

CROSSLAKE COMMUNICATIONS ADVISORY BOARD / COUNCIL MEETING
TUESDAY, JULY 28 2015

The Regular Meeting of the Crosslake Communications Advisory Board was called to order at 8:00 am by Chair Mike Winkels. Members present: , Chair Mike Winkels, Mike Myogeto, Steve Kollmann, Jim Talbott, Ann Schrupp, Dave Fischer. Absent was Doug Benzer. Also present were General Manager Kevin Larson, Local Manager Debby Floerchinger, Accountant Cyndi, Perkins, Council Liaison Brad Nelson, Mayor Steve Roe, Council Members Dave Schrupp, Gary Heacox , Mark Wessels, Finance Director/Treasurer Mike Lyonaise, Helen Fraser, Patty Norgaard, Jason Atwater from CTC and Jean Edlund from Fox Sports.

Actions Taken

- 1. The Advisory Board recommends to the City Council that a subcommittee be formed consisting of City Council Liaison, City Council member, Advisory Board Chair, General Manager and Local Manager and that the subcommittee would have authority to call upon City and Communications staff as needed.**
- 2. The Advisory Board recommends to the City Council that Seaton Law be added to the 2015 List of Professional Organizations Assisting Crosslake Communications.**

The Minutes of the June 30, 2015 Regular Meeting were reviewed. Jim Talbott moved to approve the Minutes of the June 30, 2015 meeting as presented. Second by Mike Winkels. All in favor, motion carried.

The June 2015 Financial Statements were reviewed. Cyndi reviewed at length the quarterly update of the budget versus actual financial statement. Mike Myogeto moved to approve the June 2015 Financial Statements as presented. Second by Ann Schrupp. All in favor, motion carried.

The June 2015 Check Disbursements were reviewed. Ann Schrupp moved to approve the June 2015 Check Disbursements. Second by Mike Winkels. All in favor, motion carried.

- 1) Operations Report.
 - Debby updated the Advisory Board on County Road 36, and the conversion of the electronics on the existing fiber plant.
 - She reported that Paulette from CTC has continued reaching out to our business customers to review their bills and service.
 - The Annual Open House is August 12th and we are serving a picnic lunch this year. We are making it a family event with games for the kids.
- 2) Fox Sports North – Timberwolves. Jean Edlund from FSN updated the Advisory Board on an Agreement Option to add 25 Timberwolves games. FSN is the regional provider of Twins, Timberwolves, Wild and Gopher games. For the last two years FSN acquired additional games. FSN owns all the content for the sports teams in the area. When they acquired those games, their costs went up. They in turn pass the costs on to the operators who in turn pass the costs on to the subscribers. Because it is in the middle of

our existing contract we have the right to accept or decline the additional games and not take on the additional costs. Last year we declined to take the additional games. Jean reported that there were several companies that took that same position last year and some opted in the additional games. This year Jean shared that there is increased excitement about the team with the addition of Kevin Garnett, home town favorite Tyus Jones and securing the number 1 NBA Draft pick. Recently there was a scrimmage held on a weeknight they drew over 15,000 attendees. Under our current contract we receive 50 games. The Advisory Board expressed concern about the costs versus the number of people who may be interested in basketball. Kevin pointed out that if we opt in, we will get all of the games but will not start paying until January 2016 and will pay for the whole calendar year. Our current agreement ends December 2016 at which time, all games will be built into the new contract negotiations and will have a new rate per subscriber. Management staff will continue to review and bring the Board a recommendation in the next month or two.

- 3) Review of O&T Presentation from June Meeting. Kevin reported that since our last meeting, there are no updates in negotiations between the Industry and the FCC. Chairman Wheeler has stated that he wants a decision made on Universal Service Fund reforms by the end of the year. The concerning part is the models they are promoting would have a negative effect on Crosslake where our current support payments would go from \$215,000/year to \$96,926/year. Keep in mind that USF was designed to bring comparable services at comparable rates to rural America. Under these proposed reforms, the FCC is trying to use the current dollars in that fund to incent other companies to push broadband into un-served and underserved rural areas. Kevin reminded the Board that with this uncertainty of support, we cannot do a financial pro forma to apply for loan dollars to build out the rest of our territory with fiber optic cable.
 - Kevin shared with the Advisory Board that during the joint meeting today, he will be asking the City Council about their vision for Crosslake Communications. In order to develop a vision, he recommends that the Advisory board recommend to the City Council that they appoint a subcommittee of the Advisory Board chairman, Advisory Board Liaison, a council member and Kevin and Debby to research options to develop a vision and come back to this Board who in turn can make a recommendation to the City Council. Mike Myogeto moved to recommend to the City Council that a subcommittee be developed to research options to develop a vision for Crosslake Communications. Second by Jim Talbott. All in favor, motion carried.
- 4) Addition to List of Approved Consultants. Debby reported that in February we recommend to the Council a list of professional organizations we work with (engineers, accountants, attorneys, etc). We are recommending that we add Seaton Law to the list. Ann Schrupp moved to recommend to the City Council the addition of Seaton Law to our List of Professional Organizations Assisting Crosslake Communications. Second by Mike Winkels. All in favor, motion carried.

OTHER BUSINESS

- 1) Landscaping – Grounds Cleanup. Debby reported that the City staff has been busy cleaning up the exterior of our building. They are doing a great job giving the landscaping a facelift!
- 2) Kevin reported that there was an Internet service outage that occurred on Saturday. The Internet was down in Chicago so all traffic routed through them was down. All issues were resolved within 20 minutes.
- 3) Steve Kollmann said we want to provide everything but should it come a time that we cannot afford that, have we looked at the customer base to see how they would prioritize the services? Kevin said in the last 20 years, the customer's priorities have changed along with the services we provide. Telephone was important, then cable TV, today if Internet isn't working they call, cable TV would be second and then telephone. Cable TV probably won't be around in the future but it is too early to consider eliminating that service

OPEN FORUM

The next meeting is scheduled for Friday, August 28, 2015 at 8:00 am at Crosslake Communications.

The meeting was recessed at 8:57 am for a short break.

Council Members Mark Wessels, Gary Heacox, Dave Schrupp, Brad Nelson and Mayor Steve Roe joined the Advisory Board meeting for a Joint Advisory Board/City Council Meeting. Mayor Steve Roe called the City Council meeting to order at 9:03 am. Advisory Board Chairman Mike Winkels reconvened the Advisory board meeting.

Also present were Dan Vogt, Char Nelson and Kate Perkins.

Kevin Larson presented a PowerPoint presentation to the Council and Advisory Board with the goals of reviewing the April 28th Strategic Planning Meeting, reviewing updated Internet usage data, reviewing Universal Fund Support mechanisms, city fee recommendation and a vision for moving forward.

Kevin stated that during the April meeting, Mike Romano of NTCA works tirelessly in Washington DC negotiating at the FCC to try and make sure companies like Crosslake continue to receive support payments from the Universal Service Fund (USF) to keep comparable services at comparable rates in rural America as we find in urban areas or more densely populated areas.

During that same meeting Andy Rangen of 7Sigma educated us on the unbelievable growth of Internet usage, the continual growth of connected devices and how those are intertwined in our daily lives. Andy also shared that currently in the world there are about 7 billion devices connected to the Internet with projections of 50 billion by the year 2020. (2020 is only 5 years away.)

Prior to February of this year Crosslake had 1 main Internet pipe to the world and it was only capable of hauling 350 megabits. CTC installed a second pipe with unlimited capacity. We experience immediate usage growth which proved that our back office was "choking" our customers' ability to fully utilize the Internet.

Also since April 1, we have added 130 new broadband customers that have contributed to the usage growth. Kevin reminded everyone of the email that Debby sent out after the 4th of July weekend showing we hit 1 gigabit of data usage both Saturday and Sunday evenings and received only 1 Internet trouble call. Last year over the 4th, we had numerous trouble calls that web pages would not load and along with reports of slow speeds.

Kevin then reported on our revenue streams. Over the past 30+ years Crosslake has lived on a 3-legged stool – local rates, USF and access revenues from the long distance carriers.

In November of 2011, the FCC passed an Order to Reform all three of the revenue streams. Access revenue will be phased out by 2019, local rates to be raised over three years in order to qualify for USF and finally the FCC is attempting to change how they distribute the USF funds.

Kevin then reviewed a presentation that Tom Farm made to the Advisory Board in June. Tom reported that Crosslake currently receives \$215,000 of USF support. The current FCC model, if implemented, shows our support would decrease to \$96,926. The industry continues to meeting with the FCC. Chairman Wheeler has stated that he wants a decision by year end on the proposed reforms! We do not have enough information or certainty to develop a financial pro forma at this time to request loan dollars to build additional fiber optics to the rest of the service area at this time.

Kevin reviewed the service area map of the existing fiber optic infrastructure in place today. About 40-50% of the City does not have fiber optics.

Kevin said that we have talked about the growth of the Internet and the only way to prepare for the year 2020 is through fiber optic infrastructure throughout our service area. We have also talked about the continual loss of revenues through the loss of access or long distance revenues and the uncertainty of Universal Support Funds which is 2/3's of our 3-legged stool of income.

Kevin outlined the current debt and capital needs

• Bond Debt	\$2.485 Million
• Replace existing electronics in current fiber area	\$1.2 Million
• Fiber Optic build to customers outside City limits	\$3.2 Million
• Fiber optic build to remaining service area	<u>\$7.6 Million</u>
Total Projected Liability	\$14.485 Million

He also reviewed the future annual capital needs for road projects, annual plant upgrades, Internet bandwidth transport, 10-15% cable TV programming costs and upgrades for customers outside of the city limits.

Crosslake Communications City Transfer Fee. Kevin reminded everyone that at the June Advisory Board meeting, the Advisory Board made a recommendation to the City Council that the city fee be eliminated in 2016. Kevin reviewed charts of the impact on the tax payers if the City had not received the fee in 2015. Mike Winkels pointed out that not all residents use Crosslake Communications and therefore some residents are subsidized by the users of the Communication services. Through the years there are some people getting the benefit of the money that Crosslake Communications has paid the city.

- 1) Kevin shared the recommendation by the Advisory Board and asked the City Council to vote on the City Fee for 2016.
- 2) Kevin also shared that we would like the City Council to develop a vision for Crosslake Communications. Where are we going to go and how are we going to get there? Kevin stated that was an unfair question to ask today but he had a recommendation from the Advisory Board to appoint a subcommittee to research options for this vision. Their recommendation is that it would include the City Council liaison, another City Council member, the Advisory Board Chair and General Manager and Local Manager. The subcommittee would have the authority to call upon City staff and Communications staff as needed. Mike Winkels said part of the vision is going to be does the City still want to own the Telephone Company and still be involved or if they do not, what are the options going to be. We also need to consider what it is going to be in the best interest for the citizens of Crosslake. MOTION 07S2-01-15 WAS MADE BY BRAD NELSON THAT THE CITY OF CROSSLAKE ELIMINATE THE CITY TRANSFER FEE STARTING IN 2016. SECOND BY DAVE SCHRUPP. MOTION CARRIED 4-1 WITH HEACOX AGAINST.

MOTION 07S2-02-15 WAS MADE BY STEVE ROE THAT A SUBCOMMITTEE BE ESTABLISHED CONSISTING OF LIAISON BRAD NELSON, COUNCIL MEMBER GARY HEACOX, ADVISORY BOARD CHAIR MIKE WINKELS, GENERAL MANAGER AND LOCAL MANAGER. SECOND BY MARK WESSELS. MOTION CARRIED 5-0.

MOTION 07S2-03-15 WAS MADE BY MARK WESSELS TO ADJOURN THE MEETING AT 10:01 AM.

Mike Winkels moved to adjourn the Advisory Board meeting at 10:01 am.



Debby Floerchinger