

Executive Summary of the Results of the Study

CCG Consulting, LLC (CCG) submits this report on our findings and recommendations concerning broadband in Northfield.

FINDINGS

CCG reports the following findings:

- The survey showed overwhelming support from residents who said they support the idea of the City entering the communications business (81%) and most of them (78%) said they would buy services from a City network. These are among the highest percentages we have ever seen in this sort of survey. There was no one particular service that drove these responses and 74% said they would buy cable TV, 71% would buy data services and 80% would buy telephone service.
- The survey shows that the City has a very high percentage of customers (75%) already using some form of high speed Internet connection, primarily DSL from Qwest or cable modem from Charter. This is higher than the national average WHICH IS a little less than 60%.
- The incumbent providers, Qwest and Charter both advertise their networks as “fiber rich”. However, there are no homes and very few businesses in town served with fiber today. The only real fiber provider in town is St. Olaf Telco which sells data and telephone service to businesses near to its several fibers in the City.
- Our analysis shows there would be many significant benefits to the City and to the community from the deployment of a ubiquitous fiber network.
- With current state law, a referendum would be required for the City to offer voice as a retail provider or to bring in another party to offer voice on the City’s network. This referendum would need a 65% supermajority to pass.
- The time line we developed shows that if the City enters the broadband business in the same manner as other cities that you could be serving customers by late 2011. Obviously, a delay in any of the multitude of steps needed to get into business would delay this launch date.
- We looked at various financial scenarios of the City entering the communications market. We found the following:
 - There is a financially viable business plan for the City as the retail provider. This business plan would be self-supporting if the business could achieve a 47% residential penetration within five years from launch.
 - There does not appear to be any financially feasible way for the City to offer an open access network, where the City owns the infrastructure and one or

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more service providers lease access to the fiber and offer services to customers.

- There is already one service provider who has made overtures to bring fiber to City. Several other service providers expressed an interest to CCG regarding working with the City. Many cities have no options for a commercial partner, so the City seems to have more options than most other places.
- There is currently an opportunity to get federal grant funding through the Stimulus plan if the City moves quickly. Our financial analysis shows that getting an 80% construction grant from Stimulus funding would remove most of the risk of a broadband business. A Stimulus grant would greatly improve the retail business plan and would economically enable an open access business plan, assuming the City could find one or more qualified retail providers.
- In the current market, if the City tried to fund 100% of the project, then general obligation bonds look like the only reasonable alternative. Right now revenue bonds are not attractive in the market, but that could change at any time. If the City can obtain Stimulus grant funding there are a myriad of ways to finance the matching funds, many which would not require a bond referendum.

RECOMMENDATIONS

1. We believe that the survey provides support for the City to move forward and explore the various alternatives described in this report. The survey showed overwhelming support from citizens for better broadband and more competition.
2. The financial business plan models show several different ways a fiber network can be successful and self-supporting in the City. If the City moves forward you should look hard at the pros and cons of the ideas that look viable:
 - a. The City is the retail provider on the network.
 - b. The City is the retail provider but hires a firm of telecom experts to manage the company for the City.
 - c. The City seeks Stimulus grant money with a commercial partner.
 - d. A commercial provider builds and operates the network.
3. CCG would rank the City's best options as follows, with the best option listed first and then in descending order:
 - a. The City finds a commercial partner and together you file for Stimulus grant funding. The two parties negotiate the ownership share of the partnership based upon the amount of matching funds provided by each side. Because the Stimulus funding pays for 80% of the cost of the network, this option provides the best chance for success and can provide the lowest customer prices and the greatest competition.
 - b. The City encourages a commercial firm to fund, build and operate a fiber network. This option creates no risk or financial commitment for the City, but

it also means the City has no say in how the network might be used for things like economic development.

- c. The City funds the network with bonds and then hires a management company to operate the business. You will want to hire a management firm that is already successfully operating other fiber networks.
 - d. The City funds the network with bonds and operates it as the sole retail provider. The financial analysis shows the network must achieve a 47% residential penetration by year five in order to be able to make bond payments.
4. The City should create a formal mechanism to evaluate and implement a fiber plan if it is going to pursue the above options. Other cities have created a formal Board or Committees that reports to the Council and which is given the funding and authority to find the facts and report back to the Council. In CCG's experience, somebody needs to be given specific authority to make fiber happen if it is going to have any chance of success. This kind of Committee could include members of the community or be made up entirely of Staff, but without a formal group that is assigned specific responsibilities, a project of this magnitude tends to get delayed and lose momentum.