



MINUTES

Northwest Open Access Network
October 9, 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 October 9, 2019.

Present

The following Board members were in attendance:

Ron Gadeberg	(Okanogan PUD)
Chris Folta	(Benton PUD)
Roger Wright	(Franklin PUD)
Angela Bennink	(Kitsap PUD)
Colin Willenbrock	(Pend Oreille PUD)
Linda Gott	(Mason PUD No. 3)
Ken Collins	(Jefferson PUD)
Dean Kovacs	(Energy Northwest)
Jason Dunsmoor	(Pacific PUD)

Also present were: Ben Hooper (Franklin PUD); Tom Farmer (Mason PUD No. 3); Annette Creekpaum (Mason PUD No. 3); Jeff Hall (Benton PUD); Rick Larson (Pend Oreille PUD); Bob Hunter (Kitsap PUD); Debbie Oakes (Pacific PUD); Will Purser (Energy Northwest); Dave Spencer (NoaNet); Paul Harding (NoaNet); John Fryling (NoaNet); Rob Kopp (NoaNet); Chris Walker (NoaNet); Rich Nall (NoaNet); Craig Nelsen (NoaNet); Byron Hagman (NoaNet); Phil Von Buchwaldt (Washington Trust Bank); Jim Rowland (NoaNet consultant); Cindy Zehnder (NoaNet consultant); Diana Carlen (NoaNet consultant); Don Cohen (Gordon Thomas Honeywell).

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

Preliminary Remarks

Vice President of the Board Roger Wright welcomed those present. He noted that he would be chairing the meeting because President of the Board Linda Gott was unable to attend in person due to recovery from surgery, but would be attending by phone. There were introductions around the room.



Approval of Minutes

The minutes of the Board of Directors meeting of September 11, 2019 were presented for approval.

Motion: Chris Folta moved, and Collin Willenbrock seconded, approval of the minutes of September 11, 2019. The motion passed.

Approval of Payments for August 2019

NoaNet CFO Paul Harding commented on several items in the August 2019 payment approval form, including BPA fiber lease payments. CEO Dave Spencer noted that NoaNet had recently signed the new lease with BPA that had previously been discussed with the Board, which results in a significant decrease in overall lease payments to BPA. Discussion followed.

Motion: Angela Bennink moved, and Ron Gadeberg seconded, approval of the expenses on the Payment Certification form for August 2019, dated August 31, 2019. The motion passed.

Financial Report

Paul Harding reviewed the financial reports for August. He stated that August was another strong month. Cash was up slightly from last year. Accounts receivable were 97%-98% current. Year-to-date cash flow was up. EBITDA was up 20% over last year, and operating income was up 15% over last year. Budget-to-actual numbers were: revenue—98%; expenses—96%. There was discussion of the lines of credit and the timing of their eventual retirement. Paul Harding stated that adjusted operating income (net of one-time items) increased from last year, taking into account pension payments being made this year rather than being deferred as they were last year.

Discussion followed. This included the status of revenues for the E-911 Project. Dave Spencer stated that very recent information from CenturyLink indicated delays in network implementation by them. This has potential adverse revenue impacts for NoaNet of \$20,000-\$30,000 per month until fully implemented in 2020. Mr. Spencer stated that the State of Washington has engaged with CenturyLink regarding resolving this situation.

Draw On 2019 Member Line of Credit

Dave Spencer stated that staff is recommending approval of the first draw on the 2019 Member line of credit in the amount of \$665,000. He noted that the Board had previously approved the project associated with this funding. He continued that anticipated net revenue is higher than projected, but vendor payments are due this month and Washington Trust Bank has not yet agreed to a new loan. He stated that the issue with the bank is whether to include actuarial projections of pension amounts, a non-cash entry, in



debt covenant calculations. Mr. Spencer continued that, if the first draw is approved today, requests for payment will go out shortly, with payment due within 5 days.

Discussion followed. Phil Von Buchwaldt of Washington Trust Bank said that the Bank has internally approved the \$665,000 loan, but it is linked to this specific project because of its short term (i.e. 3 year) payback. The bank decided to address the debt covenant issue relating to pension payments also, but the bank is committed to funding this project.

Dave Spencer commented on the difference in NoaNet's and the bank's view points on whether non-cash items like pension actuarial calculations should be used in debt covenant calculations, when NoaNet's Budget will include a \$1.2 million annual pension amount for ten years as the consultant recommended.

Additional discussion followed. It was emphasized that Washington Trust Bank is willing to fund the Delta project with a 3-year payback with NoaNet's Members funding longer payback projects like Pink MW. Phil Von Buchwaldt reiterated that the bank is committed to funding this project, and that he understands the urgency of getting this approved and implemented. He apologized for the delay beyond what he had originally anticipated—that loan documents would be ready for action at this meeting. He stated that year-end is now anticipated. Dave Spencer replied that he hoped it would be ready in November.

There was a discussion of timing of the line of credit requests to the eight Members. A suggestion was made that, assuming the Board approves the draw, NoaNet send out the request on Monday, rather than the day after the meeting, to provide additional time for payment.

Motion: Angela Bennink moved, and Dean Kovacs seconded, approval of the first draw on the Member Payment Agreement in the amount of \$665,000, as presented to the Board.

There was discussion of the process and timing of reimbursing Members or repurposing the Member draw to the project Pink MW when the bank loan is drawn. It may make sense to repurpose the Member draw to the Pink MW project since capital payments for Pink MW will be due late 4Q 2019 and early 2020. The Board had previously approved \$895,000 for Pink MW on the 2019 Member LOC.

The motion passed (Colin Willenbrock and Ron Gadeberg abstaining because their utilities had not participated in the Member funding).

There was discussion of projects "in the pipeline" and their revenue timing expectations. The suggestion was made that, at the next meeting, the Board may need to consider further the CenturyLink delay discussed earlier, and consider options for dealing with that. The project director from the State of Washington will



be invited to the November meeting on this topic. One discussion point might be the absence of a penalty-for-delay provision in the State's contract with CenturyLink.

Review of 2020 Budget

Dave Spencer stated that the draft Budget being presented was the same as last month. The 2020 Budget anticipates making a \$1.2 million pension payment, funding capital, and funding renewals and replacements. Mr. Spencer continued that 2020 is anticipated to be a strong year for NoaNet.

He then discussed renewals and replacements anticipated for 2020, in order to maintain the reliability of NoaNet's network. There is \$500,000 in the Budget for that purpose, and additional sales-driven capital will also be used to replace equipment as needed.

Discussion followed. There was a request that at a subsequent meeting there be a presentation on how NoaNet monitors equipment retirements and replacements. There was further discussion on the proposed 2020 Budget. This included the overall wage increase pool of 5% and employee contributions to healthcare and retirement totaling \$200,000. Dave Spencer noted that there had been lower wage increases in past years and that the 2020 revenue forecast is strong.

Board action on the 2020 Budget is anticipated for the December meeting. It is possible that the Board may be asked to approve the 2020 Budget and wage expense summary in November if the budget hasn't materially changed.

Review of Strategic Planning Workshop Items

Roger Wright noted that there were several items from the June 2019 Strategic Planning Workshop that were discussion items for the future.

On the Energy Northwest opportunity, Dave Spencer stated that NoaNet has been providing information to Energy Northwest and its consultant, JP Morgan. Dean Kovacs stated that Energy Northwest, NoaNet, and JP Morgan have had a telephone conversation and will be meeting on-site at the NOC for NoaNet to provide information to JP Morgan that may help streamline its information request and move due diligence along.

Roger Wright opened discussion about providing a statement to NoaNet staff about the Energy Northwest opportunity. Discussion followed. There was support expressed for a statement like the draft distributed. David Spencer stated that he felt a statement like this from the Board is important. There were a few revisions to the draft statement. No one expressed any negative views about the revised statement being provided to staff, which will be done by Dave Spencer.



A discussion of ownership options followed. Dave Spencer summarized the discussion at the Strategic Planning Workshop on this subject. He noted that no decision was contemplated today, but it was simply being teed-up for discussion and direction as to next steps. Discussion followed. Further consideration of this subject was deferred until the Energy Northwest situation is resolved.

Operations and Marketing Report

Dave Spencer reported on the strong sales during the past month and significant orders in the pipeline. Staff will be providing additional information regarding order fulfillment timing.

Mr. Spencer then opened a discussion of Network Coordinated Services and NOC Services during the past year. Rich Nall described NOC financial data and performance, as well as standardization of NCS pricing. He noted that staff will be recommending an increase in NOC prices.

John Fryling described NCS services being provided. These include NOC services like monitoring, notices, maintenance coordination, and resolving ticket items.

There was discussion of potential ways to close the shortfall between NCS revenue and expenses. Options discussed included rate increases, additional customers, and possible tail circuit expense reductions.

There was discussion throughout.

Byron Hagman (NoaNet Network Engineer Supervisor) described NoaNet's field engineering staff and services, providing many everyday (and night) examples. There was discussion throughout his presentation.

Next Meeting

The next Board meeting will be November 13, 2019 at the Portland Airport Sheraton Hotel, beginning at 1:00 p.m.



Adjournment

There being no further business, the meeting of the Board of Directors adjourned at 12:55 p.m.

Respectfully submitted,

David H. Spencer, Chief Executive Officer

Attest:

Linda Gott
President of the Board