

MINUTES OF THE CC COMMUNICATIONS MANAGEMENT

155 N. Taylor St., Fallon, NV 89406
April 29, 2024

Call to Order:

PRESENT: Commissioner Myles Getto
Commissioner Justin Heath
General Manager Mark Feest
Chief Financial Officer Jamie Hyde
Administrative Assistant Shelly Bunyard
ABSENT: Commissioner Harry Scharmann

Public Comment:

Chairman Myles Getto asked if there was any public comment but there was none.

Verification of Posting of Agenda:

It was verified by Shelly Bunyard, Administrative Assistant, that the Agenda for this meeting was posted on the 23rd day of April, 2024 between the hours of 1 p.m. and 5 p.m. at all of the locations listed on the Agenda, in accordance with NRS 241.

Consideration and possible action re: Approval of Agenda as submitted or revised:

Commissioner Justin Heath made a motion to approve the Agenda as submitted. Commissioner Myles Getto seconded the motion, which carried by unanimous vote.

New Business:

A- Consideration and possible action re: Presentation of the 2024 - 2025 Fiscal Year Budget Workshop

Mark Feest, CC Communications. We are going to go over our budget process; overview of the budget; revenue forecasts; financial overview and capital budget; and our plans and programs. Our budget is broken up into Tel Fund, Broadband Fund, Long Distance Fund and CAP fund. The CAP fund is the revenue and expense outside of Churchill County.

Telephone Access Lines – This is a slide that shows access lines. This slide demonstrates what has happened to the traditional line of business which was Telephone Access Lines. They have been going down now for many years and it is still something that impacts us. The revenues have gone down significantly and continue to go that way. These revenues need to be made up with new products and services being sold in new locations.

TEL Declining Revenues – This slide is a demonstration of declining TEL fund revenues. End User Access is on the top then below that is Local Service, Interstate Access, and Directory. The reason these four revenues are called out here, is because these are areas where we have zero control over those revenues. It's a change in products that customers want as well as a change in regulatory regime. End User Access and Interstate Access are line items where we were getting paid for phone calls that originate off network. For example, AT&T had to pay us because our network is more expensive to put together than AT&Ts. Those revenues have declined from FY

2022 – Budget 2025 is \$1,103,448.00. We have the new revenues going like CAP Fund and CBOL to help make up those Tel revenues that will be going away over a period of time is \$1,103,448.00. Just between last year and this current FY, we have an annualized amount of \$483,397.00 less in these types of revenues. From 2022 to 2025 the amount is \$1,103,448.00 but just in the last year it's \$483,397.00. Between 2023 and 2024 our operating expense less the depreciation, we have an annualized amount of \$516,942.00 increase in expense. The losses that we had from last years Tel Revenue and with the expense increases, we actually just come up with \$1,000,339.00 for the year. We have to make this up in other areas like the CAP revenue. The annualized net income increases in this years CAP fund, it will be \$944,656.00. We almost make up the money, however we did all this work to generate all over \$2 million of new revenue, \$944,000.00 of it being net. We still had \$1 million we had to make up in lost traditional revenues and increased expenses.

2024-2025 Budget Process – We use incremental budgeting that is based on target market characteristics, strategic goals and changes to regulatory regime. The projections in the FY 2025 budget are primarily driven by the continued implementation of CBOL support mechanism, Elko/Spring Creek deployment and the evolution of the communications industry.

Significant Factors Impacting Budget Process Overall – It's the further development of Elko, Spring Creek, Storey County and Tribal Grant opportunities. We project we are getting close to the bottom of traditional Tel revenues declining. We still have to develop the other revenues to off set to increase net income going forward that creates the demand on cash. Continuation of CBOL – We are to the point that most residential customers are no longer having the phone line service. There are not a lot of POTS phone lines left. Finally FTTH Buildout – It is necessary to fully provide CBOL service. To use CBOL, you really have to have a fiber home. We don't have a lot that are not fiber right now. We're currently looking at apartment complexes. The internal wiring on the complexes makes it very difficult provide FTTH to individual units. Copper is basically just daisy chained all through out the building. FTTH you install fiber to the building and then you just go with the internal copper. You can't do that in apartment buildings because of the way they have daisy chained individual units to each other.

Significant Factors Impacting Budget Process from FY 2024-2025 Budget: TEL – Capital requirements for out of area FTTH projects. There is only so much cash that goes to FTTH outside the county that can't be spent inside the county which impacts Tel. We are pretty much done with FTTH, from a conduit and fiber standpoint within the county. We're to the point now, where we are upgrading cabinets to make them better in the future by increasing redundancy and reliability. Other impacts include continued customer preference for CBOL; changes to the Regional long-haul landscape; staffing requirements and moving capital projects from TEL to CBB and CAP and the impact on cash flow.

Mitigation: TEL (1) – We are mitigating the Tel revenues by doing Elko/Spring Creek; continuing to seek grant funded projects and also working on improving how we can be better at messaging across the board to customers. We are also continuing our transition to CBOL and continuing grant opportunities in CAP/outside Churchill County.

Accomplishments (1) – We recently signed the Storey County Agreement. You may have seen in the news that OSIT has announced funding for Storey County. It is for two locations that are government buildings that are not Storey County Buildings. Storey County didn't want to go with the group OSIT selected. There is no funding to go off that path, other than those two locations.

We are in the environmental phase for two of the tribal grants. We are greater than 10% on completing the Spring Creek Association build out. We have surpassed \$2 million in new out of area revenue and \$944,000 of that is net. Again, that takes us back to the million dollars of lost revenue in traditional as well as those increased expenses that have to be offset. We have also completed the initial City of Elko FTTH deployment.

Accomplishments (2) – We are continuing to complete the Transport Gear Phase I. That is all staged and is now awaiting vendor professional services to deploy. Phase I is from Fallon to Tahoe Reno Industrial Center, 200 S. Virginia Street and 220 Gardner. Phase II is Tahoe Reno Industrial Center all the way to Las Vegas. The new gear will provide us with more redundancy, more capacity to sell and the ability to sell new types of services. Currently, we sell layer 2 but there will be other services that can be offered on that route. This is smarter equipment than the equipment we received 10 or so years ago. That equipment has been fully depreciated. The new equipment does monitoring and maintenance troubleshooting. We just had a cut in the fiber. You have to go out and find a place where you think there is good light and put a handheld OTDR on it and it will tell you how many feet away your light stops moving. This monitoring is actually built into this new equipment. You can sit at your desk and see an alarm that says a circuit is down, it will tell you where light is on that circuit and where it died on the circuit. From a trouble shooting stand point, you are probably about an hour ahead at the moment you receive the alarm. It will also provide some redundancy abilities that we currently don't have now. Instead of stacking 10 gig links to the internet, we can put in 100's which will be more efficient for us. Both of those are currently staged and awaiting vendor professional services. We will start on Phase I either on May 13th or 14th, where the vendor will be on site with their team. We hope to roll right into Phase II. Weve had to work on some power issues, because these take more power than existing equipment. When we are running them parallel, we will have a breaker problem at two of the pops between Las Vegas and Reno. We have addressed it with SWITCH and we believe that is resolved. We should be up and running on the new equipment about 6 weeks after Phase I has started.

C15 Upgrade is our switch. It is currently configured, staged and awaiting vendor professional services to deploy. We are using a third party engineering team who is authorized to work on the upgrade without voiding a warranty or anything. First we will move over all the old data from the old switch to the new switch. That is only configuration and migration. Then we will cut over to the actual links. I'm assured this is as simple once everything is configured you can unplug old one and plug in the new one. If the new one isn't working, you can still plug in the old one because the information has been duplicated. We will coordinate with the biggest users, so they will know that's what we're doing in the middle of the night in case it doesn't work exactly like they say it will. The reason we are using a third party engineering vendor, is because they have literally upgraded hundreds of the exact same switches. The actual manufacturer has done less cutovers than this engineering firm. Most people choose to hire this engineering firm

because they already have had a relationship with them. They actually are the ones who have put together the request for proposals.

Accomplishments (3) – We had a desk review of our NTIA BIP Grant. The BIP Grant which is the Spring Creek Association has been going super slow, especially when I say we have just surpassed 10%. We have been at this for a long time. We are the furthest along that anyone else with a BIP Grant. We had a dozen people or more on our desk review because they wanted to see how a desk review would go for when they start to do desk reviews when their provider is ready. We have no findings in our desk review.

We have successfully onboarded initial network elements into JSI NOC + - That is the service where they will be monitoring all elements in our broadband network and working to proactively prevent issues. They will then help us, if there is an issue. All of those elements are being monitored right now. The official go live date is May 1st. Thereafter we will refine processes and procedures to become more proactive in our network management and incident response. Once we are fully monitored by them, the next thing we will do is a network assessment. I forgot to bring little tiny piece that took our network down. We believe there was a microfracture in the fiber. Someone moved it and stopped putting light through. When it was tested, it tested as good. I think the new transport gear would have tested it as bad immediately. We had to get different test equipment, because we still suspected that was the problem. The piece tested bad and it was fixed. I think about 1 to 1.5 hours of time will be eliminated by the new equipment that has those built in tools. JSI will be doing a network assessment and hopefully they will catch something like that. I am surprised that tiny piece took down our entire network. It was past the last point of redundancy where it was at in the network.

We have 71% of our customers currently on CBOL. The last time I reported this we were a little over 50%. The accounting department has deployed new accounting software.

Inflation and Expense Control – We see this a lot in this years budget with a greater increase to expenses than we have seen over many years. It's particularly on the things that everyone is subject to with upward wage pressure, significant inflation specific to key inputs like fuel, labor, microprocessors, fiber and conduit. All of those things are all up in excess of what our CPI says inflation is.

Significant Factors Impacting Budget Process: Broadband – It still continues to be the broadband only plan; transfer of operations to the CAP Fund; staffing requirements; content costs increases in digital TV and competition and downward pricing pressures continue. There is a recent article that the amount of people who are moving to fixed wireless access. That is the ads you see for T-Mobile where they say at home internet. If you're not a power user of home internet, that will work for you. The problem is we have to build our internet service the same with the redundancy and the speed in the latency is the same at everyone's house. One person might pick a gig or 500, but if you pick 25, you have actually built the exactly same to you. That's how fiber works as to the person who wants a gig and is willing to pay more. If you're only willing to pay \$19.99 and going to a fixed wireless access provider who doesn't have to build to the standard to do the gig, it will be cheaper. I don't know how our industry will deal with this but it is a big issue with the downward pricing pressure. In the old days, there was 95%

of people who wanted to buy a phone and they could only buy it from us. Now about 80% want internet and out of the 80% they can buy it from whoever they want. I'd say at least 25-25% of them do not want the standard you built it to. They actually want a really cheap service that will work for them. We have to build it to the same standard to everybody, because that's how fiber works. The downward pricing pressure will continue into the future to be something we will struggle with.

Mitigation: Broadband – We are enhancing the broadband customer experience. We are trying to get more people up on the high packages to show them the value of it. It costs us about the same to serve someone whether they take a small package or big package. We have been reducing trouble ticket labor through remote tools and training. We have been increasing capacity through capital projects. There was a recent article where New York mandated a \$15.00 low income internet. The broadband service provider in the state of New York has to provide a \$15.00 package at 25 MB. You lose a minimum of \$17.00 per month on that customer because you can't build 25 MB. You build to a GB and then soon you'll build to a 2.5, because it will be the electronics of the house. When that becomes a standard, then we will build to a 2.5. The broadband service provider in New York sued and the appellate court allowed the low income internet and made them do it. They haven't done this in Nevada yet but the article said eleven states are looking at that type of statute to mandate a low income package that the company can show they will lose money on. It's a hidden subsidy. When you want to buy a GB, you're paying for that person's \$17.00 shortfall. When 35% of the people want to have a \$17.00 shortfall, you're all paying for it.

CAP Fund – We will continue to develop and maximize those fiber assets outside of Churchill County. The transport gear upgrade will allow us to sell some new and unique services. We will continue to look at those growth opportunities through partnerships and grants.

2023-2024 Annualized Compared to Budget – Telephone – In 2023-2024 to 2024-2025 some of these numbers are expense increases but we do see those expense increases in Tel. One is fully staffed, that is all of the jobs that are available have to be listed in the budget. It doesn't matter if they are currently filled or not. \$258,000 is the budgeted increase in depreciation. The rest of it is those other things we have already seen in inflation and employees.

2023-2024 Annualized – 2024-2025 Budget All Companies – We have budgeted new revenues in CAP which is well in excess of the small delta you see in the amount of \$148,000. Going back to earlier discussion about how you continue to see those certain revenues in Tel go down. We're offsetting them but it's difficult to make traction. This brings us to a net income of \$6,099,013.00 budgeted.

Estimated Income Current Budget Year 2023 – 2024 – Each of these are going back to the three year hiatus, we do not have a profit transfer listed in our budget. I want to make that clear because I don't know what happened in other meetings. The estimated income in the current budget year is \$7,350,581.00. is just annualized of where we are currently.

Net Income Projections Budget Year 2024 2025 – The estimated budget decreases to \$6,099,013.00. It's primarily based on increases in expenses and reduction in traditional Tel revenues.

Revenue by Company Budget Year 2024-2025 – We put this slide in every year. The slide shows the revenue mix Tel is 60%, CAP has grown to 26% and Broadband is 13%. The Tel is a little misleading because a significant amount of Tel revenue is being paid by from Broadband to use Tel facilities. When you have the fiber that goes out, it is owned by Telephone all the way to the customers home. Then NECA and the FCC USAC will tell us how much that will cost per month. The Broadband fund pays the Tel fund. This slide makes Tel look like it's doing a lot more than it really is doing. Its really just being paid for the use of the network.

Capital Planning – It's important to understand the current and future communications environments; the changes in customer preference; impact on cash and reduction in local service and access revenue. That is where the million difference is in Tel along with transition to CBOL and CAF BLS and the competitive environment. In our outcome, we have \$6,965,052.00 in capital expense that is primarily in fiber cable, central office and network core equipment. We continue to focus on broadband projects; capitalize on strategic capabilities and core competencies; improve our ability to offer advanced services and efficiently use USF to reach company goals.

Telephone Capital Budget – The bottom of the slide shows we spent \$1,097,931.00 in 2023 – 2024. We will spend a little more of \$1,389,980.00 in 2024-2025. That is primarily the central office is the increase. Central office are things that allow the interconnection between us and AT&T; us and Syniverse and us and other carriers.

Plans and Programs – We will continue FTTH deployment in outside of county areas for example the Storey County project and finishing up Spring Creek. We will continue to convert customers to CBOL. We are now up to 71% from 50%. We will continue to plan strategically and tactically to meet changing competitive environment. I am really surprised how much the people who want the television service are still hanging on. It doesn't reflect what other companies are seeing. I'm expected to see this date on when it's done as opposed to telling customers we can't do this anymore. As we have discussed, with the content cost increases, we have to transition out during this fiscal year. We will continue to focus on broadband growth opportunities. We will continue to seek improvement in expense control and staff utilization. This is a big part of the JSI NOC Plus, is the ability to use our employees more efficiently. It's a big part of adding those electronics that makes our network more intelligent. It cuts down on truck rolls. On the flip side, the employees have to have a lot of training. JSI NOC Plus will help to bridge us because they deploy and monitor those equipment's for other customers. We will continue to get better about digital marketing and social media.

Summary – Our revenue mix will continue to change and plan to start working more on those business customers. The residential customers are saturated and they seem to start trying to migrate towards the low end packages. We are seeing an increase in bad debt from residential customers. We don't know what the economy holds. Because of the saturation, we need to focus more on business customers. The transport gear is a big part in that because it allows us to sell

additional services. We will continue to focus on FTTH outside of the County. We will the increase in inter-group planning and communications. We will continue to improve expense control and monitor and evaluate cash flows.

Are there any questions?

Informational Only

Affidavit of Posting:

Public Comment:

Chairman Myles Getto asked if there was any public comment but there was none.

Adjournment:

The meeting was adjourned at 11:40 a.m.

APPROVED: 
Myles Getto, Chairman

APPROVED: ABSENT
Harry Scharmann, Vice, Chairman

APPROVED: 
Justin Heath, Commissioner


Shelly Bunyard, Administrative Assistant


Mark Feest, General Manager/CEO