**Readiness Evaluation and Recommendation for the Town of Rowe, ma**

**MBI Technical Project Manager:** Todd Corcoran

**Municipal Liaison:** David Dvore

**Grant Model Type:** MBI Managed

## MBI professional staff Recommendation

Rowe, operating as an Municipal Light Plant, has met the requirements identified in the Last Mile Program Guide, completed the readiness assessment process and the MBI Professional Staff recommends that the Rowe proceed with pole survey work, as managed by MBI.

## Evaluation

To receive financial support and state approval, broadband access projects must meet minimum baseline requirements as outlined in the Last Mile Program Guidelines.

### Project Model

Rowe has chosen the Independent Municipal Network model (Model D), and the town is open to potentially joining a regional collaboration in the future.

The choice of an Independent Municipal Network, as the model in the Readiness Submission Form, has been made for the purpose of demonstrating that Rowe can sustain its own network. It does not represent a final decision. The Town of Rowe reserves the right to choose a different model as more appropriate options become available.

### Project’s technology must provide access to minimum broadband speeds as defined by the FCC (25/3 Mbps)

Rowe has identified a preference for Gigabit Passive Optic Network (GPON). This technology meets the FCC minimum bandwidth requirements. Rowe’s network will offer voice and data services only.

### Project must be capable of demonstrating long-term operating sustainability without ongoing state subsidy

There are two key elements that will drive the sustainability of the project, costs per subscriber and take rate. These elements work together to determine the break-even costs.

#### Costs per subscriber

Rowe, a very unique town as compared to other *Last Mile* towns, has the capability and capacity to self-finance its projected town contribution of $860,000 for its broadband project. The self-financing decision, approved by the Department of Local Services, is not new to the town. Rowe has self-financed projects in the past such as the addition to Town Hall and the construction of the Fire Department.

Rowe has projected the initial break even cost per subscriber in year one to be estimated at $89.37 at a 75% take rate. The cost per subscriber decreases in year two and year three if there is an increased take rate. A projected take rate of 80% in year two leads to a rate of $88.04 per month and a take rate of 85% in year three leads to a projected take rate of $86.92 per month. However, the monthly rate increases in years four and five, even with a steady take rate of 85%, due to inflation, projected to be 3%. Thus, in years four and five the monthly rate will increase from $88.17 to $89.46 if the network experiences an 85% take rate.

MLP expense projections were primarily calculated utilizing Leverett’s model with some recommendations provided by the MBI. There are four large expense items which towns need to consider; insurance, depreciation, network operator, and contingency.

Rowe plans on utilizing MIIA as their insurance provider and is working through the process in obtaining estimates for their broadband network. At this point, estimated cost of insurance was calculated via Leverett’s model with a cost factor of $442/route mile with a total of 29 route miles estimated for the town of Rowe. This cost is estimated at $12,818 annually with an inflation increase of 3% each year thereafter.

Rowe will cover depreciation reserve by including assets in their Capital Stabilization Plan which includes all existing capital equipment paid for by taxpayers, so this expense will not be paid out of subscription income. Rowe again is unique where the bulk of the towns’ tax income comes from several hydro-electric utilities and the recently decommissioned Yankee Nuclear Power Station. This tax income will ease the burden on the subscribers. Rowe is expecting the useful life of the fiber plant to be 33 years, and 10 years for the electronics. The depreciation amount of the fiber plant and electronics is to be set at 3% percent as required by G.L. c. 164, § 57. It is the opinion of the Town of Rowe that should a major replacement of the plant or electronics be needed in the future, Rowe could pay for the replacement out of their existing finances or borrow money if required. Hence, it is also the opinion of MBI that Rowe will be able to replenish the fiber plant and the electronics, based on Rowe’s financial stability, when required.

Rowe will utilize an estimate from the MBI for network operator fees in the amount of $20,000 annually with an additional $36.00/drop x 212 drops in year one for operations and maintenance equaling $5,751 annually with an inflation increase of 3% each year thereafter.

Rowe has determined it will recover an amount equal to 5% of its operating cost for its contingency which equals $4,050 annually with an inflation increase of 3% each year thereafter.

#### Take Rate

Rowe has projected their initial take rate at 75% in year one, 80% in year two, and 85% in years three through year five.

Through a previous presubscription campaign, 114 residents have made a refundable $49 deposit for service, representing 50% of available units. With no promise of service and many years before it is expected to be available, a large fraction of residents were willing to make a deposit. This, along with a unanimous vote in favor of debt authorization demonstrates a high demand for internet service.

MBI has not independently validated Rowe’s key sustainability assumptions.

### Project must be affordable

Rowe is a relatively affluent town within its region, and as previously stated, is financially stable. The median household income in 2013 was $59,286, slightly under to the state median of $66,768, and slightly higher than the median in Franklin County of $54,072.

Currently, there are no true broadband options available to residents of Rowe. Approximately two-thirds of the town have access to DSL up to 3Mbps and the remainder of Rowe residents only have dial-up or satellite services where available. Verizon is not accepting any new DSL accounts and will be discontinuing this service in the next few years. A typical Verizon phone and DSL bill costs approximately $80. Satellite has high latency, is not sufficient for VOIP or other real time applications and has very limited data caps. Despite its deficiencies, satellite service costs more than DSL and averages $70 for 10 Mbps of service with a 15GB data cap, excluding the $9.99/month equipment lease fee, per the HughsNet website. There are quite a few residences that cannot get DSL service and do not have line-of-sight to satellite, so they have no other option except dialup and are desperate for service that can address modern needs for connectivity.

### Project should seek a minimum goal of 96% residential coverage in its service area

Rowe plans to pass 100% of all homes on the public right of way; this meets the coverage requirement. In addition, Rowe plans to provide drops to 100% of its residents/businesses. These plans could change based on actual costs provided by the design/engineer.

### Financing Endorsed by DLS

The construction budget estimate for this project is $1.08M, of which $220K will be paid for through the Last Mile Grant program and $860K will be self-financed by Rowe. The finances for this project will come from a combination of sources such as Free Cash, Stabilization Fund and Capital Stabilization Fund. DLS has provided approval indicating that Rowe can afford to self-finance this amount.

With the ability of Rowe to self-finance its broadband project, there is no requirement for the town to obtain a “Green Light” letter from bond counsel.

## Risks and Considerations

Rowe should consider the following in making its decision to move forward:

1. The costs provided in the sustainability model are largely based on estimates from Leverett; we recommend that Rowe obtain independent vendor quotes based on its particular demographics and project size to refine the expected expense projections.
2. Rowe has projected a take rate of 60%, in part based on a prior presubscription campaign which was based on the $49 cost of service which resulted in a 44% take. We recommend that Rowe consider a follow up to those subscribers to determine if the additional cost negatively affects their desire to take service as part of this network.
3. G.L. c. 164, § 57 requires MLPs to use a depreciation accrual rate of three percent. The same statute authorizes the Department of Public Utilities (DPU) to approve a larger or smaller amount for depreciation upon application by the MLP. If Rowe plans to use depreciation percentages above three percent, (i.e. fiber plant and electronics), Rowe must file a petition with the DPU for approval.

## Next Steps

Prior to utility license application submission, the Town of Rowe and MBI need to take the following next steps based on the anticipated dates provided:

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| Rowe and MBI to execute Memorandum of Agreement to proceed with pole survey work | 9/16/16 |
| MBI and Rowe to execute a Project Agreement between Rowe & MassTech | 10/28/16 |
| Rowe to secure funds prior to make ready estimate payment and provides 30% of the towns project contribution to MBI for the make ready payment contingent upon successful execution of the Project Agreement between Rowe & MassTech | 12/23/16 |
| During this pole survey phase the MBI and Rowe will develop a timeline around Make Ready, Design and Construction of the network | |

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| TOWN OF ROWE, MA | MASSACHUSETTS TECHNOLOGY COLLABORATIVE |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Last Mile Town Designee | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  MBI Technical Team Project Manager |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Chair, Board of Selectmen | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  MBI Board Chair |