

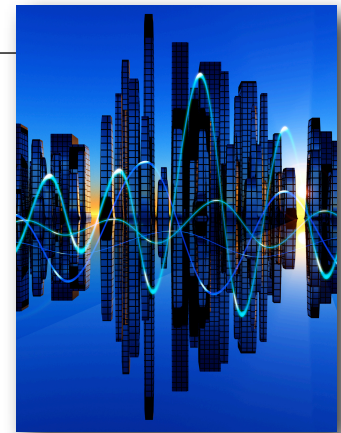
Institute for Local Self-Reliance

Burlington Telecom fact sheet

July 2008; April 2010 Update at End

Burlington Telecom (BT) is a city department in Burlington, Vermont, offering a fiber-to-the-home network which offers triple play services.

Though BT's management recently changed, it remains current on its debt service and has continued demonstrating the power a publicly owned information network. The network's take rate has continued growing though it has had financing problems, due in part to the collapse of financial markets in 2008-9.



Community Benefits

BT's first act was to greatly improve telecommunications between city-owned assets while saving money. The City now has every building connected with at least 100Mbps connections and 1Gbps connections to the schools and a few other buildings. It pays \$900/month for the 100Mbps and \$950 for the 1Gbps to BT – which is approximately BT's cost to offer the service.

In the absence of BT, the City would need to rent a DS3 at 45Mbps for between \$2600-\$3400 a month. For the twenty 100Mbps connections, the City would have to pay three times as much for half the bandwidth. There are no Gigabit circuits in Burlington from private providers, so the schools would have to greatly reduce their connections while also paying three times as much.

But let's put a market value on it – a gigabit connection in smaller market would run between \$8,000 and \$10,000. We'll use conservative estimates for a rough approximation.

These savings are not factored into whether Burlington has hit its ambition goal of having a positive free cash flow inside of five years. Sam Osborne, Principal of Osborne Associates, does market studies in Vermont and estimates BT saves the community over \$1 million each year in aggregate after combining the cost savings of BT customers and competitive cable environment. Combined with the municipal

Market Value

20 bldgs @ 100Mbps x \$2600/month x 12 = \$600,000/year
16 bldgs @ 1 Gbps x \$8,000/month x 12 = \$1.5 million/year

Total: \$2 million/year

Burlington Telecom

20 bldgs @ 100Mbps x \$900/month x 12 = \$216,000/year
16 bldgs @ 1Gbps x \$950/month x 12 = \$180,000/year

Total: \$400,000/year

Telecom savings are in excess of \$1.5 million per year.

City Hall, Live and VOD

Not only does BT carry live meetings from City Hall, they are available via video-on-demand and are actually indexed, allowing citizens to easily find the part of the meeting in which they are interested.

savings over the market value of their telecom services and the community is saving some \$2.5 million a year because of BT. This savings all stays within the community but is not reflected on BT's balance sheet.

Finally, BT offers a lower price than competitors while offering more channels, faster Internet speeds, and local customer service. And they do it without hidden fees!

Why does it take so long to turn a profit?

Put simply, no one makes a profit in the first few years. Public or private. And business plans always have to adapt to a chaotic environment.

Connecting a new customer to the network costs between \$1500 and \$2000 due to the labor costs of connecting the wire to the house from the pole, internal wiring to bring the connection inside, and the electronic device to receive the signal from the central office.

Prior to adding HD and DVR capabilities, BT had an average of \$87/month of revenue from its residential customers and each customer requires about \$28 worth of content per month. Ignoring the additional costs of running the network, each customer requires 2-3 years just to pay off the initial connection cost. It takes somewhere around three years before BT finally starts to generate net income from that residential customer. And they are connecting forty new customers each week.

These costs are all in addition to the costs of running fiber all over town and building an expensive head end to shelter even more expensive electronic equipment. Again, turning a profit inside of five years is rare.

Management Changes

Burlington outsiders have been puzzled at the way in which Nulty left Burlington and the criticism that has followed him in the *Burlington Free Press*. This reflects local power struggles and strong egos more than any problem with Burlington Telecom. Nulty left BT because he prefers building networks to administering them.

The new Burlington Telecom management has decided to be more aggressive with a commercial sales force and reflects a less entrepreneurial attitude. Meanwhile, Nulty is working on a new network to connect 23 mostly rural towns in East Central Vermont.

The East Central Vermont Fiber Network has just signed a contract with Atlantic Engineering Group to build the network. The fixed price construction contract reflects the solid network design and respect AEG has for Nulty's ability to build a network. AEG should know, they have built 16 municipal fiber networks, making them an industry leader in this field.

Conclusion

Burlington Telecom's value is inescapable – offering services to the City that otherwise would not exist locally from private providers at costs considerably less than the inferior services that are available.

Burlington's citizens and business now have faster Internet connections at cheaper prices, more channels from local programming to international, and do not have to play games on their bills with hidden fees or worry about prices going up after being locked into a yearlong contract. If they have a problem with the network, they can talk to the mayor or citizen-advisory committees for redress. When they have problems, they talk to someone in their town who will actually work with them to resolve the issue.

About ILSR and the New Rules Project

The Institute for Local Self-Reliance (ILSR) is a nonprofit research and educational organization that provides technical assistance and information to city and state governments, citizen organizations and industry.

Since 1974, ILSR has researched the technical feasibility and commercial viability of environmentally sound state-of-the-art technologies with a view to strengthening local economies. ILSR works to involve citizens, governments and private enterprise in the development of a comprehensive materials policy oriented toward efficiency, recycling and maximum utilization of renewable energy sources.

established the New Rules Project to foster greater civic participation and an increased emphasis on the importance of our local economies. **Learn more at** <http://www.newrules.org>

In 1998, ILSR



2010 Update

In late 2009, Burlington's City Council learned that the Mayor's Administration had been hiding Burlington Telecom's financial problems. After Tim Nulty left BT in 2007, the Mayor's Administration reversed Nulty's philosophy of transparency. Because BT was technically a project of the Clerk-Treasurer office rather than a full-fledged city department, the City Council was limited in oversight capabilities. BT's new management was less cooperative with both the City Council and citizen oversight boards.

In anticipation of a coming debt restructuring in 2008, the City began lending BT funds from its internal pool of funds (as it does with other city departments). However, the collapse of financial markets in 2008-2009 prevented the City from restructuring BT's debt. The Mayor's Administration decided to continue lending funds to BT so it could continue connecting new subscribers. This decision violated the City's Certificate of Public Good, which limits the city in ways the private sector is not limited: the City cannot self-finance network expansion.

Burlington Telecom is now in a difficult position. The City has lent the network \$17 million (which

continues to accrue interest just as any other City Department's debt would) and it owes some \$30 million to Citi.

However, as this fact sheet notes, BT continues to produce more than a million dollars in benefits to the city that are not accounted for in the official spreadsheets. Further, BT pays the City a variety of fees and taxes (Payment in Lieu of Taxes, specifically) to the City that incumbents fail to pay. BT has attracted businesses and residents into town because it has offered faster speeds (especially upload) and better reliability than incumbent providers.

BT has produced many benefits for the community in the face of great odds, including competing against the largest Internet service provider in the country while being limited in how it can fund expansion. Nonetheless, oversight is an important responsibility; BT has proved that.