeting, but closed for comments. If we have time at the end, floor will be opened. Primary comment and and Q&A occurred on Saturday.

-Clarifications:

1a) Technical - Byte vs Bit. The Saturday presentation included a significant typo error in the definition page. Mbps was referred to as Megabytes, when it should have said Megabits. MBps is used to designate a megabyte. Mbps (lower case b) is used to designate a megabit

Internet speeds are stated in bits. One Mbps is one thousand bits per second.

Data quantity is stated in bytes. A byte is 8 times larger than a bit.

1b) All options before us effectively are offering a fiber-based system using GPON technology where the light stream will be split up to a maximum of 32 times in its journey to your location. This is a solid and effective delivery system in common use throughout the country. Active ethernet on the other hand would provide a dedicated fiber to your location. Active ethernet is more expensive. None of the options offer that, nor was it ever intended in terms of the financial projections developed originally by MBI. The Town-owned option as presented by Wired West assumes the MBI financial costs. The other options have used their own internal experience in developing costs. And, they bear the risk associated with their estimates, whereas the Town would bear the cost risk associated with WW projections.

1c) There have been on-line suggestions that we need to do more technical study in planning our own system to ensure we meet the bandwidth needs 20 years from now. The implication is a system that will be materially more expensive than the options currently before us. Without question demand will grow over time. All options anticipate that upgrades and capacity expansion will be made at various future points over time. The critical factor for us now is to get the fiber up. The speed levels being offered are highly likely to more than meet the needs of 95% of users.

2) There have been many on-line statements to the effect that a Town-owned system hasn't really been studied. In fact

Wired West has made two formal presentations, along with informal comments at many meetings

Wired West has provided numerous documents along with financial projection spreadsheets, all of which have been reviewed.

Numerous clarifying emails were exchanged between the parties.

A direct meeting was held to review the financial projections and assumptions behind them. We found the assumptions and projections to be generally reasonable (with the exception of inadequate early depreciation reserves-but their approach is understood), but they are in fact projections of a start-up not yet tested in the real world.

The WW projections assume economies of scale based on the prospect of varying levels of subscribers from the participating towns. These economies of scale may or may not be met depending on the ultimate size of a multi-Town consortium. On the other hand Charter's size nationally as well as in our own region already brings with it economies of scale.

Committee members have attended workshops held for groups of Towns to understand both technical issues, as well as how State DLS policy would apply for accounting and record-keeping (a not insignificant administrative task for the Town) for a Town MLP operating its own network

We have reviewed various legal opinions of WW, State entities and are own counsel

We have reviewed the proposed contract between WW and its major subcontractor Westfield Gas and Electric.

The key factors resulting from this study are in the informational hand-out just as is true for the other options.

3) All options before us have stated in public documents that they will adhere to the concept of net neutrality. Additionally, they have provided statements to maintain subscriber privacy, collecting only such data as is necessary to administer the subscriber relationship.

-Analysis:

Subscriber costs: Focusing strictly on internet service, Charter provides the most advantageous rates to a subscriber for less than gigabit service. Charter's gigabit service would be $125 which is also competitive with other options. Charter subscribers also gain access to 250,000 Wi-Fi hotspots across the nation when traveling. Charter offers TV/Video packages which remain in demand by many subscribers.

-While WW quotes a gigabit at $75 that presumes that all debt service will be carried by taxpayers in the Town. If the tax burden and depreciation reserves are added in, a town-owned solution would be just as costly. The cost of a gigabit for all three options is essentially the same.

Charter offers a defined service of 30/4 Mbps for $14.99 per month under a program for low-income families and seniors.

All parties offer VOIP telephone service.

Installation costs: The Charter charge would be $49; Wired West proposed $99, and Crocker proposed $499.

Connection allowance: The Charter allowance is expected to be 250 feet; Crocker is 300 feet; and a Town-owned system (based on MBI build estimates-used by Wired West) would be 300 feet.

Town Bonded Debt or other Obligations: For Charter the Town would repay to the State $720,000 over 15 years plus nominal interest. Annual debt service with interest likely about $53,000. Charter assumes all make-ready and build risk for any cost escalation. For Crocker, assuming MBI grant allocations is received, there would be no debt obligation, although there is some ambiguity regarding who may be liable for make-ready cost overrruns. For a Town-owned system, inclusive of legal and debt issuance costs, about $3.1 million over 15 years plus bond interest, assuming no cost overruns or other cost escalation, the risk of which is borne by the Town. Annual debt service of $240-250,000 depending on interest rates.

The Town's borrowing capacity has not been determined by DLS; nor has the impact of other potential borrowing requirements been factored into the ability of the Town to borrow the necessary amounts.

Maintenance, repairs and upgrades: Charter has existing substantial crew resources in our immediate area for addressing maintenance and repair issues. As a corporation, Charter is investing multi-billions each year in new capital expenditures for system upgrades and technological improvements.

For a Town-owned system, there has been an assumption of a funded depreciation allowance for upgrading obsolescent electronics approximately every seven years. No depreciation allowance has been made in the first 20 years for other items. Any significant technology investments for a major upgrade of the system would represent a new cost to be funded at the time. As respects maintenance and repairs, Westfield Gas and Electric is sized for current operations. If it begins to service numerous towns beyond its own existing operations, then it must scale up and hire and train new crews, position resources in new bases, or hire subcontractors, and add management oversight.

Crocker has stated it would hire a crew and base it in our general area. In an emergency, subcontractors would probably be required. General system upgrades as required appears to be regular Crocker policy.

Risks: The Charter offer is defined and fixed. The Town does not bear financial risk, other than its initial investment. The Town does not bear operating or take-rate risk.

The Town does not bear technological obsolescence risk. It is reasonable to assume that a company such as Charter will continue to make the technology investments necessary to protect itself from technological risk.

Under Crocker, the Town bears little financial risk, except possibly for make-ready. Crocker is a small firm (as effectively would be a Town consortium) so it could be subject to operating risk from failing to keep up with changing technology, or if take rates should falter due to service inadequacies. While not anticipated, small firms, as well as small towns, have fewer resources to address changing or difficult circumstances.

Under a Town-Owned system, as a Town we are at risk for any escalation or cost overruns vs. original estimates in implementing the network. We are also at risk for sustaining operations over time if the take-rate should fall, whether in our Town or a Town consortium as a whole. (Under the WW proposal we are tied to what happens in other Towns as well.) On the other hand, there is the possibility that profits may be earned. The possibility of profit appears to be the strongest argument for a Town-owned system, if one assumes that one purpose of the Town is to be in a profit-making business. Under Municipal Lighting Plant law a Town MLP may earn up to an 8% profit, which can be used to strengthen its surplus account or to make reasonable charitable donations that benefit the Town. The intent of the law, however, is that beyond the 8%, any gain is to benefit the rate-payer, not the Town. Rates are supposed to be set based on covering costs only. WW has argued that as State law prohibits internet regulation (the same as was and now is again at the Federal level), profits can be used as the Town wishes regardless of MLP law. That is a legal question that could be challenged ultimately.

Contingencies: A Charter transaction is dependent only on negotiation of a cable agreement for which many examples already exist. Crocker is not currently capable of implementing their proposed solution, as it is dependent on uncertain financing the availability of which will not be determined until months in the future. A Town-owned system is dependent on voter approved bond financing (two-thirds vote).

Decision:

Any path we choose is likely to have hiccups or difficulties along the way, but it is not unreasonable to suggest that despite the yeoman work of WW volunteers, a Town-owned approach is going to create greater oversight needs as well as unknown problems or hurdles as it proceeds. Towns are new to this business. Many municipal providers are doing well, and others are not. Do we as a Town really wish to consume our time and resources because we believe the private providers are so inadequate and intend to exploit us?

As a Committee we view this as a pragmatic decision to be made, not a philosophical choice of public vs private. Based on the facts above, the preponderance of which support the Charter choice, I move that this Committee recommend to the Board of Selectmen, the choice of Charter Communications.