

Dalton Telephone Company_Dalton Broadband Infrastructure Improvements_Attachment G

Dalton Telephone Company, (DTC), established in 1898, is a rural local exchange/communications company in western Nebraska serving 1,025 customers throughout Dalton, Gurley, Lodgepole, Dix and Bushnell. DTC covers 1,400 square miles across six counties. DTC has provided voice communications for over a century and in the last two and half decades began providing internet services. Being a very rural area, there are many challenges with improving the broadband infrastructure to provide rural customers with the broadband speeds available in urban areas. Dalton accepted the initial FCC ACAM offer that provided DTC an opportunity to upgrade their current broadband infrastructure to 25/3. While these improvements have benefitted the Dalton community, the current broadband speeds do not compare with urban areas and do not provide the community with the needed speeds to support online education, telehealth visits or the ability to promote growth for local businesses. Without broadband infrastructure improvements, the Dalton community will likely lag impacting their rural population and the ability for the community to be viable.

DTC is proposing a broadband fiber to the premise build that will provide 147 locations in the Dix area with broadband speed improvements from 25/3 Mbps to a minimum of 100/100 Mbps. With the fiber to the premise build, DTC will be able to eventually scale to 1 Gig. DTC is currently working with available middle mile broadband partners to reduce transport costs thereby in the future, should they be awarded this grant, DTC would be able to offer 1 Gig to residents and businesses. Through increased broadband speeds, the proposed project would provide access to; residential locations allowing them to work from home, allow businesses reliable access to ecommerce opportunities, ensuring children have access to online learning for K-12 and the ability to pursue higher education, and lastly, much needed reliable access to Telehealth which is crucial as we continue to face health management challenges because of the Covid-19 pandemic.

Given DTC's prior experience with broadband infrastructure and fiber deployment, DTC does not anticipate any legal challenges, zoning, right of way or permitting issues. DTC has completed projects previously requiring management in these areas and has not had any issues nor do they anticipate any with this proposed broadband infrastructure build. DTC has been in business since 1898 and will continue to support its customers well into the future. Given this history, DTC has the experience and expertise to support and maintain this fiber to the premise infrastructure build over the long run.

Need for Grant

Nebraska Broadband Bridge Program Grant funding is needed to implement the proposed project because Dalton Telephone Company (DTC) cannot support the cost of the proposed project for the full amount of the capital. The total estimated project cost is \$969,000. DTC will contribute matching funds equal to 50% of the total project cost, which will be approximately \$484,500. As such, DTC is requesting \$484,500 in grant funding from the State of Nebraska.

Market & Penetration Assumptions

Factor	Assumptions
Customers Passed - Project Area	
The proposed Nebraska grant project assumes 147 locations will be passed with fiber.	The total available locations to upgrade or newly serve were determined by engineering and mapping analysis of the area that identified areas that were below the minimum 25/3 speed threshold.
Connection Assumptions & Take Rates - Project Area	
Project Area	
Broadband Subscribers	Based on market analysis, it was assumed that 100% of the 147 locations would be upgraded or newly served, but only 70% would ultimately sign-up for service.

Income Statement Assumptions

Revenue Assumptions

Factor	Rationale (Cite Basis)
Broadband Data Service	
Broadband Data Service	Broadband revenues were developed by taking an average revenue per user (APRU) times the number of new subscribers. The ARPU was developed by assuming that each new customer would subscribe to one of the current packages being offered by DTC. This includes 25/25 Mbps for \$89.95 per month, 55/55 Mbps for \$109.95 per month, and 100/100 Mbps for \$119.95 per month. The initial composite weighted average rate for new FTTH subscribers is \$106.20.
Amortized Grant Revenue	Grant revenue is shown to be equal to the depreciation expense related to the grant funding so that the income statement shows a net zero effect of the grant assets.
Uncollectibles	Uncollectible revenue is estimated to be 0.41% of the projected revenues for each year. This is based on DTC's current operations.

Expense Assumptions

Factor	Rationale (Cite Basis)
Broadband Expense	Backhaul expenses and direct broadband expenses were assumed to be the equivalent of \$20 per month for the new subscribers.
Network Operations	Network Operations expense includes maintenance type expenses related to testing, trouble tickets, locates, etc. The projections include an incremental amount of expenses related to these functions as a percentage of revenues. As new customers are added, the level of expense increases as incremental revenues increase. Network Operations expense was estimated to be an average of 25.09% of gross operating revenues over the projection period.
Marketing Cost to Acquire	The cost to acquire is assumed to be \$100 per new subscriber. Marketing expenses are included for the ramp up period of turning up the customers and then drops to \$0.
Customer Expense	Customer Care & Billing are components of Customer Operations and are implicitly tied to revenues. Revenues, to a certain extent, are an indication of customer levels. As customers increase, revenue increase, and so will the amount of expense needed per customer. We assumed that relationship would stay relatively unchanged. Customer care expense was estimated to be an average of 4.25% of gross operating revenues over the projection period.
General & Administrative	General & Administrative expenses reflect a company's Corporate operations. Changes in G&A expenses mirror changes in revenue in order to maintain similar operating margins. Corporate G&A expense was estimated to be an average of 13.04% of gross operating revenues.
Operating Taxes	This represents all taxes other than Income taxes, mainly property taxes, and reflects the same level of operational efficiency in projected years as the company displayed in historical years. Property/Other taxes was estimated to be 0.09% of total Plant in Service.
Depreciation Expense	Fiber was depreciated over a 20 year life (5%), while the electronics had a 10 year life (10%). Over depreciation of asset accounts is not permitted.
Income Taxes	Earnings Before Taxes multiplied by the federal and state tax rate of 21% and 5.58%, respectively.

Pro Forma Financial Assumptions

Balance Sheet Assumptions

Assets Assumptions

Factor	Rationale (Cite Basis)
Cash	Cash equals liabilities and stockholders' equity less assets (except cash).
Plant in Service	This represents the project amount with a two year construction schedule. The PP&E is divided between the assets funded by the company, and the assets funded by the grant.
Accumulated Depreciation	This represents the accumulated depreciation related to the project. Accumulated depreciation grows by the current year's depreciation expense less retirements for each asset account until the asset is fully depreciated. Over-depreciation of assets is not allowed.

Liability Assumptions

Deferred Grant Revenues	The Deferred Grant Revenue is equal to the annual amortized amounts associated with the NBBP grant assets. The grant amounts are amortized over a weighted average useful life. This is used to net out the assets acquired with grant funds.
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Equity Assumptions

Retained Earnings	Retained earnings represents the company's earnings that have not been paid out or reinvested in the company. Retained Earnings were based on the previous year's level and adjusted for the current year by adding net income (loss).
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Dix
Financial Forecast

Assumptions

Passings	132
Construction Costs	\$555,000
Grant from State	(\$277,500)
Install/Labor/Materials per gross subscriber add	1,174
Grant from State for drops	(\$155,000)
Electronics	\$104,000
Grant for Electronics	(\$52,000)
Year 3 penetration (ultimate penetration)	70%
ARPU (Monthly)	\$ 115.00

	Year 1	Year 2	Year 3
	<u>2023</u>	<u>2024</u>	<u>2025</u>
Homes Passed	66	132	132
Subscribers	23	62	92
Penetration	35%	47%	70%
ARPU (Monthly)	\$ 115.00	\$ 115.00	\$ 115.00

Profit and Loss

Customer Revenue	\$	15,939	\$	58,656	\$	106,473
Gross Profit	92%	14,664	53,963	97,955		
Fixed Operating Costs		40,000	40,400	40,804		
Variable Operating Costs	35%	5,579	20,529	37,265		
EBITDA		(30,915)	(6,966)	19,885		
EBITDA Margin		-194%	-12%	19%		
Depreciation and Amortization		(9,564)	(16,480)	(18,867)		
Income Taxes		-	-	357		
Net Income	\$	(40,479)	\$	(23,446)	\$	662

Balance Sheet

Cash	\$	1,000	\$	1,000	\$	1,000
Current Assets		2,657		9,776		17,745
Fixed Assets		143,458		247,195		283,000
Depreciation		(9,564)		(26,044)		(44,910)
Total Assets	\$	137,551	\$	231,927	\$	256,835
Current Liabilities	\$	3,798	\$	5,077	\$	6,506
Invested Capital		174,231		290,775		313,592

Retained Earnings	(40,479)	(63,925)	(63,263)
Total Liabilities and Equity	\$ 137,551	\$ 231,927	\$ 256,835

Cash Flow Statement

Net Income	\$ (40,479)	\$ (23,446)	\$ 662
Depreciation	9,564	16,480	18,867
Changes in Working Capital	1,142	(5,840)	(6,541)
Capital Expenditures	(370,000)	(185,000)	-
Electronics	(69,333)	(34,667)	-
Install Labor/Material	(27,125)	(45,570)	(35,805)
Grants	323,000	161,500	-
Capital Invested	174,231	116,543	22,817
Change in Cash	1,000	-	-
Beginning Cash	-	1,000	1,000
Ending Cash	\$ 1,000	\$ 1,000	\$ 1,000

(55,071)	(47,146)	(39,493)	(32,112)	(25,008)	(18,182)	(11,638)	(5,379)	594
\$ 265,675	\$ 273,633	\$ 281,322	\$ 288,737	\$ 295,877	\$ 302,738	\$ 309,318	\$ 315,614	\$ 321,624

\$ 8,192	\$ 7,924	\$ 7,654	\$ 7,380	\$ 7,104	\$ 6,826	\$ 6,544	\$ 6,260	\$ 5,972
18,867	18,867	18,867	18,867	18,867	18,867	18,867	18,867	18,867
(2,859)	34	35	35	35	36	36	36	37
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
24,200	26,825	26,555	26,282	26,006	25,728	25,447	25,163	24,876
1,000	25,200	52,025	78,580	104,862	130,868	156,596	182,043	207,206
\$ 25,200	\$ 52,025	\$ 78,580	\$ 104,862	\$ 130,868	\$ 156,596	\$ 182,043	\$ 207,206	\$ 232,082

6,276	11,666	16,759	26,219	42,975	59,426	75,570	91,402
\$ 327,343	\$ 332,770	\$ 337,902	\$ 347,400	\$ 364,195	\$ 380,685	\$ 396,868	\$ 412,740

\$ 5,682 \$ 5,389 \$ 5,094 \$ 9,460 \$ 16,756 \$ 16,451 \$ 16,143 \$ 15,832

18,867 18,867 18,867 11,690 - - - -
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24,586	24,294	23,998	21,188	16,795	16,490	16,183	15,872
232,082	256,668	280,962	304,960	326,148	342,943	359,433	375,616
\$ 256,668	\$ 280,962	\$ 304,960	\$ 326,148	\$ 342,943	\$ 359,433	\$ 375,616	\$ 391,488

Number of Passings	Mainline Total	Co. Mainline Match	Co. Mainline Match per location	Drop Total
132	\$555,000	\$277,500	\$2,102	\$310,000

Co. Drop Match	Co. Drop Match per location	Electronics Total	Co. Electronics Match	Co. Electronics Match per location
\$155,000	\$1,174	\$104,000	\$52,000	\$394

Total Project Estimate	Company Match
\$969,000	\$484,500