

## MEMORANDUM

**To:** City Council  
**From:** David Provost, Chair, Burlington Telecom Advisory Board (BTAB)  
**Date:** October 4, 2017  
**Re:** Changes Since the BTAB July Report

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The following report from the Burlington Telecom Advisory Board (BTAB) was written in July in order to give the full City Council the consensus view of BTAB members on the slate of bidders proposing to purchase Burlington Telecom (BT). The BTAB is made up of four City Councilors and four community members with relevant experience and has advised the City Council for many years on the decisions related to the future of Burlington Telecom.

After redacting information about the five bids that are no longer under consideration by the Council, the July report will be released to the public with information about the remaining three bidders.

This report was based on the initial Letters of Intent from the three bidders, and negotiations between the City and the bidders have been continuing since this report was issued. **All of the Letters of Intent on which this report was based have been superseded by new Letters of Intent from each bidder.** The current Letters of Intent are available at <https://www.burlingtontelecom.com/settlement/>. In addition, the City continues in negotiation with the bidders towards the actual purchase documents.

As an example of some of the changes that have been made, the following provisions in each bid have changed since this BTAB report:

**Keep Burlington Telecom Local (KBTL):**

- The Maine Fiber investment is characterized as “not finalized” in the July BTAB Report, but KBTL has now received a commitment from Maine Fiber.

**Schurz Telecommunications:**

- Schurz has now committed to devolving decision-making about BT to the Burlington management team wherever possible, in recognition of the community’s strong desire for local control.

**Ting/Tucows:**

- Ting has decided to keep the name BT and add a slogan to the brand symbol so that it reads “BT” with small text noting “Powered by Ting.”



**Report to City Council on Prospective Buyers**  
**July 10<sup>th</sup>, 2017**

**BTAB Members**

**David J. Provost – Board Chair, Executive Vice President, Middlebury College**

**Clem Nilan - Board member, Former General, Manager City Market**

**Theresa Alberghini DiPalma - Board Member, Network SVP Marketing and External Relations, UVM Medical Network**

**Tim Halverson – Board Member, Owner EB Strong’s, Halverson Street Café**

**Joan Shannon – Board Member, (City Councilor, South District)**

**Karen Paul – Board Member, (City Councilor, Ward 6)**

**Jane Knodell – Board Member, (City Council President)**

**Dave Hartnett – Board Member, (City Councilor, North District)**

## **BTAB – Strengths and weaknesses of individual Letters of Intent received for BT**

### **History**

- December 2009 – Blue Ribbon Commission is appointed by the City Council and charges the Commission to assess the viability of BT and assess the financing options of BT including a sale.
- February 2010 – BRC issues its report to the City Council recommending to develop a strategy to achieve 3 basic objectives.
  - Continue to allow Burlington residents & businesses to benefit the investment
  - Allow BT to continue to operate under new governance and ownership.
  - Provide long-term opportunity for the City to realize a return on its investment in BT
- March 2010 – Dorman and Fawcett (D&F), a Vermont based restructuring firm is retained to advise the City
- September 2010 – D&F becomes the Manager of Burlington Telecom.
- Following stabilization of BT's finances and operations, the City moved to settle litigation with Citibank.
- Settlement with Citibank reached in early 2014, was contingent on the assumption of future sale of BT to a private entity.
- Settlement facilitated by interim financing from Bluewater Holdings, City conveyed assets of BT to Bluewater for \$6 million.
- Under the agreement, January 2, 2018 is the deadline for the City to:
  - Optimize its share of proceeds from the sale
  - Find a Qualified purchaser for BT subject to Public Service Board approval
  - Direct sale to that purchaser.
- September 2015 – City Council approved the process recommended by BTAB for developing sale criteria to evaluate prospective partners for BT.
- April 25<sup>th</sup>, 2017 – City Council approves the Criteria for Sale. See Appendix A

### **Summary**

The BTAB was charged by the City Council to identify potential buyers of Burlington Telecom. The BTAB is expected to bring forward to the Council a slate of finalists of potential buyers that best meet the established criteria ratified and approved by the City Council in April of 2016. The following document, is a summary of the work performed by the BTAB over the last few months and presents 3 finalists to the City Council for consideration, with the Strengths and Weaknesses of each proposal.

The BTAB reviewed in detail the eight Letters of Intent (LOI's) received for BT. They represented several different approaches to funding the acquisition of BT and operating it going forward. Each provides the City with the opportunity to invest some or all of their existing equity in BT into the new entity. Additionally, several allow the City to invest beyond their share of the transaction proceeds. All scored highly on their willingness to meet the criteria for the sale of BT determined by the BTAB in early 2017, following public input. That analysis is also attached for your review.

Five of the eight were selected to meet with the BTAB individually, for 60 - 90 minute sessions during June to outline their vision for BT and answer questions from individual BTAB members concerning their submissions. The remaining three have remained under consideration pending the outcome of these meetings.



[REDACTED]  
 The BTAB was very interested in this offer due to the creative approach of BT serving as an economic development driver for Chittenden County. However, the BTAB has concerns around [REDACTED] planned involvement, experience, and real interest in growing BT's core operations. BTAB determined there were better options after hearing from others, and we elected not to move this proposal forward.


**Keep BT Local Co-Op**

The KBTL proposal to date has been the weakest of the 8 respondents. The proposal submitted on 5<sup>th</sup> June was incomplete and a further update due on 30 June was also incomplete. The proposal relies very heavily on expensive debt and this weak capital structure has the BTAB very concerned about the risk of losing the asset again to the lender. We are also concerned that there is no management depth beyond the existing team. The BTAB is pessimistic that the PSB would ever approve this structure given the debt, lack of capital and lack of management experience in the industry. The BTAB has moved this proposal forward to the Council due to the significant public interest in the offer. However, unless KBTL can address the concerns of the BTAB we do not believe this to be a viable offer.

Member owned local co-operative – local solution	Vision for BT beyond local ownership unclear
Long standing interest in acquiring BT assets	Financial offer at low end of valuation range
Removes uncertainty of future sale, if remains viable	Funded with \$10M of debt at 14% interest rate
Would seek to keep BT Management Team and Operations, if not possible, they have a contingency plan.	Limited capital to grow BT's operations
	Currently the Maine Fiber investment is not finalized
	Weak capital structure unlikely to obtain State approval
	Assets exposed in event of financial challenges, exposed to losing the asset to Maine Fiber Company and BT failing.
	LOI failed to capitalize on the coop model.
	Consumer orientation could stifle business development
	Liquidity challenge for City of Burlington if the City leaves its money in.
	Only members benefit, not all taxpayers

### Ting/Tucows

**A strong offer and proposal for the council to consider. One of the strongest offers in terms of price, customer service and capital. Name would likely change to Ting, and real control of operations would move from Burlington. No new debt, but it is a publicly held company and risk of a future sale would always be a possibility. BTAB offers Ting/Tucows as a finalist to the City Council with one reservation about its publically held status and a desire to continue to work with them to strengthen their proposal and minimize the risk to the City in the event of a sale of the Company.**

Highly profitable, high multiple, domain name business	Based in Toronto, publicly traded on NASDAQ	
Now focused on fiber as their next growth segment	Fiber is relatively new and unproven future growth play	
Strong focus on customer service	Control would be centralized outside of Burlington	
Relatively new entrant in several muni fiber markets	No interest shown in meeting BT management team	
Local presence and customer facing operations	Core business highly cash positive, but declining margin	
Strategic investor offering second highest price	Less control over sale, as a public company	
No new debt used for BT purchase	Will change the name from Burlington Telecom to Ting	

### Schurz Communications

**An extremely strong offer and proposal for the council to consider. The strongest offer in terms of price, experience and track record of holding onto investment. Current operations would remain in Burlington. BTAB offers Schurz as a finalist to the City Council, with further parameters needed on the options for the unlikely event of sale in the future, to protect the City's interest.**

5 <sup>th</sup> Generation, 150-year-old family investment fund	Other holdings include newspapers - challenging sector	
Strategic investor already in the fiber & cable business	Local ownership only through any City carried interest	
No debt used for BT purchase	Local control ceded	
BT name, management team, staff and operations would remain, GM tbd	Inside family members control the board and the company	
Strong commitment to and focus on customer service		
Strongly decentralized local management approach		
Culturally good fit, and a team that works well together		
Highest financial bidder and likely long-term holder		
Focused on continuing to grow BT – product/geography		
Track record of investing/holding for the long term		
Would be a good local corporate citizen, track record of giving back to community		



Enclosed in this recommendation we have included a one page summary of the deal structure for each of the 8 proposals and the most recent LOI'S from each of the interested parties. We have also included a list of the criteria as a reference point.

Respectively, submitted on behalf of the Burlington Telecom Advisory Board

David J. Provost  
Burlington Telecom Advisory Board, Chair

**Attachments**

Appendix A – Criteria approved by the City Council

Appendix B – one page summary of the deal structures for 8 LOI's

Appendix C – LOI's from each of the 8 potential buyers