

## 4/15/21 Written Testimony of Stan Williams to Senate Finance Committee Regarding ECFiber's Financial Strength and History

Dear Senators,

### Introduction

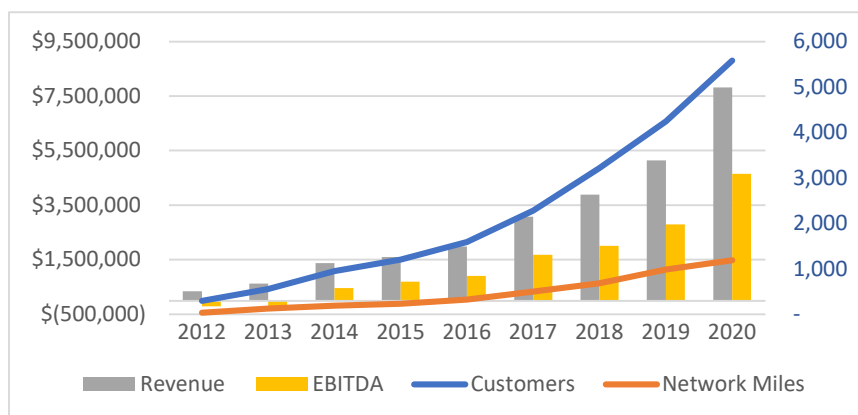
My name is Stan Williams, and I was a co-founder of ECFiber, now the East Central Vermont Telecommunications District, in 2008 and an original investor in ECFiber in 2010. I have been involved with ValleyNet, the non-profit operating partner of ECFiber, since 2000. I have been ValleyNet's CFO since 2010 and have served as CEO (2014-2015) and Board Chair (2006-2013, 2017-2019).

My purpose in submitting this on behalf of ValleyNet is to correct certain testimony overheard in the last few weeks concerning ECFiber's history and financial status.

### ECFiber Success

ECFiber's financial status is completely transparent (through its audits and offering memoranda\*), unlike the financial picture of several of the private ISPs who have testified. The ECFiber project has, not without some difficulties, been a win – win – win for investors, customers, and member towns. With no state or federal (or municipal) aid to start, ECFiber has built over 1,300 miles of FTTH network in rural Vermont, serving nearly 6000 customers and covering 22 towns in their entirety. (The state did eventually \$2M in value of dark fiber access and ECFiber received roughly \$1M in connectivity grants through 2015). It did this by bootstrapping local investment and then raising non-recourse municipal revenue bonds at a lower interest rate and longer duration (see below).

Member towns have no financial liability to the debt raised by ECFiber, as required by state law – a bondholder's only recourse in the case of a default would be to the revenues generated by the network. To put it bluntly, the towns have all the upside from ECFiber and no downside. But towns have provided sweat equity in the form of ECFiber governing board delegate efforts, which have provided thousands of hours of volunteer service since 2008.



### ECFiber/ValleyNet

ECFiber is a volunteer organization and has no employees. Under its contract with ECFiber, ValleyNet provides all services necessary to operate ECFiber - financial, construction management, installation, customer service/billing, maintenance, network monitoring, etc. ValleyNet charges ECFiber a net fee of \$10 per average customer per year – roughly \$50,000 in 2020. ValleyNet's mission is "to enhance the

lives of those it serves by advocating for universal and effective Internet access and provide services to facilitate Internet use and increase citizen community engagement.” It has done so since 1994, starting with providing local dial up services to over 6000 accounts in the Upper Valley (when a long-distance call was required to access available ISP modems) and transitioned to FTTH when it sold this dial-up business in 2006.

### **ECFiber History**

2007 - ValleyNet hired Tim and Leslie Nulty as CEO and project manager, respectively, of its efforts to build ECFiber in late 2007. From 2007-2010 ValleyNet provided over \$400,000 to support ECFiber’s efforts to organize and raise finance.

2008 – 23 towns voted to join ECFiber, but ECFiber failed to raise funds in the capital markets in September 2008, when the home lending financial crisis caused financial markets to essentially close down for certain borrowers for several years.

2008-2010 - ECFiber was unable to garner any stimulus funds (or Rural Utility Service loans) due to Vermont’s mistake in backing a fixed wireless solution that was touted as “solving” Vermont’s broadband problem by the governor, VTA, and at least one senator.

2010-2015 - ECFiber raised approximately \$7M from 450 mostly local investors at interest rates ranging from 6.65%-11%. These investors were repaid with accrued interest and pre-payment penalties in 2016 and 2017. (Many if most most of the investors were unhappy to no longer be able to receive 6.65%-11% tax free interest but have remained loyal customers and supporters).

Tim and Leslie Nulty left the project at the end of 2013. (The network was not close to being ready to raise capital in the public markets at this point). I took over as unpaid CEO until Carole Monroe was hired in 2015. (Chris Recchia replaced Carole in 2019 and Carole is now Board Chair).

2016 - 2020 ValleyNet arranged \$9M in municipal bond funding in 2016 through a commercial bond underwriter, Municipal Capital Markets. ECFiber has since raised a total of \$54.3M in this market.

<b>Series</b>	<b>Closing Date</b>	<b>Principal (\$M)</b>	<b>Longest Dated Bond</b>	<b>Average Rate</b>
<b>2016</b>	4/28/2016	\$ 9.23	23 years	5.04%
<b>2017</b>	5/3/2017	\$ 14.58	23 Years	6.09%
<b>2018</b>	8/22/2018	\$ 8.50	25 years	5.57%
<b>2019</b>	12/31/2019	\$ 10.00	28 years	4.83%
<b>2020</b>	12/31/2020	\$ 12.00	28 years	4.40%

### **ECFiber Financial Status and Leverage**

The market clearly views ECFiber as an improving credit. ECFiber’s municipal revenue bond debt covenant requires it to meet its debt service (principal and interest) by more than 1.25 times its EBITDA (Earnings before Interest Taxes Depreciation and Amortization). It has comfortably met that covenant in each year since 2016 – in 2020 its coverage was 1.77X (and 1.51X excluding Covid grant-related revenue). ECFiber’s EBITDA margins as a percentage of revenue are consistently high and still increasing.

This is despite ECFiber’s “leverage”, a concept which is foreign to municipal entity that cannot issue equity. In a sense, ECFiber’s equity was \$10M - essentially the \$7M of subordinated debt and \$3M of state dark fiber and grants through 2015.

**ARPU – and its necessary relationship with financing sources**

ECFiber’s Average Revenue per Unit is approximately \$110 per month, but its basic rate for residential customers is \$72/month (for symmetrical 25/25 service which will be doubled soon with no rate increase). This is not outrageous or excessive and is in fact comparable to cable operators with much lower costs - they limit their service to neighborhoods with a linear density of 2-3X homes per mile (30) greater than ECFiber’s density (12) with capital costs per customer therefore at least 50% less than ECFiber. ECFiber plans to continue increasing its speeds without increasing prices later this year. Revenues from ECFiber’s phone services and higher tiers of Internet speeds allow ECFiber to provide basic service at such a reasonable price in a rural area with low density.

Why are ECFiber’s prices high compared to one particular operator? Perhaps because debt service represented 41% of ECFiber’s 2020 service revenues in 2020, so comparing its prices to an established profitable operator that somehow received 70% grant funding (with obviously no debt service) is, to put it mildly, inappropriate.

Hypothetically, if ECFiber were lucky enough to receive \$82M in grants as its neighbor to the south has done it could and would certainly lower prices. Since debt service represents 41% of revenues, if ECFiber had no debt it could reduce its prices by 41% and its ARPU would fall to \$64.

	Current		No Debt?	
	speed	rate	speed	rate
<b>Basic</b>	25	\$ 72	25	\$ 42
<b>Standard</b>	75	\$ 104	75	\$ 61
<b>Ultra</b>	300	\$ 134	300	\$ 79
<b>Wicked</b>	800	\$ 164	800	\$ 97
<b>Phone</b>		\$ 25		\$ 15

***This possibility highlights another advantage of Communications Union Districts vs private operators (in addition to universal coverage, financial transparency, consumer pricing transparency, lack of consumer contracts, data privacy, net neutrality, etc.) - any savings from grants or low-cost debt provided by the state are passed through to consumers rather than passed on to shareholders.***

**Other Districts**

In addition to operating ECFiber, ValleyNet(mostly in the form of Carole Monroe and myself) has been offering formal and informal advice to virtually every one of the newer CUDs, including Broadband Improvement Grant funded feasibility studies and business plans. In our opinion these new CUDs should not be dismissed as looking like “a deer in the headlights”. We have found District management and volunteers to be extremely capable – and certainly more knowledgeable thanks to learning from ECFiber’s experiences.

**Churn**

Churn is the telecom industry’s metric for measuring customer retention.

Year	Customers			Net Premises Disconnected		Churn Rate	
	Beginning	End	New	Cumulative Total	Per year/period	Based on Avg Customers	
						Monthly	Annualized
2011	-	126	126	0	0	0.00%	0.00%
2012	126	298	172	-9	-9	-0.35%	-4.25%
2013	298	552	254	-13	-4	-0.08%	-0.94%
2014	552	947	395	-41	-28	-0.31%	-3.74%
2015	947	1,201	254	-40	1	0.01%	0.09%
2016	1,201	1,589	388	-37	3	0.02%	0.22%
2017	1,589	2,282	693	-43	-6	-0.03%	-0.31%
2018	2,282	3,215	933	-114	-71	-0.22%	-2.58%
2019	3,215	4,239	1,024	-192	-78	-0.17%	-2.09%
2020	4,239	5,584	1,345	-244	-52	-0.09%	-1.06%
2011-2020	-	5,584	5,584	-244		-0.07%	-0.87%

ECFiber's churn rate is extremely low, less than 1% per year. The bond market is beginning to view FTTH networks (particularly in rural areas) essentially as utilities.

**In conclusion, ECFiber is "the little engine that could". An innovative, persistent startup with now robust financial health.** Of course, its financial health would be even more robust if it received a not insubstantial amount of grant funding to reduce its debt load.

Sincerely,

Stan Williams

CFO, ValleyNet

\*ECFiber audits and revenue bond offering memoranda are available on ECFiber's site (<https://www.ecfiber.net/financials/>) and the Electronic Municipal Market Access website EMMA (<https://emma.msrb.org/IssuerHomePage/Issuer?id=4B5898CDD35896A385F22AFED2FF41AB>)