MINUTES OF THE CC COMMUNICATIONS MANAGEMENT

155 N. Taylor St., Fallon, NV 89406
April 28, 2023

Call to Order:

The regular meeting of the CC Communications was called to order at 3:30 PM on April 28, 2023.

PRESENT:	Commissioner Myles Getto
	Commissioner Harry Scharmann
	Commissioner Justin Heath
	General Manager Mark Feest
	Chief Financial Officer Jamie Hyde
ABSENT:	Administrative Assistant Shelly Bunyard

Public Comment:

Chairman Myles Getto asked if there was any public comment but there was none.

Verification of Posting of Agenda:

It was verified by Pamela D. Moore, Deputy Clerk to the Board, that the Agenda for this meeting was posted on the 24th day of April, 2023 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 Agenda as submitted. Commissioner Harry Scharmann seconded the motion, which carried by unanimous vote.

New Business:

A- Consideration and possible action re: Presentation of the 2023 - 2024 Fiscal Year Budget Workshop

Mark Feest, CC Communications. We will go over the budget process and give an overview of the revenue, financial forecast and capital budget along with plans and programs. Starting with the last few fiscal years, because it indicates the challenges, we have faced in the last 5 years.

Telephone Access Slide (Page 3) This slide shows how the telephone access lines have halved and the revenue associated therewith. There is another one we have that relates to TV that is similar to this. The traditional places we were getting our revenue from are pretty much dried up at this point. The move to Fiber-To-The-Home and those investments are key from what you see here.

Commissioner Justin Heath. Did you get rid of the requirement to have a landline?

Mark Feest, CC Communications. No, before June 2021 it was going down. People didn't want the landline bundled with internet, but we were required by the FCC to bundle internet with the landline, because we are ILEC. Charter didn't have to do that. Customers then leave over the phone, which I don't blame them. They're forced to purchase something they don't want. In April, 2021, we started being able to sell what is called CBOL which is Consumer Broadband Only Loop.

2023-2024 Budget Process (Page 4) We use incremental budgeting which is compared as zero based. It's where you go back and look at everything from zero to see what needs to be budgeted. We tried this about 15 years ago and it is so much work. The reality is, most of our budgeting is based on trendlines, where we are seeing both revenue and expense. Going to a zero-based budget really doesn't make sense anymore. We target market characteristics, strategic goals, and changes to the regulatory regime. The continued implementation of CBOL support mechanism, Elko/Spring Creek deployment and general customer preferences and general economic conditions.

The Capital budget is really based on long term strategy.

Significant Factors Impacting Budget Process Overall (Page 5) The demand on cash for the development of Elko and Spring Creek revenue opportunity. There is a little bit in there for the demand on cash or will be coming up over the next three years for the tribal grants. They are 100% reimbursable and should have very short windows for when the money is put out and when we can make a claim for the money, unlike the Elko and Spring Creek Projects.

Commissioner Harry Scharmann. What do you mean by demand on cash?

Mark Feest, CC Communications. The cash we have in the company. You will see the capital later but just how much money we have been spending, putting fiber in the ground.

We will continue to push out the CBOL and finalize the Fiber-To-The-Home buildout in Churchill County.

In the upcoming Capital Budget, we are going to take up apartment complexes in what is called wrapping because the interior wiring isn't conducive to installing fiber into the building. We can find a place under an eave and then all the wiring goes around the building wrapped. Then a hole is punched into each individual unit through the wall. We have to do this due to lack of crawl space, lack of attic and inability to fish walls in an apartment. This is a difficult spot to be in because someone owns the building and then their tenants order the service. They have the legal right to choose which provider they want to deliver their service. The apartment owner has the legal right to deny a provider from punching a hole in their building. There is a balance because the property owner's tenants have the right to choose their service provider. Right now, when we're looking at areas of fiber with little copper dots by them, those copper dots are apartment buildings that haven't been wrapped yet. We will start pushing the issue with folks and wrapping buildings, in order to get people fiber inside those apartments. There is one apartment we are planning to wrap that is located off of Strasdin. That's where the finalizing Fiber-To-The-Home build out in Churchill Comes in. There is very low capital demand going forward for fiscal plans.

Commissioner Harry Scharmann. Have you talked to the contractors that are building the apartment house on Coleman Road or the ones over on Birch?

Mark Feest, CC Communications. Yes. We have a general contact with them but not somebody that can really help us. I have spoken with the County Manager about trying to get contacts when they come open. The one group Tim Tucker had led before he was deceased, that group talks to us a lot about their plans and how they can make sure we know when they are building.

Commissioner Harry Scharmann. Do you communicate quite a bit with Harvey Whittemore or somebody else?

Mark Feest, CC Communications. Is he taking over the Tim Tucker project? They have an engineering firm out of Reno that we have spoken to.

Commissioner Harry Scharmann. Ok. Have you had any communications the operations of the data center that is supposed to be going in at the Churchill / Hazen Industrial Park?

Mark Feest, CC Communications. No. We will get in touch with Harvey Whittemore.

Commissioner Harry Scharmann. Ok

Mark Feest, CC Communications. Significant Factors Impacting Budget Process from 23-24 Budget: TEL (Page 6) – There are continued capital requirements for out of area Fiber-To-The-Home projects. There is continued customer preference for CBOL. That's why we are working on the apartment complexes, because those customers are not able to get internet right now.

There are changes to the Regional long-haul landscape. There is an item I'll talk about later in the Capital Budget which is an upgrade to the transport network.

Staffing requirements. We have gone down in full-time employees' equivalence in this year's budget. Those people have left over the last couple of months. They won't really show up in last year's expense budget, but they will show up in next year's budget. We're seeing a shift where we have more fiber in the ground, and we need more technical employees who have higher wages, but you need less total in employees. We are seeing a downward shift in total staffing expenses even though we're facing some pretty significant cost of living increases.

The move of capital projects from TEL to CBB and CAP which means the Capital Expense we used to see the line in the TEL plant will now go into the Broadband plant. CAP is for the building we do outside of Churchill County.

Mitigation: TEL (1) (Page 8) How are we mitigating these funds that are going away in TEL? We really see the Elko/Spring Creek project in the budget later and how it's doing. Bringing revenue in that has been lost in TEL by partially grant funded projects, expanded marketing, especially digital advertising and social media. Also, the transition to CBOL to mitigate local service and access revenue decreases.

We have been surprised about how long the grant money is taking. Spring Creek is totally released, and we can start construction as soon as the weather permits. We have a pre-construction meeting on Tuesday, May 2, 2023, in Spring Creek, with the association, the county and our contractor. I would have expected when the Tribal Grant was granted, that we would have already built those very small build outs. The revenue that was expected last year has not come in and there wasn't an expense that went out. Those tribes themselves can't move this along and get us the authorization to start this year and they have to put in for an extension. A week ago, all four tribes contacted me, so I think NTIA has told them to get moving on this.

Commissioner Myles Getto. Are they still fighting over jurisdiction up there?

Mark Feest, CC Communications. Yes. That will continue, but I think now they are dealing with it.

Commissioner Myles Gettto. Is it because of increased costs?

Mark Feest, CC Communications. No, these are 100% grant funded. I think their budgets are strong and some of the money will never be kicked out.

Commissioner Myles Getto. Ok, but we won't worry about it.

Mark Feest, CC Communications. No.

Accomplishments (Page 9) We are the only company in Nevada to be awarded the NTIA BIP Grant. We were chosen to partner with 52% of the locations for Nevada Tribal NTIA Grant with 57% of the funds. The other 48% and 42% respectively is divided between 3 other companies. We received 3.5 times more locations and dollars than any other company in the NTIA BIP process.

Accomplishments (1) (Page 10) The Statewide speed tests that were run by a third party and we were determined to be more than twice the average of any provider in Elko and twice the average speed than Charter in Fallon and Churchill County. We had the highest speed in Reno, 3 times the speed of Charter and 2.8x the speed of AT&T Business fiber. We are proud of our network, and I think we are building it right. In the long run, it will bring back revenue to us.

Accomplishments (2) (Page 11) We have a few of those customers in Yerington that were tested. It was determined we are 2x faster than Charter. We were the only company outside of Las Vegas that returned a speed test above 800 MBPS. 58.8% of our customers are now on CBOL. They may take a VoIP phone or TV with it, but it's really a regulatory issue whether they are on a traditional TV and phone or not. The revenue exceeds OPEX and OPEX including interest and depreciation in Elko.

Mitigation: TEL (2) (Page 12) Inflation will result in significant expense increase. We have offset a lot of those with some cuts. We do have the upward wage pressure and then the material use to do our business such as fuel, labor, microprocessors, fiber and conduit. All of those items have a lot of inflation. I read an article today that said the problem with the $ 42.5 billion dollar program is there are no employees and no material.

Significant Factors Impacting Budget Process: Broadband (Page 13) Broadband is an accounting issue where we pay for a plant that is put in and is used by broadband which is paid to TEL. It's the way we collect in pooling changes. It's always kind of complicated when determining revenues and expenses. In the past, I have told commissioners that you kind of have to look at our financials holistically because you'll see in broadband $1,505,000.00 expense is actually paid by TEL. It expenses out of one that is revenue in the other because of CBOL.

The transfer of operations to the CAP Fund. We tried to get everything we are doing outside of Churchill County switched over to the new fund that was effective on July 1, 2022. Everything didn't get captured and some of it stayed in broadband, which really isn't a big deal because neither of those go into pooling. This year we have been able to make sure all of those expenses are in CAP Fund instead of Broadband.

Additional impacts are staffing requirements and content costs increases in digital television. The increases are outrageous and it's an item on next week's agenda. The competition and downward pricing pressures.

Churchill County Internet Growth (Page 14) This is the opposite when we see our internet growth. This is not the correct slide. This slide is missing an additional back year to show the numbers that are quite a bit lower than the ones shown. Our internet customers had dropped below 4100 in July 2018. It really shows the point in how we approached the customers and did some more things in order to retain those customers.

Commissioner Harry Scharmann. That was in Churchill County.

Mark Feest, CC Communications. Yes. That is a good point because we didn't go out and spend a bunch of money somewhere else. That was the money that was spent here in Churchill County or expanding the customer base when there really isn't more people. It really indicates the taking of market share from Charter.

Digital TV Growth (Page 15) This looks better than it really is, actually. While we see a downward trend, this chart includes our hotel/motel packages. Those have been really stable and have even gone up. The residential is really falling off and is at 1277 customers now. I think this is good news because we lose money on those customers. The content costs will go up so much that those customers are always bundled with a broadband connection. We used to make enough money on the broadband connection that we could live with the loss on TV. This was because we didn't want to lose that customer to Charter. We thought there was a possibility if we pull the TV that the customer will leave to Charter. The net profit on broadband and a loss on TV was positive. It's turned now not to be positive. That's the reason there is really no purpose of being in TV. Even if you lost the customer, you would be losing a customer who is now losing your money. That happened in this fiscal year for the first time.

Commissioner Harry Scharmann. Are you going to provide TV for Elko and Spring Creek.

Mark Feest, CC Communications. No, we are not. We sent out surveys before we started building in Elko. There were less than 5% of people who said they had an interest in a subscription TV product. I think because they don't have one and they have all gotten used to streaming.

Commissioner Justin Heath. Does most of their TV come from Salt Lake City?

Mark Feest, CC Communications. Yes, they receive TV from Salt Lake City that is off an hour and the news is wrong. There was seemingly no demand for TV and we are perfectly happy with that due to not being able to control the content costs.

Mitigation: Broadband (Page 16) We are enhancing the broadband customer experience, moving customers to higher bandwidth packages which is on CBOL. We're reducing trouble ticket labor costs through remote tools and training. The biggest things that cost on a truck roll are fuel and travel time. Repeat troubles on TV outpaces repeat trouble on anything else. When we're on a truck roll with TV we have to fix it with other products and it's a struggle to fix. The reason it's a struggle is because it costs about a million dollars to upgrade the TV equipment for a product that is always going to lose money. It doesn't make sense to upgrade. On the flip side, we will end up with more trouble tickets that will be relieved as we transition out of that product line.

Commissioner Harry Scharmann. Have you ever had a call about that?

Mark Feest, CC Communications. I have never personally had a call on broadband.

Commissioner Justin Heath. I did on TV but not broadband.

Mark Feest, CC Communications. TV is a struggle.

CAP Fund (Page 17) We are developing and maximizing fiber assets outside of Churchill County. We've had the fiber outside of Churchill County and we are trying to maximize those assets. We need to upgrade our transport network that has become end of life. The network that moves traffic between Fallon, Reno, Tric, Las Vegas and all the stops in between. That is what we refer to as our transport network. For example, in Yerington where we drop off a 10-gig wave to another provider that already had a contract with the school, and they deliver it to the school. We drop off two 10-gig waves in Tonopah that is used to aggregate internet for Frontier. Frontier goes to customers with copper, and they aggregate all of that in our POP and we sell the capacity back to the internet. That network is about seven years old now and it's getting to end of life and will not be supported. We are going to start doing a phase late in the year because the equipment will take 52 weeks to arrive. It will be late in this upcoming budget year and then some in the following budget year to get that network upgraded and stabilized to ensure those revenues will generate from there and continue.

Commissioner Justin Heath. Where are you going to start first?

Mark Feest, CC Communications. We will start with Reno, TRIC and Fallon and then we will start with two phases a jump from TRIC to Las Vegas Supernap and a single that goes through every POP we have and has the add drop capability. The following year we will add electronic redundancy and capacity. The current network does not have electronic redundancy.

Commissioner Justin Heath. Would that be an issue with the data center in Hazen?

Mark Feest, CC Communications. Yes, that would be an issue right now. The amount of circuits that we can carry between Fallon and TRIC or Fallon and Reno is about maxed out right now. That piece will be up by the time that is built.

Commissioner Justin Heath. It will be within the next year, right.

Commissioner Harry Scharmann. I don't know. Every time I drive by, I look to see if they are breaking ground.

Mark Feest, CC Communications. It will be a quick build.

We are continuing to work with other counties and tribal entities. We are working towards grants or other methodologies of getting more broadband out there. There is an item on our next agenda for an Interlocal agreement discussion between us and another county. They have hired a consultant to help them get broadband to them. That discussion with them is far enough along that I will need authorization from the commissioners so that I'm not saying anything that I don't believe you can approve.

Commissioner, Myles Getto. Where is it at?

Mark Feest, CC Communications. Can I answer that question at the next meeting? I want to make sure with their consultant that they are ok to disclose it before an agreement comes up.

Commissioner, Myles Getto. Yes, no problem.

Commissioner, Harry Scharmann. Clark County?

Mark Feest, CC Communications. No.

2022-2023 Annualized Compared to Budget – Telephone (Page 18) This is TEL alone and you will see the revenues go up slightly in TEL. This is all attributable to pooling. Surprisingly the expenses go down. You might ask, how are expenses going down when prices go up and up. It's because full-time employees are split. One of the things about going to Elko is there is a certain number of employees you have to have. Whether you have 4800 broadband customers and you add another 2000, you are not actually adding people at the home office here in Fallon. It's getting that economy to scale. When we look at our funds, that means we spread some of our time that used to be expensed to TEL, will now show up in the CAP fund or the broadband fund. That's how we get the reduced expenses.

The NET Income is primarily in the TEL fund that is a pooling increase. Historically on the Net Income we had the profit transfer already pulled out. I'm not sure that's the best way to do it, because the profit you turn over to the owner. We've always represented it that way. When we represent the $240,805.00, it's plus what we sent to the county. It's also because the 3 years of sending the profit portion of the PILT to them, it will go back in. That's why you see a big jump in Net Income.

2022-2023 Annualized – 2023-2024 Budget All Companies (Page 19). This is all of the companies. You see a slight decrease in those expenses. Those expenses included the profit transfer historically. There is a slight increase, but it shows as a slight decrease because of where that profit transfer is not being taken out this year.

The revenues from all of the companies are primarily due to the growth that is driven by Elko. It is not exactly a trend in Elko. For Elko, we take the last month and multiply it by twelve plus what we see our trend as being. For example, if you are gaining $10,0000.00 per month and over twelve months and on the final month, you will have an extra additional $120k. Then when it's averaged out you will use $60,000.00 per month as your increased revenue for that new product line that is still in the growth phase.

There is a big upturn in the Net Income again, $840,000.00 of that money is the 3-year hiatus on the profit transfer portion of the PILT. The rest is essentially Elko, making up for some decreases in TEL that we will continue to see because it's not a popular product.

The Capital Projects show that $19 million dollars was spent in the fiscal year 2022-2023. The money spent was predominantly for Elko and Fallon. $14 million of that money was spent in Elko and the rest was in Churchill County either in broadband or TEL. Then you see in the upcoming year $6 million dollars is expected to be spent. About $1 million of that money is in Churchill County for TEL. The other money is for the first part of the upgrade of the transport network. That generates about $100k per month in revenue. The remainder will be spent in Spring Creek. The reason that number isn't high, is because that build is partially grant funded. This goes back to the cash issue. We spend a lot of cash and now we are trying to match cash outflow to our depreciation and net income. That way the cash number doesn't continue to go down. I think it is do able with the build plan under the grant in Elko.

There is also a three-employee reduction this year from last year. Two of the employees have already left who are now retired.

Estimated Income Current Budget Year 2022-2023 (Page 20) The estimated income current budget year is $1.7 million dollars, plus adding into the $840,000.00 comes to $2.6 million dollars with an EBITDA of $7,133,308.00. EBITDA is Earnings Before Interest Taxes Depreciation and Amortization. That is estimated to improve by 2.7% in the upcoming year again, primarily due to Elko.

Net Income Projections Budget Year 2023-2024 (Page 21) This slide shows how everything is broken up in the upcoming year. The CAP under Net Income you see the amount of $2,239,428.00, that is a combination of the Net Income that will be brought out of Elko as well as the transport network. That's why it's important to upgrade the transport network because there is a lot of revenue in it. We are in contact with SWITCH on some ways to increase the usage of our transport network.

Revenue by Company Budget Year 2023-2024 (Page 22) This slide shows where our revenue is coming from. Telephone is down at 59% and up to 16% with CAP and 24% with Broadband. There is not a lot of long distance going on at 1%. Year of year will give you an idea. Last year 33% was non-TEL and this year 40% of our revenue is non TEL. However, you have to remember that TEL is made up of pooling as well as money we get from end users. 40% of the revenue in that account is pooling. We're about to surpass TEL from end users in CAP and Broadband funds.

Capital Planning (Page 23) Impact on cash is currently the most important. We have to be concerned about all the work we are doing outside of Churchill County. That did influence our $3,472,753.00 in capital expense. There are things we would like to do this year in capital expenses that will not be done this year due to the cash burn that has happened over the last year. The cash burn is reflected when you look at the CAP, Elko and the transport network, that are generating revenue and is the future of the company. It's the Broadband, CAP and Broadband outside the county. It has the effect we wanted it to have. We can't deny the fact that it burns a lot of cash, and we need to bring that cash burn more inline with our EBITDA going forward.

Telephone Capital Budget (Page 24) You can see some differences on this slide. The Underground Fiber Cable numbers are fairly close. That is the Strasdin job and the apartment complex job. We are not spending on computer equipment and central office equipment. We have done a lot of upgrades recently in those two areas. They will hold off another year. Also, some things that used to look like central office, now fall into CAP or Broadband budgets.

Commissioner Justin Heath. Have you talked to Gary about Strasdin?

Commissioner Harry Scharmann. I think that road is supposed to be repaved.

Mark Feest, CC Communications. We will be outside the roadway.

Plans and Programs (Page 25) We will continue deployment to Fiber-To-The-Home in outside county areas. We plan to keep converting customers over to CBOL. I still feel like there are some customers who don't even realize they can get that and might leave us. It's more favorable to us in a regulatory environment. We want customers to move to CBOL. We're currently at 58.8% and our goal is to hit 75%. We jumped at least 10% this year.

We plan to monitor television offerings and the changing environment, which will be addressed at our next meeting. The results of going through the budgeting process really highlighted where the losses in TV drag down the Broadband fund. I think there will be a minority of people who will not be happy about getting rid of TV.

We will continue to seek improvement in expense control and staff utilization. We have been doing that by getting more out of employees and again those employees have to be better trained and more experienced.

Summary (Page 26) The revenue mix will continue to change and is where we are getting our money from. It's from TV customers, Telephone customers, Broadband Customer or another carrier. When we come back, we can say it went from 30 to 40 and now it's from 40 to 50 and we will continue to go in that direction.

We will continue to focus Fiber-To-The Home outside the County in Capital Expenditures. The TV offerings will be completely transitioned and will be required. That is all I have.

Commissioner Harry Scharmann. You need to get Rex Massey's phone number from Julie. He had talked to me about building a 250k sq. ft. building out by the railroad on the other side of Hazen still in Churchill County. You might want to talk to Rex and find out what the timeline is for that project.

Mark Feest, CC Communications. I will get in touch with him.

Commissioner Justin Heath. Are they still pursuing the override from TRIC to Reno?

Mark Feest, CC Communications. Right now, they have to rods in places. You have to dig down and open it and take a rod that will equate to the size of cable you will be putting through that area. It has to be done in multiple spots. They are paying for it and we will be out there with them when they're doing this. We actually have to be out there with them because they are working on our railroad right-of-way. There are about five places they would like to put in rods. They will decide at that time what size cable needs to be put in. We have a 1 ¼ inch conduit that has a 96 cable that fills up all but about 11 millimeters. They have the same conduit. There is enough room to put in a 10 millimeter 96 or a 144. Then we will override it and move all the traffic off of the fibers that are in the very old fiber cladding. This is not going to be a cheap endeavor. We somewhat felt it was very hard to sell unless you control the data center. If they want to do it, they will be the ones making all the money. It's a matter of determining how much of that money will be shared to us for giving them the right to do it.

ACTION REQUESTED: None; Informational Only

Affidavit of Posting:

Public Comment:

Chairman Myles Getto asked if there was any public comment but there was none.

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Adjournment:
The meeting was adjourned at 4:15 p.m.

APPROVED: ______________________
Myles Getto, Chairman

APPROVED: ______________________
Harry Scharmann, Vice, Chairman

APPROVED: ______________________
Justin Heath, Commissioner

Shelly Bunyard, Administrative Assistant

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Mark Feest, General Manager/CEO