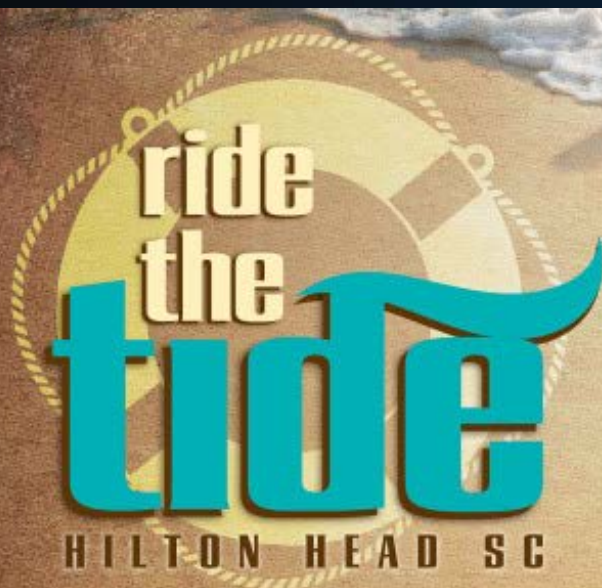




Enterprise Forecasting: Never More Critical than Post USF Reform



Steve Meltzer
Senior Vice President
JSI
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Enterprise Forecasting

- As RLECs participate in greater and more varied lines of business, it is critical that Financial Analysis and Planning efforts improve and “Step up their Game”.
- Financial Forecasting and Planning needs to focus on both:
 - The overall performance of the entire Enterprise.
 - The performance of the component parts.



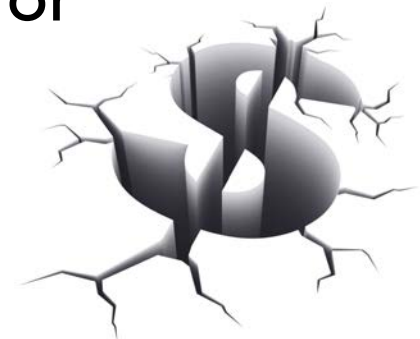
Enterprise Forecasting

- Viewing results from the total Enterprise is important because that is how outside stakeholders – shareholders, lenders, potential partners – determine the value.
- Measuring the performance of the individual parts is also important so as to determine the success or lack of success of the lines of business and to determine where resources are best deployed.



Replacing USF and Access Revenues

- With the ink now dry on USF Reform Order and implementation proceeding, it seems clear that opportunities to increase USF will be fairly limited going forward.
- Strategic Goal for all companies should emphasize creation of a free-standing business model that can be sustained in the face of decline and/or elimination of USF in the future.





Access Revenue Replacement

- Despite past efforts of many RLECs, USF and ICC revenues continue to represent a high proportion of overall revenues, and efforts that need to be made to replace or substitute these revenues need to be substantial in terms of the overall enterprise.
- Good planning efforts should quantify potential lost USF and develop realistic plans for replacement of these revenues.
- Access and USF is very difficult to successfully replace because it is essentially “Cost Free” revenue.



Replacing USF Revenues – a tough task !

At Risk Revenues Per Line - Peer Group

2,500-4,000 \$ 1,181

Assumed Access Lines 4,500

Supported Revenues \$ 5,316,606.67

Assumed EBITDA Margin 50%

Support Revenue Replacement Bogey \$ 10,633,213



	Desired Support Rev. Hedge			
	25%	50%	75%	100%
Customers Required	2,461	4,923	7,384	9,846

Assumes \$90 ARPU Per New Subscriber



Even Longer Term Post Access Reform Considerations

What succeeds the A-CAM?

What succeeds “Legacy support mechanisms?”

Are revenues and margins from
USF replaceable in current
business lines ?

What is your Plan ?





Long Range Planning

- The decisions we make in running our businesses have long range impacts:
 - Technology choices
 - Service offerings
 - Business opportunities and threats
 - Personnel changes



Looking Forward

- A multi-year Financial projection represents the best way to create a plan to be used to help manage your business.
- We need to create a culture of looking forward in an systematic and rationale manner so as to understand the long term ramifications of current decisions and actions.



If you
fail to plan,
you are planning
to fail.



B. Franklin

jmarkmiller.net



Where is your plan?

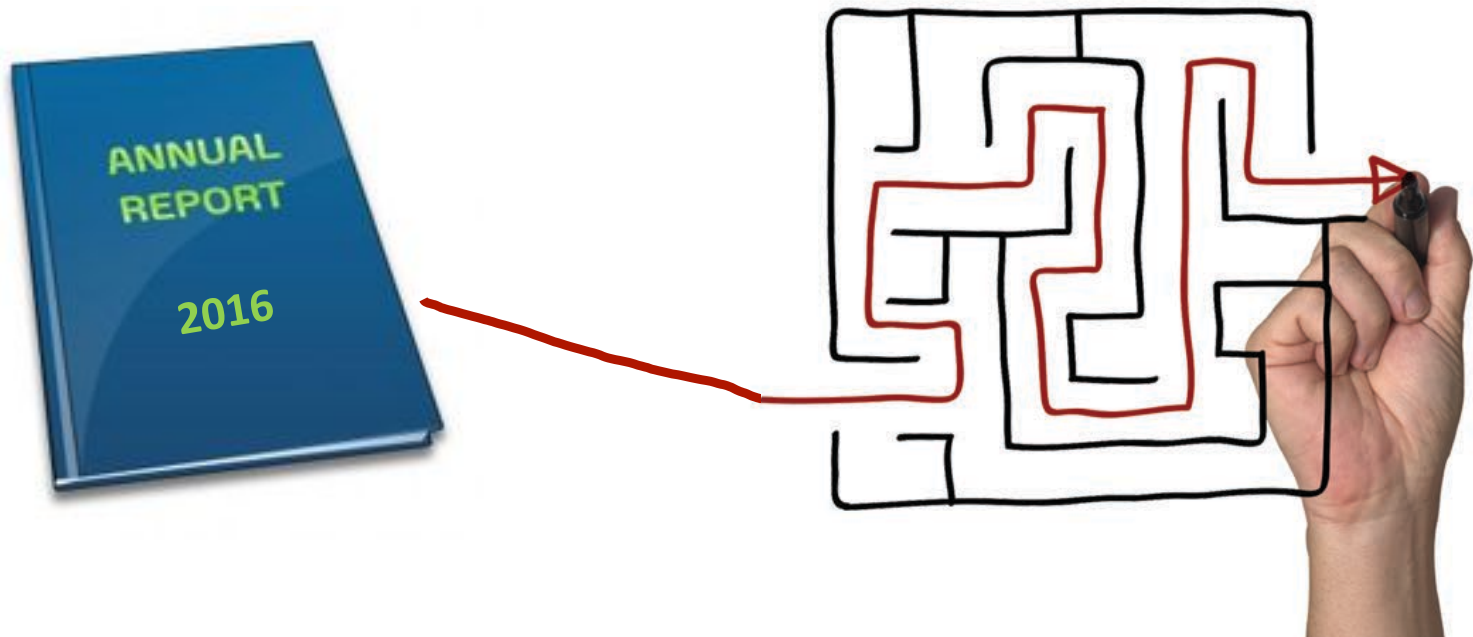
- Long Range Financial Forecasts represent the best place to capture all of the goals, expectations and plans of the Organization.
 - Forecasts should be the place where the full projected impact of all actions and decisions is quantified to the extent possible.
 - If the Long Range Plan is only seen by Accounting and/or GM, it will not serve intended purpose.
 - All long range Financial Planning should include all affiliates and/or subsidiaries, and not be restricted to ILEC.
 - The process of looking forward may ultimately be just as valuable as the initial document that is created.



From Financials to Plan

Financial Statements are backward looking by definition.

Can you convert them into a plan of action ?



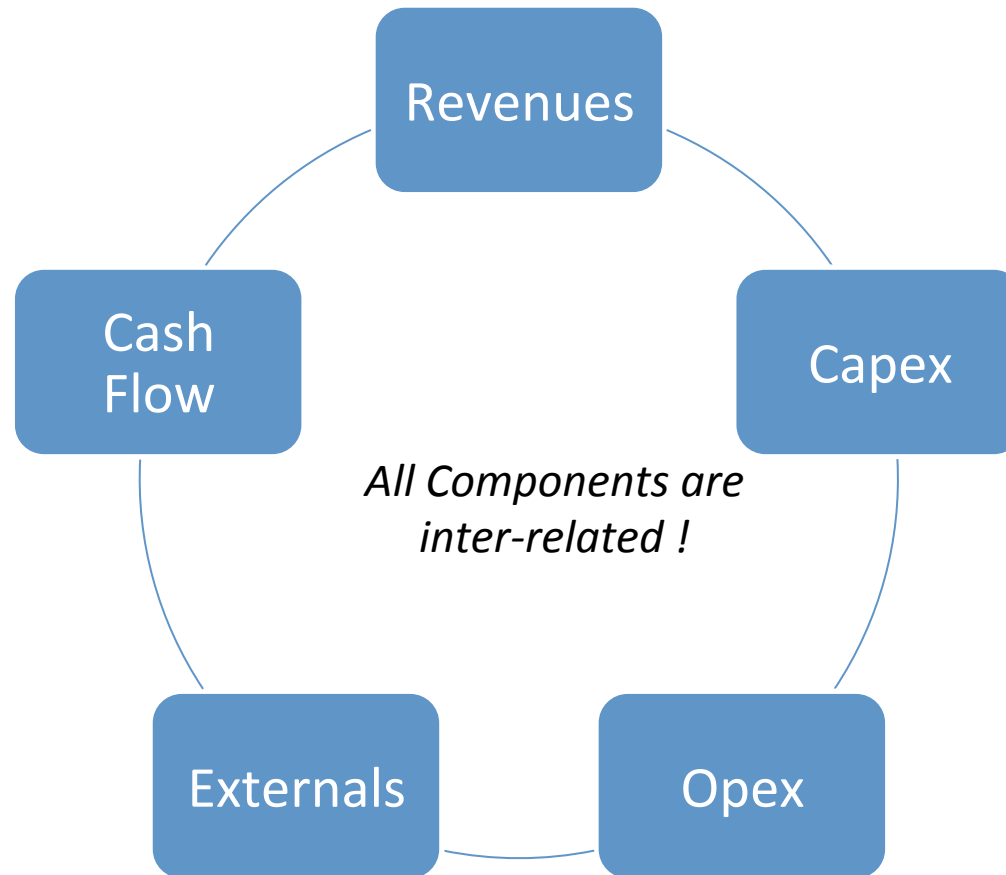


Creating the Roadmap

- Clearly understand the factors that drive your current financial statements.
- Research and document future variables to be factored into the plan.
- Understand parameters for success or failure.
 - Internal Expectations
 - External Requirements



Components of Long Range Forecasting





Revenue Projections

- Understand how revenues are created:
 - Rates and Demand Units
 - Resold Items:
 - CATV, LD
 - Settlements and USF
 - Some elements frozen, some will change based on CAPEX and OPEX inputs.
 - Regulatory Changes can be crucial.



Revenue Projections

- General process (applicable to all revenues)
 - Identify drivers
 - Identify historical demand
 - Identify issues that impact demand
 - Services, price, economic conditions, technology, competition, regulation, etc
 - Project demand based on above
 - Identify rates, current and future
 - Quantify revenues
- Model or Program needs to be able to “Toggle” as much of the above as possible.
- Document assumptions for future adjustments.



Accounting & Finance Role

- Ideally, Develop 10 year Forecast for both CAPEX and OPEX
- Should be inclusive of the total Enterprise, both regulated and non-regulated operations





Access Reforms and the Effect on Long Range Forecasting





Access Reforms and the Effect on Long Range Forecasting

Items to Consider:

- Rate of Return Reduction
- Competitive Overlap
- Operating Expense Caps
- Capital Investment Allowances
- Budget Control Mechanism
- Buildout Requirements



Potential Regulatory Changes:

Items Seeking Clarification from FCC

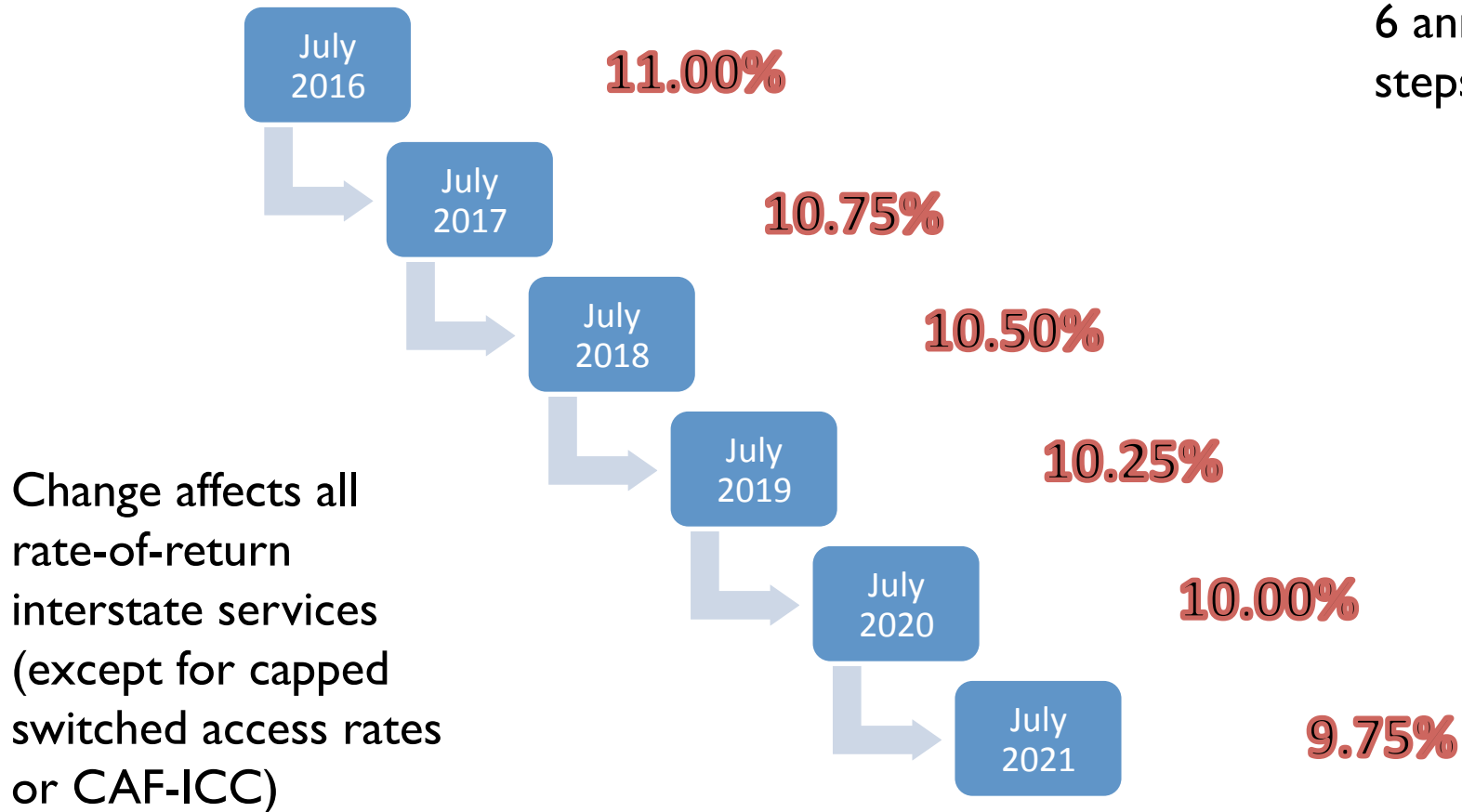
- Extension of time for HUBB location reporting
 - *Granted, now no sooner than March 1, 2018*
- Capital Investment Allowances
- Surrogate vs Actual Costs for CBOL Calculation
- Model Budget
- ARC Imputation
- Rate Floor
- DSL Retail Rate Offering





Rate of Return Reduction

Change
occurs in
6 annual
steps



A-CAM Electors...Model incorporates 9.75% Rate of Return



Competitive Overlap

Census Block Identification Example

Green = fully funded areas
Light blue = capped locations
Orange and pink are competitive or below \$52.50.

Total Locations	9,012
Locations Knocked Out by the \$52.50 Low	2,347
Eligible Locations After \$52.50 Knockout	6,665
Additional Locations Knocked Out by	135
Total Eligible Locations	6,530
61.2% Lacking 10/1	

Image Landsat
© 2016 Google

Google earth

Imagery Date: 4/9/2013 36°00'42.73" N 93°04'22.50" W elev. 1073 ft eye alt 89.02 mi



Support Eliminated in Areas Served by a Qualifying Competitor



- CAF-BLS (not HCLS) is eliminated for all locations in a census block if a qualifying competitor offers qualifying voice and broadband service to at least 85% of the residential locations in a given census block
- Qualifying unsubsidized competitor defined as a facilities-based provider of residential fixed voice and broadband service that does not receive high-cost support – CFR §54.5
- The Wireline Competition Bureau (WCB) shall publish a list of potentially affected census blocks and identify the competitor(s) at issue in each such census block
 - based upon Form 477 census block availability data
 - investment and expenses from these census blocks would be excluded from CAF-BLS only settlements



Competitive Knockout Process

- Unsure as to when WCB will issue a Public Notice containing list of qualifying competitors – no CETCs receiving support or affiliates will be listed
- Competitor has the burden of proof and would have to affirm appearance on WCB's preliminary list with specific data
 - Competitor will be required to certify they are offering service to at least 85% of the locations in the census block, and must provide evidence sufficient to show the specific geographic area in which they are offering service.
 - Footnote 258 of the Order ...*Documentary evidence should provide information sufficient to identify the geographic area where service is offered, such as a map of a local franchise area, street addresses or other information that would enable interested parties to determine the specific area allegedly served on a map*

A-CAM excludes support for census blocks with unsubsidized competitor



Operating Expense Limitation

- Double-log regression using 1.5 standard deviations to determine limits to HCLS and CAF-BLS payments
- FCC initial estimate of 50 study areas impacted by opex limitation
- Companies affected notified by USAC September 7th

Does not impact A-CAM electors



Capital Investment Allowance

- December 6, 2016 PN with company specific CIA
- CIA is the maximum amount of capital investment expenses that may be included for HCLS and CAF-BLS
- Effective January 1, 2017

2017 Capital Investment Allowance										
2015 Year End Data										
SAC	NAME	AALPI	BB Deployment AALPI Adjustment	BB %	Adjusted AALPI	Maximum Average Per Location Construction Project Loop Plant Investment Limitation	Loop Cap Adjustment	Constructio n Limit Factor	Locations	Gross Investment Per Loop- ALL ROR
100002	OXFORD WEST TEL CO	\$3,600,676	\$1,708,237	26.95%	\$5,308,913	\$4,100	1.00	0.41	8,690	\$4,562.54
100003	LINCOLNVILLE TEL CO	\$6,548,123	(\$807,529)	86.72%	\$5,740,594	\$4,500	1.00	0.45	14,385	\$4,562.54
100007	ISLAND TEL CO	\$677,244	\$503,802	0.00%	\$3,296,524	\$7,300	1.00	0.73	917	\$4,562.54

Does not impact A-CAM electors



Budget Control Mechanism

- Public Notice released 6/29/16
- Became effective on 9/1/16
- Reduces high-cost support (HCLS & ICLS) to all RoR LECs due to projected payments exceeding annual \$2B budget
- NECA has estimated that Legacy support requirements currently exceed the \$2B budget by as much as \$140m
- How much will the *haircut* percentage change?

Does not impact A-CAM electors



10 Year Revenue Forecast

Access Element or USF	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	10 Year Total
Operating Revenues											
Local voice services revenue	\$824,979	\$790,567	\$757,393	\$726,805	\$697,341	\$669,002	\$640,663	\$613,674	\$589,158	\$566,217	\$6,875,799
CAF BLS/Network Access revenue @ 11.25%	\$2,440,593	\$3,360,636	\$4,383,305	\$6,196,939	\$6,449,349	\$6,142,701	\$5,764,124	\$5,266,059	\$5,088,954	\$4,890,458	\$49,983,119
HCLF	\$465,902	\$517,591	\$835,804	\$926,385	\$950,088	\$428,083	\$0	\$0	\$0	\$52,343	\$4,176,196
Toll/Long distance revenue	\$294,833	\$309,820	\$323,990	\$338,451	\$352,046	\$364,743	\$377,681	\$389,672	\$400,682	\$411,888	\$3,563,806
CLEC revenue	\$88,450	\$92,946	\$97,197	\$101,535	\$88,012	\$91,186	\$113,304	\$136,385	\$180,307	\$226,538	\$1,215,860
Video revenue	\$653,394	\$727,564	\$790,690	\$863,729	\$943,647	\$1,030,485	\$1,125,358	\$1,228,939	\$1,341,951	\$1,465,172	\$10,170,929
Dial-up revenue	\$1,424	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,424
Broadband revenue	\$704,847	\$758,139	\$792,721	\$836,973	\$869,235	\$889,474	\$910,938	\$931,471	\$953,810	\$980,856	\$8,628,464
Wireless I-Net revenue	\$5,175	\$5,226	\$5,279	\$5,331	\$5,385	\$5,438	\$5,493	\$5,548	\$5,603	\$5,659	\$54,137
Data Center Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other operating revenue	\$437,129	\$439,945	\$440,249	\$443,387	\$446,296	\$448,971	\$452,595	\$457,344	\$463,931	\$472,546	\$4,502,393
Less uncollectible revenue	\$10,596	\$11,362	\$13,122	\$13,459	\$13,639	\$13,727	\$13,832	\$13,908	\$13,980	\$14,133	\$131,759
Total Operating Revenues	\$5,906,129	\$6,991,072	\$8,413,505	\$10,426,077	\$10,787,760	\$10,056,356	\$9,376,323	\$9,015,184	\$9,010,417	\$9,057,545	\$89,040,368
RoR Phase-In Impact (CAF BLS/HCL)	(\$38,912)	(\$72,969)	(\$227,971)	(\$306,260)	(\$357,848)	(\$328,026)	(\$274,833)	(\$230,009)	(\$186,655)	(\$144,522)	(\$2,168,005)
Opex Limitation Impact (CAF BLS/HCL)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Capex Limitation Impact (CAF BLS/HCL)	(\$385,973)	(\$360,042)	(\$1,002,967)	(\$652,163)	(\$628,030)	\$0	\$0	\$0	\$0	\$0	(\$3,029,175)
CAF BLS Competitive Overlap Impact (CAF BLS)	(\$194,735)	(\$259,841)	(\$349,680)	(\$477,263)	(\$495,762)	(\$440,243)	(\$386,196)	(\$352,826)	(\$340,960)	(\$331,168)	(\$3,628,674)
Budget Control Mechanism (CAF BLS/HCL)	(\$176,532)	(\$176,532)	(\$176,532)	(\$176,532)	(\$176,532)	(\$176,532)	(\$176,532)	(\$176,532)	(\$176,532)	(\$176,532)	(\$1,765,320)
Total Legacy RoR Support Mechanism Reforms	(\$796,152)	(\$869,384)	(\$1,757,150)	(\$1,612,218)	(\$1,658,172)	(\$944,801)	(\$837,561)	(\$759,367)	(\$704,147)	(\$652,222)	(\$10,591,174)
Total Net Revenues	\$5,109,977	\$6,121,688	\$6,656,355	\$8,813,859	\$9,129,588	\$9,111,555	\$8,538,762	\$8,255,817	\$8,306,270	\$8,405,323	\$78,449,193



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Total Net Revenues	\$5,109,977	\$6,121,688	\$6,656,355		\$8,306,270	\$8,405,323	\$78,449,193



Items for Consideration

- Broadband Deployment (Buildout) requirements, both Legacy and A-CAM support mechanisms have buildout requirements for unserved and under served locations
- Will funding support buildout requirements?
 - For both A-CAM and Legacy very important you review buildout requirements and projected funding levels.



Items for Consideration –cont.

- For companies with more than one Study Area in a State the A-CAM results are on Statewide basis while Legacy remains on Study area by Study area basis.
- A-CAM support is set for next 10 years
 - What happens after year 10? TBD in FCC proceeding projected for year 8
- Legacy ICLS replaced by CAF-BLS



Questions?

Thanks,

smeltzer@jsitel.com