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JOSEPH C. McNEIL (1919-1978)  
JOSEPH E. McNEIL  
JOHN T. LEDDY  
NANCY GOSS SHEAHAN  
WILLIAM F. ELLIS  
SUSAN GILFILLAN  
JOSEPH A. FARNHAM  
KEVIN J. COYLE\*  
KIMBERLEE J. STURTEVANT  
COLIN K. McNEIL

(\*ALSO ADMITTED IN N.Y.)

271 SOUTH UNION STREET  
BURLINGTON, VERMONT 05401

TELEPHONE  
(802) 863-4531

TELECOPIER  
(802) 863-1743

June 30, 2011

**HAND DELIVERED**

Susan M. Hudson, Clerk  
Vermont Public Service Board  
112 State Street – Drawer 20  
Montpelier, VT 05620-2701

Re: Petition of City of Burlington d/b/a Burlington Telecom to amend Condition No. 17 of its Certificate of Public Good, enlarging the date by which it must complete its system build out  
Docket No. 7044

Dear Sue:

Please consider this letter the fifth progress report of the City of Burlington ("City") d/b/a Burlington Telecom ("BT") as required by Paragraph 10 of the Board's Order in the above-referenced matter dated October 8, 2010. Reference should be made to BT's prior progress reports dated November 1, 2010, December 30, 2010, February 28, 2011 and May 2, 2011 for additional information.

As noted in prior status reports, the City has received two letters of intent ("LOI") in connection with BT. There have been no further developments since the date of the last status report with respect to the LOI from the financial investor who proposed a cash payment to CitiCapital as part of an overall asset purchase. The other LOI is from an out of state independent telephone company. This party originally proposed to provide new equipment in order to facilitate the return of the CitiCapital equipment with the exception of the fiber, which would be replaced using a like-kind exchange. The LOI was subsequently revised to be more beneficial to the City's interests. This party remains in serious discussions with the City's financial advisors, Dorman & Fawcett ("D&F"), and visited Burlington in May and met with members of the Blue Ribbon Committee, BT staff and the City's administration. The City anticipates further revisions to the LOI based upon these meetings and subsequent discussions.

The City has entered into a Non-Disclosure and Confidentiality Agreement with this party, which prohibits the City from disclosing the details of the LOI to third parties without that party's written consent. The City has requested the party's written consent to sharing the terms of the LOI with the Board and the Department of Public Service under seal. The City anticipates

receiving such consent shortly, and will thereafter file the LOI with the Board and the Department under seal pursuant to the terms of the Protective Order that is in place in Docket 7044, along with areas where the City has requested changes and how the LOI compares to the template transaction envisioned by D&F.

The in-state telecommunications provider referenced in the last status report met with City representatives in May. While this party has made preliminary expressions of interest, to date there has been no substantive proposal. As for CitiCapital, the City still has not received a response to D&F's letter of February 10, 2011.

In the *Procedural Order Re Pending Motions* dated June 17, 2011, the Hearing Officer directed BT "to provide as much financial information as possible, particularly with respect to monthly cash flow reports, in future progress reports." *Id.* at 3. According to D&F, BT's financial results for Fiscal Year ("FY") 2011, which are comprised of eleven (11) months of actual results and a forecast for June, demonstrate that the City has taken the necessary steps to place BT on a secure financial footing.

As the Board is aware, since October 2009 BT has operated without increasing its debit to the City's pooled cash management system beyond the \$16.9 Million that existed as of that time. BT's cash flow before debt service has improved \$1,470,000 between FY 2010 and FY 2011, such that BT is now a net depositor to the City's pooled cash account. Since October 2010, BT has been a positive contributor to the City's cash pool on a monthly basis, with the exception of a small negative balance in March 2011. BT's positive balance as of May 31, 2011 was \$324,491, which compares favorably to the short term balance due the City of \$471,000 in April 2010.

Despite continuing adverse publicity and reports the City has received of marketing tactics by Comcast that include telling BT customers that BT is going "bankrupt," FY 2011 performance against FY 2010 shows that revenues will be essentially flat, rising one percent (1%). However, cash flow before debt service improved from a loss of \$819,000 in FY 2010 to a gain of \$651,000 in FY 2011. The improvement (\$1,470,000) is comprised of an increase in gross margin of \$238,000, reduced operating costs of \$441,000 and a reduction in capital expenditures of \$790,000. This reflects the impact of significant changes in operating practices, the introduction of a comprehensive set of controls on expenditures, and the ongoing work of BT management and staff to control expenditures and manage costs.

During FY 2011 BT: 1) brought installations in house, 2) reduced staffing levels by approximately 30%, 3) ended its relationship with its outside marketing agency, and 4) exercised tight control over capital expenditures. For FY 2012 BT has budgeted a slight increase in revenues of 1.4%. Cash flow pre-debt service is budgeted to improve by a further \$197,000 to \$818,000. Costs remain under tight control, and reduced year on year operational costs of \$368,000 reflect the full year impact of various actions taken over the course of the past fiscal year to improve efficiency, partially offset by increased sales and marketing costs as BT begins to market and promote its offerings again and improve customer service.

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BT is planning an internal reorganization in July which will place increased focus on customer service and sales and marketing. BT's ongoing operational relationship with Gary Evans and Hiawatha Broadband Communications remains critical to the new initiatives planned in these areas. Capital expenditures are budgeted to increase by \$218,000 to \$513,000 in FY 2012 and include a provision to participate in a couple of larger, more capital intensive initiatives, if such opportunities arise and if they show a clear and acceptable return on investment.

Thank you for your assistance. If the Board needs anything further in this regard at this time, please let me know.

Very truly yours,

A handwritten signature in cursive script, appearing to read "William F. Ellis".

William F. Ellis

WFE/

cc: Docket 7044 Service List