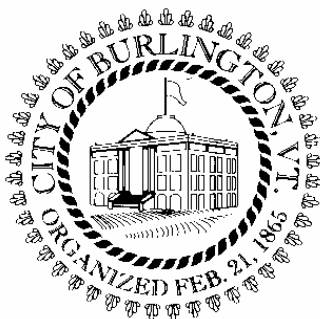


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MEMORANDUM

TO: City Council

FR: Bob Kiss, Mayor

RE: Burlington Telecom

DA: December 8, 2010

In light of the status conference today with the Public Service Board regarding Burlington Telecom, this provides a summary of the City's presentation to the Board. Please consider this information public.

1. BT's Master Lease Agreement with CitiCapital

The nature of the Lease and the City's payment obligations has been mischaracterized as a loan. This is inaccurate. The agreement between CitiCapital and the City is an equipment lease. The Lease called for rental payments only if appropriated by the Council in the annual City budget. If an annual appropriation is not made, as was the case for FY2011, the Lease terminates with provision for return of the equipment as described below. The City is not in default of the Lease and any and all rental payments the City is obligated to make under the agreement have been made. The payments for FY10 beginning with the February 2010 payment were made through CitiCapital's use of the escrow account established for that purpose.

The Lease-Purchase agreement with CitiCapital was entered into in August of 2007. The equipment subject to the Lease is described as the "City-wide fiber optic network." The equipment description in the Lease does not include accounts, customer lists, customer records, easements, franchise rights or similar permits, and does not specify any real estate interests.

The obligation of the City to make quarterly rental payments is subject to an annual appropriation by the City Council. As is common when lease payments are subject to annual appropriation, the Lease states that the rental payments are to be a current expense and shall not constitute a debt of the City or a pledge of the general tax revenues of the City. The City was obligated to only make payments as may lawfully be made from funds budgeted and appropriated.

There was no appropriation for the rental payments in the approved City budget for the 2011 fiscal year, which has terminated the Lease. The City did not miss any rental payments under the Lease in FY11 because once the lease is terminated, no further payments are due. In the event of termination, the Lease provides that the City is required to deliver the equipment under lease to a location specified by CitiCapital. At this time, CitiCapital has not specified a location or a time for delivery of the lease equipment.

2. Status of BT/CitiCapital discussions and proposed process for addressing replacement equipment

As you know the City has retained the firm of Dorman & Fawcett (D&F) to lead discussions with CitiCapital as well as assume interim management of BT. Over the last several months, D&F has implemented significant operational efficiencies at BT while maintaining its residential and business customer base. BT's revenues remain above 2010 levels - a testament to its product and service as well as the community's desire to support local infrastructure and commerce.

In light of CitiCapital's unwillingness to accept customary restructure terms that would allow BT to service the lease from operating cash, BT intends to continue its operations by utilizing replacement equipment. D&F anticipates that a plan for the procurement, financing and logistics of utilizing replacement equipment will be completed by late this month or early next month. The City expects to come back to the Public Service Board with a plan for this transition that will eliminate or minimize any disruptions to service as these plans develop.

With the present restrictions imposed upon the City in connection with financing BT, efforts have focused on two categories of private capital - strategic partners and financial partners. Detailed discussions are ongoing with multiple firms. The strategic partners are Vermont based telecom operators and the financial partners are private equity firms with substantial experience in cable and telecom transactions.

Going forward, the City remains committed to developing a successful cure for any CPG violations as specifically provided for by the law and the Board's most recent order. Every party in active talks has indicated that providing Burlington taxpayers with the possibility of recovery is an essential element to a transaction.

The City administration will continue to provide as much information as possible as this process continues. Throughout this process and as we move forward, the City and BT continue to strive to preserve and enhance BT as a valuable asset to the City, its residents, and businesses, as well as the State of Vermont. Please let me know if you have questions. Thank you.