



MINUTES

Northwest Open Access Network
June 12, 2019

NoaNet Network Operations Center
422 W. Riverside, Suite 408
Spokane, Washington 99201

The meeting of the Board of Directors of Northwest Open Access Network ("NoaNet") commenced at 9:00 a.m. on June 12, 2019.

Present

The following Board members were in attendance:

Ron Gadeberg	(Okanogan PUD)
Chris Folta	(Benton PUD)
Ben Hooper (Alternate)	(Franklin PUD)
Angela Bennink	(Kitsap PUD)
Curt Knapp (Alternate)	(Pend Oreille PUD)
Linda Gott	(Mason PUD No. 3)
Ken Collins	(Jefferson PUD)
Steve Schopfer	(Clallam PUD)
Dean Kovacs	(Energy Northwest)

Also present were: Sarah Holderman (Pend Oreille PUD); Roger Wright (Franklin PUD) (arrived 11:00 a.m.); Dave Spencer (NoaNet); Paul Harding (NoaNet); John Fryling (NoaNet); Phil Von Buchwaldt (Washington Trust Bank); Jim Rowland (NoaNet consultant); Chris Skidmore (Moss Adams); Kris Ryan (Moss Adams); and Don Cohen (Gordon Thomas Honeywell).

Some of those present attended by video conference or speaker phone.

Preliminary Remarks

President of the Board Linda Gott welcomed those present. There were introductions around the room.

Approval of Minutes

The minutes of the Board of Directors meeting of May 8, 2019 were presented for approval.



Motion: Chris Folta moved, and Dean Kovacs seconded, approval of the minutes of May 8, 2019. The motion passed.

Approval of Payments for April 2019

NoaNet CFO Paul Harding commented on several items in the April 2019 payment approval form.

Motion: Chris Folta moved, and Dean Kovacs seconded, approval of the expenses on the Payment Certification form for April 2019, dated April 30, 2019. The motion passed.

Financial Report

Paul Harding stated that April was a strong month for NoaNet. Cash is up from last year, and accounts receivable are 98% current. Accounts payable are up because of check-run timing. EBITDA (earnings before interest, taxes, depreciation, and amortization) was up 31% from the same time last year. Budget-to-actual figures were: revenue 99%; expenses 96%. \$75,000 was accrued to the Pension Plan account in April. Overall, NoaNet was \$170,000 ahead of budget. Mr. Harding also reported on draws and payments on NoaNet's lines of credit. He stated that adjusted operating income (net of one-time items) was approximately \$57,000 lower than last year, because of the pension payment made and a change in timing of payment to a vendor. Mr. Harding concluded that he anticipates that the next few months will continue to show strong results.

Financial and Pension Plan Audit Report

CEO Dave Spencer noted that the Pension Plan is now being audited by Moss Adams, along with the financial statement audit. Chris Skidmore of Moss Adams reported on the financial statement audit. He commented on changes to GASB (Government Accounting Standards Board) requirements for audits that now include fiduciary funds (e.g., pension plans) along with business operation finances. The Moss Adams audit opinion was a "clean" audit opinion, with no adverse findings. Mr. Skidmore commented on the significant increase in NoaNet's net cash from operating activities from 2017 to 2018, noting that it is an important positive indicator.

Dave Spencer and Phil Von Buchwaldt discussed the relationship of the financial information presented to debt service coverage requirements in the Washington Trust Bank funding. Mr. Von Buchwaldt noted that the bank has issued debt service coverage non-compliance waivers because of the pension plan numbers, per GASB, having skewed the debt service coverage calculations. Mr. Spencer and Mr. Von Buchwaldt stated that the next time the NoaNet/Washington Trust Bank loan documents are revised, NoaNet and the bank have committed to considering revisions to the covenants. Mr. Von Buchwaldt reaffirmed Washington Trust Bank's interest in being NoaNet's lender for the long term.

Discussion followed.



Kris Ryan of Moss Adams reported on the Pension Plan audit. It was also a “clean” audit. There was a decrease in the Plan’s net position because of investment loss (reflecting the stock market at the end of 2018) and an increase in benefit payments. Ms. Ryan noted that there are seven NoaNet employee retirements coming up and, if all of them took the lump sum option, NoaNet would still have sufficient funds to cover those payments.

Ms. Ryan continued that the net pension liability is estimated at \$19.9 million, less \$4.9 million in funds in the account, resulting in approximately 25% funding for the plan at this time. She noted that is lower than what Moss Adams clients usually have, but commented on NoaNet’s plan to increase Pension Plan funds over the next 10 years through a \$1.2 million annual payment.

Discussion followed. This included the sensitivity of calculations to discount rate assumptions and to changes in required pension accounting rules.

Dave Spencer expressed appreciation to Moss Adams for the audit and its timeliness. Kris Ryan responded that NoaNet’s prompt providing of financial data, along with working well in coordination with NoaNet’s Pension Plan consultant, contributed significantly to this.

2018 Industry Benchmark Comparison

Dave Spencer introduced the subject of industry benchmarking, including Moss Adams’ 20 years of experience in that kind of work. He also commented on the challenges of identifying a comparable peer group for NoaNet. Chris Skidmore of Moss Adams noted the importance of this, as well as being deliberate in choosing metrics so the analysis can be used meaningfully by NoaNet. In that respect, he noted the challenges of identifying entities providing wholesale fiber, and he continued that NoaNet is the only governmental network and the only one that has a pension plan.

Mr. Skidmore stated that the peer group Moss Adams selected included seven other companies plus NoaNet. The seven included incumbent local exchange carriers with significant government subsidies (including cooperatives and privately-held entities), plus utility and privately-held businesses with heavy concentrations in wholesale fiber.

Mr. Skidmore then reviewed the metrics for the eight members of the peer group, focusing on the median data for the seven other companies in the group as compared to NoaNet. The metrics reported on were: profitability, growth, expense management, and liquidity/debt service/equity.

Profitability. Mr. Skidmore said that operating income is not a meaningful metric for NoaNet given the high depreciation amount. EBIDTA as a percentage of operating revenue is not a meaningful metric for NoaNet due to GASB pension accounting. Adjusted EBIDTA (without considering NoaNet’s Pension Plan and GASB accounting requirements) as a percentage of operating revenues is more meaningful. He continued that, based on that



metric, NoaNet has improved in 2018 over 2017, and needs additional improvement to better compare to other statewide networks.

Growth. Mr. Skidmore noted NoaNet’s positive growth trend, with NoaNet comparing favorably to the peer group median.

Expense Management. NoaNet’s tail circuit expenses are higher than the median but trending downward as new market rates are adopted by providers. Mr. Skidmore also mentioned that other statewide networks owned by incumbent local providers may not require “arm length transaction” pricing, given their preferred costs. He noted that some of the companies in NoaNet’s peer group have made distributions to owners, but NoaNet has not. He also observed that NoaNet’s employee benefits are higher than the peer group median, due significantly to having a Pension Plan, as well as health insurance expenses higher than the peer group.

Liquidity, Debt Service, and Equity. NoaNet’s liquidity, debt service, and equity are approximately equal to the peer group median.

Mr. Skidmore summarized the key “take aways” from the analysis as follows:

- EBIDTA (traditional or adjusted) growth could be a very good metric to emphasize going forward.
- The same is true of NoaNet’s growth in revenue.
- Employee benefits stand out as meriting attention based on comparisons to the peer group.
- Backing out non-cash items (e.g., depreciation and actuarial adjustments) needs to be done.
- NoaNet does not appear to be overly leveraged.
- Expense management is positive.

There was discussion throughout. Dave Spencer noted that this kind of review will be done each year so that an annual comparison will be possible.

Review of Employee Health and Welfare and Pension Contributions

Dave Spencer introduced this subject by saying that it had been raised and discussed during fall 2018, with a commitment by staff to come back to the Board in June 2019. As a result, NoaNet staff contacted human resources managers at the three largest NoaNet Members for information on total compensation. Mr. Spencer’s recommendation for beginning in 2020 will be to have employees contributing to health and welfare, and contributing to the Pension Plan in the amount of 2% of salary. The total of these contributions will be approximately \$200,000 annually. Mr. Spencer continued that these contributions will put NoaNet approximately at the median in total compensation of the three PUDs contacted.



Mr. Spencer commented that employee contributions had generally been discussed with NoaNet staff last fall, and he thinks staff will be accepting of this change. He noted that NoaNet is not unique with respect to its health and welfare expense challenges. He stated that, for example, PURMS is evaluating options for its health insurance, as are various NoaNet Members. Discussion followed.

On a different subject, a question was asked about the potential financial impacts of a March 2019 outage. Don Cohen provided a summary of the situation and the customer service credits claimed. He stated that insurance coverage is being explored, and that is still in process.

2019 Line of Credit Capital Project Approval

Linda Gott noted that this is the first project that would be financed with funding from the new Member Payment Agreement. Dave Spencer described the project, which involves a major NoaNet customer with multiple cellular sites in various parts of the state. He commented on anticipated revenue and expenses, as well as projected amounts that would be paid to NoaNet Members for their build-outs required as part of the project. Mr. Spencer recommended approval of the project as described, in the total amount of \$895,000, to be allocated among the funding Members. He noted that the actual draws might take place over a number of months.

Discussion followed.

Motion: Angela Bennink moved, and Dean Kovacs seconded, approval of the first project utilizing the Member-financed line of credit in the amount of \$895,000 as recommended by staff, with timing of draws to be implemented at a later date. [The motion was approved after discussion.]

Discussion followed. Staff will follow-up as to timing of draws at the August Board meeting.

Dave Spencer reported that he had met with Washington Trust Bank regarding new 2020 financing and the timing considerations involved with that funding being part of the 2020 Budget. He continued that NoaNet will need to know the bank's position before September 2019. He continued that the Bank indicated it understood the timing requirements and would work with NoaNet in that regard.

There was discussion of the Member Payment Agreement having contemplated projects that were in NoaNet's best interest but that might not specifically benefit a NoaNet Member locally.

At the conclusion of the discussion, the motion was voted on and passed.

Operations and Marketing Report



Dave Spencer commented on NoaNet's very strong network reliability. He then stated that NoaNet has been negotiating with BPA on renewal of its 20-year fiber lease at its expiration at the end of September. BPA proposed a significant increase and a 10-year term. Mr. Spencer and others from NoaNet staff have met with BPA several times. As an alternative to trying to convince BPA to lower its proposed price, NoaNet has suggested reducing the number of fibers it would lease from BPA and re-categorizing the nature of the fiber involved at various locations. He stated that discussion is continuing and that he will report further on it to the Board. There was discussion throughout.

Dave Spencer stated that the past month was a good one in sales. He also mentioned a significant outage in Richland that did not involve a NoaNet contractor or NoaNet's fiber. Chris Folta stated that there will be a meeting in July between the City of Richland, Benton PUD, Franklin PUD, and NoaNet to discuss working in coordination with one another. The outage will be part of this discussion.

Dave Spencer reported on anticipated next steps for NoaNet's legislative consultants in light of the enactment of the Governor's broadband bill and other developments. Jim Rowland stated that the legislative session had resulted in a significant recognition in Olympia of what NoaNet is and what it contributes. He said that he expects this to continue.

Other Items for Discussion

The strategic planning workshop will be held June 27-28 at the NOC. There was discussion of topics for the meeting.

Next Meeting

Per the NoaNet Board meeting schedule, there will be no Board meeting in July. The next Board meeting will be August 14, 2019 beginning 9:00 a.m. at the NOC. Okanogan PUD will present its Member Report at the meeting.

Adjournment

There being no further business, the meeting of the Board of Directors adjourned at 12:00 noon.

Respectfully submitted,

David H. Spencer
Chief Executive Officer

Attest:

Linda Gott
President of the Board