MINUTES OF THE CC COMMUNICATIONS MANAGEMENT

155 N. Taylor St., Fallon, NV 89406
March 26, 2021

Call to Order:
The regular meeting of the CC Communications was called to order at 10:15 AM on March 26, 2021.

PRESENT: Commissioner H. Peter Olsen, Jr.
Commissioner Justin Heath
Commissioner Gregory Koenig
General Manager Mark Feest
Chief Financial Officer Jamie Hyde
Administrative Assistant Shelly Bunyard

ABSENT:

Public Comment:
Chairman Gregory Koenig asked if there was any public comment but there was none.

Verification of Posting of Agenda:
It was verified by Shelly Bunyard, Administrative Assistant, that the Agenda for this meeting was posted on the 22nd day of March, 2021 between the hours of 1 pm and 5 pm at all of the locations listed on the Agenda, in accordance with NRS 241.

Consideration and possible action re: Approval of Agenda as submitted or revised:
Commissioner Justin Heath made a motion to approve the adoption of the Agenda as submitted. Commissioner H. Peter Olsen, Jr., seconded the motion, which carried by unanimous vote.

New Business:

A- Consideration and possible action re: Presentation of the 2021 - 2022 Fiscal Year Budget Workshop
Mark Feest, CC Communications. If I go over anything too quickly, please stop me at any time and ask for additional information. We will be going over in this meeting the Budget Process Discussion; Overview; Revenue Forecasts; Financial Overview & Capital Budget; and Plans and Programs.

We use incremental budgeting each year that is based on target market characteristics, strategic goals, and changes to the regulatory regime. The projections for FY 2022 budget are primarily driven by the evolution of the communications industry, customer preferences, the introduction and implementation of the Consumer Broadband Only Loop (CBOL) support mechanism, and general economic conditions. Last year, we implemented the Consumer Broadband Only Loop (CBOL). Now there is a major impact with the adoption rate of the Consumer Broadband Only Loop (CBOL). Since we have two new commissioners, I will talk about this in further detail.

The development of the Capital Budget consists of group and individual department meetings to determine projected needs and prioritization that is consistent with long term strategy of the company. This has to do with CBOL and the demand to finish up FTTH in Churchill County to all areas where it's economically feasible, so that Broadband Only Loop can be provided.

The adoption of CBOL was when the FCC allowed us to sell a broadband service without a phone attached to it. Up until two years ago, we were mandated, as an incumbent local exchange carrier to provide a phone line with broadband. We could not allow the customer to only choose broadband. The support mechanism changed quite a bit when we went to CBOL. Our strategy to provide CBOL service is largely because of the competition with Charter in 60% of our territory, as well as consumer demand of dropping the phone line. This impacts the way our costs are looked at in the cost study. Later, you will see a change in the CAF BLS support, which is what we had predicted. We currently have approximately five systems that are on copper and will be transitioned to FTTH within the next fiscal year. This will allow all of those customers to receive broadband without a telephone line.

We will have the continued FTTH buildout in the capital budget for CBOL and will further develop the transport and deregulated telephone revenue opportunities. The other biggest factor in our budget, is competition and customer preferences. This goes back to people not wanting a phone line. You will see there is dramatic decreases in numbers of phone lines and revenue received from phone lines.

We were not required to offer a broadband only loop. The FCC allowed us to choose to keep mandating that phone line. Some companies choose to keep the phone line to retain the revenue. We chose not to keep the phone line for two reasons: one it's not what the customer wants; and two is competition. Most rural companies do not have a national cable company sitting in the center of their service territory. The customer is still stuck taking what the company offers. We're not in that position and many customers don't want it. We have seen a very strong adoption rate in CBOL. Since we started offering CBOL, our goal by this time was to have 50% of customers converted over to broadband only. The only reason we have not hit that number, is because our total number of broadband customers has grown. If our total broadband customers would have remained static, we would have been in excess of 50% on CBOL. From a recovery standpoint, it's really neither here nor there.

How does this affect CC Communications? The services that people are allowed to receive, is what they want. That also demands the fiber investment to continue. The FCC, NECA and USAC calculate our costs in our cost study and distributions differently. The strategy was, as you convert CBOL customers, you can see an increase in subsidy's received by the federal government, as long as you hit the speed levels for CBOL that requires fiber. In financial statements, you will now always see an expense in broadband, which is CBOL. That expense is paid over to TEL. It will show up as a revenue in the telephone financials. The reason for this is the capital investment for FTTH all shows in the telephone finances. Then there is an allocated cost to use those assets when broadband only is delivered. We used to always see broadband revenues growing and growing substantially. They still are, but the net income can be impacted by the expense going over to TEL. There is no net loss within the company.

Significant factors impacting budget process from 2021-2022 budget: TEL.
This year the continued transition to CBOL has impacted our budget process. The new building move is going to require a lot of equipment and fiber that will have to be rolled back, rerouted, splicing and a ton of inside plant engineering on the network. We will see an increase in expenses for labor associated with that. It will take a lot more labor than we normally use in one year to vacate the building at 50 West Williams Avenue in a timely manner to the point that the County can demolish it.

Our workforce is such that we can look on the board and because we are in PERS, people don't work past the 75%. It's fairly easy to predict when people will leave. We have a few positions in the Inside Plant Network Engineering department, that have an extra employee. We will carry a higher employee count for the next year to two years to complete this extra work. Due to the natural attrition of retirement, the employee count will go back down to where it had previously been. In a way it's fortunate, because these are pretty technical jobs. We will have a huge overlap and hopefully, we won't lose institutional knowledge in a way that you typically do with a one month overlap with a new employee.

We will see an increase in Interstate Pooling Revenue which is projected at $672,214.00. That is an effect of the way the cost recovery is calculated for a CBOL customer, versus a landline and internet customer. Again, in the financials we will see the CBOL expense in broadband and it shows up in revenue in TEL. We also see the increased Interstate Pooling Revenue in TEL. Again, this is a net gain with that strategy.

The Decrease in Access Revenue is projected at $101,796.00. Access revenue is revenue paid by another carrier to utilize and terminate a phone call on our network. When someone calls from Fallon into an AT&T Network, we pay a termination charge. We look at our total cost to provide the service, then we assign a number to terminate onto another network and they assign a number to terminate on our network. Rural Networks are much more expensive per location. They pay us more for every minute of call they terminate on our network then we pay them to terminate a call on their network. It's always going to be a net positive until the FCC tells us we will no longer be paying each other for phone calls being terminated. The decrease in access revenue is due to two reasons: people terminate less calls because they make less phone calls; and the FCC's goal is to go to what they call a bill and keep. This means we won't be paying each other for this anymore because of cell phones, IP calls, etc.

The Decrease in Local Service Revenue is projected at $226,000.00. This is simply the effect of people not having phone lines and not making phone calls. Our customers are not paying us for that.

The Telephone Access Line spreadsheet goes from April, 2016 to March, 2021. This decline is not surprising to us at all. The rurals actually have a much lower line attrition than in an urban area. It's nothing out of line with the rural industry. That focus on FTTH and CBOL was the mitigating strategy to address that lost revenue.

As I previously said, the strategy of going to CBOL is a primary method to mitigate local service and access revenue decrease. We are always working on expense control, in order to mitigate those types of losses or decreases. We then have our efforts to increase revenues through the expansion of territory, multiline VoIP system sales and security and surveillance systems.

Significant factors impacting the broadband budget process is CBOL and staffing requirements. Our staffing requirements have gotten more technical. There are very few positions left that do not require a high-level of technical proficiency or high cost to train or long overlaps between an employee coming and an employee going out. I don't project a huge increase over time of the number of employees. I do think the average employees' salary will go up and the cost to keep them up to speed on technology will also go up.

The content cost increase in TV goes up about 11% per year and is always a problem. In broadband, the IPTV falls into that financial statement. We are continuing to look at ways to reduce those costs. When you go to Disney, ABC, ESPN, they are all owned by the same company. It's not like you have the ability to negotiate a new number. We are seeing an increase in cable cord cutting. These are people who go straight to an over-the-top service. This is positive for us. The day will come when we no longer offer a robust TV product. In that year, we will see a revenue decrease of $1.5 million dollars. We will then see an offsetting significant expense decrease in content costs.

FTTH Availability. We are getting down to our last few FFTH jobs. Please note that this does not cover 100% of the people in Churchill County. We will still have about 5% of the people here who are still on copper. This has to do with the density, take rate, distance and MDU problem. The MDU problem is in apartments. The apartments here were wired daisy chained with CAT 3 copper through out the building. This doesn't work for communications. In order to fix this, you have to wrap your cable around the building and punch holes through the walls or rewire the whole building. The owner of the building has a right to say no this. I just met with the County Manager yesterday regarding a couple of MDUs that are currently in the process and the need for maybe a county ordinance that requires CAT 6 being pulled back to a media closet. We would then just have to go to the media closet for installation. Each unit would then have their own CAT 6 that goes back to the media closet. We are finding that this is the predominant way and Elko has been doing this for a long time. This is something that is vital to get fiber into apartment buildings. We have tons of apartment building here that have fiber right at the curb. The fiber won't work at the buildings because of the inside wiring.

We are continuing with competition and downward pricing pressures. Our competitor in this market is the most aggressive pricing company in the United States. This creates a lot of downward pricing pressure. We have to take into consideration when looking at our revenues and expenses to deliver services in broadband.

The DSL (including CBOL) Growth spreadsheet. We still refer to it still as DSL because that is how the NECA Tariff still refers to it. There is a number associated to the DSL which is associated to a speed. When you get to a certain speed you know it has to be fiber, because actual DSL wouldn't work at that speed. DSL is NECA's terminology that stays inside their tariffs. The big dip on the spreadsheet was when Charter walked the neighborhoods to get people to switch to their company. They were very effective. As soon as we responded to that we had a sharp up tick and then a steady growth in our broadband customers. That trend line has definitely been going in the right direction. We handled the dip very quickly, but it is a challenge when they have commission sales with people knocking on every door in town.

The Digital TV Growth spreadsheet. To give you an idea, we make the most money on selling a customer a CBOL only 250/50 connection. The customer also has the option to add TV too, but we're actually losing money on every TV customer we have. We would prefer that a customer only takes broadband. A calculation has to be made with our 1400 TV customers. If we turn TV off tomorrow, how many broadband customers would we lose. Yes, we lose money on every TV customer, but we lose less on that TV customer than we made on the broadband connection. It's a net positive when they take both, but it would be a much greater net positive if they only took broadband. We'll continue to watch this line and discuss with the Commissioners how we should transition. We would like to get to the point, where all we have left are customers who will need education about going to over the top. Every month we wait there is a new over the top service. These different channels are going directly to people. Eventually it will come to a point to where it's the best thing for the customer to transition to over the top. The lower that number actually goes, the better. When compared it to the last chart, you can see that even though we're losing TV customers, we're still gaining broadband customers. This will be the one time when you see something going down that is actually positive.

Mitigation: Broadband. We want to maximize our fiber assets outside of Churchill County. That is the fiber into Reno rigging Carson City, Tahoe/Reno Industrial Park and then going down to Las Vegas. We continue to sell services on that. Right now, we are working very hard in acquiring dark fiber between Reno and Salt Lake City. Dark fiber is fiber that has been put in the ground and has never had electronics on it. It is the same type of thing we are doing between Reno and Las Vegas. This provides us the opportunity for backhaul out of any community along I-80. This would also provide us the opportunity of using the vault that's located by Jack-In-The-Box. All of our internet traffic for our customers in Churchill County would be able to go west out of town and east out of town all the way to Salt Lake City. We would have true geographical redundancy. Right now, we go from our central office to Leeteville Junction and then we have the option to go out to Carson City or out towards Reno. We don't have great geographic diversity for that section between downtown and Leeteville Junction.

We are working on enhancing the broadband customer experience. The customer thinks of Wifi as broadband. It really isn't. It doesn't matter who you go to, you're selling a connection to a device at their house that then distributes it somewhere in their house. I don't think it's good to tell a customer they have a Wifi problem and that's not a CC Communications problem. That's a horrible answer. We do have training in place for our employees to become better at diagnosing the customers Wifi as well as presenting the value proposition of using our Wifi router.

We are working on moving customers to high bandwidth packages and CBOL which requires the FTTH capital expense. We are also working on expense control generally.

2020-2021 Annualized Compared to Budget for 2021-2022 TEL. This just shows you the revenues. We show an expense increase, which is primarily a depreciation increase of about $683,000.00. In addition, we see a CBOL increase that reflects as an expense, as well as the fact that we will be doubling up on three employee positions. We are at an expense of about $4.9

million for employees with benefits. Just to give you an idea, $1.6 million of that amount is all benefits PERS, Health Insurance and Dental. This has always been a long-term problem, PERS is going up again this year by ½%. We cover that increase in our contract with the union for those employees and we cover it across the board.

Net Income (loss) shows us what appears to be a dramatic decrease again. It's roughly $683,000.00 of that is depreciation expense. Our goal for capital expense is to get to $6,988,172.00 primarily in buried cable FTTH type.

We budget transfers to the county for $1,300,000. The last two years, at the end of those years, based on the ability of cash, we have given the County an additional $300,000.00. I fully anticipate this year we will transfer an additional $300,000.00, to bring it to the same $1,600,000.00 from the year before. I just had a discussion with the County Manager regarding creating a formula for what is transferred to the county. We are working on this with Deputy District Attorney, Joe Sanford, in creating a formula. From an industry basis, you have co-ops that return capital credits. It's very difficult to understand what small companies are sending their owners because their financials are not available. I use a company called TDS who is basically a conglomerate and owns a bunch of small companies. They have $1.38 billion dollars in revenue when they add up all of their companies across the country together. They are regulated the same way as we are. I think they are appropriate and comparable. Their return on equity ranges from 2.8% to 3.17%. This might make people feel better if we have a direct calculation that is tied to an industry standard. Historically, the transfer to the County was based upon our ability to put the transfer to the County into the cost study as an expense. We were then notified by NECA, that we should not have been doing it that way. We had to pay back 2 years of USF money for improperly putting things into the cost study. Over a period of time, the PILT dropped dramatically. This will be further discussed with the board on how we should calculate the PILT money. We will have a total net asset in the amount of $40,128,850.00 at the end of this year and then $41,460,003.00 at the end of the next budget year.

2020-2021 Annualized / 2021-2022 Budget All Companies. This year the annualized revenue is $20,832,494.00 and is projected at $21,564,355.00 for the following year. Again, you see the increase in expenses tied to depreciation and the overlap of employees. The net income after PILT is after we have paid the $1.3 million dollars to the county. This amount totals to $3,852,744.00 for FY 2020-2021 and $2,863,880.00 budgeted for 2021-2022. Again, we still have the depreciation issue. We anticipated an increase in capital projects this year from $6,354,709.00 to $7,148,892.00. Operating income was an item that was left out on this spreadsheet. We will do a budget augmentation for that. It was approved as part of the Elko build out.

Estimated Income Current Budget Year 2020-2021 is $4,697,743.00 before the transfer and the EBITDA is $7,315,947.00.

Commissioner Gregory Koenig. We do not know what EBITDA means.

Mark Feest, CC Communications. It means earning before interest taxes depreciation amortization. It's the money that is actually the cash flow.

Commissioner Gregory Koenig. Ok.

Mark Feest, CC Communications. In our industry, it's a very common term because a multiple of EBITDA, is a back of the napkin rule of how valuable your company is. People want to know how much cash flow you have, because we tend to have a lot of depreciation, because you never stop putting in capital expense. I think this is something that is changing, because fiber is going to last forever. There will be repairs, but right now, fiber is expensed out over 20 years. That depreciation will come off, but because the fiber is inside of the conduit, the worst-case scenario is there won't be any more digging, but rather blowing more fiber through the conduit. In the old days, copper was wrapped in something that looked like and old paper bag that was direct buried into the ground. From a construction standpoint, you're redoing 100% of your capital expense, when you upgrade copper. Whereas fiber, if something happened to the fiber over a period of time, you would just have to pull it out and add in more fiber. The main construction cost was that capital depreciating, which you will not see, like we did historically. Another option is to put in a 2" fiber and fill it with something that's the size of your finger, and even if something happened to that over time, you could do what they call override. Fiber can still be blown next to the original fiber. Today, we put in micro-duct which is a piece of fiber conduit that is orange. Inside of the conduit there is four or six little ducts and fiber can be blown further in it. While we have historically always had huge depreciations, this is something that we will not see going forward. This will actually provide more cash for new construction as opposed to fixing old stuff.

Net Income Projections Budget Year 2021 – 2022 is $3,708,880.00, before the transfer and the EBITDA is $7,688,638.00. We see on this slide a lower amount before transfer but our EBITDA when we receive back our depreciation. The cash flow coming into the company will actually go up year over year.

Revenue by Company Budget Year 2021 – 2022. This is an interesting pie chart because you would expect to see the broadband slice going up. This was happening for a while until we had to do CBOL. The reason it doesn't go up, is because the profits are allocated over to telephone and when you put CBOL in, it increases the USF recovery. We actually saw the USF recovery increase in telephone.

Deregulated Revenue. These are outside of the FCC regulations. Deregulated revenue growth from 2021 to 2022 was due to the RFP responses for the 470 to extend fiber to schools off of our fiber network between Las Vegas and Reno. We have several of those in right now. We did not put those into our deregulated income into our financials. We do not know if we will get them or not. The prior year budget is actually lower than our budget this year for deregulated income, but because we had those big jobs the actual amounts are higher. If we keep getting those big jobs, we will see revenue that exceeds what we are projecting. Tribal entities are not required to do their awarding of bid in a public meeting. It's never quite clear why you did or didn't win a bid. We feel very confident that we have the best bid, but until it's there you don't know what makes their decision.

CAP Revenue graph shows a consistent growth. CAP revenue is revenue generated off of the fiber foot prints outside of Churchill County, where we sell to other carriers for their backhaul between Las Vegas and Reno. CAP is an old term that stands for competitive access provider. That was the first portion of telecom that was deregulated. You were not allowed to go to someone else for a local dial tone. Large businesses were allowed to go to someone else for a big data connection. That was called a competitive access provider. The reason we see a revenue growth but not an income growth, is because we just go to a point to where we will have to make more investments and incur some expenses into that CAP to continue to be able to grow.

MDS Revenue is Managed Data Services which is computer repair, as well as what we call Tier 1 support. When a customer believes their internet connection is bad, but we have determined their internet connection is fine. We have to determine whether or not if this is a inside network problem for them or a computer problem. This scenario falls into our Managed Data Services group. This is a difficult department to generate revenue or positive revenue on. In the upcoming year, we will transition this department to a Tier 1 support function to make sure we are capturing the labor that shouldn't be going to MDS. Since we haven't made that change yet, we did our projections on how we have been doing things. I think there is a significant amount of labor expense that is going into MDS that should be going into a network operations center support expense. This actually then qualifies for a universal service subsidy.

Broadband revenue growth and net income. The net income has to do with expense and capitalizing some things. There were a lot of items getting expensed just prior to 2018. The revenue shows the graph going up each time, but it goes back to CBOL. When we started with CBOL in 2019, we saw a big dip in net income. The net income was because of the expense for CBOL was now being sent over to Tel. As the CBOL conversions flatten, we don't see that as much. We are looking at these financials as consolidated because of the way the expense moves back and forth between funds.

Earnings Before Interest Taxes Depreciation and Amortization (EBITDA), both the Tel and consolidated graphs trend in a good direction. The peak in 2020 and in 2022 is because of the addition of the labor cost by having employees doubled up while we move and ensure there is a good transition. It's still pushing about 40% EBITDA on revenue dollars, which is a good spot to be in.

EBITDA Delta primary factors from a year over year standpoint, is $500,000.00 that is deregulated. We are not showing this year that big project that was shown being deregulated which bumped up our EBITDA, because we do not know for a fact if we will receive it or not. We are doing the exact same things that we did last year. The other factor in this graph is the Tel Opex increases, which is significantly labor and $683,000.00 of it is in the overlap of labor that we are seeing, as well as expensing items that may in the past have been capital expensed. We will be speaking with Moss Adams to find out the most advantageous way to handle depreciation. When you have the cost study, you have two things that go into it, one is operating expenses with one payback period and the second is a payback period over a capital expense. Depending on how comfortable you are with the cash flow, the money ends up being roughly the same. It's just how soon you get it back or how long they amortize a depreciated asset. If you expense it the money will come back within two years.

Capital Planning. The biggest thing for our local service network is making sure we are able to offer everyone CBOL. When we cut over a new neighborhood from copper to fiber, people will want CBOL. We will then pull back those customers who have left us for Charter, because Charter would just sell them internet and not telephone. That fiber has to continue. We always consider in our capital planning, what our impact on cash will be. That is our EBITDA and what we are spending out in our capital expense. You saw that our capital expense is $7 million, and our EBITDA is roughly in that area too. There will be additional expenses as we will introduce in this upcoming fiscal year a new fund to account for Elko/Spring Creek. That will come with a proposal for additional capital expense. That proposal in the creation of that fund will track which was previously provided to the previous three board members when we first discussed Elko. We also look at the change in capital planning in customer preference, competitive environment and the management team. The outcome of that was that $7,148,892.00 of capital expense primarily for fiber cable, central office and network core equipment.

One major issue we are addressing right now, we have all homes into systems. That system has an x number of ports serving x number of customers and then that same system has a route back to our central office. We do what is called an oversubscription calculation. We estimate at peak hour how much bandwidth every customer on that system is using then we estimate what the growth is going to be moving forward. If you're buying a 150/150 or a 150/50, your network interface device should always measure that even at peak hours. We look at actual numbers over time of a growth per system. Every system is being reworked right now to increase the capacity to that link. That's where the network core equipment comes into place. The most difficult part of this is having enough ports back at the central office to handle the increased bandwidth on those systems. The fiber can handle it, but the electronics may not be able to.

Telephone Capital Budget. Everything goes into the Tel capital budget and then the cost sharing allocation from CBOL pays over for using the items in Tel's capital budget. We move from $6,354,709.00 up to $7,148,892.00 in this budget. When go back to EBITDA the numbers are roughly equal. The case effect year over year will be the projects in Elko not the projects in Churchill County. The Central Office figures goes from $314,777.00 to $1,032,333.00. This is the link between the central office and the system issue. We have to have a better ability to receive multiple 10 gig systems and redundant 10 gig systems back into our network. There is a very small difference on the Underground Fiber Cable numbers and ends up going down slightly. The fiber is out there other than the last few neighborhoods. We have to go back to the neighborhoods where we put in fiber for a 100/10 gig connection that was wonderful, and everyone loved it. That isn't what everyone wants now. We have to go to those neighborhood's and make sure that no service is getting choked out on our path back to the central office. You won't see any buried cable capital expense in next years budget. You will see redundancy to those rings beefed up even more. We will break the rings apart. We will have a neighborhood served by this system and another neighborhood served by another system. We route those systems back to us. We want to have every system to just come directly back to the central office. That way we will not have to load balance between two neighborhoods. This will make the customer experience much better.

Plans and Programs. We will continue to convert those people to CBOL and get the fiber out there. We'll monitor the television offering in light of the change in environment. We will focus on broadband growth opportunities both inside and outside of the county. We are always working on expense control and utilizing bench marking to ensure comparable companies costs when we see something off.

Summary. Our revenue mix will continue to change. Despite the pie chart that doesn't show broadband growing, the revenue is being generated by the broadband product as we move into Elko and expand our fiber network outside of Churchill County. We need to refine our television offering, but again we will wait for customer demand, so that we can project those customers who will leave for a traditional subscription will not outnumber those who will stay.

Commissioner Gregory Koenig. Do we need an action on this item?

Mark Feest, CC Communications. This item is the Budget Hearing. It has to be done and the public has to have the opportunity to have heard the hearing. Then at the next meeting a motion will be made on the budget.

Informational Only.

Public Comment:

Chairman Gregory Koenig asked if there was any public comment but there was none.

Adjournment:

The meeting was adjourned at 11:07 a.m.

APPROVED: ______________________
Greg Koenig, Chairman

APPROVED: ______________________
H. Peter Olsen, Jr., Vice, Chairman

APPROVED: ______________________
Justin Heath, Commissioner

____
Shelly Bunyard, Administrative Assistant

____
Mark Feest, General Manager/CEO