



MINUTES

Northwest Open Access Network
Board of Directors 2019 Strategic Planning Workshop
June 27-28, 2019

NoaNet NOC
422 W. Riverside Ave, Suite 401
Spokane, Washington

The meeting of the Board of Directors 2019 Strategic Planning Workshop for Northwest Open Access Network ("NoaNet") commenced at 12:30 p.m. on June 27, 2019.

Present:

The following board members were in attendance:

Kenneth Collins	(Jefferson PUD)
Angela Bennink	(Kitsap PUD)
Colin Willenbrock	(Pend Oreille PUD)
Ron Gadeberg	(Okanogan PUD)
Roger Wright	(Franklin PUD)
Jason Dunsmoor	(Pacific PUD)
Steve Schopfer	(Clallam PUD)
Linda Gott	(Mason PUD #3)
Dean Kovacs	(Energy Northwest)

Also Present were: Chad Bartram (Benton), Chris Walker (NoaNet), Bob Hunter (Kitsap), Jim Civilla (Kitsap), Ric Larson (Pend Oreille), Sarah Holderman (Pend Oreille), Craig Nelsen (NoaNet), Paul Harding (NoaNet), John MacDonald (Okanogan), Dave Spencer (NoaNet), Rick Dunn (Benton), Lori Sanders (Benton), Jeff Hall (Benton), Steve Taylor (Okanogan), Brian Johnson (Franklin), Ben Hooper (Franklin), Debbie Oakes (Pacific), Dale Knutson (Mason), John Smith (NoaNet), John Fryling (NoaNet), Steve Schopfer (Clallam) Rob Kopp (NoaNet), Rich Nall (NoaNet), Diana Carlen (NoaNet consultant), Duane Ball (NoaNet), Mike Henson (NoaNet), Claire Ward (NoaNet), Mara Machulsky (NoaNet consultant), and Jim Reid (Facilitator). In addition, several outside presenters participated in portions of the workshop.

Preliminary Remarks:

NoaNet CEO Dave Spencer welcomed those present. There were introductions around the room. Mr. Spencer explained that during the next two days, the Board will address NoaNet's future by discussing three major issues—vision and mission, financing, and ownership. A subtext of these conversations will be the implications of continued growth and the need for sales-driven capital.

Review Agenda, Ground Rules, Facilitation Techniques:

Jim Reid, the workshop facilitator, reviewed the agenda, set forth ground rules, and explained his role as facilitator of the workshop.

Roundtable of Members: What is the Value of NoaNet to your organization?

Member Representatives expressed their perceived value of NoaNet as an organization. Remarks regarding value included:

- NoaNet's public purpose and mission.
- Services provided by NoaNet including call taking, network monitoring and dispatch, engineering design, and marketing support.
- Leadership on statewide initiatives and projects such as NG911, cellular backhaul, and public purpose network objectives.
- Relationships beyond the NoaNet membership, including connections to outside markets and customers.
- The professionalism of the organization—its quality, reliability, resiliency, and accountability.
- Power and influence with key decision-makers, including legislative and agency leaders in Olympia.
- Fiber extensions – NoaNet continues to expand Members' fiber footprint through sales.

NoaNet's Value from Others' Perspectives:

Presenters expressed their perceived value of NoaNet as an organization. Discussion occurred throughout.

Adam Wasserman, Washington State Enhanced 911 Coordinator, Washington Military Department, Emergency Management Division

- Future NG911 integration includes early earthquake warning system from offshore buoys and smart cities/Internet of Things (IOT) data for first responders.
- Overall reliability has been great with NoaNet.
- Public Safety Answering Points (PSAPs) have been very happy with NoaNet's responsiveness when there have been issues.
- The new NG911 system has 50% additional bandwidth at a reduced cost, saving the taxpayers money.
- There is not another single entity in the State of Washington who could have provided this service to facilitate NG911.

*Sean Hew, Vice President, MVP Capital
Bill Fanning, Partner, MVP Capital*

- Market trends show rising valuation of networks with fiber assets like NoaNet.
- Bottom Line: NoaNet compares very favorably to other recent network transactions in terms of network value and market potential.
- Wholesale is the most valuable customer base for buyers, and NoaNet is well positioned as evidenced by long-term, large contracts with carriers.

Joe Salomon, Network Engineering Manager, US Cellular

- Network performance has been fine. Two earlier long network restoration events have not been ongoing.
- No undue delays in root cause analysis communications reported.
- Feedback for improvement: In the past two years, NoaNet has not failed to meet delivery dates, improving its circuit delivery delay record early in the relationship.
- US Cellular recommends continuing to drive accountability within NoaNet to continue to achieve excellence.

Roundtable Discussion- Strategic Planning Guideline:

Dave Spencer opened the discussion by stating that a key value of the Strategic Plan Guideline is providing outstanding customer service. Serving customers effectively has fueled the organic growth of the organization. By reaffirming the plan, the Board will reiterate its commitment to providing outstanding customer service and support for continued growth.

The group discussed whether the mission statement, goals, and key actions in the introductory pages of the 2017-21 Strategic Guideline continue to portray the vision for NoaNet's future.

Every NoaNet Member said that they support the mission of NoaNet and value its mission and work. Two primary interests came up repeatedly:

1. Minimize the owners' liability and risk.
2. Provide benefits to serve people throughout the state of Washington. Some people refined this interest by saying "help communities help themselves."

There appeared to be a consensus that NoaNet should be financially sustainable, achieve a public purpose, and minimize the owners' risk. These common interests served as the criteria by which to evaluate the financial and ownership options.

Another Perspective on NoaNet's Value:

Guest Speaker *Christopher Mitchell, Director, Community Broadband Networks Initiative, Institute for Local Self-Reliance* presented on his perceived value of NoaNet as an organization. Discussion followed.

- National trends are in NoaNet's favor as a publicly-owned network
 - Preemption laws are being fought against nationally to encourage municipal networks.
 - Cooperatives nationally are making inroads into being able to provide municipal networks.
- Unfortunately, most states don't have anything even remotely close to a NoaNet type of entity.
- Private businesses are being launched because of NoaNet that are impacting markets outside of Washington.
- Publically owned infrastructure has been shown to be better maintained and restored faster during emergencies.
- Broadband is too important for communities to trust that the private sector will deliver on its promises. NoaNet should remain a public asset.

Reaffirming NoaNet's Vision and Mission:

Facilitator Jim Reid asked the group for a tentative agreement that NoaNet's strategic plan is on the right track pending more discussion on Member risk. Consensus was expressed.

Frame Financial Issues and Options for the June 28th Discussion:

Dave Spencer framed the focus for the following day's discussion on financial options available and balancing ownership and risk mitigation going forward.

- What long-term capital financing is needed given forecasts, trends, and NoaNet's vision, mission, and goals?
- Goals include improving pension funding and building capital reserves.
- NoaNet is in good condition as far as generating sufficient revenue to cover O&M and capital renewals and replacements, and there is a good pipeline of new business. Today, NoaNet's growth is achieved through capital financing of sales opportunities.
- As public owners with public purpose, what are we really out there to accomplish in the future?

President of the Board Linda Gott asked that the group review the capitalization options white paper provided to the workshop participants prior to the Friday morning meeting as a "homework" assignment.

Adjournment (Day 1):

The formal workshop adjourned at 4:30pm until 8:30am on Friday June 28th. Board Members, Member Representatives, and General Managers met with CEO Dave Spencer from 4:30pm until 5:40pm. The general consensus from the Board is that the CEO is doing a good job in leading NoaNet through this financially challenging time and has the company on track for substantial success in the coming 5-year period.

Day 2 - Friday June 28th:

Day 2 of the meeting of the Board of Directors 2019 Strategic Planning Workshop for Northwest Open Access Network ("NoaNet") commenced at 8:30 a.m. on June 28, 2019.

Welcome for Day 2:

Linda Gott thanked attendees for making the trip to the meeting. She also thanked the group for their respectful engagement and stated that she appreciated that even though divergent views were expressed, the group continues to look for a path forward. Dave Spencer thanked everyone for doing their homework to review capitalization options prior to the Friday session.

Day 1 Review and Day 2 Agenda:

Jim Reid summarized yesterday's meeting, including many things the group agreed on including:

- The need for financial sustainability

- The public purpose mission
- Minimizing business and Member risk
- The value of NoaNet as an organization

Mr. Reid also reviewed the Day 2 agenda and informed Members that he would be asking for preliminary views on membership and financing options.

Capital Financing Options and Their Risks:

Dave Spencer reviewed the potential financing options. Alan Dashen and Scott Bauer of NW Municipal Advisors presented long-term financing alternatives through banks or the bond market on 10-year and 15-year loans and bonds. Discussion followed.

Members' Views on Possible Financing Options:

Facilitator Jim Reid asked the Members for their preliminary views on financing and ownership options they would be willing to consider. Each Member had an opportunity to express its initial opinions on preferences.

FINANCING OPTIONS PRELIMINARY VIEWS

Option 1: Member Loans - 3 Members

Option 2: Bank Line of Credit (LOC) without Member Guarantees - 9 Members

Option 3: Bank LOC with Member Guarantees - 6 Members

Option 4: Individual Project Financing: Bank or Members - 8 Members

Option 5: Extended Term Bank Loan with Member Guarantees - 0 Members

Option 6: Bond with Member Guarantees at Current Ownership % - 3 Members

Option 7: Bond with Member Guarantees with 10 equal shares - 3 Members

OWNERSHIP OPTIONS PRELIMINARY VIEWS

Option 1: Stay with Current Ownership Percentages - 9 Members

Option 2: Redistribute Ownership - 7 Members

Option 3: Adding New Members - 7 Members

Option 4: Sale of NoaNet - 3 Members

Energy NW was asked for their position on short term financing. Dean Kovacs reported that Energy Northwest may be willing to loan the sales-driven capital necessary for the 2020 Budget, currently estimated at \$2 million. Mr. Kovacs also stated that they may consider funding sales-driven capital for 2021 as well depending upon their cash needs. Mr. Kovacs continued that Energy Northwest may be interested in acquiring 100% ownership in NoaNet.

Dave Spencer asked Members who provided loans in 2019 if they would be willing to

stay with the terms of the loan agreement and not require the loans to be paid off early. There was agreement amongst all the Owners on this point.

Jim Reid summarized that a potential path forward is for NoaNet to pursue a loan from Energy Northwest and continue to pursue bank loans, with or without Member guarantees, and to explore membership options and Board of Directors voting alternatives.

Impacts of Financial Strategies on Ownership:

Dave Spencer commented on how growth and capital financing might affect Member ownership and asked how the potential impacts influence the Board's thinking about the capital financing options. Discussion followed. There was concern expressed by some that the Board in the future could decide to require loan or bond guarantees and create greater risk for the larger Members. Over the next 6-12 months, NoaNet and the Board will explore the idea of ownership parity (that is, equal ownership) and what the voting implications would be for that approach versus keeping the current ownership percentages and the one-member, one-vote policy for Board of Director decisions.

Consensus on a Path Forward:

The group discussed preferences of the Board in terms of growth, financing long-term capital projects, managing risk, and Member ownership. There was general consensus on the mission and value of NoaNet, and on the financial path forward. The Board expressed support for the following next steps as a result of the workshop:

1. Linda Gott and Dave Spencer will contact Energy Northwest before the Board's August 14th meeting to begin to explore the ideas Dean Kovacs broached when he joined Friday's discussions by telephone, specifically a loan for \$2M for 2020 and the possible acquisition of NoaNet by Energy Northwest.
2. There was consensus that the Members will adhere to the terms of the Member Payment Agreement and not expect early repayment of the 2019 Member loans.
3. Dave Spencer will meet with Washington Trust Bank to discuss capitalization Options 2 and 3. He will discuss securing a \$5 million loan, but NoaNet would need only \$3 million if Energy Northwest funds \$2 million. Option 2 without Member guarantees is preferred, but Option 3 with Member guarantees is an alternative for which the Members expressed support.
4. Build structure and guidelines around Financing Option 4 Individual Project Financing so it can be effectively implemented.
5. The Board is interested in evaluating the following ownership options to stabilize and secure membership:
 - a. Maintain one vote per Board of Directors member but equalize ownership levels;
 - b. Base Board of Directors voting on percentage of ownership;
 - c. Enable NoaNet to become more involved in the business of its Members, which could include placing NoaNet staff in Member regions.
 - d. Improve the consistency of products, pricing considerations, and branding (and co-branding).
6. Explore expanding membership. Redistribute a report regarding expanding Membership that a NoaNet task force, including Roger Wright, produced a few years ago.

Adjournment Day 2):

Linda Gott thanked the workshop participants for their active engagement and hard work to get to consensus on a number of key issues. Dave Spencer thanked Jim Reid for his excellent facilitation over the last two days. The workshop adjourned at 11:44 a.m.

Respectfully submitted,

David H. Spencer
Chief Executive Officer

Attest:

Linda Gott
President of the Board