

**THE BOARD OF THE KENTUCKY
COMMUNICATIONS NETWORK AUTHORITY**

**MINUTES OF THE FIFTH MEETING
SEPTEMBER 16, 2016**

Call to Order and Roll Call

A meeting of the board of the Kentucky Communications Network Authority (“Board” and “KCNA”) was held on Friday, September 16, 2016, at 2:02 p.m. EDT in Room 110 of the Capitol. Secretary Scott Brinkman, Chair, called the meeting to order and the roll was called.

Present were:

Members: Scott Brinkman, Secretary of the Governor’s Executive Cabinet and Chair of the Board; John Chilton, State Budget Director; Sandy Dunahoo, Commissioner, Department of Local Government; Erik Dunnigan, Acting Secretary, Cabinet for Economic Development; Lonnie Lawson, President and CEO, The Center for Rural Development; Andrew English, General Counsel, Justice and Public Safety Cabinet (Designee).

Guests:

Walt Baldwin; Joe Barrows; Adam Beam, Associated Press; Joyce Brewer, KCNA; Brenda Brown, KCNA; Larry Combs, Center for Rural Development; Bill Estep, Lexington Herald Leader; Nicki Hahn, KentuckyWired Operations Company; Mike Hayden, KCNA; Doug Hendrix, KCNA; Teresa Hill; Jim Host; Eliot Jamison, KentuckyWired Operations Company; Karen Kelly; William Landrum, Finance and Administration Cabinet; Brian Mefford, Connected Nation Exchange; Brad Metcalf; Chris Moore, KCNA; Steve Murphy, KCNA; Gwen Pinson, Finance and Administration Cabinet; Debbie Rodgers, KCNA; Bill Shaffer, KCNA; Tom Snyder, KentuckyWired Operations Company; Hollie Spade; and Ellen Williams

Secretary Brinkman verified that a quorum was present and that the press has been notified of the meeting. The first order of business was the approval of the minutes from the previous meeting on February 25, 2016. Minutes were distributed in advance to the board members. Mr. Lawson motioned to approve the minutes. Mr. English seconded. The minutes were approved.

Announcements:

- Secretary Brinkman announced for the record that the Board would hold quarterly meetings going forward.

Presentation by Chris Moore, Executive Director of KCNA

Secretary Brinkman announced Chris Moore, Executive Director of KCNA, and asked him to give a presentation about the progress made over the past several months in the KentuckyWired project.

Mr. Moore thanked Chairman Brinkman and the Board for the opportunity to provide an update on the project and congratulated new board members on their appointments. He noted that on July 12, 2016 Governor Bevin reestablished KCNA by executive order as part of the General Government Cabinet, administratively attached to the Office of the Governor. KCNA plans to work with the legislature during the upcoming legislative session to codify the order into law.

Mr. Moore began by stating that the KentuckyWired Project is a public infrastructure project that will provide broadband service using a modern, high capacity fiber. The primary purpose will be to provide broadband services to public sector agencies and institutions. However, the network will have excess fiber capability, which present wholesale opportunities to provide additional revenue. KCNA is the public sector partner of the P3 agreement. Private sector partners include Macquarie Capital, Black & Veatch, Bowlin Group, Frist Solutions, Fujitsu Network Communications Inc., and Leducor. Mr. Moore also recognized the key role played by the Center for Rural Development in Somerset and Congressman Hal Rodgers through the SOAR (Shaping Our Appalachian Region) initiative.

After giving a breakdown of the financing and project requirements, Mr. Moore then provided the Board with a construction status update. According to him, a significant amount of work has occurred this year. The project has purchased or ordered over \$11.3 million or around 2000 miles of fiber optic cable, along with \$2.2 million of other materials. KCNA is identifying and preparing state locations for installation of telecommunications equipment. In addition, KCNA and its vendors have entered into pole attachment agreements with 50 utility companies or municipal providers. These agreements represent approval for the use of 63,000 poles out of an estimated 82,000 needed. There are 20 pending agreements, mostly located in western or south central Kentucky.

Due to significant delays in reaching pole attachment agreements with some telecommunication companies, the original project timeline has been pushed out. According to Mr. Moore, the full impact is still being assessed, but it could represent 10-12 months' delay in the first phases of the network, and 4-8 months' delay in the project's completion. Potential cost overruns are yet to be fully developed. Mr. Moore also commented that the cost and difficulty of obtaining easements with private landowners could further delay the project.

Mr. Moore then turned to the project's financials. He explained that, in an effort to leverage existing infrastructure, minimize costs, and engage private businesses, KCNA has committed to

third party agreements with telecommunications service providers, local municipals, and rural electric cooperative companies. These agreements are resulting in significant savings to the project. For instance, an agreement with Cincinnati Bell will save approximately \$3 million in construction costs. Another agreement with EKN (a consortium of five incumbent local service providers with coverage in 21 counties in eastern Kentucky) will save another \$6.7 million in anticipated construction costs. Mr. Moore is committed to continue focusing on reducing project costs. His organization is diligently working to minimize construction costs through third party agreements, upfront payments for pole attachment agreements, increasing interest revenue on unused bond proceeds and promoting construction efficiencies where possible.

The first availability payment on the bonds issued to finance the project were paid in July of 2016. According to Mr. Moore, the availability payments required by the P3 agreement reach approximately \$28.5 million before annual escalation. Under the 2016-2017 budget, the mechanism to fund the availability payments is the use of General Fund excess debt service money appropriated to the Finance and Administration Cabinet. The required availability payment for FY17 is around \$11.8 million and project delays will prevent KCNA from receiving any repurposed revenue in FY17.

Mr. Moore anticipates a shortfall in FY18. KCNA is obligated to make availability payments of around \$22.7 million, but will only generate an estimated \$3.5 to \$5 in repurposed revenue. This leaves a gap of \$17.7 to 19.2 million in FY18, exclusive of unneeded debt service obligations to revenue.

In addition to the construction of the KentuckyWired network, Mr. Moore stated that KCNA has been supporting communities in the SOAR region and Eastern Kentucky as they become ready for expanded broadband service. Contracts have been awarded for community broadband planning and training services. KCNA is also planning to expand community-based Internet Access Centers (IAC) and provide workforce training in twelve (12) distressed Eastern Kentucky counties to improve economic prospects and private investment. The goal of the IAC is to provide local locations at which individuals can be supported as they develop basic computer and Internet skills that will allow them to seek further education and training opportunities to help them become more job ready. Lastly, KCNA is partnering with the East Kentucky Concentrated Employment Program (EKCEP) to help business and communities grow e-commerce jobs. Fourteen (14) companies in Eastern Kentucky have been selected to receive this e-commerce training or web support.

Mr. Moore then asked if the Board had any questions.

Commissioner Dunahoo began by asking whether the project was far enough along to entertain funding for last mile projects. Mr. Moore commented that while the project is delayed, he did not believe it was ever too early to begin working on these last mile projects.

Secretary Brinkman then requested that Mr. Moore explain how the physical manifestation of this project evolves. He noted that this project is not as visible as a highway or transportation project and there have been concerns from people over the lack of visible progress. Mr. Moore agreed. According to him, the focus has been on things that can be done in advance of actually placing lines on utility poles (like securing pole agreement), though some physical construction has already occurred. Another aspect of this lack of visibility is the effort to use linear build—straight lines without splicing—as much as possible.

Next, Mr. Lawson requested that Mr. Moore provide the board with an updated schedule of ring construction. Mr. Moore stated that the project calls for building out Northern Kentucky and Eastern Kentucky concurrently, as connecting Eastern Kentucky requires Northern Kentucky to be online at the same time. While Northern Kentucky is a bit ahead—because of an earlier agreement with Cincinnati Bell—he expects the new partnership with EKN to expedite efforts in Eastern Kentucky.

Following up Mr. Lawson's question, Acting Secretary Dunnigan wondered whether there was a standard or benchmark community that had put together a plan for last mile service. According to Mr. Moore, KCNA has three (3) contracts for community planning. There is a Southeast Kentucky group scheduled to release a report the next week, which will be the first one. Mr. Moore did not expect that plan to be universally applicable, but he thought that it would be a good starting place for communities looking to plan last mile service.

Secretary Brinkman asked if there were any more questions. Seeing none, and having no old or new business before the Board, Secretary Brinkman asked for a motion to adjourn. The motion was made by Mr. English. Commissioner Dunahoo seconded. The meeting was adjourned unanimously at 2:28 p.m EDT.

Respectfully Submitted,



Secretary Scott Brinkman, Chair
Kentucky Communications Network Authority