To: Senate Committee on Finance, Sen. Ann Cummings, Chair
House Committee on Commerce and Economic Development, Rep. Michael Marcotte, Chair
House Committee on Energy and Technology, Rep. Timothy Briglin, Chair

CC: June Tierney, Commissioner, Department of Public Service

From: Cassie Polhemus, CEO, Vermont Economic Development Authority

Date: December 16, 2020

Re: Report on Broadband Expansion Loan Program (Act 79) – Fiscal Year 2020

Act 79 (H.513) enacted in June 2019 created The Broadband Expansion Loan Program within the Vermont Economic Development Authority (VEDA). Among the requirements of the Act, VEDA must submit a report annually on its Broadband Loan portfolio to the above-named committees of jurisdiction. This report serves to comply with the reporting requirements of the Act.

The relevant section of the Act is copied here for reference:

> ***No. 79. An act relating to broadband deployment throughout Vermont*** *(H.513)*
>
> *(d)* ***On or before January 1, 2020, and annually thereafter, the Authority shall submit a report of its activities pursuant to this section to the Senate Committee on Finance and the House Committees on Commerce and Economic Development and on Energy and Technology. Each report shall include operating and financial statements for the two most recently concluded State fiscal years. In addition, each report shall include information on the Program portfolio, including the number of projects financed; the amount, terms, and repayment status of each loan; and a description of the broadband projects financed in whole or in part by the Program****.*

Summary of lending activity: During the fiscal year ended 6/30/20 VEDA closed one Broadband Expansion loan. During the first month of fiscal year ending 6/30/21 VEDA closed a second loan in the Program. A third loan was recently approved this month but has not closed as of the date of this report. All three loans / commitments are directly or indirectly (via loan guarantee structure) to the same entity – Mansfield Community Fiber (MCF) – a privately owned fiber-broadband developer based in Jericho.

The table below provides key loan terms for the loans and commitments in the portfolio:

Borrower	Closed Date	Approved Commitment	Balance Outstanding at 12/16/20	Term (Years)	Payment Deferral (Years)
- FY 6/30/20:					
1. MCF	12/20/2019	$405,000	$312,729	5	2 Years
- FY 6/30/21 (to date):					
2. MCF	7/9/2020	$837,000	$693,272	10	2 Years
3. Town of Fletcher (MCF is Guarantor)	Not Yet Closed	$480,200	$0	10	2 Years
Total:		$1,722,200	$1,006,001		

<u>Project Descriptions</u>:

1. The **$405,000 loan** to MCI is part of a $676,000 project to expand approximately 21 miles of fiber to the premises (FTTP) to 276 potential customers currently unserved or underserved by fiber broadband access in the towns of Cambridge and Fletcher.

2. The **$837,000 loan** to MCI is part of a $1 million project to complete approximately 39 miles of FTTP to 507 potential customers in Fairfax who are currently unserved or underserved by fiber broadband access.

3. The **$480,200 approval** to the Town of Fletcher is part of a $1 million project to extend FTTP to all remaining unserved or underserved addresses in the town. MCF will build and operate approximately 34 additional miles reaching 272 additional potential customers and will guarantee VEDA's loan to the Town of Fletcher. A grant from the Northern Border Regional Commission will provide a portion of the project funding.

(Please note: As required by 10 V.S.A. § 280ee (c) 3, VEDA consults with the Department of Public Service on every loan application.)

Attachment:

VEDA's Income Statement and Balance Sheet for the most recent three fiscal year.

Dollar Amounts in Thousands, Years are Fiscal

Net Position

Table 1 below compares the Net Position of VEDA for years ending 2018-2020.

Table 1: Net Position				**2018 to 2019**		**2019 to 2020**	
Fiscal Years	**2018**	**2019**	**2020**	***Chg $***	***Chg %***	***Chg $***	***Chg %***
Cash and investments	$ 32,509	$ 35,582	$ 38,000	$ 3,073	9%	$ 2,418	7%
Loans receivable	266,689	279,140	278,628	12,451	5%	(512)	0%
Allowance for loan losses	(5,600)	(5,619)	(6,367)	(19)	0%	(748)	13%
Capital assets	4,964	4,801	4,953	(163)	-3%	152	3%
Accrued interest receivable	678	850	818	172	25%	(32)	-4%
Other assets	1,038	861	696	(177)	-17%	(165)	-19%
Total Assets	**$ 300,278**	**$ 315,615**	**$ 316,728**	**$ 15,337**	**5%**	**$ 1,113**	**0%**
Commercial paper	$ 93,800	$ 92,300	$ 91,000	$ (1,500)	-2%	$ (1,300)	-1%
Notes payable	142,364	156,304	157,768	13,940	10%	1,464	1%
Other liabilities	7,054	7,641	7,519	587	8%	(122)	-2%
Total Liabilities	**$ 243,218**	**$ 256,245**	**$ 256,287**	**$ 13,027**	**5%**	**$ 42**	**0%**
Restricted net position	26,150	28,845	28,595	2,695	10%	(250)	-1%
Net investment in capital assets	3,111	3,204	3,618	93	3%	414	13%
Unrestricted net position	27,799	27,321	28,228	(478)	-2%	907	3%
Total Net Position	**$ 57,060**	**$ 59,370**	**$ 60,441**	**$ 2,310**	**4%**	**$ 1,071**	**2%**

Total assets increased $1,113 in 2020, compared to an increase of $15,337 in 2019. The primary reason for the increase in total assets in 2020 was the increase in cash generated by operations, and gains in investment values, whereas the increase in 2019 was driven primarily by the increase in outstanding loans receivable of $12,451. In 2020, total loans receivable saw a net decrease of $512, which was comprised of $11,508 of new loans in the SBA Paycheck Protection Program, offset by a decline in VEDA's other loan portfolios from scheduled amortization and refinancing activity (Note 4). VEDA's total debt remained stable in 2020, increasing just $42, compared to an increase of $13,027 in 2019. In 2019, the Authority issued a new fixed-rate note payable for $22,000 and used the proceeds to reduce the balance on VEDA's working capital line of credit (Note 6).

Allowance for loan losses are discussed in detail under the heading *Credit Risk Management* and in Note 4 of the financial statements.

Capital assets increased by $152 in 2020 due primarily to improvements to the 56 East State Street property. Total capital asset purchases were $397, offset by depreciation expense of $245. In 2019 capital assets decreased by $163 due to capital asset purchases of $94, offset by depreciation expense of $257.

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Dollar Amounts in Thousands, Years are Fiscal

Accrued interest receivable decreased $32 in 2020 after increasing $172 in 2019, due primarily to lower interest rates on loans receivable in 2020 compared with 2019.

Other assets decreased $165 and $177 in 2020 and 2019, respectively, primarily the result of a $129 and $212 reduction in Insurance and Taxes receivable due from borrowers.

Other liabilities decreased $122 in 2020 due to a $689 decrease in payments due on sold loans, partially offset by increase in accrued operating expense. Other liabilities increased $587 in 2019 due to an increase of $722 of payments due on sold loan compared with $121 of payments due at June 30, 2018. These variances are caused by a timing issue regarding payments received on sold loans during 2019, compared with 2020 and 2018.

Total Net Position increased by $1,071 in 2020, the result of $1,132 of operating income and $61 of non-operating expense. This represents a decrease of $1,239, or 54%, from the 2019 net increase of $2,310, for reasons discussed below.

Revenues, Expenses and Changes in Net Position

Table 2 below shows the change in net position (results of operations) in each of the past three fiscal years and details the amount and percent of change from 2018 to 2019 and from 2019 to 2020.

Table 2: Revenues, Expenses & Changes in Net Position				**2018 to 2019**		**2019 to 2020**	
Fiscal Years	**2018**	**2019**	**2020**	***Chg $***	***Chg %***	***Chg $***	***Chg %***
Operating Revenues:							
Cash and investment income	$619	$ 789	$ 738	$ 170	27%	$ (51)	-6%
Net increase in fair value of investments	56	1,325	1,090	1,269	2266%	(235)	-18%
Loans receivable interest	11,246	14,314	13,452	3,068	27%	(862)	-6%
Other revenues	1,183	913	1,349	(270)	-23%	436	48%
Total Operating Revenues	**$ 13,104**	**$ 17,341**	**$ 16,629**	**$ 4,237**	**32%**	**$ (712)**	**-4%**
Operating Expenses:							
Commercial paper and notes payable interest	5,452	7,510	6,565	2,058	38%	(945)	-13%
Provision for loan losses	39	502	1,800	463	1187%	1,298	259%
Losses on insured loans	27	11	0	(16)	-59%	(11)	-100%
Staff salaries and benefits	5,069	5,243	5,408	174	3%	165	3%
Professional fees	493	336	316	(157)	-32%	(20)	-6%
Office and administrative	1,307	1,338	1,163	31	2%	(175)	-13%
Depreciation	281	257	245	(24)	-9%	(12)	-5%
Total Operating Expenses	**12,668**	**15,197**	**15,497**	**2,529**	**20%**	**300**	**2%**
Operating Income (Loss)	**$ 436**	**$ 2,144**	**$ 1,132**	**$ 1,708**	**392%**	**$ (1,012)**	**-47%**
Non-operating revenue (expense)	(146)	166	(61)	312	214%	(227)	-137%
Change in Net Position	**$ 290**	**$ 2,310**	**$ 1,071**	**$ 2,020**	**697%**	**$ (1,239)**	**-54%**

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