

Office of  
the Mayor  
Burlington,  
Vermont



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MEMORANDUM

To: Burlington City Council  
From: Bob Kiss, Mayor  
Re: Facts about Burlington Telecom

Date: March 4, 2010

Burlington Telecom's previous manager, Tim Nulty, recently made inaccurate statements to *Seven Days* and *Vermont Business Magazine*. He claimed that Burlington Telecom was cash flow positive in September 2007 and that since his departure, BT cannot account for how it spent CitiCapital funds and pooled cash. These statements are not only inaccurate, they are irresponsible. They misinform the public and they have a negative impact on Burlington Telecom's efforts to move forward and succeed.

Here are the facts:

- **BT was not operationally cash-flow positive when Mr. Nulty left BT.** Mr. Nulty claimed that BT was operationally "cash-flow positive" – exclusive of capital expenditures and debt/interest payments – in September of 2007. This is incorrect. In fact, under Mr. Nulty's tenure, during the first five months of FY08, BT's operating expenses exceeded revenues by \$610,000. When Mr. Nulty left BT on October 31, 2007, BT was not operationally cash flow positive and it was not headed in that direction.
- **By the end of 2007, BT's revenues against operational expenses totaled a loss of \$3.9M.** From BT's inception in FY 2001 until November of 2007 when Mr. Nulty resigned, operating expenses, excluding interest expenses and capital expenditures, exceeded revenue by \$3.96M. When you add in the interest expense of \$3.9M over the same period, the loss totals \$7.8M. As a start-up, it was anticipated BT would have initial operating losses. However, the magnitude of these losses by November 2007 was significantly greater than predicted.
- **BT's cash flow improved significantly under new management.** Burlington Telecom came under new management in November 2007. New management immediately hired a consultant, Rob Shanahan, to conduct a comprehensive review of BT. That review culminated in a series of

recommendations. Implementation of these new strategies put BT on the right path. For FY09 and the first half of FY10, the unaudited numbers show that BT is finally cash flow positive with \$9.4M in operating expenses and \$9.9M in revenue resulting in a positive cash flow of \$443,000, excluding capital expenditures and debt/interest payments.

• **BT's use of CitiCapital financing and pooled cash is fully accounted for.** Mr. Nulty claims that since his departure the City did not use CitiCapital financing and pooled cash for legitimate BT purposes. Nothing could be further from the truth. In fact, the numbers show that by November 2007, BT had already effectively spent both the Koch and CitiCapital funds.

➤ **Koch financing.** By April of 2007 the Koch lease fund was fully drawn down. However, BT's debit to pooled cash effectively obligated these funds as of January 2007. Beginning in January 2007, BT utilized pooled cash in anticipation of the new CitiCapital transaction. In August of 2007 CitiCapital refinanced the original \$22.6M from Koch with a payment of \$22M, inclusive of a \$640,000 prepayment penalty. In addition, \$1M of the CitiCapital financing was committed to a loan loss reserve fund. This left \$10.5M in "new" funds available to BT.

➤ **CitiCapital refinancing.** By June 30, 2007, the audited financial statements show that BT had a debit to pooled cash of \$5.16M. This debit had grown to \$6.3M by July 30, 2007 which needed to be repaid from the CitiCapital financing in August. Thus, after paying off the Koch debt, a prepayment penalty and the pooled cash debit, the remaining "new" funds available from the CitiCapital financing was \$4.2M.

By November 2007, 30 days after Mr. Nulty's resignation on October 31, 2007, BT had effectively spent the \$4.2M "new" funding and had a net debit to pooled cash of about \$2.3M. BT had no "new" funding available and was again utilizing pooled cash. As you know CAO Leopold reported to the Board of Finance and City Council in December of 2007 that BT would go significantly over-budget and would require another financing.

➤ **Use of pooled cash.** BT has continued to grow and has achieved a positive cash flow for operations despite the challenges of an unprecedented international financial crisis. The City initiated efforts to refinance in early 2008. New financing would have covered operating and capital expenses. It would have allowed BT to continue building its consumer base and it would have provided additional time for the city to explore options for making BT a stronger, viable enterprise. But the economic crisis delayed refinancing. Starting in November 2007, the City relied on the pooled cash account, in anticipation of refinancing, to support BT and preserve it as a valuable city asset.

The current \$16.9M debit to pooled cash includes approximately a \$2.3M debit as of Nov 2007 and approximately \$14.6M in expenditures in excess of revenues

between Dec 2007 and Oct 2, 2009. The \$14.6M in pooled cash funds covered \$3.8M in interest payments, \$10.2M in capital expense (for the build out and hookup of more than 2,500 new customers), net receivables of \$.4M and a net operating deficit of \$150,000. This operating deficit reflected operating expenses of \$12.36M and revenues of \$12.2M.

I have attached spreadsheets prepared by the Clerk/Treasurer's Office and BT with more detailed information about BT's expenditures and revenues since inception. I hope this information is helpful to you as we work towards a better understanding and more sustainable solution to preserving and strengthening BT.

Please let me know if you have questions. Thank you.

# BURLINGTON TELECOM SUMMARY OF REVENUES & EXPENSES BY MONTH

	OPERATING EXPENSES	INTEREST	OPERATING	CAPITAL EXPENSES	CASH EXPENSES	REVENUE	NET REV & EXPENSE
<b>FY2005</b>							
JULY, 2004		185	185	-	185	-	(185)
AUG, 2004	-	33,346	33,346	-	33,346	1,150	(32,196)
SEP, 2004	162,399	185	162,584	14,547	177,131	10,494	(166,637)
OCT, 2004	77,513	184	77,697	15,778	93,475	2,783	(90,692)
NOV, 2004	42,995	32,904	75,899	2,864	78,763	5,683	(73,080)
DEC, 2004	156,520	184	156,704	15,397	172,101	5,200	(166,901)
JAN, 2005	87,318	184	87,502	20,556	108,058	8,558	(99,500)
FEB, 2005	228,422	134,788	363,210	48,161	411,371	6,154	(405,217)
MAR, 2005	99,630	184	99,814	72,800	172,614	32,704	(139,910)
APR, 2005	110,357	184	110,541	111,785	222,326	20,585	(201,741)
MAY, 2005	258,636	147,536	406,172	148,130	554,302	8,624	(545,678)
JUN, 2005	(328,301)	108,777	(219,524)	1,911,290	1,691,766	474,485	(1,217,281)
Total FY 2005	895,489	458,641	1,354,130	2,361,308	3,715,438	576,420	(3,139,018)
<b>FY2006</b>							
JULY, 2005	96,869	177	97,046	121,045	218,091	104,738	(113,353)
AUG, 2005	104,421	147,168	251,589	934,997	1,186,586	12,490	(1,174,096)
SEP, 2005	141,740	170	141,910	459,670	601,580	11,374	(590,206)
OCT, 2005	134,651	167	134,818	829,549	964,367	16,596	(947,771)
NOV, 2005	143,486	146,796	290,282	491,628	781,910	23,850	(758,060)
DEC, 2005	133,356	161	133,517	810,805	944,322	120,603	(823,719)
JAN, 2006	106,393	155	106,548	585,205	691,753	13,323	(678,430)
FEB, 2006	269,657	146,421	416,078	841,109	1,257,187	417,370	(839,817)
MAR, 2006	231,040	150	231,190	339,058	570,248	55,684	(514,564)
APR, 2006	148,328	148	148,476	468,150	616,626	72,773	(543,853)
MAY, 2006	164,933	293,952	458,885	515,064	973,949	76,572	(897,377)
JUN, 2006	(5,414)	247,893	242,479	2,468,429	2,710,908	202,919	(2,507,989)
Total FY 2006	1,669,460	983,358	2,652,818	8,864,709	11,517,527	1,128,292	(10,389,235)
<b>FY2007</b>							
JULY, 2006	159,736	135	159,871	112,647	272,518	84,749	(187,769)
AUG, 2006	214,527	273,404	487,931	517,040	1,004,971	90,888	(914,083)
SEP, 2006	199,670	128	199,798	978,064	1,177,862	105,928	(1,071,934)
OCT, 2006	222,421	124	222,545	1,265,266	1,487,811	131,880	(1,355,931)
NOV, 2006	356,581	272,507	629,088	814,667	1,443,755	107,040	(1,336,715)
DEC, 2006	169,662	117	169,779	725,665	895,444	146,165	(749,279)
JAN, 2007	253,686	115	253,801	696,748	950,549	295,641	(654,908)
FEB, 2007	258,954	271,601	530,555	101,415	631,970	133,852	(498,118)
MAR, 2007	419,402	106	419,508	801,785	1,221,293	146,526	(1,074,767)
APR, 2007	262,148	104	262,252	529,379	791,631	166,353	(625,278)
MAY, 2007	282,860	268,039	550,899	843,231	1,394,130	147,490	(1,246,640)
JUN, 2007	15,707	311,817	327,524	1,711,717	2,039,241	105,586	(1,933,655)
Total FY 2007	2,815,354	1,398,197	4,213,551	9,097,624	13,311,175	1,662,098	(11,649,077)

# BURLINGTON TELECOM SUMMARY OF REVENUES & EXPENSES BY MONTH

	OPERATING EXPENSES	INTEREST	OPERATING	CAPITAL EXPENSES	CASH EXPENSES	REVENUE	NET REV & EXPENSE
<b>FY2008</b>							
JULY, 2007	167,251	92	167,343	(10,379)	156,964	210,714	53,750
AUG, 2007	338,899	264,434	603,333	576,946	1,180,279	199,027	(981,252)
SEP, 2007	417,561	84	417,645	427,519	845,164	211,075	(634,089)
OCT, 2007	382,257	96,067	478,324	2,417,427	2,895,751	225,094	(2,670,657)
NOV, 2007	389,631	386,751	776,382	1,256,645	2,033,027	239,989	(1,793,038)
DEC, 2007	325,471	73	325,544	727,003	1,052,547	254,577	(797,970)
JAN, 2008	409,413	69,321	478,734	576,100	1,054,834	256,816	(798,018)
FEB, 2008	367,782	386,739	754,521	1,050,712	1,805,233	285,655	(1,519,578)
MAR, 2008	467,364	24,445	491,809	609,822	1,101,631	458,648	(642,983)
APR, 2008	390,612	9,495	400,107	355,104	755,211	298,963	(456,248)
MAY, 2008	419,771	404,063	823,834	747,959	1,571,793	315,444	(1,256,349)
JUN, 2008	540,874	78,549	619,423	1,674,653	2,294,076	458,918	(1,835,158)
<b>Total FY 2008</b>	<b>4,616,886</b>	<b>1,720,113</b>	<b>6,336,999</b>	<b>10,409,511</b>	<b>16,746,510</b>	<b>3,414,920</b>	<b>(13,331,590)</b>
<b>FY2009</b>							
JULY, 2008	231,578	46	231,624	(11,598)	220,026	242,106	22,080
AUG, 2008	406,901	386,717	793,618	316,264	1,109,882	386,099	(723,783)
SEP, 2008	577,701	38	577,739	619,873	1,197,611	500,838	(696,773)
OCT, 2008	545,093	35	545,128	348,049	893,177	460,775	(432,402)
NOV, 2008	437,121	386,705	823,826	380,548	1,204,374	440,269	(764,105)
DEC, 2008	432,606	183,950	616,557	225,222	841,778	477,635	(364,143)
JAN, 2009	737,255	23	737,278	512,653	1,249,931	457,746	(792,185)
FEB, 2009	528,841	456,727	985,568	292,675	1,278,243	561,611	(716,632)
MAR, 2009	514,793	15	514,808	148,725	663,533	546,541	(116,992)
APR, 2009	727,973	68,086	796,060	101,196	897,255	580,716	(316,539)
MAY, 2009	455,998	422,918	878,915	299,949	1,178,864	546,685	(632,179)
JUN, 2009	841,074	34,581	875,655	462,233	1,337,888	1,109,748	(228,140)
<b>Total FY 2009</b>	<b>6,436,935</b>	<b>1,939,841</b>	<b>8,376,776</b>	<b>3,695,787</b>	<b>12,072,563</b>	<b>6,310,769</b>	<b>(5,761,794)</b>
<b>FY2010</b>							
JULY, 2009	331,599	-	331,599	-	331,599	594,584	262,985
AUG, 2009	389,154	386,674	775,828	133,348	909,176	556,260	(352,916)
SEP, 2009	563,883	78,109	641,992	182,191	824,183	573,712	(250,471)
OCT, 2009	579,234	155,424	734,658	183,385	918,043	586,109	(331,934)
NOV, 2009	489,292	285,562	774,854	196,208	971,062	664,336	(306,726)
DEC, 2009	651,915	27,330	679,245	66,966	746,211	600,036	(146,175)
JAN, 2010	-	-	-	-	-	-	-
FEB, 2010	-	-	-	-	-	-	-
MAR, 2010	-	-	-	-	-	-	-
APR, 2010	-	-	-	-	-	-	-
MAY, 2010	-	-	-	-	-	-	-
JUN, 2010	-	-	-	-	-	-	-
<b>Total FY 2010</b>	<b>3,005,077</b>	<b>933,099</b>	<b>3,938,176</b>	<b>762,098</b>	<b>4,700,274</b>	<b>3,575,037</b>	<b>(1,125,237)</b>

# BURLINGTON TELECOM REVENUES & EXPENSE ON CASH ACCOUNTING BASIS

	OPERATING EXPENSES	INTEREST EXPENSE	TOTAL OPERATING	CAPITAL	TOTAL EXPENSES	REVENUE SERVICES	NET	CUM. NET	DEPREC. & AMORT
FY01-FY03 a	1,452,051	142,334	1,594,385	1,523,096	3,117,481	411,946	(2,705,535)	(2,705,535)	a.
FY2004	403,813	136,936	540,749	475,170	1,015,919	108,948	(906,971)	(3,612,506)	
FY2005	895,489	458,641	1,354,130	2,361,308	3,715,438	576,420	(3,139,018)	(6,751,524)	199,269
FY2006	1,669,460	983,358	2,652,818	8,864,709	11,517,527	1,128,292	(10,389,235)	(17,140,759)	359,380
FY2007	2,815,354	1,398,197	4,213,551	9,097,624	13,311,175	1,662,098	(11,649,077)	(28,789,836)	1,128,424
FY2008	4,616,886	1,720,113	6,336,999	10,409,511	16,746,510	3,414,920	(13,331,590)	(42,121,426)	2,075,709
FY2009 b,	6,436,935	1,939,841	8,376,776	3,695,787	12,072,563	6,310,769	(5,761,794)	(47,883,220)	2,131,294
1st Half FY 10 b.	3,005,077	933,099	3,938,176	762,098	4,700,274	3,575,037	(1,125,237)	(49,008,457)	1,075,000 c:
TOTAL ALL	21,295,065	7,712,519	29,007,584	37,189,303	66,196,887	17,188,430	(49,008,457)	(49,008,457)	6,969,076

- a. FY 01-04 Expenses were booked in the general city budget and was not recorded as a separate Telecom Budget
- b. Unaudited & subject to adjustment
- c. Estimated

NOTE: The above accounting does not include \$1,783,375 of principal paid on the original Koch financing

# BURLINGTON TELECOM REVENUES & EXPENSE ON CASH ACCOUNTING BASIS

	OPERATING EXPENSES	INTEREST EXPENSE	TOTAL OPERATING	CAPITAL	TOTAL EXPENSES	REVENUE SERVICES	NET	CUM. NET	DEPREC. & AMORT
FY01-FY03 a	1,452,051	142,334	1,594,385	1,523,096	3,117,481	411,946	(2,705,535)	(2,705,535)	
FY2004	403,813	136,936	540,749	475,170	1,015,919	108,948	(906,971)	(3,612,506)	
FY2005	895,489	458,641	1,354,130	2,361,308	3,715,438	576,420	(3,139,018)	(6,751,524)	199,269
FY2006	1,669,460	983,358	2,652,818	8,864,709	11,517,527	1,128,292	(10,389,235)	(17,140,759)	359,380
FY2007	2,815,354	1,398,197	4,213,551	9,097,624	13,311,175	1,662,098	(11,649,077)	(28,789,836)	1,128,424
FY2008 Jul 1 to Nov 30 07	1,695,599	747,428	2,443,027	4,668,158	7,111,185	1,085,899	(6,025,286)	(34,815,122)	864,879
Subtotal FY 01 to 11/30/07	8,931,766	3,866,894	12,798,660	26,990,065	39,788,725	4,973,603	(34,815,122)	(34,815,122)	2,551,952
FY2008 Dec 1 to Jun 30 08	2,921,287	972,685	3,893,972	5,741,353	9,635,325	2,329,021	(7,306,304)	(42,121,426)	1,210,830
FY2009 b.	6,436,935	1,939,841	8,376,776	3,695,787	12,072,563	6,310,769	(5,761,794)	(47,883,220)	2,131,294
1st Half FY 10 b.	3,005,077	933,099	3,938,176	762,098	4,700,274	3,575,037	(1,125,237)	(49,008,457)	1,075,000
Subtotal 12/07 to 12/31/10	12,363,299	3,845,625	16,208,924	10,199,238	26,408,162	12,214,827	(14,193,335)	(49,008,457)	4,417,124
TOTAL ALL	21,295,065	7,712,519	29,007,584	37,189,303	66,196,887	17,188,430	(49,008,457)	(49,008,457)	6,969,076
	21,295,065	7,712,519	29,007,584	37,189,303	66,196,887	17,188,430	(49,008,457)	(49,008,457)	6,969,076

- a. FY 01-04 Expenses were booked in the general city budget and was not recorded as a separate Telecom Budget  
b. Unaudited & subject to adjustment  
c. Estimated

NOTE: The above accounting does not include \$1,783,375 of principal paid on the original Koch financing

Updated 2/4/10

# BURLINGTON TELECOM

## LEASE & POOLED CASH ACTIVITY

DATE MONTH ENDING	ACCOUNT STATEMENTS				CITY GENERAL LEDGER				COMBINED GENERAL LEDGER TOTAL
	21289	21289	21290	21290	21220	21289	21290	21001	
	KOCH LEASE FUND	CITICAPITAL LEASE FUND	ESCROW FUND	ESCROW FUND	TEMP INVESTMENTS	ACQUISITION FUND	ESCROW FUND	POOLED CASH	
Jul-06	10,172,426				1,815,076	10,172,426		(5,182,729)	6,804,773
Aug-06	10,213,064				1,670,984	10,213,064		(6,213,622)	5,670,426
Sep-06	10,254,639				801,722	10,254,639		(6,490,365)	4,565,996
Oct-06	9,396,116				296,539	9,396,116		(6,516,578)	3,176,078
Nov-06	9,434,890				296,539	9,434,890		(7,984,197)	1,747,232
Dec-06	9,472,483				314,259	9,472,483		(8,783,994)	1,002,748
Jan-07	9,154,718				-	9,154,718		(9,386,752)	(232,034)
Feb-07	7,560,138				(1,633,352)	9,193,449		(8,033,683)	(473,586)
Mar-07	3,294,687				(5,933,230)	9,225,343		(4,863,138)	(1,571,025)
Apr-07	1,388,715				(7,944,807)	9,249,749		(3,791,858)	(2,486,916)
May-07	-				(9,342,807)	9,249,749		(3,975,176)	(4,068,234)
Jun-07					-	-		(5,160,353)	(5,160,353)
Jul-07								(6,292,629)	(6,292,629)
08/17/07		10,531,514	1,000,000					(5,621,691)	3,867,210 *
Aug-07		8,487,384	1,001,517				9,488,901	(7,369,694)	2,119,207 *
Sep-07		8,483,955	1,004,945				9,488,901	(8,990,907)	497,994 *
Oct-07		8,480,538	1,008,363				9,488,901	(10,818,240)	(1,329,339) *
Nov-07		8,477,667	1,011,234				4,955,971	(7,109,915)	(2,153,944) *
Dec-07		3,941,962	1,014,009				4,955,971	(8,191,048)	(3,235,077) *
Jan-08		3,939,661	1,016,310				3,687,743	(8,194,132)	(4,506,389) *
Feb-08		2,669,838	1,017,905				2,347,074	(7,505,870)	(5,158,796) *
Mar-08		1,328,068	1,019,006				1,000,000	(6,734,992)	(5,734,992) *
Apr-08		-	1,000,000				1,000,000	(7,942,478)	(6,942,478) *
May-08		-	1,000,000				1,021,515	(8,655,180)	(7,508,005) *
Jun-08		125,661	1,021,515			125,661			



# BURLINGTON TELECOM

## LEASE & POOLED CASH ACTIVITY

DATE MONTH ENDING	ACCOUNT STATEMENTS			CITY GENERAL LEDGER				COMBINED GENERAL LEDGER TOTAL
	21289 KOCH LEASE FUND	21289 CITICAPITAL LEASE FUND	21290 ESCROW FUND	21220 TEMP INVESTMENTS	21289 ACQUISITION FUND	21290 CITI ESCROW FUND	21001 POOLED CASH	
Jul-08	125,803	1,022,671			125,803	1,022,671	(9,479,664)	(8,331,190) *
Aug-08	125,803	1,022,671			125,803	1,022,671	(10,468,942)	(9,320,468) *
Sep-08	125,803	1,022,671			125,803	1,022,671	(11,250,392)	(10,101,918) *
Oct-08	125,803	1,022,671			125,803	1,022,671	(11,752,857)	(10,604,383) *
Nov-08	125,803	1,022,671			125,803	1,022,671	(12,477,380)	(11,328,906) *
Dec-08	125,803	1,022,671			125,803	1,022,671	(13,197,679)	(12,049,205) *
Jan-09	125,785	1,001,933			125,785	1,001,933	(13,833,268)	(12,705,549) *
Feb-09	125,785	1,001,933			125,785	1,001,933	(14,450,798)	(13,323,079) *
Mar-09	125,793	1,001,997			125,793	1,001,997	(14,568,894)	(13,441,103) *
Apr-09	125,804	1,002,077			125,804	1,002,077	(14,961,977)	(13,834,096) *
May-09	125,804	1,002,077			125,804	1,002,077	(15,708,874)	(14,580,993) *
Jun-09	125,809	1,002,123			125,809	1,002,123	(15,467,333)	(14,339,400) *
Jul-09	125,809	1,002,123			125,809	1,002,123	(15,715,494)	(14,587,562) *
Aug-09	125,411	1,002,140			125,411	1,002,140	(16,406,837)	(15,279,286) *
Sep-09	125,411	1,002,140			125,411	1,002,140	(16,592,967)	(15,465,416) *
Oct-09	-	1,000,008			-	1,000,008	(16,993,514)	(15,993,506) *
Nov-09	-	1,000,036			-	1,000,036	(16,936,492)	(15,936,456) *
Dec-09	-	1,000,045			-	1,000,045	(16,936,492)	(15,936,447) *

\* Note: The combined General Ledger includes the \$1 million Debt Service Escrow Account