Broadband Financings – Financing the Future of America

Can leasing be a part of the financing solution to expand fiber-to-the-premises (FTTP) throughout the US?

Panelist Introductions

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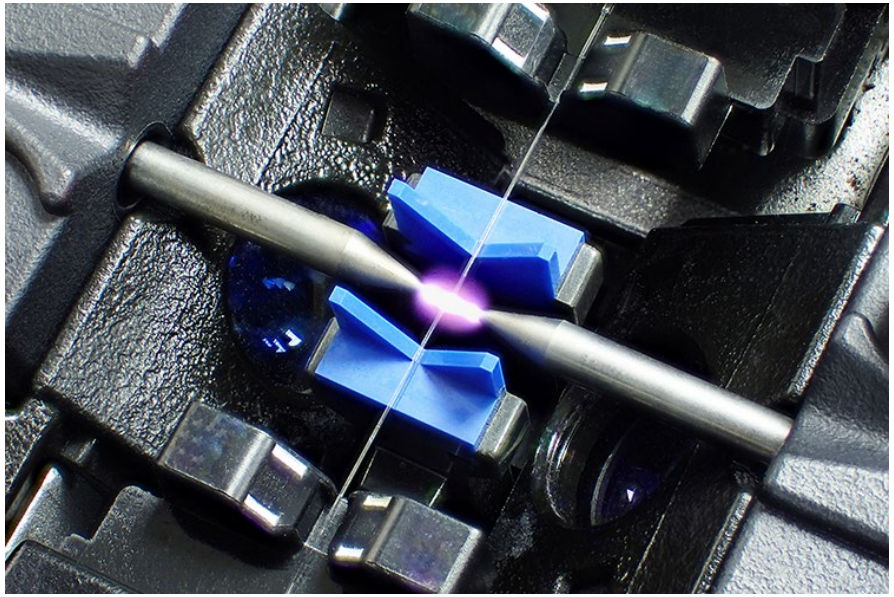
What is the Demand for Broadband?

- Depends on who you ask
- There is huge speed differential between systems
  - Cable, DSL, fixed wireless, mobile wireless, satellite, and fiber
- Full fiber deployment* uniquely meets today's needs and is future proof
  - 1 Gbps bi-directional is quite common
  - 10 to 100 Gbps available today
- Fiber systems have an estimated weighted average 40+year life cycle
- Fiber systems have a very low operational and maintenance cost
- Fiber has a much lower churn rate than other options



** FTTP is intended to capture fiber to residential, commercial, government and civic buildings*

How Things Have Changed

- According to a Governing Magazine article published in March of 2022, “Glasgow, Kentucky became the first municipality in the US to offer publicly run home internet service to its residents in 1989.”
- Several others like UTOPIA joined in this effort. UTOPIA was formed by 11 cities in 2004.
- By 2018 over 100 communities nationwide were offering some type of internet service.
- Some constructed systems where the local government was also the direct Internet Service Provider (ISP) and some facilitated open access systems.
- Historically success, or lack thereof, varied.

How Things Have Changed, Contd.

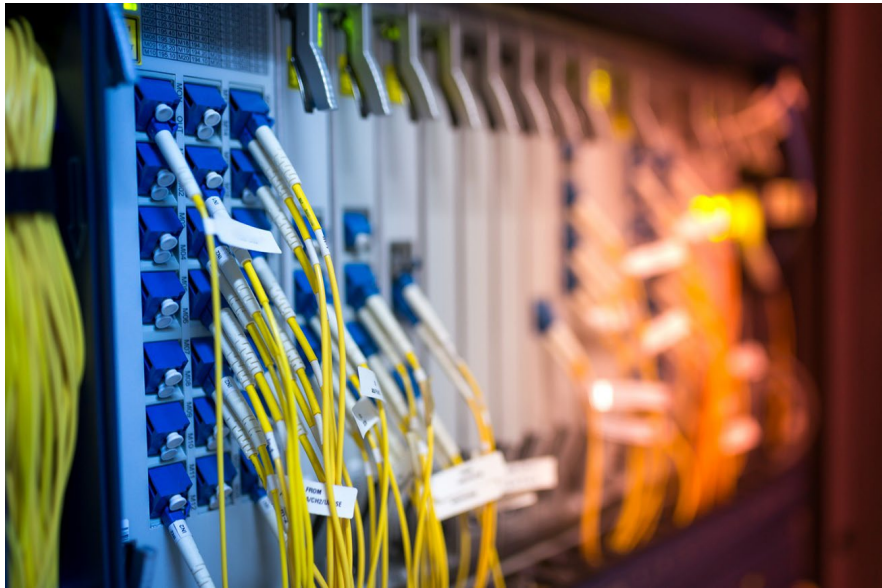
- We are in a whole new world. Times have definitely changed and internet use and demand for speed continue to skyrocket, making internet accessibility a necessary utility to live, work and play in today's world.
- Do you remember when X-Box 360 was first released? (2005) How about the first I-Phone? (2007) I-Pad? (2010) Smart TV? … Smart Speaker? Smart Watch?
- Per Deloitte, on average U.S. Households now have a total of 22 connected devices.
- Add to this the explosive growth of work-from-home with the onset of Covid?
- From the same Governing Article sited above "Municipal Broadband is booming, growing 600% since 2018"
- This trend and the successes in municipal fiber continue to grow.

What is the Funding Need?

- Fiber deployment in the U.S. still pales in comparison to many other developed countries.
- In 2019 an article in ARS Technica, stated that “over 50% of U.S. Homes won’t have fiber broadband by 2025.”
- The same ARS Technica article sites a study that stated then that “a cool $70B could help get the U.S. to 90% fiber coverage by 2025.”
- Taking into account supply chain issues, labor shortages and general inflation, the estimated cost to connect 90% of U.S. Homes to fiber could reach as high or higher than $200B if all deployed today.

What is the Funding Need?, Contd.

- Demand for services continues to increase.
- Current Federal programs (BEAD) may provide $42.45B in funds will be made available but come with cumbersome requirements that will make BEAD funds unusable for many projects.
  - Nearly all municipalities are completely ineligible for federal government programs



Continued Demand for Higher Bandwidth

- Two and a half years ago, roughly 30% of new subscribers were taking 1 Gbps, compared to 50% now.

Why are Local Governments Getting Involved?

- John Bowcut with Spanish Fork “We started back in 2000. Really, it was born because there was no high-speed internet in Spanish Fork.”
- Continued and growing constituent demand for better / faster fiber connectivity.
- In Lehi’s case, there are several high-tech industries whose employees live in Lehi and value the speeds fiber can provide.
- Cities are filling a large un-met demand.
- Added to this is the fact that net promoter scores of incumbents is very low.
- In many cases, subscribers are getting less than 50%-75% of expected download speeds from current provider.
- More competition helps keep cost of service down.
- Internet increasingly becoming a necessary utility.

Part of the Solution or Sit on the Sidelines

- Its worth getting educated on this growing market segment.
- How creative can your lending institution be?
- How long can the term of a lease / loan be?
  - Useful life of fiber is 50 to 100+ years
  - Useful life of huts ~30 + years
  - Useful life of electronics ~10 + years
    - Is this a good place for governmental leasing to participate
    - Current electronics retrofit to move from 1G to 10G is $200 per household
  - Weighted Average Life ~ 30+ years

Credit Considerations

- Value of the assets
  - Different valuation perspectives
    - Cost to deploy
    - Cost to replicate (since costs are escalating, once deployed the value of the system increases)
    - Value per connected customer (and potential customer expansion)
  - Cost / value of electronics
  - What level of credit support is the local government willing to provide?
  - Is the system operated as a system as a city run ISP retail system or is open access to multiple providers?
  - Construction timing and time for system revenues to commence
    - Need to structure around timing of revenue generation

Credit Considerations, Contd.

- Revenues available for repayment
  - System revenues may be sole or primary source of repayment
  - System revenues may, in certain circumstances be further supported by additional partial or full pledge of local government
  - Look at projected take rates, charges for services, O&M, priority of lien and debt repayment
  - Feasibility Studies ?
- In some instances, both assets and revenues can be pledged (depends on state law)
- Should you worry about ‘overbuild’ (discuss what is reality)
  - In reality this is bringing competition into the broadband/telecommunications market that has been greatly lacking. Historically, incumbent monopolies or duopolies have existed for a long time without meeting greater demand.
- Open access government owned networks are very robust (Examples UTOPIA, Lehi, Bozeman, Ammon, etc.)
- May be able to obtain Community Reinvestment Act Credit for lending in certain areas

Conclusion

- Growing demand for funding in this space
- Growing sector – emerging marketplace
- Significant unmet funding needs
- Welcome your participation as a part of the solution